

# US Dividend Growth and Income Portfolio

## June 30, 2019

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### Basket Investment Strategy

The Chan Lee (CL) US Dividend Growth and Income Basket (USDGI) is an investment portfolio that is managed by the Chan Lee Wealth Management Group on a discretionary basis in your brokerage account. You directly own the underlying securities and receive the dividends.

As the name implies, this basket invests in US companies that in our opinion, 1) have sustainable dividends, and 2) will be able to grow their dividend in the future. Sustainable dividends and the ability to grow the dividends are the two main pillars of our investment process. We believe that a superior total return can be obtained through a combination of the dividend yield and capital gains as a result of finding businesses with the two pillars.

We believe that if we invest in companies with sustainable growing dividends, the capital gains will come over the long-term (5 to 10 year time horizon). Thus, we are not focused on short-term price movements of our holdings.

### Performance

#### Portfolio Performance

	3 months	1 yr	3 yrs	5 yrs	Inception*
Basket Performance	6.49%	15.60%	11.97%	11.18%	14.42%
Benchmark	4.3%	10.42%	14.19%	10.71%	14.12%

Value of Basket  
June 30, 2019

\$53,430.58

*\*Inception date: January 1<sup>st</sup>, 2013*

*Fees: Returns presented are gross of fees.*

*Source: Croesus*

*Indices are shown for comparison purpose only.*

*Composition of the benchmark: S&P 500 Total Return Index*

*Total returns are expressed in US Dollars.*

### Performance Data

How do we know how we are doing? It is industry standard to compare a portfolio of stocks to a benchmark. Our benchmark is the S&P 500 Total Return Index.

We prefer to measure ourselves against our two pillars; 1) have our dividends been sustained and 2) have we increased the dividends (cash received) at a rate greater than inflation.

Year-to-date we had 3 of our 15 companies increase their dividends. We experienced no dividend cuts. Of the 3 companies that raised their dividends, the average increase was 7.28% which is well above the inflation rate.

## Holdings

Issuer	Sector (GIS)	Market Value	Weighting
Disney Walt Company	Consumer Discretionary	3,909.92	7.32%
AT & T Inc	Telecommunication Service	2,412.72	4.52%
JP Morgan Chase & Co	Financials	2,012.40	3.77%
Spdr Bln Barc 1-3M T-bill	Cash	4,763.72	8.92%
Coresite Realty Corp	Real Estate	3,455.10	6.47%
Blackstone Group (The) LPU	Financials	4,442.00	8.31%
Amgen Inc	Health Care	2,948.48	5.52%
Microsoft Corp	Technology	4,286.72	8.02%
Paychex Inc	Technology	3,620.76	6.78%
Pfizer Inc	Health Care	2,512.56	4.70%
Apple Inc	Technology	3,562.56	6.67%
Prudential Financial Inc	Financials	3,232.00	6.05%
Intel Corporation	Technology	2,680.72	5.02%
Abbvie Inc	Health Care	2,036.16	3.81%
Cisco Systems Inc	Technology	4,816.24	9.01%
Qualcomm Inc	Technology	2,738.52	5.13%

## Transactions Performed During the Year 2019

Purchase /Sold	Description	Quantity	Price
Sold	Lockheed Martin Corp	6	281.512
Bought	Spdr Bln Barc 1-3M T-bill	18	91.56
Bought	Apple Inc	8	195.66
Sold	Spdr Bln Barc 1-3M T-bill	18	91.46
Bought	Blackstone Group (The) LPU	36	35.82
Bought	Disney Walt Company	12	129.66
Bought	Spdr Bln Barc 1-3M T-bill	2	91.52
Sold	Boeing Company	8	380.496
Bought	Abbvie	28	67.894
Sold	Kohls Corp	30	46.695
Sold	Spdr Bln Barc 1-3M T-bill	6	91.591

<sup>1</sup>Copernicus financial planning software

## Dividend Growth

Description	Dividend Increases YTD (%)	Dividend Increases Since Purchase
Coresite Realty Corp	10.91%	35.56%
AT & T Inc	2.00%	10.87%
Disney Walt Company	0%	4.76%
Paychex Inc	10.71%	87.88%
Microsoft Corp	0%	100%
Amgen Inc	9.85%	9.85%
Intel Corp	5.00%	31.25%
Cisco Systems Inc	6.06%	34.62%
Pfizer Inc	5.88%	12.50%
Prudential Financial Inc	11.11%	42.86%
Qualcomm Inc	0%	16.98%
Apple Inc	5.48%	22.22%
JP Morgan Chase & Co	0%	42.86%

## Portfolio Managers' Comments

The US equity market along with most global markets ended 2018 down. A low beginning-of-year starting point and more accommodative Central Bank policy helped produce one of the strongest first half performances in the equity markets for some time; the best since 1998.

Our US Dividend Growth and Income portfolio also had one of it's best 6 month returns since inception. The YTD return for the portfolio is 18.75%. We slightly outperformed our benchmark's 18.54% by 21bps during this period.

While we do love these double digit returns for the first half of the year, we caution that they are not sustainable and should not be expected in the long term. The adjusted average annual historical return for the S&P500 is 9.4%<sup>1</sup> We expect a reversion correction to take place in the future. We would also note that it is normal for the markets to have two corrections of at least 5% and one correction of at least 10% every year. We stress that short term volatility of this nature is normal and should be expected. While they are expected and we know they will occur they are not timeable because we do not know when they will occur. It is counter intuitive and against our emotional instincts but we should buy more when the companies we hold are undervalued (lower). We should buy less and even trim when the markets are rising and overvalued.

Throughout the first half of 2019 we have held onto the

majority of our cash position, reducing it by approximately 2.26%. Due to market gains of our portfolio and the slight reduction from purchases the cash position now sits at 8.92%. In hindsight it is easy to say that we should have fully invested our cash in December 2018 or soon thereafter. However, with the S&P500 screaming up 8.00% in January and almost 18.30%, without a correction on a monthly basis to the end of April, we found it hard to deploy our cash.

We wrote in our December 2108 commentary “The correction that we experienced in the 4<sup>th</sup> quarter of 2018 has brought many dividend investments closer to fair value. However, we still see many that are currently overvalued by our measurements standards.” The rapid rise year to date through April has continued hamper our efforts to find good (undervalued) entry points into new dividend growth position.

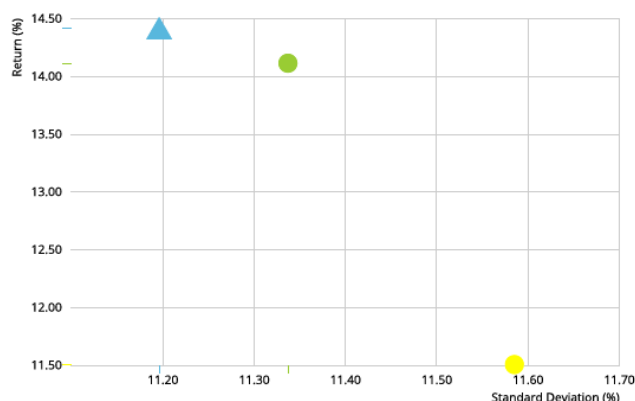
Since inception we have returned approximately \$7618.70 USD to our investors. If we add this amount back to our portfolio we have more than doubled our initial investment of \$27,044.79 USD. Yield on Cost (YOC) is the income earned/expected this year divided by the original investment. For this portfolio it is approximately 6.48%. We are now earning 2.7% more than our original yield of 3.74% This is 72.19% increase on our income over 6 ½ years.

We have grown our income at a rate of 8.83% compounded, by comparison the growth rate of the S&P500 dividend for the same time period has been 7.59%<sup>2</sup>. Our goal is to continue to have ever increasing dividends, thereby continually increasing the Yield on Cost. To this end, there are two methods that will increase dividends and your income from this portfolio; 1) an increase in dividends from the companies itself, and 2) trading a lower dividend paying company for a higher one.

We have confidence that our dividend growth investing methodology will continue to outperform and protect capital in the long run generating healthy positive returns for all our investors.

We have attached the 6 1/2 year (since inception) Risk/Reward chart below which compares the volatility of our portfolio, as measured by standard deviation with the return comparing it to our index, the S&P 500 Total Return Index. As seen, in the chart below, our portfolio

(the blue triangle) is now slightly higher than the S&P 500.



	Annualized	Std Dev. (%)	Return (%)
	Gross of Fees	11.20	14.42
	DJII	11.59	11.51
	S&P 500 RT/TR	11.34	14.12

We are currently holding 15 companies. We can hold between 10 and 20 companies. Each holding in our view is a different income stream. This will offer better risk/reward metrics for you, the investor.

We will continue to invest this portfolio with care, looking for companies which in our opinion offer stable, sustainable dividends and have the potential to increase their dividends over time. Our goal is to develop an income stream for you, the investor, that continues to increase over time.

Benjamin Graham, the father of securities analysis said, “In the short run, the market is a voting machine but in the long run, it is a weighing machine.” The short term voting on the prices of equities has continued to create volatile markets.

The voting machine will move the prices of our dividend companies both down and up. We, however; as dividend investors, look forward to the longterm true weight (valuation) of a company’s dividends and dividend growth in our portfolios revealing themselves.

<sup>2</sup> <https://www.multpl.com/s-p-500-dividend/table/by-year>

## 2016 Awards of Excellence

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Private Portfolio of the Year  
Finalist Canada

## 2017 Awards of Excellence

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Best Private Portfolio  
National Winner

I have prepared this commentary to give you my thoughts on various financial aspects and considerations. This commentary reflects my opinion alone, and may not reflect the views of National Bank Financial Group. In expressing these opinions, I bring my best judgement and professional experience from the perspective of someone who surveys a broad range of investments. Therefore, this report should be viewed as a reflection of my informed opinions rather than analyses produced by the Research Department of National Bank Financial. •National Bank Financial - Wealth Management (NBFWM) is a division of National Bank Financial Inc. (NBF Inc.), as well as a trademark owned by National Bank of Canada (NBC) that is used under license by NBF Inc. NBF Inc. is a member of the Investment Industry Regulatory Organization of Canada (IIROC) and the Canadian Investor Protection Fund (CIPF), and is a wholly-owned subsidiary of NBC, a public company listed on the Toronto Stock Exchange (TSX: NA). National Bank Financial may act as financial advisor, fiscal agent or underwriter for certain companies mentioned herein and may receive remuneration for its services. National Bank Financial and/or its officers, directors, representatives or associates may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time on the open market or otherwise. The particulars contained herein were obtained from sources we believe to be reliable, but are not guaranteed by us and may be incomplete. Unit values and returns will fluctuate and past performance is not necessarily indicative of future performance.

