QV UPDATE

Weekly Commentary | April 25, 2014

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'Tis the Season...

That is the season for market timing theory to take centre stage. Just as April showers bring May flowers, so does a heated market bring about proponents of the "Sell in May and go away" strategy. One of which, QV does not practice by definition.

This time last year, certain media outlets that traditionally have balked at this idea, were suggesting 2013 would have been the very year to implement this strategy. QV stood by its discipline and did not follow suit, otherwise our equity and balanced portfolios would have lost out on a significant portion of their respective returns in 2013.

2013 Gross Returns (%)	6 mos	12 mos
Fund	May-Oct	Jan - Dec
QV Cdn Balanced	7.3	17.0
QV Cdn Equity	12.3	26.7
QV Cdn Small Cap	16.9	42.6
QV Global Equity	16.0	33.6

History certainly does show there is some validity to stock market seasonality. According to the Stock Trader's Almanac, since 1950 there have been either significant corrections, or little in the way of gains during the May to October time period for the Dow Jones Industrial Average and for the S&P 500. Therefore, in some years, investors have found success in implementing this strategy. Equity markets fell in June of last year, perhaps giving "sell in May" theorists hope for their strategy to work. However, as we know now, the sell-off provided a good buying opportunity, not a reason to stay on the sidelines.

As long-term investors, QV puts more emphasis on time, as opposed to market timing. What does time afford us as investors? Well to start, the power of compounding. One of the pitfalls of market timing, as one tries to plan perfect entry and exit points, is the degree to which that power is lost.

We practice prudence in our investing throughout the year, not just through the warmer months. And yes, we are more cautious at this time, but not because we are on May's doorstep, rather because we have experienced record returns to date, record optimism, and because our risk management process is telling us to do so.

All Aboard!

We can point to many holdings for which we can say we are proud to have owned throughout multiple market cycles. One of these exemplary companies is CN Rail (CNR). Railroading runs deep in my veins, my dad worked in the industry for 36 years, so don't mind me as I flog the merits of one of our longer standing holdings.

CNR is a strong company, representing quality, which is at the crux of QV's name. We have held CNR at various weights within our equity portfolios over several years. The weight in which we hold it at any given time reflects where we feel its intrinsic value and opportunity to be. Today, the company is held at an average weight.

CNR reported earlier this week better than expected results for Q1, primarily due to higher freight volumes and increased carloads. The company also recently announced its 18th consecutive annual dividend increase, which speaks loudly to the argument on the power of compounding.

Given our downside analysis, it is still fair to expect continued gains in earnings even in the face of potentially flat to slow revenue growth. However, CNR is trading at 17.6 X forward price-to-earnings, close to its all time high and well above its historical average. While the valuation is not attractive, we are very comfortable with this long standing company and its ability to compound its earnings and grow into its multiple over time. As the chart below illustrates, seasonally trading a company like CNR would be a mistake. While the broad market may not have done as well during certain seasonal periods, CNR has continued to flourish.

We look forward to the opportunity to add to our position, should the stock price fall. Our discipline will tell us when that time will be, not the calendar.

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