

# QV UPDATE

Weekly Commentary | October 16, 2015  
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## Little Notes

### A Little Note on Dividends

We have mentioned in previous updates how the maintenance of a conservative payout ratio can bolster long term growth. In 2012 the payout ratio of the TSX Composite increased sharply as companies catered to investors' appetite for yield. We preserved the payout ratio in the Canadian Large Cap mandate at approximately 40%. The yield has lagged that of the index over the last three years, but it is now closing the yield gap. It could be argued that price underperformance could produce a similar yield chart. However, our portfolio has outperformed the index at a rate of 11.4% to 5.7% annually over the last three years and our dividend growth rate has consistently exceeded that of the benchmark. The index now pays out 1.5 times more of its earnings when compared to our portfolio, yet it only provides a marginally higher dividend yield. We would rather see our businesses consistently reinvest in their operations than unsustainably grow their dividends.



### A Little Note on Earnings

Reporting season is underway in the USA and will commence next week in Canada. It is still early, but so far it appears that the strong USD has a challenge for

American multinational companies. Even high quality companies such as Emerson Electric, a global industrial business held in our international mandates, are seeing their earnings under pressure from weakening industrial activity in emerging markets and the energy sector. Emerson's trailing three month orders across all divisions shrank by 16%. Five percent of the shrinkage was due to currency effects.

### A Little Note on Volatility

Volatility, as measured by the number of large daily moves in equity indices, has increased dramatically over the last year. For example, in a typical day the TSX Composite moves by 0.3% to 0.4%. Year to date there have been 34 days when the composite moved more than 1% compared to only 13 days at this point last year. Ten of those days moved more than 2% while there were zero 2% or greater moves this time last year. Eight of those days have taken place in the last three months. We have adjusted our trading strategy accordingly. When a stock trades away from our limits in periods of low volatility, we often have to move our limit or miss the trade. In today's volatile market waiting for our price to come back has proven to be a fruitful strategy.

### A Little Note on Culture

Recently we have had the pleasure of interviewing some very capable candidates for an Investment Counsellor position at QV Investors. We often speak of what we are looking for in investments from a corporate cultural perspective, specifically regarding the ethics portrayed by company management. Rarely do we stop to analyze ourselves. We are firm believers that culture starts at the top of an organization and flows through its entirety. When the candidates discussed their potential employment at our firm, they pointed out that our culture was a key reason for their application. Everyone at QV treats each other as if we were family. The culture at QV comes not only from the fact that we have only 21 people working in the office, but more importantly, from the qualities of our 21 people. The fact that candidates from the industry seek to work here for that reason is a refreshing reminder of how lucky we are to be immersed in a work environment knowing that we can unequivocally trust everyone to uphold the highest moral standard.