The 4-M Analysis

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I am pleased to announce that Mr. Robert Mark has joined McNulty Group as our lead portfolio manager. Robert comes to the firm after serving four years as National Investment Strategist at Raymond James Ltd. Prior to Raymond James, Robert was Chairman of Investment Policy at MacDougall, MacDougall & MacTier (3Macs) overseeing investment strategy for more than $5.0 billion in client assets.

During his tenure at 3Macs and Raymond James, Robert was the founder and lead manager of the North American Enhanced Yield portfolio. This dividend-focused equity portfolio averaged a total return of 9.21% per year since its inception in 2013.

At McNulty Group, a core value of our investment philosophy is to own stock in best-in-class, high-quality companies. That sentiment alone does not differentiate us much from other investors – who does not want to own high-quality businesses? However, our value add-in that matters most is how we determine what "high-quality" means.

4-M Analysis

Our process starts with quantitative models, which reduce our investible universe down to a more manageable level by screening for size, growth rates, debt levels, and profits. The next step is where the rubber hits the road, using what we refer to as a "4-M" analysis. This stands for Macro, Management, Margin, and Moat. Each factor is an important part of the investment process and, when put together, form our thesis for what a high-quality company should look like.

Macro

Whenever possible, we want to be investing in businesses and industries that have the "wind at their back". To that end, we look for investment themes that will benefit certain sectors of the economy more than others. These themes need to have a degree of predictability and staying power. The rise of e-commerce is a perfect example of a multi-year, sea-change in the way people shop for goods and services. With it comes several side themes like the need for data storage, transportation, and delivery logistics, warehouse automation, and cyber-security. Our current portfolio contains numerous stocks that are exposed and are leaders in these themes.

Management

How a company is run is arguably the most important factor in our analysis. Businesses are only as good as the people who lead and operate them. The best new widget, smartphone app, oil well, or gold mine can quickly be ruined by bad management. For this reason, we study the people in key positions at the companies we invest in, looking not just at their resumes and past successes but also how they treat shareholders and their capital. Aligning management success (compensation) and shareholders' success (capital appreciation) is a key criterion. So, too, is their attention to environmental, social, and governance (ESG) concerns and how businesses interact with the rest of society. Increasingly, we see data that demonstrates that companies at the forefront of ESG issues tend to outperform their peers.

Margin

This topic is shorthand for profitability. Different business sectors within the economy have different levels of profit, but owning those businesses that consistently generate above-average returns within their peer group is a great way of identifying high-quality companies. To put a finer point on it, we are not looking for the company with the absolute highest return on a year-by-year basis, we are looking for those companies that consistently are at the higher end. Businesses that consistently have better than average profits and properly reinvest cash, benefit from stronger balance sheets and more free cash flow. This means they not only have less risk in down markets, but they are also able to capitalize during those times by acquiring competitors, investing in technology, or expanding market share. Finally, strong and consistent earnings allow the companies to pay shareholders a portion of those profits through dividends, which is another key element in our investment philosophy.

Moat

The idea of an economic moat is one that has been popularized by world-famous investor Warren Buffett. Just as the moat around a castle defended it from enemies and rivals in medieval times, an economic moat is a key attribute that protects a business from competitors, new entrants, and technological advances. In an era of technological disruption, owning companies with strong and wide moats are more important than ever for investors. Moats come in many forms like trusted brand names; intellectual property and patents; or economies of scale, but they all perform the same function of protecting profit margins, market share and creating a strong competitive advantage.

Putting the 4-M's together paints a picture of a high-quality investment: a business that benefits from existing Macro trends, run by capable and ethical Management, producing consistently high-profit Margins and protected by a strong economic Moat. And we are thrilled to have Robert Mark at the helm.

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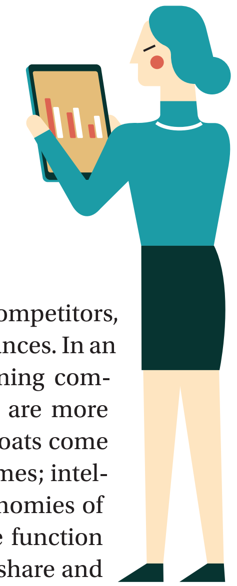

Feedback can be sent to info@mcnultygroup.ca

Mark is President of McNulty Group of Raymond James Ltd., a firm responsible for managing $400 million of Ontario dentists' retirement savings. McNulty Group helps professional families transition from a life of successful practice to a stress-free retirement. Mark is the author of The Transition Coach 2.0—A Canadian Dentist's Guide to a Perfect Retirement, and the $6 Million Dentist: Successful Succession in 7 Modules. In 2017 Mark McNulty was chosen as the Canadian Financial Advisor of the Year at the Wealth Professional Awards. For more information please visit www.mcnultygroup.ca