Notes from the Bridge

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With little economic data to speak of this week, global markets were buffeted by yet another salvo from President Trump on his manufactured trade war with China. While details remain vague as to the target of these expanded trade tariffs, the threat was enough to put global markets on edge.

Realizing that risk sentiment within global capital markets is being bandied about like a badminton shuttlecock, economic growth is stable albeit lackluster. With both interest rates and inflation rising, it is not surprising to me that the capital markets are directionless right now. On top of this we are entering the seasonally slow period for markets, so now is an excellent opportunity to strengthen both the long-term growth and dividend income within a portfolio.

If we take a step back, set aside the headline news of the day and where the markets were trading last week or month, we can avoid many of the distractions that sometimes keep us from seeing the opportunity that is right in front of us. What do I mean by this? Let me answer that by talking about global banks and revisiting Apple.

As we all know, the banking sector plays a crucial role in the financial system and the economy. The rise of cryptocurrency, while garnering significant headlines, will not replace the role banks have in our society. However, it may begin to change the conversation with respect to a store of value, but that is the topic for another commentary.

Despite relatively strong economic growth and changing monetary policies to normalize interest rates around the world, creating a growth environment for banks, we have seen a malaise with respect to their valuations. Global banks, and insurance companies for that matter, have seen their trading valuations drift lower thus far in 2018. Now approaching the lows of their historical trading metric range, some to even below their book value, yet earnings have increased.

Headlines regarding the Vancouver and Toronto housing markets, along with rising interest rates spelling their imminent doom has distracted the market from our banks having a far more global focus driving their revenue and earnings growth. The result, banks like CIBC or Bank of Nova Scotia now trade at approximately 15% discounts to historical norms and pay a 4.5 and 4.25% dividend respectively.

Now, I can't predict when that discount gap will close, but I am certainly happy to collect a tax efficient income while I wait for the market to realize it as well.

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Considering **Apple** for just about anyone's portfolio should not be a surprise to most, but my reasoning certainly may. While Apple does pay you a small dividend, much of your gain should be expected from appreciation. What will surprise many is that while Apple's growth profile is strong and above average, its valuation is less than that of what many consider to be defensive or value companies.

Look at Proctor & Gamble, the steady eddy of value stocks, a fantastic global consumer company whose products we all consume every day with very stable year over year growth. However, that growth is in the low single digits, yet P&G trades at a slight premium to the market average at nearly 20x future earnings. Great company, but that is an expensive price to pay for very modest growth of free cash flow and a 3.7% dividend. Now compare that to Apple, where sales growth is multiples higher, has nearly fivefold the rate of free cash flow growth, more than double the return on equity, and a 1.6% dividend. Yet it trades at a significantly lower valuation. So, ask yourself, which is the better value?

Not to pick on P&G or any other "value stock", because they are excellent companies, but for my money Apple is the value stock that I want to own.

Yesterday was the Summer Solstice where we experienced the longest day of the year. Now days will be getting shorter, and I was just getting used to sunlight into the late evening.

Have a wonderful weekend.

Please feel free to share my commentary as I am always looking to work with new people.

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TODAY'S STOCK WATCH

S&P/ TSX Composite	16,450
Dow Jones Indus. Avg.	24,581
S&P 500	2,760
Canadian/US Dollar	$0.7532
US/Canadian Dollar	$1.3275
Euro / Canadian	$1.5475
Gold	$1272.00
Silver	$16.56
Copper	$3.06
Brent Crude Oil	$75.69
WTI Crude Oil	$69.19
Natural Gas	$2.95