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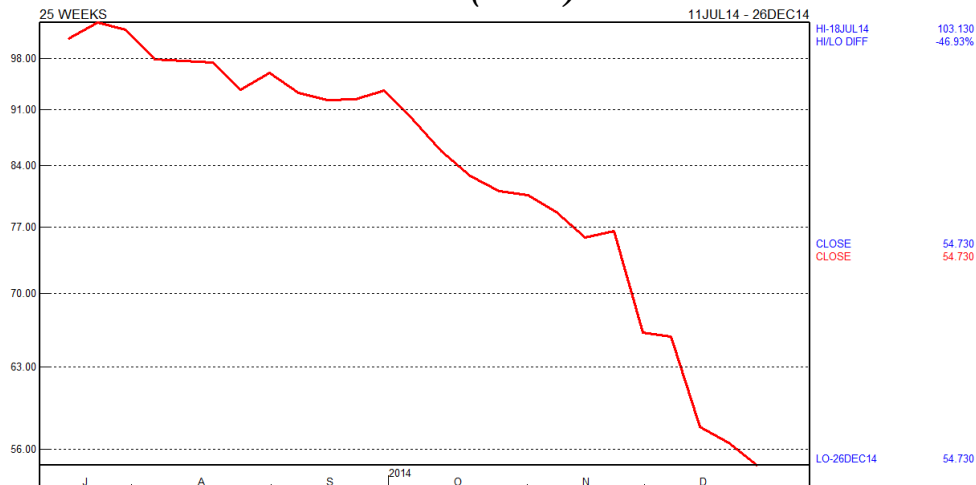
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Friday, January 09, 2015

Year End 2014

Every year has its surprises but if you'd told me at the beginning of 2014 that the rate of expansion of the US economy would be up to a 5.1% clip by the third quarter and that the 10 year US Treasuries' yield would fall from 3% in January to 2.25% in December I would have said that those two numbers don't compute. Canadian 10 year yields fell from 2.7% to 1.7%. An expanding rate of economic growth doesn't normally pair with falling bond yields. The two missing elements from the equation above were that economies elsewhere in the world were much weaker than in the US and, oil prices collapsed from over \$100 a barrel in the summer to \$56 in December. Nobody I know of saw that coming. Last quarter I wrote about the rising supply of oil in the US and the falling demand from China but I certainly didn't foresee a sudden crash.

Crude Oil – WTI (SPOT)



Source: RBC Trend & Cycle, December 29, 2014

Jamie Dimon, CEO of JP Morgan, in 2009 reputedly was asked by his granddaughter to explain a crash. He said a crash was just something that happens every 7 years. The sudden rout in energy is a reminder of how suddenly sentiment can change because surely the fundamentals of the world oil market cannot have changed so abruptly.

Looking now at a daily chart of the S&P 500 I am struck by the sharp 9% fall from mid-September to mid-October and the 5% sell off in early December. Both were a bit nerve



racking at the time. Even more striking on the chart were the following accelerations to new highs in the US index of blue chips. For the year it was up 24.3%, crushing the TSX, up 10.6%. Europe stayed unchanged and Emerging Markets went up 4.3%.

Long-Term Trend – The TSX Composite versus S&P 500



Source: RBC Capital Markets Trend & Cycle, December 21, 2014

The kind of volatility we saw in the fourth quarter is challenging to operate in. I have a highly sophisticated stock trading strategy which is represented by a regularly replaced 3M post-it on my computer screen. It reads BoDD which stands of course for Buy on Down Days. That is a lot easier said than done, especially when panic seems only sensible, because everyone else is. That is why for the last few decades I've tried to reinforce the message to myself with a post-it. Since the future is unknowable I might as well react to what has happened or what is happening.

Waiting for down days to buy and then buying gradually can at times be frustrating. While waiting I spend as much time as I can reading and thinking about new investment selections. That too can be an exercise in frustration. I don't often kick myself, or at least not hard, for mistakes I've committed because, as Warren Buffett says, I usually think I had good reasons, even if wrong, for doing so. What really gets me is the things I didn't do but which I almost did. Buffett calls them sins of omission. What can be even more frustrating are the things I started to do but didn't finish, either because I didn't have room to add more stock to a portfolio or I ran out of down days, or loose cash, or I hesitated, or some other reason.

Not completing the buying of a new stock selection is understandable I think with the small companies I favor in Canada, where a lack of trading liquidity is an impediment to buying in quantity quickly and is a real risk. The most frustrating thing is when, after I've studied a large US company, I might even have followed it for years, and then I decide to buy, add it to our models, start to buy on down days and then, I do not get the job done. Such a thing has occurred recently with the spice maker McCormick & Company Inc. In the hope that



Benjamin Graham's Mr. Market will dish out another buying opportunity in the not too distant future, I'll tell you why I find McCormick appetizing. Let's talk stock:

I like companies that are over 100 years old because I feel I can really get to know them. McCormick celebrated its 125 year in 2014. I also like companies that make something I can pick up and hold and I threw a few Club House bay leaves in a stew just the other night. Over \$4 billion of McCormick's spices were sold in 2013 under brands including McCormick and Club House but also Old Bay, Lawry's, Keen's, Thai Kitchen and Billy Bee. In a recent slide show for investors McCormick argued that growing global demand for flavor makes spice an advantaged category within the food industry. They point to several long term trends: Millennials are rising in importance and they like to cook. The influence of ethnic demographics has increased interest in food from other cultures. Healthy food choices include spice. The rising middle-class in emerging markets prefers the convenience of packaged spices. McCormick has a leading global share of the spice market. Proof is in the pudding. From 2003 to 2013 McCormick's earnings per share rose from \$1.52 to \$2.91. Book value per share rose from \$6.79 per share to \$14.85. Dividends rose steadily from \$0.58 to \$1.39. At \$75, McCormick yields 1.85%. I hope you'll keep them in mind the next time you're restocking your pantry. I also hope that McCormick's next 10 years look as boringly predictable as the last 10 years. If so, I think the stock price will do fine.

I am writing this letter at Christmastime, a season of hope, so my colleagues Associate Margarita and Assistant Isabelle can fact check and spell check it while my family and I sail around the Spice Island Grenada at New Years. (If you're reading this letter in the first week of 2015 know that it is a robot's signature below). I am especially pleased with Margarita and Isabelle at the moment because not only did they relieve me of a lot of stress this past year but because, and I shouldn't boast, for Christmas they gave me my very own splendid coffee machine for the office. I hope you come to visit us soon so we can offer you a fresh brewed mug (not spiced).

Happy New Year and fair winds.

Sincerely,

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Portfolio Manager, Vice-President
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