THE ABC PERSPECTIVE

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Changing Consumer Habits: The Global Revolution

Global consumer purchasing habits have been changing significantly over the past several years. This revolution in retailing is primarily a result of technological advancement, but also due to the early adoption habits of the millennial consumer (born between 1980-2000), now the largest generation in western history surpassing the previous baby boomer population bulge.

Generally, the millennials are well-educated, technologically savvy, excellent multi-taskers, deeply connected to social media, transparent and liberal risk-takers. Of particular interest is the fact that millennials are relatively impatient and want instant gratification and recognition. Their early adoption habits, aided by major technological advancements including e-commerce growth, mobile technology, and automation, have transformed traditional, old-style retailing. Furthermore, the millennial generation is exceedingly demanding. They want their goods and services "now". They demand free and fast shipping which has evolved from being a perk to mandatory expectation today. Clearly, what has resulted is "consumption on demand".

One of the prime beneficiaries of these new trends is Amazon.com. Amazon via Amazon Prime, through a low annual fee of $99, was quick to recognize these changing consumer habits and has become, by far, the dominant global retailer. Approximately 25% of all U.S. households are subscribers to Amazon Prime with one market researcher predicting membership growth to 50% of American households by 2020. Other companies with great brands which have successfully built strong online businesses include Netflix, Facebook, and Electronic Arts. Moreover, the producers of electronic devices utilized to access the internet are flourishing, in particular, Apple Inc. Both software and semiconductor companies whose products make up the architecture of the online world are also realizing considerable success. Finally, another great beneficiary of these trends includes credit card companies such as MasterCard and Visa which are benefitting from increasing online business and the significant growth of cashless transactions.

Although millennials were the early adopters of the changing consumer habits, baby boomers are now following their children and grandchildren. Consequently, these new purchasing characteristics have precipitated a global consumer revolution whereby "bricks and mortar" store outlets and conventional shopping have been replaced by direct and timely deliveries via internet connections. This development is now sparking the closure of many retail stores and has increased mall vacancies.

Presently, with these momentous trends taking place and continued technological advances, global purchasing habits will continue to evolve. Well-positioned and forward-looking corporations stand to benefit greatly from these changes.

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Economic Perspectives

The Global Economies: Defying the Pessimists

The global economies have taken a number of unforeseen and negative hits over the past year. Yet, in spite of this overall uncertainty, the European, UK, and North American economies have defied the most pessimistic views with their substantial resilience.

Although we anticipate an upward bias to U.S. and global interest rates, we continue to believe that increases will be gradual and measured. Notwithstanding our optimism with regard to international economic growth, we expect inflation to remain subdued, albeit creeping higher. Overall, with steady employment growth, improving consumer and business activity, relatively low interest rates and expanding corporate earnings, positive common stock performance should continue for at least the next 6-12 months.

Investment Perspectives

Dividend Yielding Canadian Stocks: Relatively Attractive

Although some common stock valuations might be a little stretched since the late 2016 price rally, we believe that certain common shares are relatively attractive. Of particular interest to us are a number of high-yielding Canadian utility and pipeline companies. With appealing dividend yields of 4-5%, steady earnings growth and periodic dividend increases, these securities are excellent portfolio stabilizers. Moreover, compared to short-term paper and mid-term bonds these shares offer an attractive investment alternative to low yielding fixed-income securities.

Combining liquidity, enhanced yields and, in a number of cases, significant U.S. business operations, these selections also offer relative safety, North American diversification and could possibly become interesting corporate merger candidates.

Portfolio Perspectives

Diversified and Defensively Invested

All five ABC portfolios are virtually fully invested with a significant number of Canadian and American dividend paying common stocks. In Canada we primarily favour high yielding utility and pipeline shares whereas our U.S. holdings include larger capitalization technology, financial services, consumer discretionary, and health care companies.

We are fully hedged on our U.S. / Canadian currency exposure and believe that our diversified equity selections offer relative safety, attractive dividends and growth opportunities.

Three Favoured ABC Common Stock Holdings

Alta Gas Ltd.: is an energy infrastructure company which operates in multiple segments including gas processing and transportation, power generation, and regulated gas distribution to homes and businesses. The company provides safe, stable cash flows supported by high quality assets and long-term contracts. AltaGas is currently in the process of acquiring WGL, an American energy infrastructure company. WGL operates in similar sectors to AltaGas, with their largest division being their natural gas regulated utility serving the Washington D.C., Maryland, and Virginia markets. This acquisition is a good strategic fit as it will be accretive to cash flow, improves scale, diversifies operations geographically and provides growth opportunities. Furthermore, management anticipates dividend growth of 8-10% through 2021. With a yield of 6.7% and a strong natural gas supply outlook, we see AltaGas as an attractive investment.

Dave & Buster's Entertainment Inc.: is a North American operator of over 85 entertainment complexes offering adult and family entertainment as well as food, beverages, and a full bar service. The company's impressive growth rate is being fueled by management's reorganization of the business, their aggressive expansion plan, and the millennials' liberal spending habits towards "experiences". We believe that Dave & Buster's 24.0x forward P/E is more than justified given that its 2018 revenue and earnings forecast is estimated to increase by 15-20%. The company also produces strong free cash flow, which is being used for expansion, debt repayment, and its share buyback program. It is our opinion that Dave & Buster's impressive performance should continue.

Netflix Inc.: is an internet television network offering subscription services for media streaming and on-demand videos. Netflix has emerged as the dominant player in a young and growing industry due to their innovative business model, which capitalizes on important consumer trends. Netflix provides users with unlimited access to a massive library of on-demand content, featuring movies, television shows and documentaries. This content can be consumed at any time and on any device the consumer chooses. With its low $9.99/month subscription, Netflix has lured consumers towards its on-demand television service and away from traditional cable services. Additionally, Netflix produces its own original content, which includes popular shows such as Orange is the New Black, House of Cards, Stranger Things, and 13 Reasons Why. Most importantly, Netflix has been growing its user base both domestically and globally, as evidenced by its most recent quarters' streaming revenue growth of over 40% year over year.

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