

THE PORTFOLIO

In early November, we exited our position in Corus Entertainment. The stock had performed well since the spring, but the company's economic sensitivity combined with the tepid recovery now unfolding, persuaded us to part with this name. As well, the announced split of Encana was realized, resulting in the addition of Cenovus Inc. to portfolios.

STOCK OF THE MONTH: *Nike Inc. (NKE)*

In mid November, NKE announced a dividend increase of 8%, marking the eighth consecutive year that the company has hiked its payout. Over the past five years alone, NKE has doubled its dividend. While the current dividend yield on the DM Total Equity Portfolio is attractive relative to interest rates and provides a solid head start to total expected return, it is *dividend growth* that can drive share appreciation and ensure that the income generated by our portfolios is rising faster than inflation.

DIXON MITCHELL EQUITY ATTRIBUTES* (30 Nov 09):

# Stocks	Div'd Yield	P/E Ratio
25	4.1%	16.0

*weighted average attributes of stocks held in Dixon Mitchell Total Equity Portfolios

THE RISK & COST OF PAYING TOO MUCH

Among the many quantitative criteria by which Dixon Mitchell evaluates stocks, valuation is one of the most important. A thorough analysis of a company's other attributes can be quickly undermined if too much is paid for its shares. By nature, we are cautious and frugal, wanting to know when our investment will be paid back and seeking confidence that, if all doesn't go as planned for the company, probable downside is manageable. Conversely, investors and money managers alike routinely set aside the financial conservatism that guides purchases in other areas of their lives to acquire lavishly priced stocks in their investment portfolios. This most often occurs when a company or industry captures the public imagination, when its 'story' is so compelling that consideration of price would only risk missing the opportunity. Recently, one of Canada's great new companies provided a lesson in what can happen when principals of value are overlooked in pursuit of outsized gain. In the summer of 2008, shares of Research in Motion traded at a price to earnings multiple of nearly 50 times; this meant that, if the company didn't grow from that point forward, it would have taken 50 years for one to recoup his or her investment through earnings. Of course, at that time, the analyst community implored in unison that such a line of analysis was preposterous: RIM had a first mover advantage in the fast growing smartphone arena and its head start would allow it to maintain its healthy market share and hefty margins as far as the eye could see. In other words, earnings would be climbing so fast that considering a no or slow growth scenario was pointless. What a difference a few quarters makes. Since that time, Apple's i-phone has emerged as a serious competitive threat to RIM's Blackberry and, along with its groundbreaking technological advances, it has become the undisputed embodiment of cellphone "cool" (as I said to one client recently, the Blackberry has quickly become "your father's smartphone"). Other entrants, such as the highly regarded Palm Pre and the recently released Motorola Android are also taking sizeable bites out of RIM's prior dominance, helping to crowd a space that was recently unpopulated. In response, RIM shares have been reevaluated by the marketplace, with the previous assumption of unfettered growth clearly being called to question. Since the summer of 2008, the p/e multiple on the stock has receded to just 17 times. Instead of this ratio falling due to an earnings explosion, though, it has resulted from a plunge in share price. The stock traded at \$140 in June-08, at \$92 this September, and now resides in the mid \$60's.

RIM makes a fantastic product and is one of Canada's few non-resource global stars. Its stock, however, was priced for perfection under the assumption that the company would continue to grow at its early rate and that competitors wouldn't covet its position and work feverishly to share its lunch. Going forward, RIM will have to continue to innovate to maintain its position and may even be required to compete on price. These are characteristics of a maturing firm, one whose shares are likely to trade at a valuation more in line with the rest of the market.