

PALOS

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The Palos - Mitchell Report

MAY 1, 2019

*By William Mitchell, B Comm., CIM
Portfolio Manager and Equities Strategist*

The Markets in April

Equity markets continued to grind higher in April with major North American indices in either new territory or approaching their previous highs. The TSX Composite, which is Canada's benchmark index, reached a new high on April 18th eclipsing levels last seen in July of 2018. On April 29th, the S&P 500 Index surpassed the peak from last September and on April 24th the NASDAQ broke above its August 30th high.

Strength in equity markets might appear irrational given persistent negative headlines and poor sentiment. Cash levels remain high and many participants have cautiously remained on the sidelines. Despite obvious concerns over global economic weakness, trade wars/tariffs, lowered earnings expectations, a dysfunctional White House and geopolitical uncertainty, there can be no denying that stocks remain strong. It's important to keep in mind that stock prices are a discounting mechanism and as such, current prices are based on future expectations, not the present.

One thing I learned long ago is to never argue with the market. We remain cautiously bullish on stocks as the overall trend is clearly higher. Impressive price action in the face of negative news supports our view that buyers are fueling market strength and supporting equities. The path of least resistance is up, and we will remain bullish until the trend shows us otherwise.

The Oil Markets Remain Strong

Crude Oil continues to march upward from the December 24th low of \$42.53 (NYMEX Crude, U.S. dollars/BOE). At the April 23rd peak of \$66.60, NYMEX Crude has seen a 57% gain from that low. However, crude remains well below the October 2018 high of \$76.90. In Canada, the price differential between Western Canadian Select (WCS) and U.S. gulf prices has maintained the narrowing gap. This is good news for Canadian producers who have felt great pain over the last nine months. With an energy friendly government assuming power the province of Alberta and Ottawa's potential softening of its carbon stance, it's possible that we're seeing a ray of light in Canada's energy sector.

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Lightspeed IPO

On March 8th, the Palos-Mitchell Alpha Fund participated in the initial public offering of Lightspeed POS Inc. (LSPD-TSX). Lightspeed was founded in Montreal in 2005 and currently has operations in approximately 100 countries. The company's mission is to provide small and medium size businesses (SMBs) with access to cloud-based applications that allow SMBs to consolidate and simplify payments processing, and to streamline operations. These applications will focus on three key areas:

Payment processing: *Lightspeed Payments* offers integrated hardware and software solutions that facilitate point-of-sale payments and data processing. SMBs are demanding greater simplicity, flexibility, and uniformity in payments processing. In 2018, there were approximately 226 million SMBs across the globe. Lightspeed's target market is principally retailers and restaurants.

Front-End customer experience: Lightspeed's platform can assist owners in improving the overall customer experience by using data-based analytics to create a customer experience that is personalized, efficient, and flexible. For example, instant access to real-time information can be used to assist front-end employees in advising customers of products in stock or delivery times. For restaurateurs, menu management, reservations, special promotions, and kitchen-related information exchange can optimize and simplify these tasks.

Back-end operations management: The cloud-based platform also provides applications that assist SMBs in managing their business operations. Inventory management, multi-location connectivity, sales data, and scalability will simplify operations management. Cutting-edge analytics can provide a competitive edge and assist in the decision-making process with regards to direct marketing, managing loyalty programs, and promotional programs using social media.

The opportunity for LSPD

Approximately 47 million SMBs operate in the restaurant and retail space. Based on an average revenue per unit of \$200, this represents an opportunity of over \$113 billion per year for Lightspeed's solutions (*source: LSPD prospectus, March 7, 2019*). Lightspeed's growth strategy is based on the thesis that the SMB market is vastly underserved. The company's growth strategy will focus on four areas; expansion of the customer base, rapid implementation of the Lightspeed Payments platform, growing the number of billable modules that can be offered to existing customers, and the pursuit of attractive acquisitions.

IMPORTANT: The information provided above should not be viewed as a recommendation or solicitation to buy securities of LSPD. Investing decisions should always take into consideration your investment objectives, risk tolerance, time horizon, and asset allocation strategy. DISCLOSURE: The Palos-Mitchell Alpha Fund owns shares of Lightspeed POS Inc. (LSPD-TSX). We participated in the IPO and have been patiently adding to our position.

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The Palos-Mitchell Alpha Fund

PAL 300 Net Asset Value (NAV) per unit as of April 30, 2019 = \$10.8238

Fund Activity

On April 16th, we exited our position in *Qualcomm (QCOM-US)* following news of a positive outcome in their lawsuit with Apple. The favorable ruling saw a quick pop in QCOM, and we elected to cash in the position and take the profits.

The fund's position on *Intel (INTC-US)* was sold on April 25th which was the eve of Q1 earnings. While we still like Intel, this was a tactical decision based on locking-in profits and eliminating 'earnings risk'. The decision proved fruitful as stock is down approximately 16% from its April 17th high of \$59.59 USD. We will look to rebuild a position should prices become attractive.

April also brought continued pressure in the Health Care sector and the swift sell-off in Health Care providers caught our attention. We believe sector weakness was a knee-jerk reaction to irrational fears associated with a Bernie Sanders' well publicized stance on universal health care. We are confident these fears are overblown, and we used this weakness as an opportunity to pick up some quality names. We added shares in the *iShares Health Care Providers ETF (IYF-US)*, medical devices company *Medtronic (MDT-US)*, and Merck & Company (*MRK-US*).

PALOS-MITCHELL ALPHA FUND - TOP 10 HOLDINGS

APRIL 30, 2019

Freeport MacMoRan Inc. (FCX)	Pfizer Inc. (PFE)
Morgan Stanley (MS)	Canadian Natural Resources Ltd. (CNQ)
Toronto-Dominion Bank (TD)	Finning International Inc. (FTT)
Bank of Nova Scotia (BNS)	Applied Materials Inc. (AMAT)
Apple Inc. (AAPL)	Bristol-Myers Squibb Co. (BMY)

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We invest our clients’ money as we do our own.

Our interests are aligned with yours.

William Mitchell, B Comm., CIM

I am a portfolio manager at Palos Wealth Management based in Montreal, Quebec, Canada. My experience in the investment industry is extensive, having spent more than twenty-nine years analyzing, trading and investing in global financial markets.

At Palos, we are driven by our values. We believe in the principles of honesty, integrity and transparency. We subscribe to a strong work ethic and we have a passion for investing. The pursuit of excellence is our motivating force. We take our fiduciary duty to heart and we always act in the best interests of our clients.

If you have any questions about investing, our services, or becoming a client of Palos Wealth Management, please contact me at:

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