DM MONTHLY REPORT
October 2020

PORTFOLIO ACTIVITY

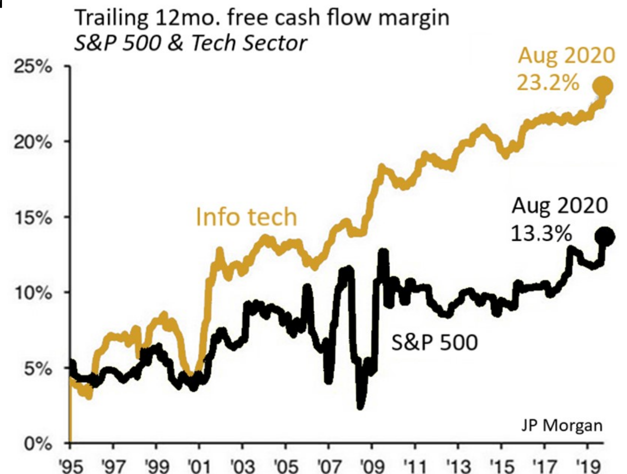
In September we sold our long time position in Johnson & Johnson and used resulting capital to boost our weight in Becton, Dickinson & Co. Elsewhere, we trimmed profit from Microsoft and Thermo-Fisher Scientific Inc.

FEATURE STOCK
Comcast Corp. (CMCSA)

CMCSA was one of the best performers in DM Foreign Equity for the third quarter, generating a total return of 19% over the period. In early August we added to the position, lifting it to a 6% portfolio weight, based on both the underpenetration of broadband service in the US and the surge in video streaming brought about by the COVID-induced shift to home entertainment. Though cable television service is on the wane, existing coaxial infrastructure, which can accommodate bandwidth of up to 2 gigabytes per second, carries significant advantages over the options available to telephone companies. On legacy lines, telcos run DSL, which is capped at 25 megabytes per second; to get to true high speed connectivity of 150mbps, fibre networks must be deployed, an extremely expensive endeavour. Because of this, most telcos are focusing their capex budgets on wireless improvements, leaving a profitable void for the nation's dominant cable provider. Though the "cord" is persistently being cut on traditional cable TV, this is low margin business for CMCSA which they'd gladly replace with more profitable broadband service.

HAS TECHNOLOGY REACHED BUBBLE 2.0?

It's been well reported that technology and tech-related stocks have led the S&P's charge from its March lows and that these names now account for a disproportionate share of the index's aggregate value. In fact, the strength of the run-up has set off alarm bells for some and has generated comparisons with the tech bubble of 20 years ago, when the public's fascination with the nascent internet led to one of the greatest disconnections between price and fundamentals in modern investing history.



Though technology has undeniably enjoyed a spectacular run over the past 7 months and continues to attract capital, associating today's backdrop with that of the late 1990s is probably inaccurate. As the chart to the right shows, one of the prime reasons that the tech sector is doing so well is because it makes a lot of money. In fact, its free cash flow margin is about three quarters higher than that of the broad market and has climbed steadily over the past two decades. If technology stocks carry higher valuations than the rest of the market, it's probably justified.

The second graph shows the tech sector's weight as a percentage of the S&P 500 (black line) against the industry's share of market earnings (gold line). In the early 2000s, the group made up more than a third of market value, but only accounted for 16% of earnings. And that income was undoubtedly less durable than many believed, as it evaporated almost instantaneously when the bloom came off the new economy rose. Today, in contrast, the sector's share of market capitalization and S&P earnings are roughly in line with each other and, as a much more mature and entrenched industry, income product is almost certainly much more resilient than it once was. So, while a pullback in technology could happen at anytime and may even be overdue, the conditions supporting something more dire may be less compelling than some believe.