Volume 22, Number 6 **Issue #21706** **February 6, 2017**

HONEYMOON STILL ON

By Gordon Pape, Editor and Publisher

The Trump honeymoon isn't over yet as far as the stock markets are concerned. But investors are wavering amid concerns about where the new administration is heading. And CEOs are wondering how the President's new policies are going to affect their businesses.

Last week was a prime example of how nervous everyone is right now. The Dow recorded double-digit losses on Monday and Tuesday after the announcement of the immigration and refugee ban prompted widespread protests and shook up the tech sector.

For the next two days, the Dow drifted aimlessly before rallying on Friday on news Mr. Trump is moving quickly to seek revocation of many of the regulations put into place by the Dodd-Frank bill of 2010, which imposed tight controls on the U.S. financial sector.

The bill was designed to prevent abuses of the kind that almost brought down the global financial system in 2008. However, many business leaders, economists, and politicians have complained that it has overregulated the industry to the point where small business lending has declined and major companies have been forced to spend millions to meet overzealous rules.

Opponents of the bill say that reducing the red tape that has constricted the financial sector will stimulate business and enhance corporate bottom lines. Opponents of a rollback claim it will bring back the Wild West era on Wall Street that led to the 2008 crisis.

President Trump left no doubt about where he stands (he never does!) when he declared flatly on Friday: "Dodd-Frank is a disaster."

We have no idea at this point to what extent the bill will be gutted but the financial sector clearly expects some major beneficial changes. Shares in Goldman Sachs were up more than $9 at mid-day Friday. JPMorgan Chase was ahead more than $2 and Wells Fargo and Citigroup had gained over $1.

While the move to deregulate the financial sector was welcome news on Wall Street, many senior business executives are worried about what else Mr. Trump may do, especially in the areas of taxes, border controls, and spending.

A report published in Friday's Wall Street Journal said that of the 242 companies that have held conference calls on their latest financial results, half had mentioned the President and his policies, either directly or indirectly.

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B U I L D I N G W E A L T H

The Internet Wealth Builder

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Next Issue: February 13

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Most of the comments were favourable or optimistic, the Journal said, but in some cases concern was expressed over the idea of a border adjustment tax that has been pushed by several prominent Republicans including House Speaker Paul Ryan.

As things stand right now, no one (probably not even Trump insiders) knows what is coming. Corporate leaders are hopeful that the administration will deliver major tax cuts that will enhance their bottom lines but the budget hawks in Congress may water down or even torpedo that plan. A border tax makes many companies nervous, especially large importers, who would not be able to deduct the cost of those imports (hello Wal-Mart). The high-tech sector, which employs many overseas engineers and technicians, is steamed at the immigration ban.

The performance of the U.S. markets last week demonstrates the ambivalence investors are feeling after two weeks of President Trump. They want to be optimistic about the future. But then he unnerves them by blowing off Australia's Prime Minister and rattling sabres at Iran, leaving people shaking their heads. It's not going to change. Last week's volatility was just a harbinger of what's to come. Be prepared.

RRSP PORTFOLIO HAS SMALL GAIN

By Gordon Pape

In February 2012 I created an RRSP portfolio for our readers. It had an initial value of $25,031.92 and was designed with two main goals. The first is capital preservation – as with any pension plan, you don't want to lose money. The second is to earn a higher rate of return than you could get from a GIC.

I constructed the portfolio to include bonds and defensive securities in order to reduce risk. But I also added some growth-oriented securities including mutual funds that offer exposure to the Canadian, U.S., and international equity markets. The portfolio contains a mix of ETFs, mutual funds, and limited partnerships so readers who wish to replicate it must have a self-directed RRSP with a brokerage firm.

These are the securities currently in the portfolio with some comments on how they have performed since the last review.

iShares DEX Short Term Corporate Universe + Maple Bond Index Fund (TSX: XSH). This is a short-term bond fund that invests in securities issued by Canadian companies or by foreign corporations in Canadian currency (the Maple Bonds). Short-term bond funds are essentially defensive positions so returns are low. Over the latest six-month period this fund lost $0.14 per unit in market value but we received about $0.29 in distributions for a small net gain.

iShares Canadian Bond Index ETF (TSX: XBB). We added this ETF to the portfolio in February 2015. It tracks the performance of the total Canadian bond universe including government and corporate issues. Bonds have gone through a difficult period and the market price of this ETF is down by $1.44 since our last review in August. We received distributions of about $0.43 per unit over the period, so we lost ground here.

Fidelity Canadian Large Cap Fund B units (FID231). The net asset value (NAV) of this fund is down by $0.11 since our last review. However, we received a year-end distribution of $0.82 per unit in late December so we have a modest overall gain for the period.

Beutel Goodman American Equity Fund D units (BTG774). This fund rebounded strongly in the latest six months. The unit value is up by $0.97 and we received a year-end distribution of $0.421 per unit. The total return for the period was just over 10%.

Trimark International Companies Fund, A units (AIM1733). This fund was added to the portfolio last August, replacing the Black Creek International Equity Fund, which was not performing to our expectations. We lost $0.05 per unit during past six months and received no distributions. That was below average for the category so we'll keep an eye on this one.

Brookfield Renewable Energy Partners LP (TSX: BEP.UN, NYSE: BEP). This Bermuda-based limited partnership owns a range of renewable power installations (mainly hydroelectric but also some wind) in North and South America. The price took a tumble to the $36 range in December but has since recovered to about the same level as the time of my last review. We received two distribution totaling US$0.89 per unit over the latest six months and the board has approved a 5% increase in the payout starting in March.

Brookfield Infrastructure Partners LP (TSX: BIP.UN, NYSE: BIP). This limited partnership, invests in infrastructure projects around the world. The units split 3

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for 2 in September, which means for every 100 units you owned previously you now have 150. The partnership just announced an 11% increase in the quarterly distribution to US$0.435 starting in March.

Interest. We invested $1,636.43 in an account with EQ Bank, which was paying 2.25% at the time. We received $18.41for the period.

Here is how the RRSP Portfolio stood as of the afternoon of Feb. 3 (mutual fund prices are as of the close of trading on Feb. 2). Commissions have not been factored in and Canadian and U.S. currencies are treated at par for ease of tracking.

IWB RRSP Portfolio (a/o Feb. 3/17)

Security	Weight %	Shares	Average Price	Book Value	Current Price	Market Value	Retained Income	Gain/ Loss %
XSH	16.2	330	$19.65	$6,685.90	$19.58	$6,461.40	$96.79	- 1.9
XBB	6.6	85	$32.42	$2,755.90	$30.99	$2,634.15	$123.93	+0.007
FID231	20.4	200	$31.83	$6,365.47	$40.81	$8,162.00	$341.31	+33.6
BTG774	21.4	580	$8.42	$5,099.83	$14.74	$8,549.20	$284.57	+73.2
AIM1733	8.8	400	$8.85	$3,540.00	$8.80	$3,520.00	$0	-0.06
BEP.UN	9.9	100	$27.86	$2,786.02	$39.47	$3,947.00	$421.50	+56.8
BIP.UN	15.5	135	$20.17	$2,723.40	$45.90	$6,196.50	$620.25	+150.3
Cash	1.2			$484.11		$502.52		+ 3.8
Totals	100.0			$30,440.63		$39,972.77	$1,888.35	+37.5
Inception				$25,031.92				+67.2

Comments: The portfolio turned in a small gain of 2.43% in the latest six-month period, thanks to strong performances from the Beutel Goodman American Equity Fund and the Brookfield Infrastructure LP. The rest of our securities were more or less flat.

That brings the total return in the five years since this portfolio was launched to 67.2%. That's an average annual compound rate of return of 10.83%, well in excess of our target.

Changes: The bond funds aren't doing well at this point so we're going to diversify our holdings. We will sell 130 units of XSH for $2,545.50 and invest the money in the TD High Yield Bond Fund (TDB626). It is priced at $6.80 per unit so we will buy 375 units. We'll take $4.50 from cash to make up the difference.

We will buy another 20 units of Beutel Goodman American Equity Fund, to bring our total to 600. The cost is $294.80. We will use $284.57 from accumulated distributions and take the other $10.23 from cash.

We have enough retained income to buy another 10 units of Brookfield Energy Partners. This will bring our total to 110 and reduce our retained income to $26.80.

Finally, we will buy 10 units of Brookfield Infrastructure LP for $459, leaving us with cash of $161.25.

We will reinvest our cash balance of $1,237.87 in the EQ Bank account, which now pays 2%

Here is the revised portfolio. I'll review it again in August.

IWB RRSP Portfolio (revised Feb. 3/17)

Security	Weight %	Shares	Average Price	Book Value	Current Price	Market Value	Retained Income
XSH	9.5	200	$19.65	$3,930.00	$19.58	$3,916.00	$96.79
XBB	6.4	85	$32.42	$2,755.90	$30.99	$2,634.15	$123.93
TDB626	6.2	375	$6.80	$2,550.00	$6.80	$2,550.00	0
FID231	19.9	200	$31.83	$6,365.47	$40.81	$8,162.00	$341.31
BTG774	21.5	600	$8.99	$5,394.63	$14.74	$8,844.00	$0
AIM1733	8.6	400	$8.85	$3,540.00	$8.80	$3,520.00	$0
BEP.UN	10.6	110	$28.92	$3,180.72	$39.47	$4,341.17	$26.80
BIP.UN	16.2	145	$21.95	$3,182.40	$45.90	$6,655.50	$161.25
Cash	1.1			$487.79		$487.79	
Totals	100.0			$31,366.91		$41,110.61	$750.08
Inception				$25,031.92			

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RYAN IRVINE'S UPDATES

Exco Technologies Limited (TSX: XTC, OTC: EXCOF)

Originally recommended on Feb. 27/12 (#21208) at C$4.25, US$4.22. Closed Friday at C$10.45, US$7.80.

Background: Exco Technologies is a global supplier of innovative technologies servicing the die-cast, extrusion, and automotive industries. Through its 18 strategic locations in 10 countries, it employs over 5,000 people and services a broad customer base.

Stock performance: The stock was recommended in February 2012 as a Buy at $4.25. In our most recent update last June, we shifted our rating to Hold with the price at $12.27. Since then, the shares have been in a downtrend, although they have recently showed signs of stabilizing.

Recent financial results: Consolidated sales for the 2017 first quarter (to Dec. 31) were $153.1 million compared to $130.9 million in the same quarter last year. That was an increase of $22.2 million or 17%.

The Automotive Solutions segment reported higher sales of $108.1 million, an increase of $30.4 million or 39% from the same quarter last year. The acquisition of AFX contributed $28.5 million of this increase although sales were higher at most of the segment's other businesses with the exception of the company's Automotive Leather Company (ALC). It experienced lower sales due to the closure of its Lesotho operations and the previously disclosed wind-down of the BMW 5 Series seat cover program.

The Casting and Extrusion segment reported sales of $45 million for the first quarter, a decrease of $8.2 million or 15% from the same quarter last year. Most of the sales decline occurred in the Large Mould group arising from reduced demand for certain established programs, the timing of customer releases, and pricing pressures on certain new programs.

Consolidated net income for the quarter was $11.5 million ($0.27 per share, fully diluted). That compared to $11.8 million ($0.28 per share) in the same quarter last year for a decrease in net income of 3%. Net income was adversely affected by $1.2 million ($0.03 per share) of non-operating costs associated with the permanent closure of ALC's operations in Lesotho, of which $0.7 million was non-cash. Net income in the quarter was also reduced by $0.02 per share compared to the prior year due to higher amortization expense associated with the AFX acquisition.

The effective consolidated income tax rate was relatively stable at 30.9% in the current quarter compared to 31% in the same quarter last year. Net income adjusted for the impact of the non-operating costs was $12.7 million, or $0.30 per share for growth of 7% over the prior year.

Dividend: Management announced a 14% increase in the company's dividend. The new rate, payable in March, will be $0.06 per share ($0.24 per year). The shares yield 2.3% at the new rate.

Conclusion: The outlook for the automobile sector has been pessimistic among the Bay and Wall Street crowd over the past three to six months as calls for a rising rate environment may pressure auto sales. However, we see the near-term demise of this business as overblown.

Exco has done a tremendous job of quickly improving its balance sheet (one that was already healthy) over the past six months. Exco's net debt totaled $28.9 million as at Dec. 31, down from $44.6 million the end of September and approximately $71 million when AFX was acquired on April 4, 2016. We expect the company could be in a net cash position early in 2018, less than a year and a half after the most significant dollar value acquisition in its history.

Over the last 12 months, after factoring in the company's recent acquisition, revenue was $655 million and EBITDA was $93 million. We expect the company can match the $93 million figure in 2017, leaving the stock trading with an attractive Enterprise Value/EBITDA ratio of just over five. Consolidated EBITDA for the first quarter increased 11% to $23.3 million compared to $21 million last year.

Action now: Exco is a Buy long-term in its current range.

GlobalSCAPE Inc. (NYSE: GSB)

Originally recommended on June 27/16 (#21625) at $3.80. Closed Friday at $3.88. (All figures in U.S. dollars.)

Background: Founded in 1996, GlobalSCAPE is a pioneer and worldwide leader in the secure and reliable exchange of business information. The company provides enterprise software in a wide array of categories including file management, web development and multimedia utilities. The company's managed file transfer (MFT) platform helps organizations securely transfer data with enhanced automation, regulatory compliance,

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Ryan Irvine's updates – continued from page 4…

governance, and visibility controls data between diverse and geographically separated network infrastructures. GlobalSCAPE has tens of thousands of customers worldwide, including global enterprises, governments, and small and medium enterprises.

Stock performance: The stock was recommended in late June at $3.80. It was reviewed in August as a Buy at $3.44. It has been trending higher since.

Recent developments: Last week, GlobalSCAPE met expectations when it reported is fourth-quarter and year-end results for the period ended Dec. 31. For the fourth quarter, revenues increased 7% to $9.03 million from $8.47 million reported for the same period of 2015. Income from operations rose 24% to $1.91 million from $1.54 million in 2014. Per share net income was flat due to a one-time tax charge, at $0.06 for the quarter.

Conclusion: From a valuation perspective, we estimate GlobalSCAPE will grow its earnings per share by 20%-25% in 2017 to the $0.24 per share mark. As such, the stock is now trading at 16.62 times expected 2017 earnings. If remove our expected cash balance of US$28.5 million or $1.35 per share at year end from the equation and value the business, the "cash out" p/e is 11. This appears attractive if management can execute on its growth path.

The stock is not a high growth business and we expect no dramatic near-term share price moves. However, we view the stock as 15% undervalued at present with a near-term fair value of $4.60. The potential for growth over the next three years of 15%-20% gives us a one-year target of $5.70. The company's strong balance sheet and recurring cash generating model makes it either a takeover target or poised to growth via acquisition.

Action now: Buy.

High Arctic Energy Inc. (TSX: HWO, OTC: HGHAF)

Originally recommended on Sept. 2/13 (#21332) at C$2.85, US$2.55. Closed Friday at C$5.92, US$4.30.

Background: High Arctic operates in two geographic areas within one operating segment. It provides oil field services to exploration and production companies operating in Canada and Papua New Guinea (PNG). The company's largest operation is in PNG where it provides drilling and specialized well completion services and supplies rigs, matting, camps, and drilling support equipment on a rental basis. The Canadian operation provides snubbing services, nitrogen supplies, and equipment on a rental basis.

Stock performance: We introduced this company to IWB readers to in late August 2014 with the stock trading at $2.85. It was last updated as a Buy in early December at $4.78. It steadily moved higher, reaching a high of $6.27 in late January, before pulling back last week.

HWO has been a constant in KeyStone's research for almost four years and the stock has performed very well. It has paid clients an excellent monthly dividend that has been raised a number of times and its share price gains have helped produce total returns of over 100% (including dividends) since our original recommendation in the IWB.

The stock is up around 65% in the past five months on optimism in the energy market generally and confidence surrounding the company's Tervita asset purchase (detailed in past IWB updates). While we see the purchase as likely to be astute in the long term, the near-term investor optimism appears ahead of itself. There are risks to the company near term in PNG as well as in Western Canada that are not being factored in.

Recent developments: We interviewed the new interim CEO, Thomas Alford, and find him to be light years ahead of the former CEO in terms of financial market experience. We believe him well qualified for the current position but at this stage there are no guarantees that he will stay on long term, as part of his job is to search for the next permanent CEO.

The company appears to be looking to be a consolidator in the Western Canadian service segment and has the unlevered balance sheet to do so. This may well turn out to be a good strategy in a down market long-term, but we have also seen growth-by-acquisition strategies executed to disastrous results in the past.

While activity has picked up to a degree in the Western Canadian Sedimentary basin as oil prices have crept above US$50, we believe a sustained move for oil above the US$65 level is necessary for a true recovery to occur. That means a recovery where producers start generating significant cash flow and the rig count has reduced to a point where service companies are no longer price takers as they are at present.

It is important to point out that in its primary market, Tervita has been and continues to be a price taker and the company's at-the-rig margins in the range of 20% are nowhere near good enough. We also note that, due to very slack demand, HWO has likely removed a number of rigs being marketed into 2017 from the 68 that were quoted at the time of the acquisition.

As such, we believe that in 2017 the assets purchased by

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the company will do less than the $65 million in sales at the time of acquisition. Any additional asset purchases or mergers would be at higher asset prices and also likely be unaccretive on an EV/EBITDA basis near term given the continued slack in the service sector.

Over a period where many energy services stocks have seen their share prices cut in half or more and a number face potential bankruptcy, HWO has been on an island unto itself with its PNG assets. However, for the first time in the past four years, the company faces a couple of near-term challenges in this market that may reduce cash flow. For example, there have been delays in the renewal for the company's managed rigs 103 and 104. While we expect HWO will be selected once again (a potential catalyst for the stock), there is a risk a competitor could be chosen and, at the very least, concessions will be made once again, reducing cash flow on any future contracts.

At present, HWO trades somewhere in the range of 6-7 times EV/EBITDA. That is not expensive, but while sales will grow in 2017, the company's track record of EBITDA growth will likely stop. As such, on a historical basis, we see the company as overvalued near term given the uncertain recovery of oil prices and the company specific risk discussed above.

Conclusion: HWO is not terribly expensive at present. But the near-term surge over the past five months has increased the downside risk if oil prices were to falter or the company loses its management drill rig contracts in PNG (Rigs 103 and 104) or fails to renew near term on its owned Rig 115, which is scheduled to expire in June 2017. We do not expect all of these potential risk events to occur, but they add a level of risk in an uncertain environment. This is compounded by the fact that, in the near term, the Tervita assets will likely show declining cash flows and will require oil to move well above US$60 on a sustained basis before we see a return to cash flow growth.

As such, we see the recent surge in HWO's shares as overly optimistic given the risks of oil moving lower and the company facing declining cash flow in PNG.

Action now: We recommending you Sell your position in HWO and crystallize a capital gain of 107% since our original recommendation. We see the company as well positioned for a longer-term recovery in energy prices and would potentially look at buying back into the stock at an opportune time down the road. But we see the turnaround in cash flow for the sector as more of a 2018-2019 story and will take this opportunity to profit from the recent share price gains.

Disclosure: KeyStone owns shares in XTC and GSB.

GORDON PAPE'S UPDATES

UnitedHealth Group Inc. (NYSE: UNH)

Originally recommended by Tom Slee on March 2/14 (#21409) at $76.01. Closed Friday at $161.87. (All figures in U.S. dollars.)

Background: UnitedHealth Group is one of the largest health care insurers in the U.S. It also provides information and technology-enabled health services through its Optum division.

Stock performance: The shares took a big jump immediately following the election but have been trading in a narrow range around $160 since. The stock has more than doubled since retired contributing editor Tom Slee first recommended it in March of 2014.

Recent developments: The company recently reported fourth-quarter and year-end results on Jan. 17 and they were very strong, beating expectations. However, the market shrugged, perhaps because of the earlier run-up in the price, and the stock showed little reaction.

For the fourth quarter, UNH recorded revenue of $47.5 billion, up almost 9% from $43.6 billion in the same period of 2015. Full-year revenue was $184.8 billion, an increase of 16.6% from 2015.

Quarterly net earnings attributable to shareholders came in at $1.9 billion ($1.96 per share, fully diluted), compared to $1.2 billion ($1.26 per share) the year before. For all of 2016, UNH earned $7.2 billion ($7.48 per share), up from $5.8 billion ($6.01 per share) in 2015.

In an interesting development, fourth-quarter profitability was driven mainly by the company's Optum division, not by its health insurance operation. Optum provides a wide range of technological, clinical, and prescription services and many analysts see it as the long-term growth engine of the business.

The company said that during the year it increased its healthcare coverage market by 2.2 million people.

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The company affirmed its 2017 financial outlook, including estimated revenues of $197 billion to $199 billion, net earnings of $8.75 to $9.05 per share, adjusted net earnings of $9.30 to $9.60 per share, and cash flows from operations of $11.5 billion to $12 billion.

Dividend: The stock pays a quarterly dividend of $0.625 per share ($2.50 per year) to yield 1.5% at the current price. Based on past history, we should expect an increase for 2017 to be announced soon.

Action now: Buy. The forward p/e for the stock is 17.4, based on 2017 earnings of $9.30 per share.

iShares Convertible Bond Index ETF (TSX: CVD)

Originally recommended on Sept. 29/14 (#21435) at $19.55. Closed Friday at $19.02.

Background: This ETF tracks the performance of the FTSE TMX Canada Convertible Bond Index. Only bonds traded on a Canadian exchange are eligible for inclusion and they must be denominated in Canadian dollars. Convertibles theoretically give investors the best of both worlds: regular interest payments plus an opportunity to earn a capital gain if the price of the underlying stock rises.

Performance: I last reviewed this ETF in July when it was trading at $18.80. I rated it a Buy at the time. The units traded as high as $19.31 in late January but have since pulled back a little.

Recent developments: The cash flow from this ETF is very good. Monthly distributions are in the $0.07 to $0.075 range and we have received total payments of just over $0.50 per unit since the July update. This demonstrates that not all bond funds are losing money. Since July, we have a small capital gain and combined with the distributions, our total return over that period is 3.8%.

Action now: Buy.

PREFERRED SHARE UPDATES

A member pointed out to me that we have been remiss in updating our preferred share recommendations. I checked it out and he is correct. Most of these stocks were originally chosen by former contributing editor Tom Slee and when he retired their coverage slipped through the cracks. My apologies, and we're correcting that now.

George Weston 5.25% Series 3 Preferred Shares (TSX: WN.PR.C)

Originally recommended on Dec. 12/11 (#21144) at $25.24. Closed Friday at $24.78.

Comments: This is a straight (perpetual) issue with a Pfd 3 DBRS (Dominion Bond Rating Service) rating, indicating the dividends and principal are adequately protected.

Series 3 pays a quarterly dividend of $0.325 ($1.30 annually) and yields 5.3% at the current price. That's a very good return from a sound security whose payments are eligible for the dividend tax credit.

Action now: Buy.

Enbridge Series A Preferred Shares (TSX: ENB.PR.A)

Originally recommended on Jan. 10/05 (#2502) at $26.30. Closed Friday at $25.61.

Comments: This is a relatively simple issue of straight preferred shares. They pay a quarterly dividend of $0.3437 ($1.3748 per year) to yield 5.4% at the current price. Dominion Bond Rating Service rates them Pfd-2 (low). The yield is very attractive but keep in mind that Enbridge can redeem them at any time at $25 so there is a risk of a capital loss if you pay over that price.

Action now: Hold. Buy if the price pulls back to the $25.25 range.

Power Financial 5.5% Series D Preferred Shares (TSX: PWF.PR.E)

Originally recommended on April 4/05 (#2513) at $25.85. Closed Friday at $25.26.

Comments: This is another issue of perpetual shares (meaning they have no redemption date). The quarterly dividend is $0.3437 ($1.3748 per year), the same as the Enbridge issue we looked at above. However, the share price is lower so the yield is higher at 5.5%. DBRS rates them Pfd-1 (low) indicating strong earnings and balance sheet characteristics.

Here again, the same caution as with the Enbridge preferreds: Power Financial can call the issue at any time at $25. However, with the market price only slightly above that level, the call factor should not be a concern.

Action now: Buy.

We'll have a few more for you next week.

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