The Internet Wealth Builder
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GROWTH PORTFOLIO STILL STRONG

By Gordon Pape, Editor and Publisher

The IWB Growth Portfolio was originally set up by retired contributing editor Tom Slee in August 2012. It is the riskiest of all IWB portfolios, with 100% exposure to the stock market. It also continues to be the most successful in terms of returns.

The portfolio was valued at $10,000 when it was created, with the assets distributed among eight stocks. Three were U.S. companies while the rest were Canadian. We have switched some of the stocks over the four and a half years since but we have retained the original mix of five Canadian and three U.S. securities. Our target average annual compound rate of return is in the 12% range.

Here are the securities that make up the portfolio, with an update on how they have performed since our last review in February. Prices are as of midday on Feb. 16.

Simon Property Group (NYSE: SPG). SPG is the largest retail property group in the United States, with interests in shopping malls across the country. The stock hit an all-time high around the time of our last review but went into a slump shortly after on concern over rising interest rates and is now trading at about the same price as when we added it to the portfolio. However, the shares offer a good yield (dividend of US$1.75 per quarter) and analysts remain positive on the shares so we will ride this for another six months.

Alimentation Couche-Tard (TSX: ATD.B, OTC: ANCUF). After marking time for the past year or so, Couche-Tard has started to move higher again. The shares are up $3.16 since our last review in August and the quarterly dividend has been increased to $0.09 per share.

WSP Global Inc. (TSX: WSP, OTC: WSPOF). WSP Global is one of the world's leading professional services companies, providing technical expertise and strategic advice to clients in the property and buildings, transportation and infrastructure, environment, industry, resources, and power and energy sectors. The share price has moved higher over the past year, and gained $4.74 since our last review in August. We received two dividends totaling $0.75 per share.

Stella-Jones (TSX: SJ, OTC: STLJF). The company makes railroad ties and utility poles and had been doing very well for us until the past year or so. However, the stock has been sliding lately and dropped

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I N T H I S I S S U E

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$5.78 per share since our last review. The dividend is a tiny $0.10 per quarter. We are going to drop this stock, see the changes section below.

TFI International (TSX: TFII, OTC: TFIFF). This was originally recommended as TransForce Inc. The company changed its name last year and the trading symbol on Toronto is now TFII. The stock has been a very strong performer in recent months, having gained almost $10 per share since our last review. The quarterly dividend was increased by almost 12% to $0.19, effective with the December payment.

New Flyer Industries (TSX: NFI, OTC: NFYEF). This Winnipeg-based heavy-duty bus manufacturer has been benefiting from the growing demand for clean energy vehicles. The shares continue to rise, albeit at a slower rate than in the early part of 2016. The gain over the latest six-month period was $3.64 (9%). We received two dividends totaling $0.475 per share. This is the number one performer in the portfolio with a gain since inception of 480%.

Apple Inc. (NDQ: AAPL). Apple shares sagged after they were added to the portfolio a year ago but the stock has recovered and recently hit an all-time high. The company is the largest in the U.S. by market capitalization and analysts are expecting some major new innovations to mark this year's tenth anniversary of the iPhone.

UnitedHealth Group (NYSE: UNH). This U.S. health insurance provider hit an all-time high last week and the shares have gained $20 since our last review. We received two quarterly dividends of US$0.625.

Cash. We received interest of $9.09 on our cash holdings.

Here is how the portfolio stood at noon on Feb. 16. Commissions are not taken into account and the U.S. and Canadian dollars are treated as being at par but obviously gains (or losses) on the American securities are increased due to the significant exchange rate differential.

IWB Growth Portfolio (a/o Feb. 16/17)

Symbol	Weight %	Total Shares	Average Price	Book Value	Current Price	Market Value	Dividends Retained	Gain/ Loss %
SPG	6.7	10	$180.27	$1,802.73	$179.44	$1,794.40	$112.17	+ 5.8
ATD.B	16.0	70	$16.63	$1,164.10	$61.53	$4,307.10	$55.81	+274.8
WSP	13.9	80	$21.94	$1,754.99	$46.76	$3,740.80	$259.28	+127.9
SJ	10.7	70	$14.66	$1,026.18	$40.99	$2,869.30	$63.03	+185.8
TFII	10.5	80	$20.71	$1,656.81	$35.40	$2,832.00	$86.94	+76.2
NFI	16.4	100	$7.95	$795.00	$44.14	$4,414.00	$200.88	+480.5
AAPL	10.1	20	$121.70	$2,434.07	$135.30	$2,706.00	$66.44	+13.9
UNH	15.2	25	$92.19	$2,304.86	$163.26	$4,081.50	$111.61	+81.9
Cash	0.5			$118.82		$127.91		
Total	100.0			$13,057.56		$26,873.01	$956.16	+113.1
Inception				$10,000.00				+178.3

Comments: Weak performances by Simon Property Group and Stella-Jones dragged down our overall returns. However, the rest of the portfolio did well, lead by big gains from TFI International, Apple, and UnitedHealth Group. Overall, our gain over the latest six months was a respectable 9.1%. Since inception, the Growth Portfolio is up 178.3%, which works out to an average annual compound rate of return of 25.54%. This is clearly well in excess of our target and should not be expected to last forever, but we'll enjoy it while we can.

Changes: As mentioned above, it appears that Stella-Jones has lost momentum and can no longer be considered a growth stock. Therefore, we will sell our shares for a total of $2,932.33, included retained dividends.

We will invest the money in shares of Shopify (TSX, NYSE: SHOP), which in the past few years has become one of Canada's leading software companies. The Ottawa-based firm provides cloud-based, multi-channel commerce platforms, mainly for small and medium-sized businesses although large companies like GE and Nestle are also clients.

Shopify was originally recommended in the IWB by

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contributing editor Glenn Rogers in February 2016 at $28.34. It was trading at the time of writing at $78.71, for a gain of 178%.

We will buy 37 shares at a total cost of $2,912.27. We have $20.06 left over which will be added to the cash account.

As well, we will buy five more shares of WSP Global for $233.80. That will bring our total to 85 shares and leave $25.48 in retained dividends.

Remember, do not to execute small trades unless you have a fee-based account because of the high commissions. Use dividend reinvestment plans wherever possible.

We will keep our cash of $807.30 in the EQ Bank account, which now pays 2%.

Here is the revised portfolio. I will review it again on the fifth anniversary in August.

IWB Growth Portfolio (revised Feb. 16/17)

Symbol	Weight %	Total Shares	Average Price	Book Value	Current Price	Market Value	Dividends Retained
SPG	6.6	10	$180.27	$1,802.73	$179.44	$1,794.40	$112.17
ATD.B	15.9	70	$16.63	$1,164.10	$61.53	$4,307.10	$55.81
WSP	14.6	85	$21.94	$1,988.49	$46.76	$3,974.60	$25.48
SHOP	10.7	37	$78.71	$2,912.27	$78.71	$2,912.27	0
TFII	10.4	80	$20.71	$1,656.81	$35.40	$2,832.00	$86.94
NFI	16.2	100	$7.95	$795.00	$44.14	$4,414.00	$200.88
AAPL	10.0	20	$121.70	$2,434.07	$135.30	$2,706.00	$66.44
UNH	15.0	25	$92.19	$2,304.86	$163.26	$4,081.50	$111.61
Cash	0.6			$147.97		$147.97	
Total	100.0			$15,206.30		$27,169.84	$659.33
Inception				$10,000.00			

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RRSPS WORK! HERE’S THE MATH

We are joined this week by contributing editor Shawn Allen, who has been providing stock picks on his website at www.investorsfriend.com since the beginning of the year 2000 and has a great success record. Shawn is based in Edmonton.

Shawn Allen writes:

Statistics Canada reported this week that Canadians have been contributing less to RRSPs in recent years. In part, this is due to the introduction of the Tax-Free Savings Account (TFSA). Disturbingly, it is also due in part to inaccurate “bad press” that RRSPs have received.

Yes, it’s true! RRSPs too have been the victim of “fake news”. Much of this bad press is spread by well-intentioned but unqualified and ill-informed people posting on various Internet sites. This is unfortunate because RRSPs remain the best retirement savings vehicle for most (although not all) employed Canadians. I will provide the math below.

Those contributing to the bad press often describe RRSPs as a mere tax deferral system rather than a tax reduction system. Those with more extreme views call RRSPs a “tax bomb” waiting to explode. These views are false and result from confusion. Far from being a “tax bomb”, an RRSP can usually result in net tax-free growth after properly considering both the initial income tax refund and the taxes paid upon withdrawal.

Why the confusion?

Here’s how the confusion arises:

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Investments and savings in a TFSA, of course, grow completely tax-free. $100,000 in a TFSA can be taken out and spent at any time with no income tax payable.

Investments and savings in a taxable investment account accrue tax on interest, dividends, and realized capital gains and the tax must be paid each year. But $100,000 in a taxable investment account can also be withdrawn and spent at any time and the only additional tax payable would be on any capital gains that had to be triggered and realized in order to convert the investments to cash.

Investments and savings in an RRSP grow completely tax-free as long as there are no withdrawals from the account. But removing $100,000, in one year, from an RRSP would result in roughly a 40% to 54% tax hit, depending on your marginal income tax bracket, which increases with income and varies somewhat by province. (Your marginal income tax rate is the rate applicable to each additional dollar of income and is higher than your average income tax rate.)

Even if withdrawals are kept much smaller and spread over many years, most RRSP investors will face taxes upon withdrawal of at least 20%, and 30% to 40% is probably more typical. Those in the highest bracket could face tax rates of 54% on RRSP withdrawals. RRSP withdrawals are taxed not only on the gains that the investments have made but on the removal of the original contributed amounts as well.

Based on the above, the argument is made that RRSPs are clearly tax traps and should be avoided. But the full math tells a far different story as the following example illustrates.

Imagine you earn an additional $10,000 and are in a 40% marginal income tax bracket. You will net $6,000 after tax, which you can choose to spend or to save. If that money is placed in a TFSA and grows at 8% annually then you will end up with $60,000 after 30 years. You will pay no tax on the $54,000 in growth.

Alternatively, you could invest $10,000 in an RRSP. This would be your own $6,000 plus a borrowed $4,000, which you will shortly repay with the 40% tax deduction that you will qualify for. If that money grows at the same 8% you will end up with $100,000 after 30 years. If you then face a hefty 40% marginal tax rate upon withdrawal you would net $60,000.

Notice that your net cost was $6,000 in both cases. In both cases, it was the same $6,000 in after-tax funds that were no longer available for spending. And in both cases your after-tax result in the end was $60,000. Your gain was $54,000 in both cases. If your net $6,000 in the RRSP grew to the same amount after tax as it did in the TFSA then the inescapable conclusion is that your $6,000 in the RRSP also grew completely tax free despite the 40% taxes paid on the withdrawal! Your $6,000 did not merely grow on a tax-deferred basis, it grew tax free!

How can this be? Well, in substance, in the example above the initial 40% tax refund effectively funded 40% of the RRSP or $4,000 of the original $10,000 contribution. Think of that as the “taxman’s” (permanent) share of “your” RRSP. The taxman’s 40% share subsequently grew at the same rate as your 60% share and fully funded the 40% tax upon withdrawal.

And, better yet, if your marginal tax rate upon withdrawal is lower than the marginal tax rate at which you contributed and obtained a refund, then the taxman’s share of your RRSP will more than fully fund the taxes due and your own net contribution to the RRSP will have grown to a net after-tax amount that is even larger than would occur in the TFSA. That is effectively a negative tax rate on the growth in your own net contribution to your RRSP.

The big mistake that RRSP investors make is to consider their RRSP to be worth 100 cents on the dollar. It never was. It only cost them, say, 60 cents on the dollar after considering the refund. It will only ever be worth 60 to 80 cents on the dollar depending on the marginal tax rate applicable to withdrawals.

On a properly constructed net worth statement it is simply incorrect to value an RRSP account at 100 cents on the dollar. It should be shown at a reduced value to account for the approximate percentage that will be lost to income taxes upon withdrawal. Sadly, those who count their RRSP account value at 100 cents on the dollar are poorer than they thought.

Not free money

If you contribute $10,000 to an RRSP and get a $4,000 refund, that refund is not “free money” and your net worth does not increase by $4,000, or at all. In substance, you have contributed a net $6,000 to the RRSP and the taxman has contributed $4,000. The taxman is, in effect, a permanent partner in “your” RRSP.

Upon withdrawal, the taxman will take back a share that is based on your marginal income tax rate. In most cases this take back rate or percentage will be lower than the rate or percentage that the taxman, in effect, originally contributed to your RRSP. Having a partner that

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contributes 40% to a fund that grows tax-free and who usually takes back somewhat less than 40% still leaves you with access to tax-free growth on your 60% share of the RRSP and, in that case, even lets you keep some of your partner's 40% share.

If you forget that that the taxman originally funded about 40% of "your" RRSP then paying say 30% or 40% taxes upon withdrawal seems very harsh indeed. But if you consider that the deal is that your (say) 60% net contribution to the RRSP has grown completely tax free and that that all the taxman is doing is taking back his 40% share (and often he takes back less than that) then you will realize that investing within an RRSP has been very beneficial indeed.

Despite some bad press and fake news, RRSP investing is very beneficial and Gordon Pape has written a book called RRSPs: The Ultimate Wealth Builder if you want to know more. It's available on Amazon.

Action now

Most people earning income from employment and who are in a marginal income tax bracket of at least 30% should absolutely contribute to an RRSP, particularly if they have already maximized their Tax-Free Savings Accounts.

Do not listen to uninformed people who refer to RRSPs as income tax traps.

As painful as it is, begin to think of your RRSP as having a value of 60 to 80 cents on the dollar. Ease the pain by remembering that you only contributed about 60 to 70 cents on the dollar and your tax refund effectively contributed the remainder.

Be wary of suggestions to cash out your RRSP investments early to avoid income taxes. That can make sense in rare cases where people face a period of extremely low income (and therefore very low marginal tax rates) and especially if the withdrawals are used to fund TFSA contributions. But in most cases it would not be a wise move. Be especially wary of any financial advisor who advises you to cash out an RRSP that is *not* invested with him or her in order to make investments that the advisor will then earn fees from.

A SPECULATIVE PICK FROM SHAWN ALLEN

I recently came across an early stage and growing and already profitable Canadian biotechnology firm that I want to introduce to IWB readers. Here are the details.

Background: Ceapro Inc. (TSX-V: CZO) is an Edmonton-based "growth stage biotechnology company". It currently has about 21 employees. Through scientific research, it develops extracts from plants (currently, mostly oats). It currently produces several extracted products on a commercial scale that are used in the cosmetics industry and include an active ingredient used in some anti-aging and skin conditioner creams.

Brand names that have one or more lines that contain Ceapro's products as ingredients include Neutrogena, Lubriderm, Aveeno, Jergens, Dove, and others. Products under development include certain health products (some related to heart health) that would be ingested by people and a test meal product that would test for diabetes.

Geographically, sales are 68% in the U.S., 30% in Germany, 1% in China, and 1% elsewhere. There are essentially no sales in Canada even though the company is based here and trades in Toronto (please don't tell President Trump!).

Financials: Revenues in 2016 will be approximately $15 million and the company has $26 million in assets. The balance sheet is strong with ample cash and modest debt after a recent equity issuance.

Recent earnings growth: Revenues were up 56% in the first three quarters of 2016. However, revenues were down 2% in the third quarter and no explanation for this was provided. Overall, the trend in revenues and earnings per share in the past year is quite positive but with some volatility.

Share price performance: Ceapro began 2016 in the range of $0.40 per share. It rose to about $1 by May of last year and briefly spiked above $2 in July. But the stock has since fallen back to $1.57, where it closed on Friday. Clearly, investors should expect volatility in the share price.

Recent developments: In July 2016 the company raised a net of $8 million by issuing shares. As a result, the share count increased by 17% in the first nine months of 2016. In the fourth quarter, a convertible debenture was

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Speculative – continued from page 5…

switched to stock, adding an additional 2% to the share count. Warrants as well as outstanding and future options will also add perhaps 10% to the share count in the next year or two. The equity was issued to fund the company's relocation in September to a new and much larger location.

Competitive advantage: Ceapro has certain proprietary processes and intellectual property, some or all of which are protected by patents. For some of its products it is the sole commercial provider.

Valuation: Analyzed at a recent share price of $1.56. As a relatively early-stage and rapidly growing company, value ratios may provide little guidance. Nevertheless, here are the numbers. The price to book value ratio is ostensibly unattractive at 5.7. The equity market value is $123 million while the book value of the equity is just $21 million. There is no dividend. However, the price to earnings ratios (with earnings adjusted downward for a tax break and upward for some unusual expenses) does not seem excessive at 19.1. The adjusted return on equity is excellent at 44%. Overall, considering the growth and focusing on the p/e ratio and the high ROE, these value ratios would appear to support a Buy rating for the stock.

Outlook: Based on recent trends I expect revenues to continue to increase. However, profits may not rise or could decline in 2017 due to the expenses associated with recent large investments in its new manufacturing and processing facilities. These will add to expenses but may not immediately add to revenues. Also, the share count has recently increased by 17% and is likely set to increase further for a total of about a 25% increase. This, in isolation, will lower the earnings per share in fourth quarter and in 2017.

Risks: The larger risks relate to spending money on developing products and processes that might never achieve regulatory approvals or commercial success. There may also be risks due to product liability. There are also risks related to competition.

Conclusion: Ceapro should be considered to be a speculative investment due to its small size, its "penny-stock" price, and due to the research oriented nature of the company (since research does not always pay off). But it is also a profitable company with a potentially bright future.

Action now: Buy. A good strategy for those interested might be to take a small (or very small) position and then look to double that stake if the share price happens to fall materially on release of the fourth-quarter earnings and the 2017 outlook (assuming that the long-term outlook for the company remains good). The shares closed Friday at $1.57.

GORDON PAPE'S UPDATES

BCE Inc. (TSX, NYSE: BCE)

Originally recommended on Dec. 14/08 (#2844) at C$21.30, US$17.06. Closed Friday at C$58.76, US$44.87.

Background: BCE is Canada's largest communications company, providing a comprehensive suite of broadband communication services to residential and business customers through Bell Canada and Bell Aliant. Bell Media is company's multimedia arm, with assets in television, radio, and digital media. Television assets include the CTV television network and many of the country's most-watched specialty channels.

Stock performance: I last updated this stock just about a year ago at $59.06, at which time I rated it as a Buy. The shares briefly traded at over $63 during the summer but have been in a downtrend since then.

Recent developments: BCE released fourth-quarter and year-end results on Feb. 2. Revenue came in slightly better than expected but earnings fell short of expectations, leaving investors with a mixed bag.

Fourth-quarter operating revenue was up 1.8% to $5.7 billion compared to $5.6 billion for the same period last year. For the full year, revenue was up a modest 1% to $21.7 billion from $21.5 billion in 2015.

Fourth-quarter adjusted net earnings were $667 million, an 8.5% advance over $615 million in the same period last year. Adjusted earnings per share were ahead 5.6% to $0.76.

Full year adjusted earnings were just over $3 billion, up 5.8% from $2.8 billion in 2015. On a per share basis, the gain was 3% to $3.46.

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Free cash flow for the fourth quarter was ahead a fractional 0.8% to $923 million. For the full 2016 fiscal year, the gain was a more impressive 7.6% to $3.2 billion.

The company posted impressive gains in its wireless subscriber base, adding 112,000 accounts in the fourth quarter and 315,000 for the year. BCE also reported more than 54,000 Fibe TV and Internet net customer additions for the quarter, and approximately 240,000 for the full year.

"Going into 2017, BCE's operations and financial foundation are strong," said CFO Glen LeBlanc. "Our healthy balance sheet is underpinned by investment-grade credit metrics and good liquidity, together with a defined benefit pension plan that is very well funded and attractively positioned to benefit from a rising interest rate environment."

BCE made a $400 million voluntary pension plan contribution in December, reinforcing the strong solvency position of its defined benefit (DB) pension plans, reducing the amount of future pension obligations, and effectively positioning BCE to assume the Manitoba Telecom DB pension plan once that acquisition has been completed.

Dividend: The directors approved a 5.1% dividend increase to $0.7175 per quarter ($2.87 annually), effective with the April payment. The yield is 4.9% at the current price. This marked BCE's ninth consecutive year of 5% or better dividend growth, while maintaining the dividend payout ratio within the target policy range of 65% to 75% of free cash flow.

Action now: Buy. Take advantage of the price retreat.

Telus Corp. (TSX: T, NYSE: TU)

Originally recommended on Nov. 13/06 (#2640) at C$27.43, US$24.26 (split-adjusted). Closed Friday at C$43.93, US$33.55.

Background: Telus claims to be Canada's fastest-growing telecommunications company, with $12.8 billion of annual revenue in 2016 and 8.6 million wireless subscribers. The company provides a wide range of communications products and services, including wireless, data, Internet protocol (IP), voice, television, entertainment and video, and is Canada's largest healthcare IT provider.

Stock performance: Telus shares are trading at about the same price as in August, when I last reviewed the stock. They had been trading over $44 for most of this year, before pulling back.

Recent developments: Fourth-quarter and year-end financial results came in slightly below expectations, putting some pressure on the share price. Operating revenue for the quarter was $3.3 billion, up 2.7% from $3.2 billion in the same period last year. For the full year, operating income was ahead 2.4% to $12.8 billion.

Net income attributable to common shares was $81 million ($0.14 per share, fully diluted), down from $261 million ($0.44 per share) a year ago. Restructuring and other one-time costs were blamed for the decline. With those stripped out, adjusted earnings per share was $0.53, down a penny from last year.

For the full year, adjusted earnings per share came in at $2.58, exactly the same as 2015.

In the quarter, the company signed up 127,000 new wireless postpaid, high-speed Internet, and TV customers. That was up 18,000 over the same quarter a year ago and up 12,000 sequentially over the prior quarter. Net additions in the quarter included 87,000 wireless postpaid customers, 24,000 high-speed Internet subscribers, and 16,000 TV customers.

Dividend: The shares currently pay a quarterly dividend of $0.48 per share ($1.92 annually) to yield 4.4% at the current price. The company says it is targeting a 2017 dividend increase of between 7% and 10%. Last year, Telus increased its dividend twice, in June and December.

Action now: Buy for income and modest growth potential.

MEMBERS' CORNER

Exco dividend

Member comment: In a recent issue, you mention the Exco dividend is $0.24 per year. The quarterly dividend has been raised by 14% to $0.08 per common share. – Marc T.

Response: Our reader is correct. The new quarterly dividend is $0.08 per share ($0.32 per year) to yield 2.8% at the latest price.