

# BUILDING WEALTH

## THE INCOME INVESTOR

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**Next update issue:**  
**June 13**

**Next regular issue:**  
**June 27**

### INCOME PORTFOLIO GAINS 10%

*By Gordon Pape, Editor and Publisher*

We launched our model Income Portfolio in May 2015, so we now have four years of history with which to work. The goal is to generate cash flow in the 5% range for TFSA accounts. This makes it especially useful for older people who want to receive tax-free income. You can withdraw the dividends/distributions earned each year without paying any tax, while leaving the principal intact.

This approach will also work in RRSPs, RRIFs, and non-registered accounts. It just won't be as tax-effective in those cases.

I must stress again that this is not a low-risk portfolio. It is entirely invested in stocks, which makes it more vulnerable than a balanced portfolio that includes bond holdings. This means that anyone who wishes to emulate this portfolio should be more interested in steady cash flow and not fixated on the bottom-line value from month to month. That will vary up or down, depending on conditions. As long as you are still receiving your 5% cash return, don't be overly concerned by the share price movements.

At the time I launched this portfolio, the maximum cumulative lifetime contribution for a TFSA was \$41,000, so that was the initial starting value.

I selected 10 securities from *The Income Investor* Recommended List. All are traded on the TSX, so currency exchange is not a factor, except for the distributions from the limited partnerships, which are in U.S. dollars. I gave each security an initial weighting of approximately 10% for diversification and balance.

Here are the components of the portfolio with a brief report on how they have performed since the last update in November. Prices are as of the close of trading on May 24.

**BCE Inc. (TSX, NYSE: BNS).** We saw a nice rally in BCE shares in the latest period, with the price moving up by \$4.67. The company also implemented a dividend increase of 5%, to \$0.7925 per quarter (\$3.17 per year). We received two dividends for a total of \$1.5475. At the current price, the stock yields 5.2%.

**Bank of Nova Scotia (TSE, NYSE: BNS).** Canadian bank stocks are mired down these days. This one is up only \$0.42 since our last review (0.06%). The good news is that we received another dividend increase, the second

*Continued on page 2...*

**Income portfolio - continued from page 1...**

in the past 12 months, with the April payment up 2.4%, to \$0.87 per share. The combination of the two increases and the share price stagnation has pushed up the yield to 4.9%.

**Brookfield Infrastructure Limited Partnership (TSX: BIP.UN, NYSE: BIP).** This Bermuda-based limited partnership invests in infrastructure projects in North and South America, Europe, and Australia. The price continued its upward climb in the latest period, gaining \$3.47 per unit. We also benefitted from a distribution increase in February, a 6.9% increase to US\$0.5025 per quarter (US\$2.01 per year). We received two distributions during the period for a total of US\$0.9725. The current yield (based on U.S. dollar distributions) is 4.8%.

**Brookfield Renewable Partners (TSX: BEP.UN, NYSE: BEP).** This partnership focuses on renewable energy, mainly hydro but also some wind projects. The units rallied strongly in the latest period after a weak 2018. They are up \$6.18 from the time of our last review. Fortunately, we bought 10 more units at that time, so we have made a handsome profit here. As with the infrastructure partnership, we received a distribution increase, this one of 5.1%, to US\$0.515 per quarter (US\$2.06 per year). We received two distributions totalling US\$1.005. The units yield 6.3% at the current price.

**Pembina Pipeline (TSX: PPL, NYSE: PBA).** We added this pipeline company to the portfolio a year ago, replacing Inter Pipeline, which had been a disappointment. The stock held its own over the summer of 2018 with the shares rising a modest \$0.51. But it moved sharply higher in the latest period, gaining \$4.54. We also received a dividend increase of one penny per month, to \$0.20 per share (\$2.40 a year). We received total distributions of \$1.15 in the latest period. The total return during the six months was an impressive 13%. The stock yields almost 5% at the current price.

**North West Company (TSX: NWC, OTC: NWTUF).** This stock was almost flat over the latest six months, losing two cents a share. The quarterly dividend was increased by a penny in March, to \$0.33 per share (\$1.32 per year). We received two payments totalling \$0.65. The current yield is 4.4%.

**Sienna Senior Living Inc. (TSX: SIA, OTC: LWSCF).** Sienna's share price rallied during the latest period, gaining \$2.07. We received six monthly dividends of \$0.0765 per share for a total of \$0.459. The current yield is 4.9%.

**TransAlta Renewables Inc. (TSX: RNW, OTC: TRSWF).** We saw a nice rally in these shares, with a gain of \$2.39. We added 10 shares at the time of the last review, so we were able to take full advantage of the price rise. The monthly payment is \$0.07833 per share (\$0.93996 per year), so the cash flow is good. The price increase dropped the yield to 7%.

**Firm Capital MIC (TSX: FC).** This is the Steady Eddy stock in this portfolio. The share price never varies much, and the dividend has been the same for years, at \$0.078 per month, to yield 6.9%.

**Dream Global REIT (TSX: DRG.UN).** This international REIT invests in office, industrial, and mixed-use properties in Europe. It made a modest recovery after a loss in the summer of 2018, gaining \$0.38 per unit in the latest period. The units pay \$0.0666 per month, or about \$0.80 per year. The yield is 5.7% at the current price and 7.6% based on book value.

We received interest of \$27.36 during the latest period from our EQ Bank savings account.

Here is the portfolio at the close of trading on May 24.

*Continued on page 3...*

**TFSA Income Portfolio (a/o May 24/19)**

Security	Weight %	Total Shares	Average Price	Book Value	Market Price	Market Value	Income Retained	Gain/Loss %
BCE	8.7	80	\$53.81	\$4,304.50	\$60.87	\$4,869.60	\$596.45	+27.0
BNS	7.6	60	\$65.41	\$3,924.60	\$70.60	\$4,236.00	\$738.90	+26.8
BIP.UN	12.1	120	\$36.37	\$4,364.78	\$56.50	\$6,780.00	\$494.70	+66.7
BEP.UN	9.4	120	\$37.92	\$4,548.90	\$43.83	\$5,259.60	\$218.96	+20.4
PPL	7.8	90	\$43.24	\$3,891.60	\$48.29	\$4,346.10	\$206.10	+17.0
NWC	10.1	190	\$25.41	\$4,828.25	\$29.70	\$5,643.00	\$123.50	+19.4
SIA	10.7	320	\$15.29	\$4,891.40	\$18.83	\$6,025.60	\$235.43	+28.0
RNW	9.9	410	\$12.53	\$5,137.50	\$13.52	\$5,543.20	\$280.31	+13.4
FC	10.2	420	\$12.64	\$5,310.60	\$13.55	\$5,691.00	\$229.72	+ 8.7
DRG.UN	12.7	510	\$10.43	\$5,153.70	\$13.96	\$7,119.60	\$241.31	+42.8
Cash	0.8			\$445.69		\$473.05		
Total	100.0			\$46,821.52		\$55,986.75	\$3,365.38	+26.8
Inception				\$41,000.00				+44.8

**Income portfolio – continued from page 2...**

**Comments:** The value of the portfolio (market price plus retained earnings) gained a healthy 10% during the period, as many of our stocks were helped by the turnaround in interest rates.

The portfolio has posted an overall gain of 44.8% since it was started four years ago. On an annualized basis, that works out to 9.69%, which is an excellent return for a portfolio of this type.

Cash flow during the latest period was \$1,431.74, for a six-month yield of 2.65% based on the portfolio value last November. In terms of the original \$41,000 investment, the six-month yield was 3.49%, so we are well ahead of our 5% annual cash flow target.

**Changes:** Every stock in the portfolio advanced during the period with the exception of North West Company, which was flat. At the time of my last review, I expressed concern about TransAlta Renewables, but the stock has recovered well since that time.

Given the recent good performance and the continued strong cash flow, I see no need to make any changes to the portfolio at this time. It's performing exactly as I designed it to do.

However, we will use some of our cash to add to our holdings, as follows:

**BCE** – We will add 10 shares at a cost of \$608.70, to bring our total position to 90. That will use the retained earnings of \$596.45, and we will take \$12.25 from cash to make up the difference.

**BNS** – We'll invest in another 10 shares of Scotiabank, for a cost of \$706. That will give us 70 shares and reduce retained earnings to \$32.90.

**BIP.UN** – We will buy 10 units for \$565, bringing our total to 130. That will use up all the retained income, and we'll take \$70.30 from cash to fund the difference.

**SIA** – We will buy 10 more shares at a cost of \$188.30. That will bring our position to 330 shares and reduce our retained earnings to \$47.13.

**RNW** – We will buy another 20 shares for \$270.40, leaving cash of \$9.91. We now own 430 shares.

**FC** – We will add 10 shares at a cost of \$135.50 to a new total of 430. Our cash balance will be reduced to \$94.22.

**DRG.UN** – We will buy another 10 shares for \$139.60, bringing our total to 520. We will have \$101.71 left in cash.

Readers are reminded not to do small trades unless you have a fee-based account. Use a dividend reinvestment plans when available. Also, keep in mind that our tracking assumes reinvested dividends/distributions. If you withdraw income annually, the results will be different.

We will move our cash of \$1,224.93 to Motive Financial, which is paying 2.8% in its Savvy Savings Account. Motive is owned by Canadian Western Bank and is covered by federal deposit insurance.

Here is the revised portfolio. I will look at it again in November.

**TFSA Income Portfolio (revised May 24/19)**

Security	Weight %	Total Shares	Average Price	Book Value	Market Price	Market Value	Income Retained
BCE	9.4	90	\$54.59	\$4,913.20	\$60.87	\$5,478.30	\$0
BNS	8.4	70	\$66.15	\$4,630.60	\$70.60	\$4,942.00	\$32.90
BIP.UN	12.6	130	\$37.92	\$4,929.78	\$56.50	\$7,345.00	\$0
BEP.UN	9.0	120	\$37.92	\$4,548.90	\$43.83	\$5,259.60	\$218.96
PPL	7.4	90	\$43.24	\$3,891.60	\$48.29	\$4,346.10	\$206.10
NWC	9.6	190	\$25.41	\$4,828.25	\$29.70	\$5,643.00	\$123.50
SIA	10.6	330	\$15.39	\$5,079.70	\$18.83	\$6,213.90	\$47.13
RNW	9.9	430	\$12.58	\$5,407.90	\$13.52	\$5,813.60	\$9.91
FC	10.0	430	\$12.67	\$5,446.10	\$13.55	\$5,826.50	\$94.22
DRG.UN	12.4	520	\$10.43	\$5,293.30	\$13.96	\$7,259.20	\$101.71
Cash	0.7			\$390.50		\$390.50	
Total	100.0			\$46,821.52		\$58,517.70	\$834.43
Inception				\$41,000.00			

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## **TRADE WAR ANGST**

***By Richard Croft, Associate Publisher***

So much for the “all-but-a-sure-thing” trade deal with China. Like it or not this is a key metric driving financial markets and will likely remain front and centre until the G-20 summit. More on that in a moment. What’s important now is gaining some insight as to how negotiations between the world’s two largest economies will impact financial markets over the short, medium, and long terms.

It seems clear to everyone but U.S. President Donald Trump that his stick-and-carrot approach doesn’t work when negotiating with political leaders whose agendas do not always follow economic norms. Trump’s strategy is more about winning than about getting a deal that benefits everyone. And while it is conceivable that a double-down strategy may work in business – and I emphasize the word “may” – it has a poor track record in politics.

When Chinese leaders pulled back from positions where there was general agreement – notably on issues related to the sharing of intellectual property – the U.S. had every right to re-think its position. The U.S. will not and should not budge from its hardline stance on this front. It poses a serious threat to U.S. dominance in technology, and if this is not dealt with now...then when? Moreover, this issue has bipartisan support in Congress, backing from technology leaders, and support from other industrialized countries. On this front the U.S. is standing on solid ground.

The challenge is Trump’s fondness for negotiating in a public forum, berating his opposition in the process. Chinese leaders will appear weak if they sign a trade deal when the U.S. president uses a tariff sledgehammer to advance negotiations. At this point, the Chinese leadership would rather save face than sign a deal under duress.

President Trump also has political vulnerabilities. He needs a win as he enters the 2020 presidential election cycle, which was likely why the U.S. removed tariffs on steel and aluminum. At least that should be enough to allow Democrats to approve the USMCA. Unless, of course, the Democrats simply don’t want to give Trump any win at all, regardless of how it impacts the U.S. consumer.

That said, ratification of USMCA will not be enough. My best guess is that China will back away from its hardline stance on intellectual property. It is simply in their best interest. However, any deal will have to include compromises where the leaders can save face. The only way I see that happening is if the two leaders come to some agreement when they meet at the G-20 summit in June. My suspicion is that backdoor negotiations will provide a framework for the two leaders to find a way forward.

Most likely, China will back away from its stance on intellectual property and the U.S. will agree to drop all tariffs when a deal is signed. Trump can say that his tough bargaining stance was needed to solve a long-standing problem, the Chinese leadership can say they were able to get U.S. concessions on tariffs that could only be accomplished with a face-to-face meeting on neutral ground.

Until the G-20 meeting, I suspect the markets will gyrate in a directionless pattern, which could add another point or two to volatility. If nothing is accomplished at the G-20 summit, investors will re-evaluate stocks, which would likely cause as much as a 10% short-term decline. I say that because a 10% selloff would value the S&P 500 forward price-to-earnings multiple at 15, which is closer to historical norms. Currently the S&P 500 Composite is trading at 17 times forward earnings.

Still, historical norms must always be viewed in context. The 15 times forward p/e is a relative measure typically benchmarked against the historical 6% yield on 10-year U.S. Treasuries. As 10-year U.S. Treasuries are currently yielding 2.5%, one could argue, as Warren Buffet did recently, that stocks are cheap.

I make this point because it will play into a scenario where there is no trade deal with China. Take trade off the table, and investors will most likely re-focus attention on interest rates, which could underpin a market rally later this year.

Green shoots blossoming after the summer doldrums could be the catalyst that causes retail investors to come back into the market. In that scenario, we could witness a melt-up in stock values, which I talked about earlier this

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**Trade war – continued from page 4...**

year. Bottom line, a successful outcome on the trade front will be a short-term win for the market. No trade deal will be a short-term negative but could set the stage for a fourth quarter rally. Stay tuned!

**Income strategy**

All too often investors forget about the importance of dividends. In the longer-term, dividends represent 60% of the total return one typically earns from investments in blue-chip common shares.

Consider companies like BCE Inc. (TSX: BCE), which has raised its dividend 16 times since 2007. The most recent increase occurred in the first quarter of 2009 and over this 12-year span, BCE's dividend has increased by more than 130%. Dividends should be a key metric when analyzing companies that fit within an income portfolio. It boils down to cash flow.

Not to dismiss growth opportunities out of hand, but the growth in a stock should be predicated on the company's ability to increase dividends. It makes sense for income investors to focus on this metric rather than seeking high-octane companies that are long on growth and short on distributing cash flow.

Another example is CIBC, our Top Pick for this month, which is the highest yielding of the big five Canadian banks. And like BCE, CIBC has been raising its dividend consistently, in many cases, twice in a calendar year. The most recent increase came in the first quarter of 2019.

Both CIBC and BCE yield more than 5%, which is almost double what is currently available on 10-year Government of Canada bonds. Not to mention the preferential treatment dividends receive in taxable accounts.

BCE is a current *Income Investor* recommendation of Gordon Pape's, and is the largest and best-known Canadian telecommunications company that acts much like a utility. Shares are up 12.9% year to date without counting dividends.

BCE is all about the cash flow and the potential to increase dividends over time. For investors drawing income from their portfolio, increasing dividends are critical as a tool to offset inflation. BCE management increased the quarterly dividend to \$0.7925 per share from \$0.755, beginning with the first quarter of 2019. This most recent dividend increase was the sixteenth since 2007.

## TOP PICK

Here is our Top Pick for this month. Prices are as of the close of trading on May 27 unless otherwise indicated.

### **Canadian Imperial Bank of Commerce (TSX: CM)**

**Type:** Common stock

**Current price:** \$104.46

**Entry level:** Current price

**Annual payout:** \$2.10

**Yield:** 5.2%

**Risk:** Higher risk

**Recommended by:** Richard Croft

**Website:** [www.cibc.com](http://www.cibc.com)

**The security:** This is the smallest of the big five Canadian banks but also the highest yielding among the group.

**Performance:** CIBC shares slipped recently after the company reported steeper-than-expected credit losses. As one of the biggest mortgage lenders in the country,

the bank is susceptible to real estate corrections. Still, the shares are up 5.66% year to date, and the company increased its quarterly dividend to \$1.40 per share, up from \$1.36 per share in December 2018. This most recent dividend increase was the eighth increase since the beginning of 2016.

**Why I like it:** CIBC is simply the highest-yielding Canadian bank and despite problems that seem to constantly haunt management, the common shares yield 5.2%. Again, it is about the cash flow and the potential to increase dividends over time.

**Outlook:** Canadian banks face some challenges in the months ahead. However, I don't think there will be anything so severe as to endanger the current dividend or prevent the banks from increasing their dividends. CIBC is a solid Canadian company long on cashflow and most recently, on upside performance.

**Action now:** Buy.

## RICHARD CROFT'S UPDATES

### **BMO US Put Write ETF (TSX: ZPW.U)**

**Type:** Exchange-traded fund

**Current price:** US\$16.68

**Originally recommended:** June 29/17 at US\$19.01

**Annual payout:** \$1.14

**Yield:** 6.8%

**Risk:** Higher risk

**Recommended by:** Richard Croft

**Website:** www.etfs.bmo.com

**Comments:** This is an ETF that sells out-of-the-money put options on the S&P 500 Composite Index. When you sell a put option, you are assuming an obligation to buy the underlying index at the strike price of the short put

option. ZPW holds Canadian Treasury bills, so that there is available capital should any of the short put options be assigned. That is unlikely because the positions are constantly monitored and rolled down when required.

ZPW is down 5.8% so far in 2019, not including distributions. At the current price, the monthly distribution of \$0.095 per share yields 6.71% per annum. Assuming I am right about the longer term upward bias in the S&P 500 Composite, this ETF deserves a small weighting within an income portfolio.

**Action now:** Hold.

## GORDON PAPE'S UPDATES

### **Premium Brands Holding Corp. (TSX: PBH, OTC: PRBZF)**

**Type:** Common stock

**Originally recommended:** July 11/13 at C\$19.49, US\$18.34

**Current price:** C\$84.00, US\$63.17

**Annual payout:** \$2.10

**Yield:** 2.5%

**Risk:** Higher risk

**Website:** www.premiumbrandholdings.com

**Comments:** When the Canada Pension Plan Investment Board invests \$200 million in your company, you know you must be doing something right.

That's what happened with Premium Brands earlier this month. The CPPIB spent the money to buy a 7.1% position (2.631 million shares) in the Vancouver-based company at a price of \$76.02. The company said it will use the revenue to "to repay debt, finance organic and acquisition growth opportunities, and for general corporate purposes."

Investors were impressed. The stock jumped \$6.72 after the deal was announced.

When Premium Brands was originally recommended here in 2013, it was a relatively small company with a track record for successful acquisitions and a healthy

dividend payout. It has since grown into what *The Globe and Mail* calls "a North American powerhouse."

The big breakthrough came when the company won a contract to provide breakfast sandwiches to Starbucks. That experiment turned out to be immensely popular, and the company is now reported to be ready to sign a similar deal with Walmart. Among its other customers are Boston Pizza and The Keg.

The deal gives Premium Brands an influential and financially powerful long-term strategic partner. The CPPIB has a strong track record of supporting long-term value creation in its investments both within Canada and internationally.

It also strengthens the company's financial position. Based on its unutilized credit capacity as of March 30, together with the net proceeds of the CPPIB investment and concurrent financing, the company expects to have approximately \$416 million of liquidity to support its organic and acquisition growth opportunities.

"We are very pleased to be entering into this long-term partnership with CPPIB as we embark on the next stage of our growth strategy," said CEO George Paleologou. "As we have expanded our footprint across North America our pipeline of acquisition and organic growth

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**Gordon Pape's updates – continued from page 6...**

opportunities has scaled dramatically. By partnering with CPPIB, not only do we better position ourselves to execute on these opportunities, but we also secure a long-term-focused shareholder who shares our values and vision for the future. Furthermore, we gain access to the insights of a leading global investor, which will become increasingly important as we start to look beyond North America."

A few days prior to the CPPIB announcement, Premium Brands reported record first-quarter sales of \$776.6 million. That represented a \$191.7 million increase (32.8%) compared with the first quarter of 2018.

However, adjusted earnings per share for the quarter decreased to \$0.52 from \$0.64 in the first quarter of 2018. The company said this was due "to the highly seasonal nature of many of the businesses acquired in mid to late 2018 and to the adoption of the new IFRS-16 accounting standard."

The company increased its quarterly dividend by 10.5% in March, to \$0.525 (\$2.10 per year). The stock yields 2.5% at the current price.

The yield is down substantially from 6.4% at the time of the original recommendation, but we are sitting on a capital gain of 331%, so I don't think many readers will be disappointed.

**Action now:** Buy for a modest yield and long-term growth potential. The CPPIB investment is a huge boost for the company.

**B&G Foods Inc. (NYSE: BGS)**

**Type:** U.S. common stock

**Originally recommended:** April 30/14 at \$31.21 (prices in U.S. dollars)

**Current price:** \$21.93

**Annual payout:** \$1.90

**Yield:** 8.7%

**Risk:** Higher risk

**Website:** www.bgfoods.com

**Comments:** Our other food company recommendation is going in the opposite direction – share price down, yield up.

First-quarter results showed a decline in both sales and earnings. Net sales were \$412.7 million, down from \$431.7 million in the same quarter last year. The company attributed the drop to the sale of its Pirate

Brands label – a move that CEO Kenneth G. Romanzi said hurt first-quarter sales "but the very attractive purchase price we received improved our balance sheet and better positioned our company to continue pursuing accretive acquisitions."

One encouraging note is that net sales of all Green Giant products increased \$6.9 million, or 5.4%, in the first quarter, compared with the first quarter of 2018. Net sales of Green Giant frozen products increased \$6 million (6.3%), while sales of Green Giant shelf stable items increased \$0.9 million (2.8%). Green Giant, which was acquired a few years ago, is the company's best-known product line.

Net income was \$16.8 million (\$0.26 per share, fully diluted) for the quarter, compared with \$20.5 million (\$0.31 per share) for the same period last year. Adjusted net income was \$29.1 million (\$0.44 per share), compared with \$36.4 million (\$0.55 per share) for the first quarter of 2018.

B&G Foods reaffirmed its guidance for the full year of fiscal 2019. Net sales are expected to be approximately \$1.635 billion to \$1.665 billion. Adjusted EBITDA is expected to be approximately \$305 million to \$320 million, while adjusted earnings per share is expected to be approximately \$1.85 to \$2.00.

The dividend is \$1.90 per year, so the adjusted earnings per share suggest a payout ratio of from 95% to 103%. That's skating on thin ice, and the high yield suggests investors are worried about a dividend cut.

Meantime the company is aggressively buying back its own stock. From mid-March 2018 to mid-March 2019, it spent \$36.9 million to repurchase 1,397,148 shares at an average price per share of \$26.41. The buyback program has been extended through mid-March 2020, with a maximum of \$50 million approved for repurchase.

**Action now:** Hold.

**Principal Financial Group (NYSE: PFG)**

**Type:** U.S. common stock

**Originally recommended:** Nov. 24/16 at \$57.80 (figures in U.S. dollars)

**Current price:** \$54.22

**Annual payout:** \$2.16

**Yield:** 4%

**Risk:** Moderate

**Website:** www.principal.com

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**Gordon Pape's updates – continued from page 7...**

**Comments:** Principal is a financial services company that offers retirement, insurance, and asset management solutions to clients. It is based in Des Moines, Iowa.

The stock has been on something of a roller-coaster ride over the past year. It got as high as \$61.12 in October, then plunged all the way to \$40.42 during the December market meltdown. The decision by the U.S. Federal Reserve Board to hold off on any more rate increases for now revitalized the stock, and it closed on May 27 at \$54.22.

The company released first-quarter results in April, and they were solid all around. Net income attributable to shareholders was reported at \$429.9 million compared with \$397.1 in the same period a year ago. Earnings per share were \$1.53, up from \$1.36 in the year-ago period.

The quarterly dividend was increased by a penny in September and by another cent in November. It currently stands at \$0.54 per quarter (\$2.16 per year) to yield about 4% at the current price.

The company is actively buying back stock and spent \$129.7 million to repurchase 2.7 million shares during the quarter.

In April, Principal announced the \$1.2 billion planned acquisition of the Wells Fargo Institutional Retirement and Trust business, scheduled to close in the third quarter of this year.

**Action now:** Hold for yield.

## YOUR QUESTIONS

### **Tax efficiencies**

**Q** – In regard to your recommendations for ZLB (BMO Low Volatility Canadian Equity ETF) and XMU (iShares EDGE MSCI Minimum Volatility USA Index ETF), how tax efficient are they? Do they trade a lot and generate capital gains? – Ian B.

**A** – The tax performance of a fund can vary from year to year, so what happened in 2018 won't necessarily reflect the 2019 results. That said, past history at least provides a guide as to what we might expect.

Looking first at ZLB, the fund distributed \$0.98 per unit in 2018. Of that, \$0.683 were eligible dividends that qualified for the dividend tax credit, if the units were held

outside a registered plan. Capital gains accounted for \$0.24 a unit and return of capital was about \$0.015. So almost 96% of last year's payout earned a tax break of some type.

As for XMU, the fund distributed \$2.32 per unit last year. Of that, more than half (\$1.59) was capital gains, of which only half is taxable. The rest (\$0.73) was fully taxable income. That's been the pattern since 2014, although the actual distribution numbers and the percentages have varied.

On balance, therefore, ZLB is more tax efficient. But keep in mind that the iShares fund invests in U.S. stocks, which do not pay eligible dividends, so this is somewhat of an apples to oranges comparison. – G.P.

## HOUSEKEEPING

The following securities have been deleted from our on-line Recommended List. Sell advisories were issued some time ago, so this notice is for record-keeping purposes only.

**Exchange Income Corp. (EIF).** Recommended Nov. 19/15 by Gordon Pape at \$26.89. Sold July 13/17 at \$30.62.

**Firm Capital Mortgage 5.75% Convertible Debenture (FC.DB.A).** Recommended July 26/11 by Tom Slee at

\$101. Redeemed Feb. 22/18 at \$100.

**H&R 5.9% Convertible Debentures (HR.DB.D).** Recommended Nov. 23/10 by Tom Slee at \$103. Sold March 23/17 at \$106.

**Intertape Polymer Group Inc. (ITP).** Recommended March 10/16 by Gordon Pape at \$17.28. Sold Sept. 14/17 at \$18.49.