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Editor and Publisher: Gordon Pape
Associate Publisher: Richard N. Croft

STANDING PAT PAYS OFF

By Gordon Pape, Editor and Publisher

Being a buy-and-hold investor can be unnerving at times. Last March was an example. Stocks plummeted as the realization of the economic impact of the pandemic hit home. Many investors, even the most disciplined, lost their nerve and sold, driving prices down even more.

It's understandable in one sense. We had never seen anything like the coronavirus in our lifetimes. No one knew what was going to happen or what the financial consequences would be. We were heading into uncharted waters.

As it turned out, stocks rallied quickly. It turned out to be the shortest bear market ever, as major North American indexes turned around and drove to record highs.

Those that held on emerged just fine. The rest are kicking themselves.

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Our Buy-and-Hold Portfolio suffered a small loss at the start of the pandemic but over the summer and fall it fully recovered from that setback and went on to generate an impressive gain of more than 15%.

This portfolio was launched eight and a half years ago, in June 2012. It was designed for people who don't want to do a lot of trading and waste money on commissions. We have one simple goal – invest in great stocks and then hold on to them, no matter what the market is doing. Over the long term, the strategy works. There are ups and downs, of course, as we have seen this year. But the underlying thesis is that the long-term trend of the markets is up. If you own good stocks, they'll move with it.

This portfolio consists mainly of blue-chip stocks that offer long-term growth potential. It also has a bond ETF holding. The original weighting was 10% for each stock with the bond ETF starting with a 20% position. That has now been reduced because equity increases have outpaced the bond market.

I used several criteria to choose the stocks. These included a superior long-term growth profile, industry leadership, a good balance sheet, and relative strength in down markets.

The objective is to generate decent cash flow (all the stocks but one pay dividends), minimize downside potential, and provide slow but steady growth. The target rate of return was originally set at 8% annually.

Here is the status of the portfolio as Dec. 2. For consistency, the Canadian and U.S. dollars are considered to be at par. However, the currency differential increases U.S. dollar gains (or losses) for Canadians. Trading commissions are not factored in although in a buy and hold portfolio they are not significant in any event.

IWB Buy and Hold Portfolio (a/o Dec. 2/20)

Symbol	Weight %	Shares	Average Price	Book Value	Current Price	Market Value	Retained Earnings	Gain/ Loss %
XBB	12.8	490	$31.42	$15,397.70	$33.26	$16,297.40	$243.31	+ 7.4
BCE	7.5	170	$45.29	$7,698.85	$56.27	$9,565.90	$496.68	+30.7
BAM.A	14.9	360	$15.63	$5,635.15	$52.84	$19,022.40	$398.40	+244.6
CNR	11.9	110	$43.34	$4,767.35	$137.56	$15,131.60	$295.25	+223.6
ENB	5.9	180	$41.83	$7,528.95	$41.56	$7,480.80	$418.70	+ 4.9
TD	9.4	170	$44.10	$7,055.60	$70.78	$12,032.60	$268.60	+74.3
GOOGL	11.4	8	$794.49	$6,355.92	$1,824.97	$14,599.76	$0	+129.7
UNH	12.3	45	$112.47	$5,061.15	$347.56	$15,640.20	$814.29	+225.1
WMT	13.6	115	$108.82	$12,514.30	$150.52	$17,309.80	$308.20	+40.8
Cash	0.3			$350.11		$375.05		
Total	100.0			$72,365.80		$127,455.51	$3,243.43	+80.6
Inception				$49,945.40				+161.7

IWB BUY & HOLD MODEL PORTFOLIO HOLDINGS

These are the securities we hold with comments on how they performed since my last review in June. Prices are as of the close of trading on Dec. 2.

iShares Canadian Universe Bond Index ETF (TSX: XBB). Bonds aren't returning much these days, but they provide stability for a portfolio. The units are down $0.16 since the last review in late June. But we received five distributions totalling $0.353 per unit, so we ended the period slightly ahead.

BCE Inc. (TSX, NYSE: BCE). We did not see much price movement from BCE over the summer and fall. The shares are down $0.32 from the last review but that was more than offset by a dividend of $0.833 (we only received one payment because of timing).

Brookfield Asset Management (TSX: BAM.A, NYSE: BAM). After being hard-hit by the pandemic market slide in March, Brookfield rallied strongly in the latest period, gaining $8.12 per share. We also received two dividends of $0.12 a share each.

CN Rail (TSX: CNR, NYSE: CNI). It was a strong summer and fall for CN. The share price rose by over $21 as the economy started to recover. We received one dividend payment of $0.575.

Enbridge (TSX, NYSE: ENB). Enbridge shares are stuck in a tight trading range between $40 and $42 a share and nothing seems to shake them out of there. But the attractive yield of 7.8% makes this a stock worth holding. We received two payments for a total of $1.62 per share during the latest period.

Toronto Dominion Bank (TSX, NYSE: TD). Bank stocks were hard hit by the sharp drop in interest rates. But they are recovering well. TD is up more than $10 a share since the last review and should do even better in 2021 when the vaccine-led recovery really starts to take hold. It once again proves that investors should never underestimate the resiliency of Canadian bank stocks. We received two dividend payments totalling $1.58 per share.

BUY & HOLD PORTFOLIO

Alphabet (NDQ: GOOGL). It's been a great year for tech stocks, and Alphabet (Google) has been among the front-runners. Since our last review, the shares are up US$392.27, or 27.3%. That's in just over five months! This is the only stock in the group that does not pay a dividend but at that rate of growth, who cares?

UnitedHealth Group (NYSE: UNH). After dropping to the US$188 range in March, the stock rallied strongly and kept posting new gains over the summer and fall. The shares are up over US$58 since our last review. The quarterly dividend was increased by 15.7% to US$1.25 a share effective with the June payment. We received two distributions,

Walmart (NYSE: WMT). Walmart was added to the portfolio in June 2018. It has been a solid performer and has done well during the pandemic. The stock is up more than US$30 from the last review. We received one quarterly dividend of US$0.54 per share

Cash. At the time of the last review we had cash and retained earnings totaling $2,394.51. At the time, Tangerine, which is owned by Scotiabank, was offering 2.5% for five months for new customers, so we took advantage of that. We earned interest of $24.94.

Comments: The new portfolio value (market price plus retained dividends/distributions) is $130,698.94, compared to $113,238.21 at the time of the last review. That represents a gain of 15.4% over the period. That's an impressive rebound from the time of our last review.

All the securities in the portfolio were ahead when dividends/distributions are factored in. The big gainers were Alphabet, UnitedHealth, and Walmart.

Since inception, we have a total return of 161.7%. That represents an average annual compound growth rate over eight and a half years of 11.98%, which is well ahead of our 8% target.

Changes: This is a Buy and Hold portfolio, so I am not making any changes to our holdings. All are doing relatively well, and the overall asset mix is sound.

We do not have enough retained earnings to make new purchases, with one exception.

ENB – We will purchase another 10 shares for a cost of $415.60. We now own 190 shares. Retained earnings are reduced to $3.10.

We have cash and retained earnings of $3,202.88. We will move the money to a Motive Savvy Savings Account, which currently pays 1.55%.

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Here is a look at the revised portfolio. I will update it in June, on its ninth anniversary.

IWB Buy and Hold Portfolio (revised Dec. 2/20)

Symbol	Weight %	Shares	Average Price	Book Value	Current Price	Market Value	Retained Earnings
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CNR	11.8	110	$43.34	$4,767.35	$137.56	$15,131.60	$295.25
ENB	6.2	190	$41.81	$7,944.55	$41.56	$7,896.40	$3.10
TD	9.4	170	$44.10	$7,055.60	$70.78	$12,032.60	$268.60
GOOGL	11.4	8	$794.49	$6,355.92	$1,824.97	$14,599.76	$0
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WMT	13.6	115	$108.82	$12,514.30	$150.52	$17,309.80	$308.20
Cash	0.3			$375.05		$375.05	
Total	100.0			$72,805.62		$127,871.11	$2,827.83
Inception				$49,945.40			

YOUR QUESTIONS

ETF with U.S. exposure

Q – I'm looking for U.S. exposure ETFs with some income that can be purchased from the Toronto Stock Exchange. I am moving RRSP investments to a RRIF because my age. Any suggestions would be greatly appreciated. - Raymond L.

A – There are hundreds of ETFs with a U.S. focus that trade on the TSX. Some track major indexes like the Dow or the S&P 500 while others focus on specific sectors of the economy.

If you want broad market coverage, consider the iShares Core S&P U.S. Total Market ETF (TSX: XUU). It aims to replicate the return of the entire American equity market (small, medium, and large-cap stocks). It's up 14.5% year to date. Distributions are paid quarterly but they aren't very large (about $0.10 per quarter). The trailing 12-month yield is 1.3%.

For more cash flow, look at the BMO Covered Call Dow Jones Industrial Average Hedged to CAD ETF (TSX: ZWA). It tracks the Dow and the managers write covered call options to enhance income. This is not a great fund for capital gains (it is up 2.4% so far this year). But it currently pays a monthly distribution of $0.10 a unit, for a projected yield of 5% over the next 12 months. – G.P.

BLOCKCHAIN IS MORE THAN BITCOIN

Contributing editor Adam Mayers has been keeping a close watch on the expanding Blockchain industry. This week he provides an update on how blockchain is fast becoming part of our daily lives. Adam is a former Business Editor and investing columnist at The Toronto Star. His website is adammayers.com. He lives in the Toronto area. Here is his report.

For a long time, I wondered why it took two days for my bank to process a Visa payment. If I went into a local branch on a Saturday, the payment didn't show up until Monday. How come? The bank issued the credit card and they knew me at the branch, yet the transaction took longer to complete than mailing a local letter.

The mystery has long since been solved and makes sense once you understand that banks are using processes that go back to the era of hand-written ledgers. To make things seem high tech, they overlay interfaces that look new and shiny. In reality, they are grafting layers of new tech onto the old. Behind the scenes my Visa payment passes through all kinds of hands before it shows up on my statement.

Streamlining these antiquated processes are one way that blockchain technology has the power to change things. Blockchain burst onto the scene in 2018 as an electronic way that ledgers can be shared. The key element is that once entries are made via a web site or common portal, they cannot be changed. Everyone can see the transactions and that makes them tamper proof. There is enormous potential in that.

When I wrote about blockchain for the Internet Wealth Builder in 2019, the buzz was all about Bitcoin and other digital currencies. They were an easy way to grasp a complex concept. As Tesla is synonymous with electric cars, Bitcoin was to blockchain.

Bitcoin has established itself, rising from about US$4,000 then to US$18,871 as of Dec. 2. Meantime, the exploration of blockchain's potential has spread to most sectors. They include governments, insurance, financial services, healthcare, food safety, and transportation logistics. Blockchain is being used to make existing tasks more efficient and less open to fraud. For the most part these applications are not particularly sexy or even visible, but they are important pieces of infrastructure. They serve a vital purpose that is largely unnoticed, until it goes missing.

A current example of blockchain's potential is the move by many central banks to develop what are known as central bank digital currencies (CBDCs). This is essentially money that is housed in digital form. Some 80% of central banks are working on these e-versions of cash, according to the Bank for International Settlements. China is expected to launch its version in 2022 and the U.S. in 2024.

In our case, one CBDC would equal $1 and be issued by the Bank of Canada. At a touch of a button, it could move from my account to yours. My Visa payment on Saturday instantly debits my chequing account and credits my Visa bill. Central

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bank digital currencies will make cash increasingly irrelevant, which has big implications for the banks. A lot of their revenue comes from fees as they move your money around. Blockchain removes the need for them.

“Suppose you have a $50 bill in your pocket,” says Paul MacDonald, chief investment officer at Harvest Portfolio Group in Oakville, Ont. Harvest launched its Blockchain Technologies ETF (TSX: HBLK) in 2018, which was Canada’s first.

“What is its real value? Is it that it is printed on pink paper? The security hologram? Or is it the serial number? If it is a serial number, a digital currency can have its own unique number making it just as valid as a bill.”

Here are a few benefits of CBDCs:

Smart contracts: These are electronic contracts that use blockchain to embed terms and conditions – who is liable for what, when things must be paid, what triggers a default and so on.

Using a home sale as an example, the contract sets out the price, whether fixtures and appliances are included, the amount of the deposit, the closing date, and balance due. The contract could have an embedded electronic payment function, which transfers funds on closing if all conditions are met. It simultaneously transfers and registers the new title. No need to run around on closing day to deliver cheques or stand in line at registry offices.

Money laundering & counterfeiting: If digital currency has a serial number it can be tracked, which includes deposits into dubious banks for illegal activities. The value of transferred money to a known illegal activity could drop to zero, the equivalent of law enforcement seizing millions in a bust. Digital cash would also be difficult to copy.

Government services: My annual car license sticker comes in the mail after I fill out a form and pay. Who needs the sticker, if the information is available online? Other information is easily added as an overall history of the vehicle – other owners, accidents, maintenance records. You could track every part in it as it was made. If it was stolen and resold with substandard replacement parts, you would know.

There are plenty of examples of blockchain’s advances.

Pharmaceutical company Merck & Co., together with IBM Inc., KPMG, and Walmart Inc., undertook a pilot project to track vaccines and prescription medicines made by Merck from manufacture to delivery. Merck follows their journey to ensure they were not tampered with or stolen. Walmart does the same thing to ensure the integrity of what it is buying. Shoppers Drug Mart is doing something similar by tracking the medical cannabis it sells from seed to final product.

Health insurance companies also have a vested interest in this, since information about how much of a drug is being prescribed and to whom is valuable feedback.

Last month, JPMorgan Chase said its digital currency, JPM Coin, is being used by a large technology client to send payments around the world. JPM Coin is being used for cross-border payments,

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allowing them to clear and make the payments in record time. Vietnam's Ministry of Education and Training recently entered into a contract with Singapore-based TomoChain to archive student records on a blockchain.

"There are applications like that across every sector, "Mr. MacDonald says.

The dilemma is how to invest. New technologies take a while to mature. Many of the blockchain hopefuls of two years ago aren't around anymore. It highlights a rule of thumb, which is that products first out of the gate aren't necessarily the ones that win the race.

My approach is a conservative one – investing in companies that have the most to lose by not keeping up with the times. These mature players want to stay on top and have the wherewithal to invest in R&D, acquire startups, and the leeway to make mistakes. All the while they pay dividends generated from core businesses. Move into new players as they mature.

Some of today's leaders include IBM and Microsoft (which I own) as well as Visa, Mastercard, PayPal, and Accenture. Logistics companies, including FedEx and UPS are early adopters, aggressively using this technology during the pandemic to move goods faster and ensure the right package ends up at the right address.

Another option involves ETFs that blend holdings of large capitalization players with the smaller companies on the rise. As the emerging companies mature the mix changes, replacing large cap companies with emerging ones.

We update one of each on the next page.

YOUR QUESTIONS

Investing in Stripe Inc.

Q **–** I'm wondering what your thoughts are about the company Stripe Inc. I have read some interesting things about it and have a small amount of spare funds that I'm considering investing in it. However, I don't like to invest outside of your recommendations as I've done extremely well following your advice through many years. (My other investments are all ones you have recommended, and I have sidelined additional cash for adding more shares as prices dip.) – Teresa S.

A **–** Stripe is a San Francisco-based software company that provides complete payments infrastructure for the internet. Its customers include Shopify, Instacart, Microsoft, Amazon, Slack, and Zoom. Its platforms support 135 currencies and payment methods. According to its website, 90% of U.S. adults have bought from businesses using Stripe. What we don't know is what this means in terms of revenue and profits. Stripe is not a public company, so it is not required to release financial information. Since the shares are not publicly traded, individuals can't buy in. I suggest you advise your broker of your interest in the stock and ask to be put on the list in the event he/she gets an allotment (not likely for a Canadian broker). When the IPO is announced, check the financials carefully and decide whether the share price is reasonable. It probably won't be. – G.P.

ADAM MAYERS'S UPDATES

Recommendations are colour-coded:
Green indicates Buy
Yellow indicates Hold
Red indicates Sell

Harvest Portfolio Blockchain Technologies ETF
TSX: HBLK

Originally recommended on Jan. 14/19 (#21902) at $5.85. Closed Friday at $13.75.

BUY

Background: Harvest launched this ETF just as the blockchain hype peaked. A dotcom-like bust followed. Blockchain funds crashed the following year. The shakeout has seen many early players disappear as new ones with better business models emerge.

Performance: HBLK was launched at $10 per unit in 2018 and recommended in 2019 at $5.85. Year-to-date, the unit price is up 114% to $13.75.

Discussion: The ETF has rebounded strongly this year as the large companies, which account for 45% of holdings, have benefitted from the general run up in high-tech stocks. Many of these firms offer IT consulting and services related to blockchain applications.

Large-cap holdings have declined from 55% of the fund and, as the list of emerging players grows, the trend will continue.

"We designed the fund to participate in the technology over time," Mr. MacDonald says.

Holdings: The top 10 holdings account for 56% of the fund. The top three are Conduent Corp., (9%), which is a 2017 Xerox spin off; Virtusa Corp., an IT consultant (7.4%); and Galaxy Digital Holdings Ltd. (5.9%), a merchant bank dedicated to digital assets and blockchain technology. Infosys, Microsoft, Visa, Accenture, and Oracle are also among the top 10.

Key metrics: The fund had an average market capitalization of US$181 billion through Nov. 30. The dividend yield is 0.79% and the management fee is 0.65%. It has $8.9 million in assets.

Action now: For investors with an eye to blockchain's potential, this fund offers an opportunity. The mature companies offer balance and the emerging players provide growth potential. Buy.

IBM NYSE: IBM

Originally recommended on Jan. 14/19 (#21902) at $121.46. Closed Friday at $127.20. All figures in U.S. dollars.

BUY

Background: International Business Machines is one of the world's largest technology companies with operations in over 175 countries. It is betting heavily that investments in cloud computing and artificial intelligence will offset slowing growth in its mainframe and consulting segments.

IBM spent $34 billion in 2018 to buy Red Hat Inc., the open source software company. Red Hat users can make changes to its software under license and then resell it, which helps IBM expand its artificial intelligence and blockchain initiatives.

Performance: The shares hit a high of $158.75 in early February, but the pandemic sent them tumbling to $90.56 in mid-March. They have recovered some of that ground, but year-to-date IBM is off about 5%.

Recent developments: In mid-October, IBM posted a third consecutive quarter of declining revenue, which fell 2.5% year-over-year to $17.6 billion. Earnings per share of $2.58 met expectations.

Just before releasing those results, IBM announced the spin-off of its infrastructure services operation, allowing the parent to narrow its focus on cloud computing and AI. The infrastructure unit helps clients manage day-to-day IT needs including data centres. The spin-off should be complete by late 2021. IBM shareholders will receive the spin-off tax-free.

IBM subsequently announced 10,000 jobs cuts at the infrastructure unit to lower costs ahead of the spin-off. The cuts affect about 20% of the staff and should be completed by June.

Dividend: Despite weaker earnings, IBM raised its quarterly dividend by a penny to $1.63 per common share ($6.52 a year) in April. It marks the 24th year in a row the dividend has increased. At current prices, the yield is 5.1% and appears safe.

Action now: Buy.

GORDON PAPE'S UPDATES

Telus TSX: T, NYSE: TU

BUY

Originally recommended on Nov. 13/06 (#2640) at C$13.72, US$12.13 (split-adjusted). Closed Friday at C$25.45, US$19.91.

Background: Telus claims to be Canada's fastest-growing telecommunications company, with $14.7 billion in revenue in 2019 and 15.2 million subscriber connections. 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.

Performance: Telus split its shares 2 for 1 in March, just before the market swooned. The stock dropped as low as $18.55 but has recovered and is currently on an upswing,

Recent developments: The company reported a third-quarter decline in net income but raised its dividend despite this. Adjusted net income for the quarter came in at $356 million ($0.28 per share), down 22.3% from $458 million ($0.39 per share) in the same period the year before. The lower earnings were due mainly to costs related to the pandemic, including the closing of many of its retail stores, and higher depreciation charges.

Telus reported strong sales, with customer growth of 277,000 net additions, the highest quarter on record for combined wireless and wireline loading. Wireless net additions were 198,000. As a result, operating revenue was up 7.7% from last year, to just under $4 billion.

"As we head into the final quarter of the year, and into 2021, we are well-positioned to build on the operating momentum established this year, taking the valuable learnings from the pandemic to enhance our go-to market strategy and support our efforts to maintain (our) track record of consistently delivering strong results quarter-in and quarter-out," said executive vice-president and chief financial officer Doug French.

"We continue to focus on generating sustainable free cash flow growth, which will in turn support the consistent return of capital through our long-standing and transparent dividend growth program. Despite the challenging environment

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ahead, we are striving to deliver flat EBITDA growth for the full year 2020, along with strong free cash flow at the lower end of our original target range".

Dividend: The quarterly dividend was increased to $0.3112 per share ($1.2448 a year). That represents an approximate 7% hike. The new rate will take affect with the January payment. Telus normally raises its dividend twice a year but skipped the July increase because of pandemic uncertainties. The new rate will translate into a yield of 4.9% based on the current price.

Outlook: Telus is performing well. It is Canada's third-largest telecommunications company (behind BCE and Rogers) but it claims to be growing at a faster pace than either.

Action now: Buy.

Fortis Inc.

TSX, NYSE: FTS

Originally recommended on Aug. 15/05 (#2531) at $20.80.
Closed Friday at C$52.27, US$40.89.

BUY

Comments: Fortis is an electricity and natural gas distribution utility based in St. John's. It has total assets of about $56 billion and generated revenue of $8.8 billion in 2019. The company serves utility customers in five Canadian provinces, nine U.S. states, and three Caribbean countries.

Like all stocks, Fortis plunged in March, falling as low as $41.52. But it quickly recovered, and the stock has recently been trading in a fairly narrow range of $52-$55.

Despite the pandemic, Fortis reported a year-over-year increase in third-quarter profits to $292 million compared to $278 million last year. For the first nine months of the fiscal year, profits were up by $39 million.

Like other utilities, Fortis has regulatory mechanisms that help stabilize cash flow and earnings. Approximately 82% of revenues are either protected by these mechanisms or are derived from residential sales, which the company says have increased as a result of work-from-home practices.

The company recently announced a 5.8% increase in its quarterly payout and is tied with Alberta-based Canadian Utilities for the longest record of consecutive annual dividend increases, at 47 years. The current yield is 3.8%. The company is targeting yearly increases in the 6% range through 2025.

Action now: Buy.

Equitable Group

TSX: EQB, OTC: EQGPF

BUY

Originally recommended by Irwin Michael on Aug. 10/08 (#2828) at C$21.04. Closed Friday at C$97.40, US$74.20.

Background: This company provides mortgage lending services to individuals and businesses in Canadian urban markets, with a focus on entrepreneurs and new Canadians. It carries on operations through wholly owned subsidiary Equitable Bank, Canada's ninth-largest Schedule 1 bank, with total assets under management of over $31 billion. Equitable Bank employs about 900 people. It also has a digital banking operation, EQ Bank, with its flagship product being the EQ Bank Savings Plus Account.

Performance: The stock has been in a strong upward trend since late September and has more than doubled in value since hitting a 52-week low of $44.57 in March.

Recent developments: Financial stocks were hit hard at the outset of the pandemic. Interest rate cuts put a squeeze on profits and investors were concerned about a sharp rise in loan defaults. However, the worst-case scenario never happened and most of the banks have staged strong comebacks.

Equitable reported record third-quarter profits, with adjusted earnings per share up 30% year-over-year to $4.13 per share, compared to $3.17 in the same period last year. Return on shareholders' equity was 19.8%, up from 16.2% a year ago.

The Bank's CET1 Capital Ratio was 14.3% as of Sept. 30. That was 0.83% or $84 million above the mid-point of management's target range and compared favourably with 14% as of June 30 and 13.3% on Sept. 30, 2019.

EQ Bank, the company's digital platform, reported a year-over-year growth of 72% in deposits. Net interest income increased 8% to $129 million, and deposits increased 10% year-over-year to $16.4 billion.

Dividend: The stock pays a quarterly dividend of $0.37 per share ($1.48 per year) to yield 1.5% at the current price. The board of directors had previously announced a plan to increase the payout but that's now on hold due to a directive from the Office of the Superintendent of Financial Institutions suspending dividend increases by federally regulated banks this year.

Outlook: Equitable is doing very well, especially considering the circumstances. The current pattern should continue.

Action now: Buy.