Reproduction without permission is illegal

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

THE INCOME INVESTOR

Volume 18, Number 24 Issue #2024 December 17, 2020

IN THIS ISSUE

Overlooked high-yielders 1

Supporting structures 3

Top Pick: Stella-Jones 4

Gavin Graham's updates: Pason Systems, Richards Packaging Income Fund 5

Gordon Pape's updates: BMO Financial Group, Horizons Active Cdn Divided ETF, CI First Asset Canadian Buyback Index ETF, Canoe EIT Income Fund, BMO Covered Call Dow Jones Industrial Average Hedged to CAD ETF 6

Your Questions: BEP split 8

Last chance to beat the price increase 8

Editor and Publisher: Gordon Pape
Associate Publisher: Richard Croft
Associate Editor: Mike Keerma

Copyright 2020 Gordon Pape Enterprises Ltd.
All material in The Income Investor is copyright Gordon Pape Enterprises Ltd. and may not be reproduced in whole or in part in any form without written consent. All recommendations are based on information that is believed to be reliable. However, results are not guaranteed and the publishers and distributors of The Income Investor assume no liability whatsoever for any material losses that may occur. Readers are advised to consult a professional financial advisor before making any investment decisions. Contributors to The Income Investor and/or their companies or members of their families may hold and trade positions in securities mentioned in this newsletter. No compensation for recommending particular securities or financial advisors is solicited or accepted.

Reprint permission: Contact customer service
Phone: 1-888-287-8229
Email: customer.service@buildingwealth.ca

Next update issue: January 16

OVERLOOKED HIGH-YIELDERS

By Gordon Pape, Editor and Publisher

The history books will long remember 2020. It was a year of racial and political turmoil in the U.S. A year in which a sitting President was defeated in what he claims was a rigged election. Above all, it was a year that inflicted us with the worst pandemic in a century, one that cost more than 1.6 million lives around the world and made millions of others ill.

The global economy was hit by one shutdown after another as nations struggled to deal with the coronavirus. Stock markets were slammed in February and March, when people realized the seriousness of the situation.

For income investors, it was a stressful time. Central banks cut interest rates to near zero (or in some overseas cases, below). Bond yields plunged. Returns on guaranteed investment certificates followed suit.

Real estate investment trusts (REITs), which had sparkled in 2019, took a vicious hit as investors worried landlords would not be able to collect rents. Those that specialize in shopping malls, office space, and hotels were especially hard hit. Some were forced to cut their distributions, including H&R REIT and, recently, RioCan.

We also saw dividend cuts in other sectors, particularly oil and gas companies. The banks were ordered by the Office of the Superintendent of Financial Institutions to freeze their payouts.

But most of our recommendations escaped the carnage, and some even increased their payout despite the pandemic. These included some of our most widely held recommendations, like the Brookfield partnerships, Fortis, and BCE. But a number of smaller companies also fared well in this difficult year.

Here is a list of the often-overlooked high-yielding stocks on our Recommended List. Prices are as of the close on Dec. 11.

Fiera Capital (TSX: FSZ). Most people are not familiar with Fiera, but it is the third-largest wealth management firm in Canada. The shares tumbled in March but recovered during the summer as the stock markets rebounded from the spring setback. The company reported net earnings of $5 million in the third quarter ($0.05 a share) compared with a loss of $14.7 million ($0.14 a share) in the same period of 2019. That was well

Continued on page 2…

Overlooked – continued from page 1…

below the quarterly dividend of $0.21 per share. But chief financial officer Lucas Pontillo said that the company's results have remained strong throughout the pandemic and noted that, apart from the dividend, Fiera had repurchased $800,000 worth of shares. At the current price, the yield is just under 8%.

Firm Capital (TSX: FC). Firm Capital is a boutique mortgage company, and there were concerns about its financial stability as pandemic fears rose. The stock dropped as low as $7.73 in mid-March as investors worried that borrowers would not be able to repay their loans. Management issued a series of calming statements and by June the stock was back in the $12 range. Meanwhile, the company maintained its monthly dividend of $0.078 per share ($0.936 a year). At the current price of $12.40, the yield is 7.5%. That's on the high side, but Firm has been a solid performer for many years. I have owned the stock for more than a decade.

B&G Foods (NYSE: BGS). This company is a New Jersey-based manufacturer and distributor of a wide range of food products. Its brands include Green Giant, Cream of Wheat, Maple Grove Farms, and the company recently acquired the Crisco line of oils and shortening. As with most food companies, B&G has done well this year. The company reported third quarter sales of US$495.8 million, up 22% from last year. Adjusted net income was US$47.9 million (US$0.74 a share, fully diluted). On a per share basis, that was a gain of 37%. The stock pays a quarterly dividend of US$0.475 (US$1.90 per year) to yield 6.5%.

Capital Power Corporation (TSX: CPX). It's very encouraging when a company is able to increase its dividend in the midst of a pandemic. Edmonton-based Capital Power did just that in July, announcing a 6.8% increase, to $0.5125 per quarter ($2.05 annually), effective with the September payment. Third-quarter results showed normalized earnings attributable to common shareholders of $69 million ($0.66 a share), up from $64 million ($0.60 a share) the year before. The stock is currently trading at $34.98 to yield 5.9%.

Corby Spirit and Wine (TSX: CSW.B). One thing the pandemic did not stop was alcohol consumption. Liquor stores were declared an essential service, and Corby's business continued to prosper, albeit with some adjustments to the distribution channels. The company recently reported first-quarter 2021 results (to Sept. 30), and they were impressive. Net earnings were $10.8 million ($0.38 per share, fully diluted), compared with $6.5 million ($0.23 a share) in the year-ago period. The board of directors approved an increase of 10% in the quarterly dividend, to $0.22 a share ($0.88 a year). At a price of $15.10, the yield is 5.8%.

TransAlta Renewables (TSX: RNW). Green energy companies did well in 2020 as traditional oil and gas firms struggled to cope with falling demand and lower prices. Most renewable companies have guaranteed contracts with customers and governments, which partially insulates some revenue from fluctuations in market prices. TransAlta owns 23 wind facilities, 13 hydroelectric facilities, seven natural gas generation facilities, one solar facility, one natural gas pipeline, and one battery storage project. Third quarter adjusted funds from operations were up 10% year-over-year to $76 million. Cash available for distribution was ahead 8%, to $73 million ($0.27 per share). The stock pays a monthly dividend of $0.07833 ($0.94 per year) to yield 5.2%.

Atlantica Sustainable Infrastructure plc (NDQ: AY). Atlantica is a London-based sustainable company that owns a diversified portfolio of renewable energy, efficient natural gas, electric transmission, and water assets in North and South America, and certain markets in Europe, the Middle East, and Africa. Like other renewable energy businesses, it has done well this year.

Third-quarter results showed net profit for the nine months to Sept. 30 was $61.2 million, compared with $60.8 million in the same period of 2019 (figures in U.S. dollars). Cash available for distribution increased by 13.6% to $52 million in the quarter compared with the third quarter of 2019 and by 6.4%, to $149.2 million in the first nine months of 2020 compared with the first nine months of 2019. In mid-year, the company raised its dividend by a penny, to $0.42 a quarter ($1.68 a year), for a yield of just over 5%.

Leon's Furniture (TSX: LNF). You would hardly expect a furniture conglomerate (Leon's also owns The Brick, among other brands) to be reporting record financial results with many of its stores subject to COVID lockdowns. But that's what's happening here. Sales increased by 7% year-over-year in the third quarter, to $762.8 million, compared with $712.6 million in the same period of 2019. Net income increased by 47.9%, to $49.1 million, while diluted earnings per share grew by 50%, to $0.60.

CEO Edward Leon credited the company's investment in upgrading its e-commerce platform with the strong results. The directors approved a 14.3% increase in the regular quarterly dividend, to $0.16 a share, plus a $0.30 a share special dividend, payable in January to shareholders of record as of Dec. 7. With the share price at $19.68, the 2021 yield will be 3.25%. Including the special payout, it will be 4.8%.

SUPPORTING STRUCTURES

By Gavin Graham, Contributing Editor

Investors are often attracted to sectors and companies that are regarded as fashionable because of their involvement in areas such as new technology, whether software or hardware related, social media, medical advances, entertainment, fashion or sporting clothing, or promises to transform an existing "old fashioned" industry.

The largest companies in the North American markets are the FAANMG technology stocks (Facebook, Amazon, Apple, Netflix, Microsoft, and Google) all worth over $1 trillion in market capitalization, except Facebook at $800 billion and Netflix at $220 billion. Electric car maker Tesla at $600 billion is worth more than the combined valuations of the five largest automakers in the world, despite selling only 250,000 cars last year against over three million each for Toyota, VW, GM, Ford, and Fiat Chrysler.

Human beings have a tendency to overreact to short-term events in either direction, becoming wildly optimistic on good news and deeply depressed on bad news. Witness the pandemic bear market in February and March this year, which took the Dow Jones, S&P 500, Nasdaq, and other global indexes down over 35% in a month as investors panicked over the spread of the COVID-19 virus.

Likewise look at the extraordinary rebound in some the indexes since the end of March, with the Dow, S&P 500, and Nasdaq hitting new all-time highs in December after November produced the strongest monthly performance since 1931 (Dow up 10%) and since 1991 for Nasdaq (up 11.3%).

The recovery was led by stocks that were perceived to be the beneficiaries of the changes caused by the pandemic lockdowns, particularly the FAANMGs, which were involved in working from home, e-commerce, entertainment, and social media, replacing in-person contact.

Apart from the FAANMGs, a number of other companies also rose sharply. These included delivery companies like FedEx and UPS, Canadian website designer Shopify, customer relationship software company Salesforce.com, which replaced ExxonMobil in the venerable Dow Jones Industrial Average, and ride-to-order firm Uber.

This strong performance came after several years of beating the broader index, yet other sectors that benefited from the effects of the pandemic, such as supermarkets, home improvement stores, and convenience stores rose much less. The best performers like Costco, Home Depot, and Dollarama were up 20% or so this year, with most others ahead only 5%-10%.

Perhaps it's because they're not regarded as "sexy" enough by investors, as retailing of necessities, such as food and drink, or domestic appliances lacks glamour and the sometimes-remarkable sales growth delivered by asset-light software companies or service providers like credit card processors Visa and MasterCard.

Nevertheless, while the fashionable sectors have had a wonderful run, investor sentiment seems to be turning towards less glamorous areas.

Look at such as economically sensitive sectors such as energy and materials, financials and industrials, now that the arrival of three vaccines holds out the hope that the economy can return to something nearer normal by the middle of 2021.

These boring companies, which have managed their way through the pandemic without too much damage to their businesses, look set to enjoy the recovery. One of these companies is in an area that it would be hard to ever characterize as glamorous but has been successful over a long period at producing profits while growing its revenues steadily.

Stella-Jones Inc. (TSX: SJ) describes itself as North America's largest producer of pressure-treated wood products and is this month's Top Pick, which follows.

Reproduction without permission is illegal

TOP PICK

Prices are as of the close on Dec. 14, 2020.

Stella-Jones Inc. (TSX: SJ, OTC: SJLIF)

Type: Common stock
Current price: $45.63
Entry level: Current price
Annual payout: $0.60
Yield: 1.3%
Risk: Moderate
Recommended by: Gavin Graham
Website: www.stella-jones.com

The business: Montreal based Stella-Jones (SJ) is one of the leading producers of pressure-treated wood products in North America, supplying electrical utilities and telecommunications companies with utility poles, and railroad operators with railway ties (laid under the rail tracks) and timbers. It also manufactures and distributes residential lumber to retailers for outdoor applications as well as industrial products for construction and marine applications. Finally, it harvests and sells logs and lumber. SJ has grown through a series of tuck-in acquisitions over the last 15 years and recorded its nineteenth year of revenue growth in 2019, to $2.2 billion.

The security: SJ trades on the TSX, where its $3 billion market capitalization makes it a member of the S&P/TSX Composite Index. It trades very low volumes on the OTC market in the U.S.

Why we like it: SJ has demonstrated an ability to grow its revenues and earnings on a consistent basis, both organically and via acquisition. Revenues have almost quadrupled from $561 million in 2010 to $2.2 billion 2019. Earnings before interest, tax, depreciation and amortization (EBITDA) has more than quadrupled, to $313 million. And net income has risen almost five times, to $163 million.

Its largest and second-largest divisions, utility poles ($779 million in sales in 2019) and railroad ties ($678 million), comprised over 65% of its $2.169 billion of revenues and are both very stable with flat to 5% revenue growth annually on average and with long-standing relationships with their customers.

Industrial products ($128 million sales) are also stable and grow 5%-10% annually, while residential lumber ($472 million sales, down 3% in 2019) and logs and lumber ($112 million, down 28%) are more volatile but can be very profitable when the housing market is growing fast as in 2020. SJ has consistently earned low to mid-teens margins and returns on equity.

Financial highlights: In the three months to Sept. 30, SJ increased revenues 18%, to $742 million, and EBITDA by 38%, to a record $132 million, while net income rose 46%, to $79 million ($1.17 per share vs. $0.78 per share). For the nine months to Sept. 30, revenues rose 16%, to $2 billion, EBITDA 24%, to $315 million, and net income 30%, to $176 million ($2.60 per share vs. $1.96 per share in the year-ago period).

The strong increase in revenues and earnings was driven by the rapid growth of demand for residential lumber in the U.S. arising from the booming housing markets, which meant that residential lumber had now overtaken railway ties to comprise 30% of SJ's revenues, up from 25%. Strong orders from utility companies also helped buoy revenues.

CEO Eric Vachon noted that the strong third-quarter performance had led to an increase in the forecast EBITDA for 2020, to between $365 and $375 million, and that EBITDA margins would be higher than in 2019. For 2021, he forecast that utility pole sales would rise by the mid to high single digits, while railway ties and industrial products sales should be stable. The strength in residential lumber is expected to continue in 2021.

Risks: Some of SJ's products are treated with creosote and other tar-derived products, which are sourced from a company-owned coal tar distillery in Memphis, Tennessee, with attendant environmental risks. The residential lumber market is dependent upon housing demand, primarily in the U.S., and the price of lumber can change rapidly, as occurred in 2017-18, when it almost doubled to $600 from $300 per 1,000 board feet, leading to a drop in SJ's net income, to $138 million from $168 million.

Distribution policy: SJ has increased its dividend for 15 years in a row, most recently by 7.1%, to $0.15 a quarter, giving it a yield of 1.35%. The dividend has increased six times over the last decade from $0.10 in 2010.

Tax implications: The dividends are eligible for the Canadian dividend tax credit.

Continued on page 5…

Reproduction without permission is illegal

Top pick – continued from page 4…

Who it's for: SJ is for investors willing to accept an initially lower yield for a well-managed, consistently profitable and steadily growing industrial company. SJ offers participation in two of the main beneficiaries of increased infrastructure spending (utilities and railroads) while giving exposure to the booming U.S. housing market.

Action now: Buy. The share price has risen 20% in the last year but is still 12% below its price five years ago, while sales EBITDA and net income are at least one-third higher than in 2015.

GAVIN GRAHAM'S UPDATES

Prices are as of the close on Dec. 14, 2020.

Pason Systems Inc. (TSX: PSI; OTC: PSYTF)

Type: Common stock
Current price: $7.84, US$6.17
Originally recommended: Feb 26/16 at $17.04, US$12.49
Annual payout: $0.20
Yield: 2.55%
Risk: Higher risk
Website: www.pason.com

Comments: Pason is a leading global provider of specialized data management systems for drilling rigs. Its Electronic Drilling Recorder (EDR) has a 65% market share on land-based drilling rigs in North and South America, with 90% market share in Canada and 85% in Australia. This is supplemented by strong positions in additional data systems such as the Pit Volume Totalizer (PVT). Its drilling data solutions make it easy for its customers to access information anytime and anywhere (the "Internet of Things" for the drilling industry).

In the last couple of years, Pason has developed its Energy Toolbase (ETB) software suite that enable solar and energy storage developers and owners to model their site's expected financial returns, control the in-field assets, and monitor their performance in real-time. It now reports this division separately, having amalgamated its Canadian and U.S. divisions into one group given the dramatic fall in drilling activity in 2020.

Having traded at $14 as recently as February this year, Pason shares fell as low as $4.74 in October before rebounding 40% in the last month. This still leaves them down 44% over the last year.

President and CEO Jon Faber said the third quarter of 2020 "represented the most challenging industry conditions that Pason has encountered in its history." With fewer than 300 active land-based drilling rigs in North America in the quarter, industry activity was 28% lower than in the second quarter and a remarkable 72% lower than the same quarter in 2019.

Pason revenues fell 68%, to $23.1 million, in the third quarter and were down 45%, to $123.9 million, for the nine months ended Sept. 30. As a result, adjusted EBITDA dropped to a loss of $1.1 million from $31.5 million in 2019, and was down 70%, to $31.3 million, for the nine-month period. Net income for the quarter was a loss of $3.9 million ($0.04 per share) against a profit of $15.4 million ($0.18 per share) a year earlier.

For the nine months to Sept. 30, net income was down 80%, to $8.7 million ($0.10 per share), from $43.7 million ($0.51 per share) a year earlier. Free cash flow, however, was down a much smaller 14%, to $56.9 million, from $66 million, helped by Pason's decision to reduce its dividend by 75%, to $0.05 a quarter from $0.19 in the third quarter. Having raised its dividend as recently as 2018 and 2019, the dividend cut is an illustration of how seriously Pason management regards the outlook for the industry.

Action now: Pason has $169 million in net cash, has reduced capital expenditures to $0.8 million in the third quarter from $4 million in the previous year, while its new ETB solar and energy division is seeing revenues increase from to $2.7 million so far this year, from $0.2 million. Pason remains well positioned to benefit from any recovery in drilling activity and the growth in solar and energy storage. It remains a Buy as a low-risk way to play an upturn in drilling and with the added bonus of exposure to green energy through its ETB operation.

Richards Packaging Income Fund (TSX: RPI.UN)

Type: Income trust
Current price: $60.00
Originally recommended: Feb. 27/20 at $45.29
Annual payout: $1.32
Yield: 2.2%
Risk: Medium
Website: www.richardspackaging.com

Continued on page 6…

Reproduction without permission is illegal

Gavin Graham's updates – continued from page 5…

Comments: Richards Packaging is a distributor and manufacturer of plastic and glass packaging for small- to medium-sized companies in the U.S. and Canada. It is the largest distributor of glass and plastic packaging in Canada and one of the top three in North America with 16,800 customers, of which two-thirds are small- to medium-sized.

The U.S. market accounts for 63% of its sales, concentrated on the West coast, where 42% of its total revenues come from Los Angeles, Reno, Nevada, and Portland, Oregon. Another 40% comes from Canada, primarily Toronto, Montreal, Winnipeg, and Vancouver, of which 7% is from its three manufacturing plants. Its customer base is well diversified by industry, with 36% from food and beverage, 41% from cosmetics, and 23% from healthcare (all in Canada) in 2020.

Richards stock has shot up on the back of its very strong results arising from additional coronavirus-related orders, with the stock almost doubling to $86.28 at the end of September. Subsequently it has come back somewhat, to $60 but is still up 32% from our original recommendation.

Richards has been a big winner from the effects of the coronavirus, as demand for its medical products leapt in the first half of 2020. For the third quarter ended Sept. 30, revenue was up 47.3%, to $128.5 million, while adjusted EBITDA more than doubled, to $25.5 million ($2.34 per unit) from $12.6 million, meaning its margins increased by 33% to 19.9%.

After interest and taxes, distributable cash flow per unit (DCF) was $1.48, compared with $0.734 a year ago, which meant the $0.11 per month distribution represented a payout ratio of only 22%, down from an already conservative 45% the previous year.

Richards calculated that impact of additional orders from COVID-19 was worth $16.3 million in additional revenue in the first quarter, $19.3 million in the second, and $18 million in the third. In addition, the company posted $6.6 million in foreign exchange gains in the first quarter, $9.2 million in the second, and $6.6 million in the third due to weakness of the Canadian dollar.

Richards expanded further in the medical field by purchasing Clarion, a leading Canadian provider of medical, aesthetic, vision care, and surgical equipment and consumables in June for $60.3 million, funded by $35 million debt, $14.8 million cash, and a deferred consideration of $10.5 million. Clarion contributed $6.6 million of revenues in the one month it was owned to June 30, which annualizes at around $80 million in sales.

Action now: With a debt-to-adjusted-EBITDA ratio of only 0.4 times, the additional medical revenues from its Clarion acquisition, its very strong 2020 revenues and earnings growth, and its business well diversified by geographical area and sector, Richards remains attractive. However, as CEO and 20% shareholder Jerry Glynn noted in the third-quarter report, the growth in revenue is slowing as the effects of coronavirus gradually diminish, and the comparisons for the first three quarters of 2021 will be negative due to enormous growth this year. With the units still up 32% in eight months, it's time to lock in some profits by selling half.

GORDON PAPE'S UPDATE

Prices as of the close on Dec. 14, 2020.

BMO Financial Group (TSX, NYSE: BMO)

Type: Common stock
Originally recommended: Sept. 24/15 at C$71.33, US$53.87
Current price: C$96.12, US$75.33
Annual payout: $4.24
Yield: 4.41%
Risk: Conservative
Website: www.bmo.com

Comments: Bank stocks were initially hit hard by the pandemic. The sharp decline in interest rates hurt profit margins, and there were widespread worries about defaults. Fortunately, the worst-case scenario was averted, and the stocks have been clawing their way back in recent months.

BMO shares hit a low of $55.76 in March, at which point the stock was yielding 7.6%. We hadn't seen yields that high since the Great Recession, and it didn't last long. In mid-August, the shares moved back over $80, and they have continued to rise since.

On Dec. 1, BMO reported fourth-quarter and year-end results for the 2020 fiscal year. The quarterly results were on a par with 2019, with adjusted net income of $1.6 billion, up $3 million from the prior year. Adjusted earnings per share were $2.41, compared with $2.43 last year.

Continued on page 7…

Reproduction without permission is illegal

Gordon Pape's updates – continued from page 6…

For the full 12 months, BMO reported adjusted net income of $5.2 billion, compared with $6.2 billion in fiscal 2019. Adjusted earnings per share were $7.71, compared with $9.43 last year.

Looking ahead to 2021, CEO Darryl White said, "We're positioning our businesses for profitable growth, providing unwavering support for our customers and championing an inclusive recovery for our communities. We are focused on sustaining our momentum and competitive strengths, leveraging strong client loyalty and a winning culture to continue to build a digitally enabled, highly efficient and future ready bank."

Action now: Buy. Despite the price rise, the yield is still attractive at 4.4%.

CI First Asset Canadian Buyback Index ETF (TSX: FBE)

Type: Exchange-traded fund
Current price: $24.92
Originally recommended: June 28/19 at $25.16
Annual distribution: $0.47 (trailing 12 months)
Yield: 1.9%
Risk: Moderate
Website: www.firstasset.com

Comments: This ETF focuses on Canadian companies that have been actively buying back their shares. Since the pandemic hit, there are fewer active buyers, but many of the companies that have temporarily suspended repurchases still have normal-course issuer bids registered with the Toronto Stock Exchange. That's why you'll find cash-starved companies like Air Canada still on the list of top holdings.

The original rationale for owning this ETF has changed dramatically as a result of the pandemic, and it will be some time before many of these companies start repurchasing shares again. The yield is too low to continue holding in these circumstances, especially with so many other attractive options available.

Action now. Sell.

Canoe EIT Income Fund (TSX: EIT.UN)

Type: Closed-end fund
Current price: $9.97
Originally recommended: Jan. 31/19 at $10.95
Annual payout: $1.20
Yield: 12%
Risk: Moderate
Website: www.canoefinancial.com

Comments: This is one of Canada's largest closed-end funds, with assets under management of about $1.3 billion. The fund was launched in August 1997 and invests in a portfolio of blue-chip, dividend growth stocks, of which 44.6% are in Canada, 36.9% in the U.S., and 7.6% overseas. Cash assets account for 10.8% of the holdings. Top positions include Tourmaline Oil, UnitedHealth Group, Royal Bank, Medtronic plc, and Berkshire Hathaway.

Along with the rest of the market, the fund was hit hard by the pandemic crash, dropping all the way to $5.06 in March. But the stock market recovered, and the fund continues to pay out a monthly dividend of $0.10 ($1.20 a year).

That works out to a 12% yield, which looks too good to be true. It is, to some extent. Since the fund was recommended, it has dropped almost $1 in price, so part of the attractive payout is actually your own money being returned to you. That said, we are still ahead by about 11% since the original recommendation when distributions are taken into account.

With the end of the pandemic now in sight, stocks should perform well in 2021, lifting the net asset value of the portfolio and the unit price. The $0.10 a month payout has been fixed for years and is unlikely to change. This fund is worth hanging on to.

Action now: Hold.

BMO Covered Call Dow Jones Industrial Average Hedged to CAD ETF (TSX: ZWA)

Current price: $23.74
Originally recommended: April 20/18 at $22.74
Annual payout: $1.20
Yield: 5.1%
Risk rating: Moderate
Website: www.bmo.com

Comments: This ETF tracks the Dow Jones Industrial Average (hedged to Canadian dollars) and uses covered call options to generate additional income. The options are written out of the money, which means the stock is trading below the potential sale price (the strike price). The option premium provides limited downside protection. The underlying portfolio is rebalanced to maintain better representation of the broad market, and options are rolled forward upon expiry.

Continued on page 8…

Reproduction without permission is illegal

Gordon Pape's updates – continued from page 7…

Since this ETF was recommended in January 2019, the Dow hit a record high, then fell 29% in the February-March plunge, and then rebounded to another new record, briefly crossing the 30,000 mark earlier this month.

While all this was happening, the fund was paying out monthly distributions of $0.10 a unit. To this point, we have a small capital gain and a steady cash flow that provides a 5.1% yield. That's a respectable combination.

Action now: Buy. The Dow should register a double-digit gain in 2021.

Horizons Active Cdn Dividend ETF (TSX: HAL)

Type: Exchange-traded fund
Current price: $16.90
Originally recommended: Nov. 28/19 at $18.15
Annual payout: $0.60 (trailing 12 months)
Yield: 3.6%
Risk: Moderate
Website: www.horizonsetfs.com

Comments: This is an actively managed ETF that invests in a portfolio of North American securities (mainly Canadian) that pay above-average dividends.

Top holdings include Enghouse Systems, Royal Bank, Constellation Software, Brookfield Infrastructure Partners, and Open Text.

The portfolio is well-balanced, with utilities being the largest sector at 22.5%, followed by industrials (22.2%), financials (17.5%), and information technology (13.8%).

The fund was hit hard in the February-March selloff, falling all the way to $11.43 from $19.70, a decline of 42%. Although it has come back some, it is still well short of its pre-pandemic high.

However, the portfolio looks solid and the yield is respectable. I suggest retaining current positions.

Action now: Hold.

YOUR QUESTIONS

BEP split

Q – Back in the summer I purchased shares of Brookfield Renewable Partners, and between then and now they soared upward 50%. But this morning, instantly, they have fallen the same amount. I'd love to understand what happened! – *James R., Victoria*

A – BEP announced some time ago that is would implement a 3-2 stock split on Dec. 11. Its corporate equivalent, Brookfield Renewable Corporation (BEPC), will go the same route. This means investors received a half unit of BEP.UN for each one previously owned. So, if you owned 100 units before, you now have 150. The same applies to BEPC shares. The share/unit prices were adjusted accordingly, as was the dividend. – *G.P.*

BEAT THE PRICE INCREASE!

Please note that the annual membership rate for *The Income Investor* will increase by $10 on Jan. 1, 2021. The new rate will be $134.95 a year, plus applicable taxes. The increase is necessary to offset rising costs, especially for the technology required to support our website and distribution.

You can beat the increase by renewing before the end of the year, no matter when your current membership expires.

Call customer service at 1-888-287-8229 or go to https://buildingwealth.ca/subscribe/

That's all for this issue, and for 2020. We'll see you again in the New Year with the Update Edition of January 16. Happy and safe holidays!