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GAIN FOR HIGH-YIELD PORTFOLIO*By Gordon Pape, Publisher and Editor*

This month marks the 10th anniversary of our High-Yield Portfolio. It was launched in March 2012 as a model for readers seeking above-average cash flow at reasonable risk.

The portfolio invests entirely in stocks, so it is best suited for non-registered accounts where any capital losses can be deducted from taxable capital gains. Also, a high percentage of the payments receive favourable tax treatment as eligible dividends or return of capital.

The initial value was \$24,947.30, and I set a target average annual total rate of return of 7% to 8%, with an annual yield of around 5%.

Here is a review of the securities we own and how they have performed in the time since our last review in September. Results are to March 11.

Enbridge Inc. (TSX, NYSE: ENB). Enbridge is a good place for your money at this time. Its assets are mainly in North America and the rise in the demand for oil, even at these high prices, has boosted revenue and profits. The stock is up \$5.94 from the last review in September and the company raised its quarterly dividend by 3% in February to \$0.86 (\$3.44 per year), to yield 6.1% at the current price.

Pembina Pipeline Corp. (TSX, NYSE: PPL). The share price continues to recover, gaining \$2.53 since the last review. At the current price, the yield on the \$0.21 monthly dividend is 6.3%.

Sun Life Financial Inc. (TSX, NYSE: SLF). After a pause to consolidate, Sun Life shares were on the move again in the latest period, rising \$3.35 or 5.2%. The trend was aided by a 20% increase in the quarterly dividend, to \$0.66 a share (\$2.64 a year), effective with the November payment. The current yield is 3.9%.

Capital Power Corp. (TSX: CPX). After a long upward run, Capital Power gave back \$3.43 in the latest six months. The quarterly dividend is \$0.5475 per share (\$2.19 per year), for a yield of 5.4% at the current price.

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High yield portfolio - continued from page 1...

Canadian Imperial Bank of Commerce (TSX, NYSE: CM). Interest rates are moving higher, which is good news for banks because it increases profit margins on loans. CIBC shares are up another \$13.10 since our last review. The Office of the Superintendent of Financial Institutions lifted its freeze on increases and CM immediately announced a hike of 10.3%, to \$1.61 per quarter (\$6.44 per year). The stock yields 4.1%.

Brookfield Energy Partners (TSX: BEP.UN, NYSE: BEP). This Bermuda-based limited partnership invests in an international portfolio of clean energy properties, mainly hydro. Green energy companies were hot in 2020 but then sold off because they couldn't compete with cheap fossil fuels. Now that oil and gas prices are rising again, green energy looks more cost effective, and the unit price is up \$3.84 since the last review. The quarterly distribution was increased 5.3% effective with the February payment to US\$0.32.

BCE Inc. (TSX, NYSE: BCE). The stock is up \$5.61 in the latest six-month period. The dividend is \$0.875 per quarter (\$3.50 a year). The stock yields 5% at the current price.

Firm Capital (TSX: FC). This mortgage investment corporation was added at the time of our last update. The shares are down about a dollar since but the monthly cash flow is steady, with a yield of 6.7%.

Algonquin Power & Utilities Corp. (TSX, NYSE: AQN). This is another green energy company that is showing signs of recovery. The price is up a modest \$0.06 since our last review, but at least it's moving in the right direction. The yield is 4.5%.

North West Company Inc. (TSX: NWC). This company has a long history, with a prime focus on general stores in Northern Canada and Alaska. The shares are up \$2.73 since the last review, and we received two dividends of \$0.37 each. The yield is 4%.

We earned \$21.41 from the cash we deposited in an account with Motive Financial that paid 1.25% at the time.

The table below shows what the portfolio looked like as of the close of trading on March 11. The weighting is the percentage of the market value of the security in relation to the total market value of the portfolio. The gain/loss shows the performance of the security since it was added to the portfolio. Sales commissions and exchange rates are not considered.

Income Investor High Yield Portfolio (a/o March 11/22)

Security	Weight %	Total Shares	Average Price	Book Value	Current Price	Market Value	Retained Income	Gain/Loss %
ENB	7.2	80	\$48.64	\$3,391.20	\$56.66	\$4,532.80	\$577.82	50.7
PPL	10.5	140	\$32.65	\$4,571.65	\$46.82	\$6,554.80	\$217.78	48.1
SLF	15.1	140	\$27.48	\$4,055.95	\$67.48	\$9,447.20	\$665.83	149.3
CPX	7.1	110	\$31.37	\$3,450.90	\$40.35	\$4,438.50	\$346.17	38.6
CM	14.0	55	\$112.97	\$6,213.30	\$158.94	\$8,741.70	\$679.25	51.6
BEP.UN	14.3	172	\$22.83	\$3,926.11	\$52.22	\$8,981.84	\$541.30	142.2
BCE	7.9	70	\$56.75	\$3,972.40	\$70.35	\$4,924.50	\$245.00	30.1
FC	9.0	400	\$15.06	\$6,024.00	\$14.04	\$5,616.00	\$192.00	- 3.6
AQN	5.7	185	\$19.00	\$3,515.00	\$19.23	\$3,557.55	\$334.86	5.8
NWC	8.0	135	\$25.97	\$3,505.95	\$37.31	\$5,036.85	\$338.85	53.3
Cash	1.2			\$746.57		\$767.98		
Total	100.0			\$43,373.03		\$62,599.72	\$4,138.86	53.9
Inception				\$24,947.30				167.5

Comments: The portfolio continues to perform well, gaining 7.7% in the latest six-month review period. The largest contributions came from Pembina, Enbridge, and BCE, but every position gained ground except Capital Power and Firm Capital.

With the latest gain, we are showing a total return of 167.5% in the 10 years since inception. That translates

into an average annual growth rate of 10.34%, which is above our target range.

In terms of cash flow, the portfolio earned \$1,380.06 in six months, for a yield of 2.2% in that time. Over a full year, that would work out to about 4.4%. Our target is 5% but that may be difficult to achieve without taking on more risk.

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High yield portfolio - continued from page 2...

Changes: I believe most income investors would be happy with the combination of growth and cash flow this portfolio is producing so I'm not going to make any changes at present. We will, however, put some of our retained income to work, as follows.

ENB – We will buy another ten shares for \$566.60. That will give us 90 shares and reduce retained earnings to \$11.22.

SLF – We'll add ten shares at a cost of \$674.80. We now have 150 shares and retained earnings have been reduced to zero. We'll take \$8.97 from general cash reserves to make up the difference.

CPX – We'll take advantage of the price drop to buy another 10 shares for a cost of \$403.50. Retained earnings will drop to zero and we'll use \$57.33 from cash to pay the difference.

BEP.UN – We have enough to purchase another eight units, to bring out total to 180. The cost will be \$417.76, leaving retained earnings of \$123.54.

FC – We'll add another 10 shares for a cost of \$140.40. We now have 410 shares and retained earnings of \$51.60.

AQN – We have enough saved to add another 15 shares for a cost of \$288.45. We now own 200 shares and have \$46.41 remaining.

NWC – Finally, we'll add another five shares of North West Company at a cost of \$186.55. That gives us 140 shares and retained earnings of \$152.30.

Our retained earnings plus cash now totals \$2,228.78. We'll move the money to EQ Bank, which is paying 1.25%.

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

Income Investor High Yield Portfolio (revised March 11/22)

Security	Weight %	Total Shares	Average Price	Book Value	Current Price	Market Value	Retained Income
ENB	7.8	90	\$43.98	\$3,957.80	\$56.66	\$5,099.40	\$11.22
PPL	10.1	140	\$32.65	\$4,571.65	\$46.82	\$6,554.80	\$217.78
SLF	15.5	150	\$31.54	\$4,730.75	\$67.48	\$10,122.00	0
CPX	7.4	120	\$32.12	\$3,854.40	\$40.35	\$4,842.00	0
CM	13.4	55	\$112.97	\$6,213.30	\$158.94	\$8,741.70	\$679.25
BEP.UN	14.4	180	\$24.13	\$4,343.87	\$52.22	\$9,399.60	\$123.54
BCE	7.6	70	\$56.75	\$3,972.40	\$70.35	\$4,924.50	\$245.00
FC	8.8	410	\$15.04	\$6,164.40	\$14.04	\$5,756.40	\$51.60
AQN	5.9	200	\$19.02	\$3,803.75	\$19.23	\$3,846.00	\$46.41
NWC	8.0	140	\$26.38	\$3,692.50	\$37.31	\$5,223.40	\$152.30
Cash	1.1			\$701.68		\$701.68	
Total	100.0			\$43,373.03		\$65,211.48	\$1,527.10
Inception				\$24,947.30			

GORDON PAPE'S UPDATES

Note: All update prices are as of the close on March 11.

BMO Group (TSX, NYSE: BMO)

Type: Common stock

Current price: C\$147.11, US\$115.49

Originally recommended: Sept. 24/15 at C\$71.39, US\$53.87

Annual payout: \$5.32

Yield: 3.6%

Risk: Low

Website: www.bmo.com

Comments: Interest rates are rising. The Bank of Canada increased its target rate by a quarter point earlier this month, with many more hikes on the way.

That's good news for banks, because it increases their net interest margin (NIM) – the difference between the rates they charge to borrowers and the interest paid to depositors. That means the healthy profits the banks earned in 2021 are likely to get even better this year.

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Gordon Pape's updates- continued from page 3...

The first quarter of the 2022 fiscal year was a good start. BMO reported adjusted net income of \$2.6 billion (\$3.89 per share), an increase of 27% over the same period a year ago. This topped the consensus estimate of \$3.28 by a wide margin. Core net interest income was up 7.4% quarter-over-quarter.

Revenue was \$7.723 billion, up from \$6.975 billion in the prior year. Adjusted return on equity was 18.8%, a significant increase from 15.8% the year before.

Loan loss provisions made during the pandemic continue to be reversed. In the latest quarter, the bank recovered

\$99 million, compared with a provision for credit losses of \$156 million in the prior year.

"We continue to build on our operating momentum and delivered another quarter of very strong earnings, driven by our Canadian and US Personal and Commercial businesses, including accelerating commercial loan growth, and ongoing strength in BMO Capital Markets," said CEO Darryl White.

The bank increased its quarterly dividend by 25.5% to \$1.33 per share, effective with the January payment. That was the biggest increase among the major banks.

Action now: Buy.

GAVIN GRAHAM'S UPDATES

Fairfax Financial Holdings Ltd. (TSX: FFH; OTC: FRFHF)

Current price: C\$592.61, US\$465.00

Originally recommended: Sept18/17 at C\$622.87, US\$515.00

Annual payout: \$10.00

Yield: 1.7%

Risk: Moderate

Website: www.fairfax.ca

Comments: Fairfax Financial is one of the largest property/casualty companies and reinsurers in North America. Its founder and CEO, Prem Watsa, is a leading exponent of value investing and is sometimes referred to as "the Warren Buffett of Canada".

Fairfax recently announced record earnings for 2021 of \$3.4 billion (\$122.25 per share), up 15 times from \$218.4 million (\$6.29 a share) in 2020. This reflected the recovery from COVID-19 losses in the previous year. Note that Fairfax reports in US dollars. Book value per share, which both Mr. Watsa and Warren Buffett regard as a better measure of performance for insurance companies, which have large swings in their investment portfolios, rose 34.2% to \$630.30. Mr. Watsa noted that "2021 was the best year we have had in our history".

Gains on Fairfax's investment portfolio, which includes several value plays such as Stelco, BlackBerry, Resolute Forest Products, restaurant operator Recipe, and GolfTown/Sporting life, produced net gains of \$2.3 billion. Gains on the Indian digital insurer Digit adding \$1.5 billion, offset by \$287 million in losses on bond positions.

Fairfax repurchased two million shares during 2021 at an average price of \$500, which Mr. Watsa considered "ridiculously cheap".

Action now: Fairfax sells at a 7% discount to its understated book value after the most profitable year in its history. With all its major companies writing profitable insurance business, Fairfax remains a cheap play on rising interest rates, expanding geographical reach, and the rotation from growth to Mr. Watsa's preferred value style. Buy at the current price.

YOUR QUESTIONS

Real return bond funds

Q – In the current inflation environment, are real return bond fund such as the Phillips, Hager & North Inflation-Linked Bond Fund good protection against inflation? - Jacques B.

A – This fund invests primarily in a portfolio of real return and inflation-linked bonds issued or guaranteed by the Canadian government. During most of the years since launched in 2009, inflation was very low, so it's not surprising that the average annual compound rate of return since inception is a modest 4.6%. In February, with inflation climbing, this fund dropped 0.2%. It's not just this fund that's struggling. The iShares Canadian Real Return Bond Index ETF (TSX: XRB) was down 5.77% for 2022, as of March 10. Why aren't these real return bond funds working in the face of the worst inflation we've seen in decades? Because the underlying bonds have long maturities and pay a very low return after discounting for inflation adjustments. Real return bonds give the appearance of being a solution to the inflation problem. As the returns show, they're not. – G.P.