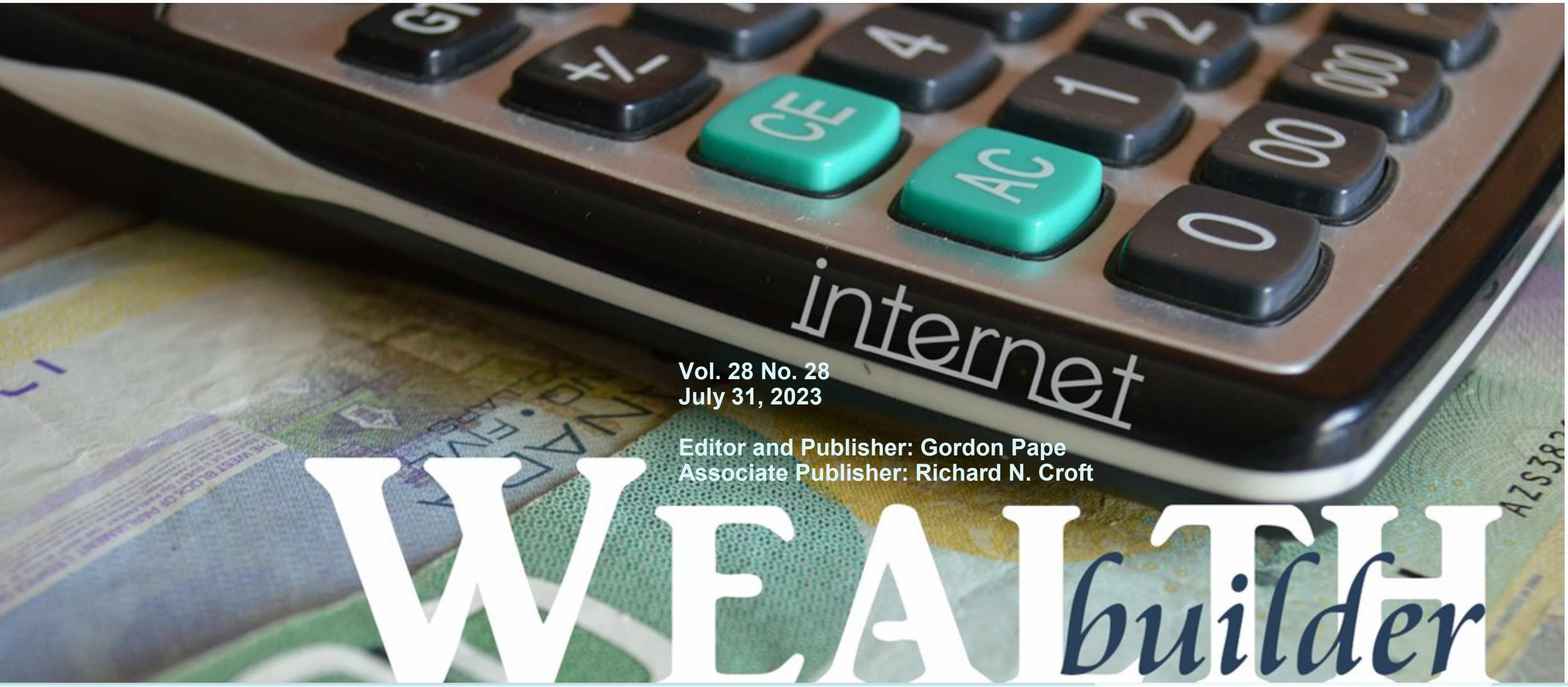

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YIELD ON SALE

By Gordon Pape, Editor and Publisher

Income-oriented investors must be feeling like kids in a candy store these days. There are great deals everywhere you look.

Whether you prefer stocks, ETFs, REITs, or preferreds, cash flows of 5% up abound. We haven't seen anything similar in decades.

The reason for this yield bonanza is clear – inflation, which has prompted the Bank of Canada and the Federal Reserve Board to increase interest rates at the fastest pace in 40 years. Combined with an inverted yield curve, the result has been across-the-board increases in investment cash flow.

Even short-term securities have cracked the 5% ceiling. HISA (High Interest Savings Account) ETFs are currently yielding 5.2-5.3%. They include the CI High Interest Saving ETF (TSX: CSAV), which currently has a forward yield of 5.1%. The Purpose High Interest Savings Fund (TSX: PFA) and the Horizons High Interest Savings ETF (TSX: CASH) both have a forward yield of 4.9%.

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**No IWB next week.
Next issue: Aug. 14**

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It's important to note that neither forward nor trailing yields are accurate predictors of what your money will earn over the next year in these funds. Trailing yield will skew the return to the downside because rates were much lower a year ago at this time. Forward yields assume the current rate of the monthly distribution will be maintained. That's unlikely in this turbulent interest rate environment. So, be sceptical of yields in these funds and be prepared to move money quickly if they start to decline. Unusually, HISA ETFs offer better yields at this time than traditional bond ETFs and mutual funds. But you can find bond fund returns in the 5% range in some fringe areas.

One example is the iShares US High Yield Bond Index ETF (CDN Hedged) (TSX: XHY). The name tells the story. The fund invests in a wide-ranging portfolio of US high-yield bonds. At a current monthly distribution of $0.078 ($0.936 annually), the forward yield is 5.85%. The ETF lost 11.5% in 2022 but is ahead 5.2% this year. It has $405 million in assets but should be viewed as high risk.

If you want something safer, try GICs. Several small companies offer one-year terms of over 5%, with Motive Financial topping the list at 5.6%. There are even a few five-year GICs in this range, led by EQ Bank at 5.1%. But long-term yields are generally lower because of the inverted yield curve we're currently experiencing.

Yields of 5% and up are easy to find in the equity markets. You don't have to look far – most interest sensitive stocks are offering yields at levels we've rarely seen.

In the pipeline sector, TC Energy (TSX, NYSE: TRP) is paying 8.2% after the shares sold off last week in the aftermath of the sale of 40% of its interest in Columbia Gas Transmission and Columbia Gulf Transmission pipelines, and the announcement that the company will split into two corporations next year. The yield on Enbridge shares (TSX, NYSE: ENB) is currently 7.4%, while Pembina Pipeline (TSX: PPL, NYSE: PBA) pays 6.5%.

Utilities are in a similar situation. Emera (TSX: EMA) pays 5.1%, Canadian Utilities (TSX: CU) offers 5.4%, and Capital Power (TSX: CPX) is at 5.6%. Industry leader Fortis (TSX, NYSE: FTS) is an outlier at 4%.

In the REIT sector, RioCan (TSX: REI.UN) yields a healthy 5.4%. Choice Properties REIT (TSX: CHP.UN) is also at 5.4%, with Primaris (TSX: PMZ.UN) at 6.2%, and Slate Grocery REIT (TSX: SGR.UN) offering 8.5%.

You can even find 5%+ yields among the major banks, which is rare. Check out Bank of Nova Scotia (TSX, NYSE: BNS), which yields 6.4%. CIBC (TSX, NYSE: CM) is also in this group at 6%. I've just scratched the surface here. There are many other stocks with yields of 5% and up. If you want a portfolio with strong cash flow, they're easy to find.

Perpetual preferred shares are another option (more on this in the latest Income Investor). It's easy to find yields of more than 6% with high credit ratings from companies like Fortis (TSX: FTS.PR.F), Great West Life (TSX: GWO.PR.Y), and Intact Financial (TSX: IFC.PR.E).

We won't see these yields a year from now. Take advantage of them while you can.

LOW END CHIPMAKERS THRIVE

By Adam Mayers, Contributing Editor

It's a rare day I get through my must-reads without a headline or three about the threats and wonders of the evolving world of artificial intelligence (AI).

Is AI awe-inspiring? Is it anxiety-inducing? Or is it apocalypse-inciting? Perhaps it is all three, as billionaire investor Ken Fisher summed it up in a recent article in the Globe & Mail.

We are a long way from understanding the implications of this technology for good and bad. But for investors the heart of it all lies in the microprocessors. The algorithms used by the powerful chips generate human-like responses via simple prompts which is what scares and enthralls at the same time.

Among the big names is Netherlands-based ASML Holding NV (NDQ: ASML), whose shares are up 26% this year. It makes the machines that makes the AI chips. Each machine costs hundreds of millions so it has a wide moat around its business.

Likewise, Nvidia Corp. (NDQ: NVDA), which we updated in mid-June, is another leader with a big advantage. It is best known for graphic processing units (GPUs) used in video games, but its chips are also used for such things as cloud-based computing, self-driving cars, and drones.

Another place to look for opportunity is out of the limelight. Here less sexy, plain vanilla manufacturers have a profitable niche making simpler chips that power everyday products. These are things like coffee makers, washing machines, and TVs. Also, the processes that save photos on your computer or allow you to play songs on Spotify through Google Home.

These chips tend to make up a small portion of the cost of the product and are proven to work. As a result, end users are less inclined to swap them out and risk getting it wrong with a new supplier. The companies have well-developed businesses, lower costs for research and development, and longstanding relationships with their customers.

Two companies in this space are Texas Instruments Inc. (NYSE: TXN) and Analog Devices Inc., (NDQ: ADI).

Texas Instruments had revenues of $20 billion (figures in US dollars) in 2022 and net income of $8.7 billion. It has more than 100,000 customers and has increased its dividend in each of the past 19 years. The stock yields 2.7% at the current price of $178.37.

As de-globalization picks up steam, more chipmaking is being repatriated to North America. Texas Instruments is spending $30 billion to build four fabricating plants in Sherman, Texas. The first should be operating in 2025. The chips produced there will have a broad range of uses in smartphones, connected cars, and industrial machinery.

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Chipmakers—continued from page 3...

Analog Devices has revenues of $12 billion and net income of $2.7 billion. Like Texas Instruments it is diversified, with more than 125,000 customers. It has increased its dividend in each of the past 21 years, with a current yield of 1.7% at the price of $198.42. Its chips are found in similar places, including factory automation and testing and measurement equipment.

So far this year, the companies have performed less well than the higher end chipmakers. They have slower growth prospects and have suffered from supply chain issues. Their customers stockpiled chips last year, which are now being run down. Demand is weakening in a high interest rate environment.

Even so, Texas Instrument's stock is up 7% year-to-date and Analog Devices by 17%. The increase is modest when compared with the AI leaders and the Nasdaq's 34% rise.

On the other hand, they have a lot of upside with price to earnings ratios that are also more modest. Nvidia's stratospheric p/e of 207 carries sky high optimism and a similar amount of risk. Texas Instruments has a forward p/e ratio of 20.6 while Analog Devices has a p/e ratio of 17.5.

Texas Instruments and Analog Devices sold off last week when Texas Instruments reported its latest earnings. As the biggest maker of analog semiconductors, it is a bellwether, and the results were modest. The company gave a lukewarm outlook, indicating that a slump in demand for key types of electronics is dragging on.

Automotive remains a bright spot, as it does with Analog Devices.

As reported by Bloomberg News, Texas Instruments' revenue in the third quarter will be between $4.36-$4.74 billion. The midpoint of that range would be below the average analyst estimate of $4.59 billion. Profit will be $1.68-$1.92 a share in the third quarter, compared with a prediction of $1.90.

Despite current conditions, these companies are worth keeping on the radar. Given the likelihood of a recession, their share prices may weaken, but they have financial strength, a diversified customer base and a history of profitability and dividends.

Sometimes slow and steady wins the race.

Both these stocks are good investments, but I suspect they will remain soft and perhaps go lower if we head into a dip. As a result, I'm not giving them a Buy rating at this time but put them on your watch list. If you can pick them up at a bargain price, do so.

Adam Mayers is a contributor to The Globe & Mail's Report on Business and a former investing columnist at The Toronto Star. His website is adammayers.com. He lives in the greater Toronto area.

EMERGE FUNDS STILL IN LIMBO

By Adam Mayers

Investors in Emerge Canada Inc. are still waiting for the return of their capital two months after the company said it was finalizing a plan to liquidate the funds under Ontario Securities Commission supervision.

When asked for an update last week, a spokesman for Emerge said there is nothing new to report.

Emerge Canada's ETFs were launched in 2019 and are linked to those of New York-based ARK Investment Management LLC, which sub advises the funds. In April, the OSC imposed a trading halt on Emerge ETFs after it was reported the parent Emerge Canada owed money to its six funds. The sum owed is $5.5 million.

In a mid-May update, the company said it was finalizing a plan to wind up or sell its business. It said investors would receive prior notice and it would issue a press release at the same time. There has been nothing since.

Meanwhile, the better news for investors is that although the ETFs do not trade, their value has been rising along with the fortunes of parent ARK Investment in New York. The Emerge Canada web site indicates a strong price rebound year-to-date.

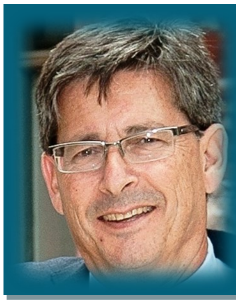
For now, investors will have to be patient and wait for the wind-up process to be completed.

YOUR QUESTIONS Wants less China

Q - Can you recommend an emerging market ETF that is not so heavily weighted to China? I'm looking for one with more exposure to India, and less to China. Or is there a specific India ETF I should consider? Thank you. – Peter D.

A - The BMO MSCI India ESG Leaders Index ETF (TSX: ZID) has been on our recommended list since 2017 and has performed well. We have a capital gain of 79% to date plus distributions. We continue to rate it a Buy.

If you want a fund with more scope, look at the iShares MSCI Emerging Markets ex China ETF, which trades on Nasdaq under the symbol EMXC. It's on a strong run right now, up 13.6% year-to-date. The fund was launched in 2017 and has been quite volatile, with double-digit losses in 2018 and 2022 but decent gains in the other years. The five-year average annual compound rate of return to June 30 was 3.8%.Taiwan is the largest geographic holding in the portfolio, at 21.5% of total assets. It's followed by India (20.4%), South Korea (17.8%), and Brazil (7.8%). Information technology is the largest sector (almost 27%), followed by financials (24.7%).The MER is a reasonable 0.25%. The fund has almost $5 billion in assets under management. – G.P.



ADAM MAYERS' UPDATES

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

Medtronic Inc. NYSE: MDT

Originally recommended June 10/19 (#21922) at $97.11

Closed Friday at $88.25. (All figures in US dollars.)

HOLD

Background: Medtronic is the world's largest medical device company with a market capitalization of $118 billion. It gets 60% of its sales and profits outside the US and employs 90,000 people, of whom 10% are research scientists.

Medtronic is headquartered in Ireland, but operationally based in Minnesota. It has four segments. Cardiovascular management devices, including pacemakers, are the largest at 40% of sales. Wound closure products and imaging devices are another 28%. Robots, implants, and surgical tools are 26%. The remaining 7% is from the diabetes group, which makes insulin pumps and other consumables.

Performance: Medtronic shares peaked at $134 two years ago and have been on a downward path ever since. The shares are 9% lower than their recommended price, though year-to-date they are up 14.5%.

Recent developments: With the pandemic behind us, hospital operating theatres are back in business, meeting demand for surgeries, medical devices, supplies and drugs.

Medtronic has been a laggard because of slowing growth in some of its core cardiovascular business and a series of missteps. It recently recalled 350,000 of its implantable defibrillators – a mainstay product – because of malfunctions. Several models of its insulin pumps were recalled because of a risk that hackers could take control of the devices and change their settings. And now there's a whistleblower lawsuit that contends Medtronic sales representatives operated a bribery scheme in a veterans' hospital to boost sales. These self-inflicted wounds are among the reasons analysts have downgraded the shares.

On the plus side, Medtronic is investing in artificial intelligence. One example is an intelligent analyzer for spinal surgery which uses data from thousands of previous surgeries to predict likely outcomes of a particular one. This helps surgeons better prepare.

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GORDON PAPE'S ETF UPDATES

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

BMO Clean Energy Index ETF TSX: ZCLN

HOLD

Originally recommended on Sept. 12/22 (#22233) at $23. Closed Friday at $18.76.

Background: This fund invests in companies that are involved in the production of clean energy, such as solar, wind, and hydro. Its benchmark is the S&P 500 Global Clean Energy Index, which includes small-, mid-, and large-cap companies in developed and emerging markets. The fund is passively managed.

Performance: You'd think that with the UN declaring July as the hottest month in the history of humankind, investors would be flocking to buy shares of clean energy companies. Sadly, no. The units of this green ETF touched a 52-week low of $18.28 at the beginning of the month and haven't moved much off that since. The current price is about where it was at the start of 2022, which means more than 18 months with no appreciation.

Key metrics: The fund was launched in January 2021, so we only have a brief history. But what we have is not encouraging. Since inception, the average annual compound rate of return is a discouraging -16.5% (to June 30). Year to date, the fund is down just over 8%.

The ETF has about $81.6 million in assets under management, which is down about $5 million from our last review in January. The management expense ratio (MER) is 0.4%. That's on the high side for a passive fund.

Portfolio: There are 100 holdings in the portfolio. There has been a shake-up in the top 10, with First Solar Inc. now the largest position at 8.06% of the portfolio. The stock has done well so far this year although it's down from its mid-May high. US solar power firm Emphase Energy occupies the number two spot at 7.54% followed by SolarEdge Technologies at 6.43% and Consolidated Edison at 6.25%.

Denmark's Vestas Wind Systems, which had been the fund's top holding for some time, has slipped to fifth with 5.11% of total assets. Other major holdings are Spanish-based Imberdrola SA, Orsted SA, and Plug Power Inc.

About 41% of the assets are in the US, up from one-third in January.

Continued on page 11...

iShares Global Agricultural Index ETF

BUY

TSX: COW *Originally recommended on Sept. 12/22 (#22233) at $39.08. Closed Friday at $64.93.*

Background: This is a global ETF that invests in companies involved in the production of agricultural products, fertilizers, agricultural chemicals, farm machinery, and packaged foods and meats.

Performance: This is another fund that should be performing better, given the geopolitical strains on the agriculture system. These include droughts in many parts of the world and Russia's withdrawal from the grain shipment pact with Ukraine. But it's not happening. The units fell as low as $57.89 in May and though they have rallied since they are still down for the year.

Performance: The ETF was launched in late 2007, so we have almost 16 years of history to work with. In recent years, it has only been in the red once, a decline of 13.7% in 2018. Otherwise, calendar year returns since 2017 have been in double-digits. In 2022, the ETF gained 12.47%, an excellent return in a weak market. The 10-year average annual compound rate of return is a very good 10.7% (to June 30).

Key metrics: The fund has $401 million in assets under management, down from over $500 million at the time of our last review in January. The MER is 0.71%.

Portfolio: The fund holds 36 positions. The top spot at 9.24% is Archer-Daniels-Midland, which is a recommendation of this newsletter. Other large holdings are agriscience company Corteva at 8.45% and UK-based equipment manufacturer CNH Industrial (7.03%).

Almost 83% of the portfolio is invested in US companies. Only 3.6% is in Canada.

Distributions: The fund makes semi-annual distributions. The trailing 12-month payout is about $1.08 per unit, for a yield of 1.7% at the current price.

Tax implications: They vary from year to year, but in 2021 most of the payment was classified as capital gains for tax purposes.

Risks: Market risks need to be considered and the price for potash and other fertilizers will impact some companies in the portfolio. BlackRock Canada assigns a medium/high risk rating to the fund.

Summary: The world will always need food and this fund has positions in many of the leading companies in the industry. The long-term performance is very impressive, so investors should look beyond the recent stumble.

Action now: Buy. I continue to view COW as a high-quality ETF, suitable for most portfolios.

GORDON PAPE'S STOCK UPDATES

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

Alphabet Inc. NDQ: GOOGL

HOLD

Originally recommended on June 16/14 (#21421) at $30.37 (split-adjusted). Closed Friday at $132.58. (All figures in US dollars.)

Background: Alphabet is the umbrella company that owns Google (which includes Android, Chrome, and YouTube), Nest (home automation), Calico (anti-aging research), Fiber (high-speed Internet), Google Ventures (new company investments), Sidewalk Labs (city infrastructure), and Waymo (driverless cars). Other services include Google Maps, Google Play, and cloud computing.

Share splits: The stock split 2 for 1 shortly after we recommended it. If you owned 100 shares at that time, that gave you a total of 100 each of GOOG (non-voting C shares) and 100 of GOOGL (voting A shares). We track only GOOGL, as it represents the original shares acquired, but GOOG trades at about the same price, or a small premium. The company implemented another split on July 15, 2022. Investors received a special dividend of 19 shares for every share owned as of the July 1 record date. All classes of shares benefited. So, readers who bought 100 shares at the time of my original recommendation now own 2,000 shares each of GOOGL and GOOG. The market price adjusted accordingly.

Performance: After a slump in February, the shares rebounded strongly and are now trading near their 52-week high. More impressive, they're closing in on their all-time high, reached in the fall of 2021.

Recent developments: Shares spiked after the company released second quarter results that were better than expected. Revenue came in at $74.6 billion, up 7% from the same period in 2022. Operating margin improved a point, to 29%.

Alphabet reported net income of $18.4 billion ($1.44 per diluted share). That was up 19% on a per share basis, from $16 billion ($1.21 per share) in the second quarter of 2022. Sundar Pichai, CEO of Alphabet and Google, said: "There's exciting momentum across our products and the company, which drove strong results this quarter. Our continued leadership in AI and our excellence in engineering and innovation are driving the next evolution of Search and improving all our services. With fifteen products that each serve half a billion

Continued on page 11...

TC Energy Inc. TSX, NYSE: TRP

Originally recommended by Yola Edwards on April 23/06 (#2616) at C$34.07. Closed Friday at C$45.25, US$34.17.

BUY

Background: TC Energy is one of North America's major pipeline companies, with 92,600 km of natural gas pipelines and 4,900 km of oil pipelines. It also owns or has interests in 10 power generation facilities with combined capacity of approximately 6,000 megawatts.

Performance: The shares fell to a seven-year low last week after the company made two blockbuster announcements that left investors shocked and uneasy.

Recent developments: On July 24, the company announced it was selling 40% of its interest in its Columbia Gas Transmission and Columbia Gulf Transmission systems for $5.2 billion. The buyer is Global Infrastructure Partners (GIP). TC Energy will continue to operate the system and will share maintenance, modernization, and capital expenses with GIP. The sale is part of a plan to strengthen the balance sheet by divesting non-core interests, but analysts and investors reacted negatively, with many questioning the valuation implied in the sale price.

Three days later, the company dropped another bombshell by announcing it is splitting into two separate public operations. One will focus on the Liquids Pipelines business while the other will be involved with natural gas and energy solutions. The spin-off will be completed in the second half of next year on a tax-free basis.

"This transformative announcement sets us up to deliver superior shareholder value for the next decade and beyond," said CEO François Poirier, who will retain his position with TC Energy after the spin-off. "As we have become the partner of choice for a magnitude of accretive, high-quality opportunities, we have determined that as two separate companies we can better execute on these distinct opportunity sets to unlock shareholder value."

Investors voiced their disapproval by dumping the stock. The shares were down 4.3% on Friday despite a late day rally, closing at $45.25 in Toronto. Debt worries were the driving force for the sell-off. In the midst of all this, the company released second quarter results. Net income attributable to shareholders was $250 million ($0.24 a share), a big drop from $889 million ($0.90 a share) in the same period last year. However, for the first six months of the fiscal year, profit was $1.6 billion ($1.53 per share), up from $1.2 billion ($1.27 a share) in 2022.

Dividend: The shares currently pay a quarterly dividend of $0.93 ($3.72 a year). As a result of the big retreat in the stock price, the yield is now up to an eye-popping 8.2%.

Outlook: It's too soon to know the effect of the spin-off, but the company's core business is solid. The dividend is a concern but a cut at this point would be a surprise.

Action now: Buy. The shares look grossly oversold at this level.

ZCLN—continued from page 7...

China accounts for 12.4% of the assets. There's a small Canadian representation at 4.3%.

In terms of sector breakdowns, 26.5% is in renewable electricity, almost double the January weighting. Second is 23.6% in electric utilities, then 14.5% in semiconductor equipment, and 13.2% in electrical components and equipment.

Distributions: Payments are made annually and are small. The total for 2022 was $0.19 per unit.

Tax implications: Based on 2022, most of the distribution is treated as foreign income, which is fully taxable if the units are held in a non-registered account. Investors receive a foreign tax credit.

Risks: The green energy sector continues to underperform and the situation is unlikely to change until interest rates drop and/or governments ramp up subsidies. BMO gives this ETF a risk rating of high.

Summary: The mandate is appealing to anyone who wants to support the environment, but the results are disappointing. We'll continue to monitor the fund's progress, but you may want to look at other green options.

Action now: Hold and be patient. This may take a while.

GOOGL—continued from page 9...

people, and six that serve over two billion each, we have so many opportunities to deliver on our mission."

The company continues to generate cost savings by downsizing its work force and reducing office space requirements. So far this year, Alphabet has booked severance costs of $2 billion.

Dividend and buybacks. The stock does not pay a dividend, but the company continues to repurchase shares.

Outlook: Alphabet is a key player in the AI revolution and the financials are holding up better than expected.

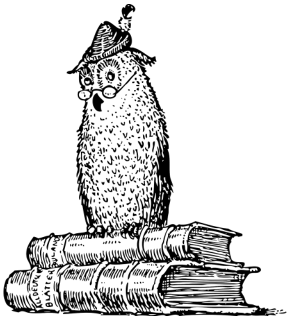
Action now: Hold. The stock is performing well but the p/e ratio of 30.13 suggests caution when he comes to new purchases.

MDT—continued from page 6...

The company recently partnered with Nvidia Corp. to improve its endoscopy system, which allows for examination of the gastro-intestinal tract via remote camera. The partnership allows third parties to train and test AI models that may eventually become part of the system.

Dividend: Medtronic raised its dividend by a penny to $0.69 per quarter with the April payment, its 44th consecutive year of increase. The stock yields 3.1% at current prices.

Action now: Hold.



FINANCIAL FACTOIDS: WORDS OF WISDOM

This week we have some interesting quotes from people who know a few things about money and investing.

"I don't look to jump over seven-foot bars; I look around for one-foot bars that I can step over." – Warren Buffett, on why he prefers value stocks, which frequently outperform the market.

"Don't look for the needle in the haystack. Just buy the haystack!" — John Bogle on why he’s so fond of index funds.

"The stock market is filled with individuals who know the price of everything, but the value of nothing." — Phillip Fisher on why research is much more than just listening to popular opinion.

“If there is one common theme to the vast range of the world’s financial crises, it is that excessive debt accumulation, whether by the government, banks, corporations, or consumers, often poses greater systemic risks than it seems during a boom." — Carmen Reinhart on why we should all beware of debts that seem sensible during periods of prosperity.

“Know what you own and know why you own it." — Peter Lynch on why investors should do their homework before making an investment decision and then re-evaluate on a timely basis.

“On Wall Street, the only thing that’s hard to explain is next week.” – Louis Rukeyser, on the futility of predictions.

“There are two times in life when a man should not speculate: When he can’t afford it and when he can.” – Mark Twain, who consistently lost money in the stock market.

“If you don’t know who you are, the stock market is an expensive way to find out.” – George Goodman, on the folly of uninformed investing.

“Bulls and bears aren’t responsible for as many stock losses as bum steers.” – Olin Miller on why investors should ignore hot tips.

“If it isn’t the sheriff, it’s the finance company. I’ve got more attachments on me than a vacuum cleaner.” – John Barrymore on being in debt.

“I’ve been rich, and I’ve been poor. Believe me, honey, rich is better.” – Sophie Tucker, who knew how she wanted to live.