internet WEALTH builder

Vol. 29 No. 15
April 22, 2024

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FOUR ETF WINNERS

By Gordon Pape, Editor and Publisher

It's been a respectable year for stocks so far. Some sectors continue to struggle, especially those that are interest-sensitive like telecoms and utilities. But other sectors have picked up the slack, including energy and technology. And some overseas markets are also going well. Here are four ETFs that have turned in good results so far in 2024 and which should continue to gain ground for the rest of the year.

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THE WEEK

Indexes

S&P/TSX Composite
21,807.37 (-0.04%)

S&P 500
4,967.23 (-3.0%)

Dow Jones Industrials
37,986.40 (+0.0%)

Nasdaq
15,282.01 (-5.5%)

A bad week for tech hits Nasdaq hard.

IN THIS ISSUE

Next issue: April 29

iShares India Index ETF TSX: XID

Originally recommended on Oct. 16/23 (#23336) at $47.36. Closed Friday at $52.19.

BUY

Background: This fund invests in a portfolio of the top 50 Indian stocks by market cap – the "Nifty Fifty" index, as it's commonly known.

Performance: India is benefitting from an influx of foreign capital as more investors and corporations move to profit from its burgeoning economy and growing population. The unit price has been volatile over the past year, but the overall trend is up. We've seen a gain of 10.2% since the units were recommended last October. The three-year average annual compound rate of return is 10.1%.

Key metrics: The fund was launched in January 2010 and has $107 million in assets under management. The management expense ratio (MER) is high for an ETF, at 1.03%.

Portfolio: The fund invests in units of the US-based iShares India 50 ETF (NDQ: INDY). It's heavily weighted to financials, which make up one-third of the assets. Other large sectors include information technology (12.85%), energy (12.69%), and consumer discretionary (9.23%).

Distributions: The fund makes semi-annual distributions although they are normally very small or even zero. The December 2023 payment was $0.164 per unit.

Risk: BlackRock, which distributes the iShares funds, gives it a medium-high risk rating.

Outlook: The US banking firm Jefferies recently published a report saying that India will become the world's third largest economy by 2027, surpassing Germany and Japan. It currently sits at number five with a GDP of US$3.4 trillion. Jefferies predicts the Indian GDP will reach US$10 trillion by 2030.

Action now: Buy.

THE WEEK

Noteworthy

Parkland Corporation (TSX: PKI). Rumours swirled about whether the company is up for sale after Simpson Oil (which owns a 19.7% stake) called for a review of strategic alternatives. Management said such a review is unnecessary and that it's not in the best interests of the majority of our shareholders. The stock closed Friday at $42.19, up $1.25 on the week.

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CI First Asset Morningstar Canada Value Index ETF

BUY

TSX: FXM *Originally recommended on March 15/21 (#22111) at $18.66. Closed Friday at $21.23.*

Background: This fund invests in stocks of the largest and most liquid Canadian public issuers based upon proprietary research by Morningstar. It is designed to provide diversified exposure to stocks which are considered as "good value" based on characteristics like low price to earnings and low price to cash flow ratios.

Performance: The fund bumped along at around $20 from October to early February. It has been gradually edging higher since. During the first quarter of this year, it gained 5.7%. The three-year average annual compound rate of return to March 31 was 8.6%.

Key metrics: The fund was launched in February 2012 and has $310 million in assets under management. The MER is 0.65%. The company rates the fund risk as medium to high.

Portfolio: The portfolio composition is quite balanced. Utilities are the number one sector, at 19% of assets. Financials account for 16%, energy 14%, consumer staples 13%, and basic materials 11%.

The portfolio is equally weighted with no stock holding accounting for more that 3.71% of total assets. Top holdings include Kinross Gold, Teck Resources, and Finning International.

Distributions: Payments are made quarterly and can vary significantly. The trailing 12-month total payout was $0.606 for a yield of 2.85% at the current price.

Outlook: This fund has performed well, and the portfolio composition is altered on a regular basis to reflect market conditions.

Action now: Buy.

Noteworthy—continued from page 2…

Barrick Gold (TSX: ABX). Barrick reported preliminary Q1 production of 940,000 ounces of gold and 40,000 tonnes of copper. Production was down from the previous quarter due to maintenance at Nevada Gold Mines and lower-grade copper mined at Lumwana. The company stated it's on track to achieve its full- year production guidance. The shares were up $1.10 on the week, to $23.53.

Johnson & Johnson (NYSE: JNJ). The company reported EPS that beat the consensus estimate and revenue was effectively in line. Guidance for 2024 guidance was narrowed for EPS and remains in line with the consensus estimate. Operational

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Harvest Tech Achievers Growth and Income ETF (TSX: HTA) *Originally recommended on Aug. 18/20 (#22030) at $12.20. Closed Friday at $16.79.*

BUY

Background: The fund invests in an equally weighted portfolio of 20 large cap tech companies such as Micron Technology, Applied Materials, Meta Platforms, and Oracle. The ETF is designed to provide a consistent and competitive monthly income with an opportunity for growth. The managers write covered call options to generate income.

Performance: The fund has been on a steady upward trend for most of the past year. As of the end of March, it was ahead almost 13% for 2024, with a three-year average annual compound rate of return of almost 16%.

Key metrics: The fund was launched in April 2015. The original units are Canadian dollar hedged but there are also unhedged units (HTA.B) and US dollar units (HTA.U). The fund has $590 million in assets under management. The management fee is 0.85%. That's on the high side for ETFs, but this is an actively managed fund.

Portfolio: The fund is equally weighted with each holding representing about 5% of total assets. All the positions are US companies.

Distributions: Payments are made monthly and are currently running at $0.12 per unit. If that continues, investors will receive $1.44 in distributions this year for a yield of 8.6% at the current price.

Risk: We rate it as high. Tech stocks have been doing well this year but many look pricy at current levels. The covered call strategy does mitigate the risk to some extent.

Outlook: There are concerns about a tech bubble, but the rapid emergence of AI is fueling a new growth spurt.

Action now: Buy, as long as you are comfortable with the higher risk.

Noteworthy—continued from page 3…

sales guidance was raised from US$88.2-US$89 billion to US$88.7-US$89.1 billion. The consensus estimate is US$88.4 billion. The shares finished Friday at US$147.91, up a few pennies for the week.

J.B. Hunt Transport Services (NDQ: JBHT). Revenue and earnings missed consensus estimates with the weakness broadly based across all segments. JBHT reported an operating ratio of 93.4% versus the consensus estimate of 92.7%. The stock lost US$18.17 for the week, finishing at US$167.30.

iShares Core S&P US Total Market ETF

BUY

TSX: XUU *Originally recommended on March 2/15 (#21509) at $20.42. Closed Friday at $50.49.*

Background: This ETF tracks the entire US market, including small, medium, and large cap stocks. It comes in both a hedged version (XUH) and an unhedged version (XUU). We have recommended XUU.

Performance: The fund has been on an uptrend for most of this year and was showing a year-to-date gain of 10.29% as of April 15. We have a capital gain of 147% since our original recommendation.

Key metrics: The fund was launched in February 2015 and has $2.7 billion in assets under management. The MER is a very low 0.07% so almost all your money is working for you.

Portfolio: This is a fund of funds. It invests in four US ETFs, the largest of which are the iShares Core S&P 500 (47.57% of total assets) and the iShares Core S&P Total US Stock (45.76%). The rest of the portfolio consists of small positions in small- and mid- cap ETFs and a limited amount of cash.

In sector terms, the fund has a 28.2% exposure to information technology. Other large positions are financials (13.42%), healthcare (11.71%), and consumer discretionary (10.46%).

Distributions: Payments are made quarterly, and the amounts vary considerably. The latest was $0.131 per unit, which was paid in March. Over the past 12 months, distributions have totaled about $0.55 per unit, for a trailing yield of 1.1% at the current price. This is not a fund to own if you need steady cash flow.

Outlook: This is an all-stock ETF so returns will reflect what is happening in the US equity markets. They have trended higher for much of this year. Long-term, this is a core holding for anyone who wants exposure to the broad US market.

Action now: Buy.

INTUITIVE SURGICAL PUTS AI TO WORK

By Adam Mayers, Contributing Editor

As everyone ponders the impact of artificial intelligence, healthcare is one sector putting the technology to work to help the greater good.

One area in which this is happening is in so-called medtech, where the software combines with robotic tools to make surgeries and other treatments less invasive and less painful. This is making it easier and faster for doctors to do their work. It also means faster healing times for patients and shorter hospital stays. Patients are happier. Health-care providers are happier as they contain rising costs with reduced surgical times and post-operative care.

A leader in this area is Intuitive Surgical Inc. (NDQ: ISRG). It's a California-based multinational founded almost 30 years ago. Its mission is to develop and make medical robots to improve surgical outcomes for patients through minimally invasive surgery. Its main product is the da Vinci Surgical System, which recently received approval for its 5th iteration.

Investors have taken notice and the AI craze has pushed its share price up dramatically. The stock is 10.7% higher year-to-date at the current price of US$366.34 and up 22% in the past 12 months.

The company's price/earnings ratio has likewise ballooned and sits at a lofty 72.83. While that carries plenty of risk, the p/e ratio alone isn't a reason to look away. Similar high ratios come with chipmaker Nvidia (63.82) and weight loss drug makers Eli Lilly (124.8) and Novo Nordisk (46.31). The common thread is a dominant, breakthrough product and a wide moat that keeps competition at bay.

Intuitive's robotic tools were the first to be approved by the US Food and Drug Administration (FDA). It has annual revenues of $7.1 billion (figures in US dollars) and a market capitalization of $133 billion. More than 13 million procedures have been performed using its robots, which are installed in 8,200 hospitals in 70 countries. Unit sales are growing at between 12% and 15% a year.

About 80 per cent of Intuitive's revenue is recurring, composed of leases, instruments, and accessories and services such as training and maintenance. The remaining revenue comes from new sales, which average $1.4 million per unit.

While the notion of robots might conjure up images of the walking, talking machines found in science fiction movies, medical robots are far simpler. They perform repetitive tasks with complete precision. The arms may have instruments attached which can cut. Doctors control the robotic arms using a

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AI—continued from page 6…

console. If the surgeon strays from the optimal position, the robot will sense it and issue a warning. They are commonly used for general surgery, gynecology, and urology surgeries, but are spreading to hips and knees and spinal surgery.

During a conference call in February to discuss earnings, CEO Gary Cuthart said the da Vinci 5 went through hundreds of design changes. It has four orders of magnitude and greater processing power than its generation 4 products. That means 10,000 times the processing power to gather data and improve sensing.

The tool went through more than a year of tests and was approved by the FDA in March. The company plans to roll it out in a phased approach.

In a recent research note, RBC Capital Markets analyst Shagun Singh and her team noted that da Vinci 5 has the first-of-its-kind force sensing technology. This measures the subtle forces on tissues during surgery and lets the surgeon know. It is easier for surgeons to use than earlier versions and comes with a redesigned console with customizable positions.

She concluded that Intuitive is the technology leader in the global market for surgical robotics. Barriers to market entry are high. While its competitors are launching their first-generation robots with multiple ports, it has a fourth generation platform with a fifth just launched.

Another strategic advantage is that its robot can be adapted across many types of surgeries, allowing hospitals to use the same platform for many procedures. This insulates Intuitive Surgical from specialized rival devices made by its competitors.

Intuitive reported strong first quarter earnings last week. Revenue of $1.89 billion was 11% higher than a year ago. Net income was $545 million, or $1.51 per share, which was 53% higher than a year ago.

The da Vinci installed base as of March 31 stood at 8,887, 14% higher than a year ago.

Intuitive competes with such companies as Stryker Corp. (NYSE: SYK), Johnson & Johnson, (NYSE: JNJ), and Medtronic (NYSE: MDT). The latter is one of my previous recommendations and is discussed below. Most medical technology ETFs include the stock in their holdings.

Intuitive does not pay a dividend but has an active share buyback program.

Action now: The stock is a Buy for aggressive investors.

ADAM MAYERS' UPDATES

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

iShares U.S. Medical Devices ETF NYSE: IHI

BUY

Originally recommended on June 10/19 (#21922) at $38.66 adjusted for a 6-1 split on July 19, 2021. Closed Friday at $54.36. (All figures in US. dollars.)

Background: This ETF was launched in 2006 and holds US manufacturers who make and distribute medical devices. The companies are the biggest names with the broadest global reach. It has US$8.7 billion in assets under management.

Performance: The fund has a good track record. Its average annual total return since inception is 11.99%. It is 40% higher than its 2019 recommended price. The total return year-to-date is 8.6%.

Key metrics: The ETF has a management fee of 0.4% and a modest trailing 12-month dividend yield of 0.51%. It has a very high p/e ratio of 43.8, which means high expectations are built into the price. Any distributions would be subject to US withholding tax unless the shares are held in a retirement account (RRSP, RRIF).

Portfolio: The portfolio includes 52 stocks with the top five holdings accounting for almost 50% of the fund. These are Abbott Labs (17%), Intuitive Surgical (12%), Stryker (10%), Medtronic (5%), and Edward Life Sciences (5%).

Action now: Buy. This ETF owns the leaders in the sector and regularly outperforms the S&P 500.

YOUR QUESTIONS

Debt repayments & reverse mortgages

Q – have been reading about debt and investments. I have been to the bank to try to consolidate bills and mortgage. Searching the internet was confusing as there are too many options. The increase in interest rate also messed me up. Can you give me some advice? Any thoughts on reverse mortgages? – Rita K.

A – It sounds like you have a complex financial situation. Here are my thoughts.

If you're seeking to consolidate debt, a conventional mortgage or a home equity line of credit are probably the cheapest ways in which to borrow at present. That said, the interest cost is much higher than it was before the Bank of Canada started to raise rates. Whatever you do, I suggest you don't lock in a long-term rate. It appears interest rates will begin to drop later this year, so choose a variable rate loan.

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Medtronic Inc. NYSE: MDT

Originally recommended on June 10/2019 (#21922) at $97.11. Closed Friday at $79.48. (All figures in US dollars.)

BUY

Background: Medtronic is the world's largest medical device company with a market capitalization of $105 billion. It gets 60% of its sales and profits outside the US and employs 90,000 people, of whom 10% are research scientists. Medtronic operates in four segments. Cardiovascular management devices, including pacemakers is the largest at 37% of sales. Robots, implants, and surgical tools are 29%. Wound closure products and imaging devices are another 27%. The remaining 7% comes from the diabetes group, which makes insulin pumps and other consumables.

Performance: Medtronic shares peaked at $134 in the late summer of 2021 and have been on a downward path ever since. The shares are 18% lower than their recommended price and off 3% year-to-date. The stock has continued to sell off.

Recent developments: Medtronic has been a laggard because of slowing growth in some of its core cardiovascular business. This is due in part to worries that the popularity of weight loss drugs will reduce the need for surgeries and, as a result, demand for its products. There have also been some self-inflicted wounds. Among the missteps: Last year it recalled 350,000 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 the settings.

In its latest financial statement, the company reported revenue of $8.1 billion and adjusted earnings of $1.30 per share compared to the consensus estimates of $7.9 billion and $1.26, respectively.

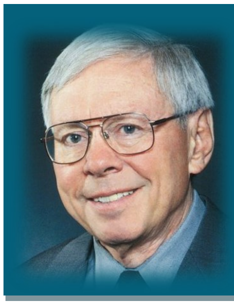
New initiatives: Medtronic markets the Hugo robot assisted surgical tool similar to the da Vinci device. It was designed with the help of surgeons and allows them to precisely control the robotic arms and instruments. This requires them to sit at a console with a high-definition 3D view.

The company is in the early stages of a partnership with Nvidia Inc. to improve its robotic endoscopy system, which allows for examination of the gastro-intestinal tract via remote camera. The aim is to be able to detect precancerous tissue earlier.

Dividend: Medtronic raised its dividend last April, its 44th consecutive year of increase. The $0.69 quarterly payment yields 3.5% at current prices.

Outlook: Medtronic's outlook has improved but investors remain wary. In February, after beating third-quarter expectations, it raised its annual profit forecast for the third time. It said revenue growth gained momentum with strong performance from its diabetes, core spine, cardiac surgery, structural heart, and cardiac pacing products.

Action now: Buy for dividend income and long-term gains.



GORDON PAPE'S

UPDATES

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

Tourmaline Oil Corp. TSX: TOU, OTC: TRMLF

HOLD

Originally recommended by Michael Corcoran on Aug. 10/15 (#21529) at C$31.32, US$23.60. Closed Friday at C$65.12, US$47.34.

Background: Calgary-based Tourmaline is Canada's largest natural gas producer. Started in 2008, the company has assembled an extensive undeveloped land position with a large, multi-year drilling inventory and operating control of important natural gas processing and transportation infrastructure in three core long-term growth areas in the Western Canadian Sedimentary Basin.

Performance: Tourmaline stock dropped sharply between October and early February, with shares losing about $18. The price has recovered somewhat since, but it's still well down from its 52-week high.

Recent developments: The company released fourth quarter and fiscal 2023 financial results. Fourth quarter revenue was down 24% to $1.7 billion, mainly due to a decline in the price for natural gas. Net earnings were $700 million ($2 per diluted share) compared to a loss of just over $30 million in the same period last year.

For the 12 months to Dec. 31, the company reported revenue of $6.7 billion, down 13% from 2022. Earnings were $1.7 billion ($5.03 per share), down from $4.5 billion ($13.10 a share) in the previous year.

Dividend: Despite falling short of 2022 profit and revenue, the company increased its quarterly base dividend by 7%, to $0.30 per share ($1.20 a year). It also announced a special dividend of $0.50 a share, which was paid in March. The company has been paying special quarterly dividends of between $0.50 and $2.25 a share on a regular basis since 2021, and says it plans to continue to do so at least until the end of this year.

Because the amount of the special dividend can change quarterly, it's impossible to calculate a precise yield for the stock. But assuming a regular dividend of $1.20 a year plus a special quarterly dividend of $0.50, the projected yield for 2024 would be 4.9%.

Outlook: As we saw in the 2023 results, revenue and profitability are closely tied to the price for natural gas. That price peaked in early November and has been trending down since.

Action now: Hold.

Norfolk Southern Corp. NYSE: NSC

HOLD

Originally recommended by Tom Slee on Nov. 13/09 (#2944) at $52.22. Closed Friday at $241.28. (All currency figures in US dollars.)

Background: Norfolk Southern operates almost 20,000 miles of railway in 22 states and the District of Columbia. It serves every major container port in the eastern United States, operates the most extensive intermodal network in the East, and is a major transporter of coal, automotive, and industrial products. The company has been in business since 1827.

Performance: The stock has had a choppy year, with US economic uncertainty and the aftermath of a major train derailment in Ohio weighing on the share price. However, we have seen some stabilization recently.

Recent developments: The railway announced this month that it has reached a $600 million agreement in principle to resolve a consolidated class action lawsuit relating to the Ohio derailment. If approved by the court, the agreement will resolve all class action claims within a 20-mile radius from the derailment and, for those residents who choose to participate, personal injury claims within a 10-mile radius from the derailment.

The settlement is in addition to the more than $110 million the company had previously committed to providing economic development, community assistance, and upgrades to drinking water infrastructure in the affected area.

Subsequent to the announcement, the company released preliminary first quarter 2024 results, which included the impact of the settlement. This amounted to $2.26 per share, reducing the earnings per share for the quarter to only $0.23. The company is also affected by the Baltimore bridge collapse. It is co-operating with customers to find alternative routes but expects the disaster will have an impact of $50-$100 million on second quarter revenue.

Dividend: The shares pay a quarterly dividend of $1.35 ($5.40 a year) to yield 2.2% at the current price.

Outlook: The company has taken the financial hit from the derailment but it's too early to assess the full impact of on future business of the Baltimore bridge mishap.

Action now: Hold.

Question—continued from page 8…

Reverse mortgages charge a higher rate than a conventional mortgage or a line of credit, so the value of your home is eroded more quickly. The offset is you don't have to repay the loan unless you move or die – in the latter case, the estate must repay. Also, if the money from a reverse mortgage is invested, the interest on the loan may be tax deductible. Ask a tax professional for help if you go that route. – G.P.

Archer-Daniels-Midland NYSE: ADM

SELL

Originally recommended on Sept. 10/18 (#21832) at $49.31. Closed Friday at $62.60. (All figures in US dollars.)

Background: ADM is one of the largest food-processing companies in the world. The variety of products it produces include flours and grains, beans and pulses, nuts, oils, proteins, starches, and sweetening solutions. The company also makes products used in medical supplements and health foods, including ingredients used for cognitive, heart, digestive, and immune problems. ADM is also a major player in animal nutrition, chemicals, packaging, personal care, and renewable plastics.

Performance: The stock reached a 52-week low of $50.72 in January but has regained some ground since.

Recent developments: ADM released fourth quarter and year-end financial results and investors weren't pleased. Revenue for the fourth quarter was just under $23 billion, down from about $25 billion in 2022. Net earnings attributable to shareholders was $565 million ($1.06 per diluted share). That was well down from just over $1 billion ($1.84 per share) in the prior year.

The story was similar for the full year numbers. Revenue for 2023 was about $94 billion, down from $101.6 billion in 2022. Net earnings were $3.5 billion ($6.43 per share) compared to $4.3 billion ($7.71 per share) the year before.

The company said reasons for the decline included reduced overall volume, higher manufacturing costs, and increased corporate costs related to higher interest rates.

Dividend and buybacks: The company raised the quarterly dividend by 11.1% to $0.50 a share, effective with the February payment. The stock yields 3.2% at the current price.

ADM also announced that the board has authorized management to repurchase an additional $2 billion worth of the company's shares under ADM's existing 200 million share repurchase program that runs through 2024.

As of Dec. 31, 2023, ADM had about 52 million shares remaining for repurchase under its existing 200 million share program, which commenced in 2015 and was then increased and extended in 2019. Since 2015, ADM has repurchased $8.6 billion worth of its common stock under this program.

Outlook: ADM expects adjusted earnings per share in 2024 to be in the range of $5.25 to $6.25, down 18% at the midpoint compared to 2023. This reflects moderating margin conditions and higher costs offsetting improved volumes.

Action now: Sell. You'd think that with the global demand for food, this stock would be a no brainer, but it hasn't turned out that way. The stock is cheaper now than it was three years ago. The dividend is respectable, but we can get as good a return or better from companies with more upside potential.