VOTED THE WORLD'S BEST INVESTMENT ADVISORY

Investor's Digest of Canada

March 10, 2017 Vol. 49, No. 5

Following Bombardier and General Motors' ignoble history of receiving taxpayer 'investments'

Who benefits from corporate welfare?

You have invested in **Bombardier Inc.** (BBD.B-TSX, $2.53). If you are over 51 years of age, you have been investing regularly in Bombardier since 1966. Unfortunately, no matter what your age (assuming you have earned taxable income in the past two years or longer), you have some of your tax dollars invested in this business – whether you wanted to be involved in this losing investment or not.

Keith Richards

Bombardier has been a perennial recipient of corporate welfare, having received more than $3.8 billion (that's $3,800,000,000 in real money, folks) in taxpayer handouts since 1966. That makes you and me investors in the company. I don't know about you, but it's been a pretty lousy deal for my portfolio – especially since it was a discretionary trade on my account.

Discretionary trading is something that only licensed Portfolio Managers should be able to do, and only under a very clear agreement signed by the client. Even then, the diligence, soundness of the decisions and suitability of the investments must be justifiable. Sending money to a losing firm with no equity or income potential and no possible return of capital would be considered imprudent, and would likely land me in trouble had I entered such a trade with my clients' assets.

Personally, I'd much rather have had the government send me that portion of my taxes allocated to this perpetually losing company through the shares –even if they have been a money loser over the past two decades. You and I have nothing to show – not even a capital loss that we can use – under the current arrangement.

Even a capital loss has some benefit – and ultimately a stock that has fallen still has some capacity to return some of your capital. The big downside to your (and my) "investment" in Bombardier has been that of receiving no dividends and no capital gains or claimable losses. That's because we didn't get equity shares in the company or a debt obligation in return for our capital.

Well, let's take a look at another way of investing in Bombardier. That is, by making a decision whether to own stock in the company, a decision that is not forced upon you. The great thing here is, no matter what happens, you'll at least have control on your investments' entry timing and exit.

By investing in this – or any stock – we might have the potential for some upside, rather than the complete lack of upside no matter what the outcome – through the $3.8 billion we've already invested.

The weekly Bombardier chart shows us some interesting potential in this stock. The stock has put in a potential "head and shoulders" bottom, and looks to be struggling with a current resistance point of around $2.70 per share.

Near-termed momentum is rolling over, meaning the stock might be losing some of its thrust after the excitement of the recent loan you and I gave them. Cumulative money flow shows us if money is leaving or going into a stock – and this indicator is quite flat at this time. On the positive side, money-flow momentum is turning up a bit – suggesting a possible revival of interest in the stock.

If you and I wish to invest additional capital beyond our current non-claimable massive loss in Bombardier, we might wish to consider waiting for the current resistance point of $2.70 to be taken out – preferably on some volume.

Perhaps, if the stock moves up from that point, we might be able to recover at least a little of our capital from this otherwise bum deal forced upon us. The current government has yet to explain how Bombardier will pay back the capital from its most recent "loan", especially given the company's inability to return prior taxpayer-funded bailouts.

Another recent recipient of corporate welfare, courtesy of you and me – has been **General Motors Co.** (GMM.U-TSX, US$37.94; GM-NYSE, US$37.94). In 2008, our government arranged a better deal for taxpayers via an exchange of bailout money for equity in the company (which turned out to be a positive deal for us).

However, the recent government giveaway to GM Canada differs – it is strictly a bribe to keep its business in Canada without an equity or debt investment returning to taxpayers. So, like Bombardier, I took a look at the stock profile of GM to see if there are hopes of recovering some of our losses.

My conclusion was that GM is a stock that I would not be too interested in at this point. The stock has traded range-bound since its peak in 2013, and has shown a fair level of resistance in the high US$30s. Not to say that the stock can't break out through, say, US$38 or so. But in my view, there are more attractive stories out there in which to invest our hard-earned capital.

I truly wish our current government held to the same disciplined approach to investing our money that you and I might take on our own. Should they do so, it's hard to imagine that they would consider GM or Bombardier a healthy use of our hard-earned capital.

Bailing out a company or bribing it to remain in an area or expand is not something spelled out in a government's job description. Even if it were, as interim federal Conservative leader Rona Ambrose asked in Parliament recently–why just BBD and GM?

Why not the dry cleaner, the tire shop, the shoe store, the independent coffee roaster and other small businesses who collectively employ more people than these government-entrenched giants – successful businesses who would use the money to expand and employee new people?

It's amazing that the public buys the "we're trying to build middle class jobs" line in justifying corporate welfare and hardly bat an eye when those handouts only go to big union-entrenched behemoths like BBD and GM.

If you want to build the middle

class job market, the trick is not to throw good money after bad at a perpetually losing company which, on a relative scale, represents only a small chunk of the Canadian job market. Better to help small business, which provide vastly more jobs than the government-favoured companies.

A failing business is never so important that it can't be replaced by another, and those jobs will be dissipated into a new economically viable enterprise over time. We should not bail out a company with our tax dollars if it can't survive or we cannot offer it an attractive business environment that is present for all members of the business community to take advantage of.

We had a milkman who came to my door when I was growing up. Now I go to the grocery store and buy milk. Similarly, many years ago, messages were sent by telegraph through a specialized business offering that service. Now we get messages instantly via phone, texts and email. In my town of Barrie, Ont., many middle-class jobs were lost when Molson and General Tire closed down.

New jobs moved in when the GEEP Holdings Inc. facility – a specialized recycling plant for computer and electronics (the letters stand for Global Electric Electronics Processing) – came to town. Government intervention would have wasted taxpayer money by trying to change the unshakable developments that are natural in the economy.

For my money as an investor and taxpayer, I am hesitant to provide capital through either share ownership or a bailout for any business model that cannot operate within a fair and equal playing field. It's just bad business, and bad investing.

Keith on BNN

I'll be on Business News Network's television call-in show, Market Call, on Monday, April 3, at 6 p.m. Tune in to BNN to catch me live on BNN's premier call-in show, where viewers like yourself can ask my technical opinion on the stocks you hold. The toll-free number for questions is 1-855-326-6266. You can also email questions ahead of time to marketcall@bnn.ca – it's important that you specify they are for me.

Keith Richards, portfolio manager, can be contacted at krichards@valuetrend.ca. He may hold positions in the securities mentioned. Worldsource Securities Inc., sponsoring investment dealer of Keith Richards and member of the Canadian Investor Protection Fund and of the Investment Industry Regulatory Organization of Canada. The information provided is general in nature and does not represent investment advice. It is subject to change without notice and is based on the perspectives and opinions of the writer only and not necessarily those of Worldsource Securities Inc. It may also contain projections or other "forward-looking statements." There is significant risk that forward-looking statements will not prove to be accurate and actual results, performance, or achievements could differ materially from any future results, performance, or achievements that may be expressed or implied by such forward-looking statements and you will not unduly rely on such forward-looking statements. Every effort has been made to compile this material from reliable sources; however, no warranty can be made as to its accuracy or completeness. Before acting on any of the above, please consult an appropriate professional regarding your particular circumstances.

© Copyright 2017 by MPL Communications Inc., Reproduced by permission of *Investor's Digest of Canada*, 133 Richmond St. W., Toronto, ON M5H 3M8