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THE MONEYLETTER®

STRATEGIES FOR SUCCESSFUL INVESTING

MARKET WISDOM

Income and Growth

FOUR KEEPERS

Keith Richards

Typically, the operating principle for maintaining a balanced portfolio is to hold equities for longer-term growth and fixed income securities, like bonds, for their predictable income stream and safety. In my opinion, these two elements (equities and fixed income securities) should be held in almost every investor's portfolio, the mix of which can be determined by both personal factors and market conditions. Personal factors that may affect adjusting your asset allocation might include your age, risk tolerance and income needs, whereas market conditions include economic conditions and stock market valuations.

As a rule, I do not endorse replacing fixed income investments entirely with equities – not even with high, dividend-paying stocks or income trusts. This is a flawed strategy that retail investors (and their advisors) often play out when interest rates are "too low" on fixed income securities. They don't like the 2 per cent yield on short-term GIC's or bonds, so they justify buying dividend-paying stocks instead. A hot stock market can also entice investors to move out of low yielding bonds and into the stock market in search of higher returns. Investors become so fixated on chasing a higher return that they don't think about the increased risk to their portfolio that's inherent in doing this. The "Great Recession" of 2008/2009 woke a few investors and their advisors up to the realities of replacing low risk securities with equities in order to chase returns.

Hold dividend-paying stock

Having given you my two cents worth on asset allocation, I'd like to present a case for holding some dividend paying stocks in the income component of your portfolio. At ValueTrend, we have an Income Platform that we manage on behalf of our clients. Approximately one half of this model portfolio is held in high dividend-paying stocks. So, we certainly do endorse owning dividend-paying stocks in a portfolio designed for income. Numerous studies point out the reasons why one should consider owning higher-yielding stocks in the equity component of your portfolio. A Merrill Lynch report I read a while ago revealed that stocks with the highest yields delivered an average of 20 per cent better returns than those with the lowest ones during periods of market volatility. The point I am trying to make is that an income portfolio that you may hold with liquidity in mind should hold some neartermed bonds and cash type investments within the mix. You don't want to be fully committed

Keith Richards is a Portfolio Manager at ValueTrend Wealth Management. Sponsoring investment dealer: Worldsource Securities Inc. Member: CIPF and IIROC. He provides commentaries on equity markets and stocks during television and radio interviews and is a frequent guest on Business News Network. He also writes a monthly business column for Investor's Digest of Canada.
krichards@valuetrend.ca.

to equities if your needs for liquidity would be compromised by a large market meltdown.

When we evaluate an equity position for our Income platform, we look at three factors to determine its suitability to our platform. They are:

1) Consistency of dividend throughout the security's history

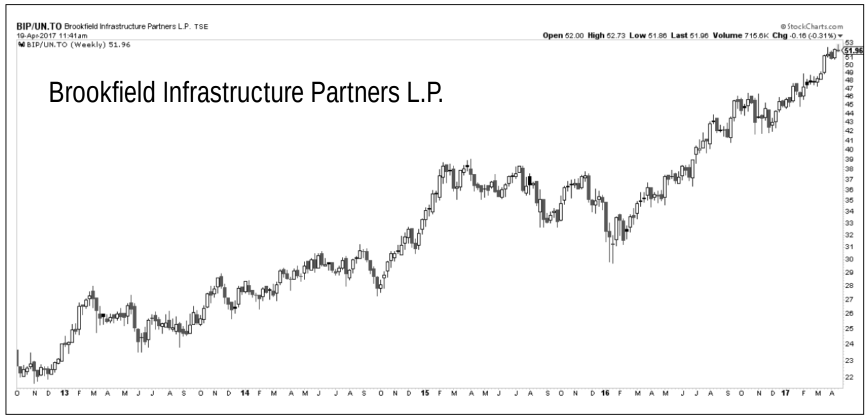
2) Potential growth of that dividend going forward

3) Expectation that the company's business model will deliver cash flow that supports the dividend through the ups and downs of the business cycle

The Keepers

Here are four Canadian stocks that we at ValueTrend hold in our income platform that meet our criteria.

BCE: Founded in 1880, BCE Inc. provides an extensive menu of communication services to residential and business customers in Canada. BCE has demonstrated a long consistency of paying out a growing dividend to shareholders. The company has changed and adjusted its business model over time, something which has allowed them to pay shareholders a consistent dividend. We have a high degree of confidence that BCE's cash-flow growth will lead to continued dividend increases over time.



CHE.UN: Chemtrade's cash flow is dependent on supplying industrial chemicals and services to its customers. These customers vary from municipalities to oil refineries throughout North America. The depth of Chemtrade's business model is such that the various segments and industries provide fairly consistent cash flow. This allows them to pay a predictable dividend to shareholders.

BIP.UN: Brookfield Infrastructure LP continues to evolve and reallocate capital. The company strives to earn between 10-15 per cent annually on projects/deals in which it is involved in. Unitholders are paid distributions from the investments that make up the portfolio of companies in the partnership. We believe that BIP.UN will continue to make investments that afford consistent and growing payouts.

PKI: Parkland Fuel Corporation has a relatively stable earnings profile. This allows them to pay out a large portion of earnings as dividends. As a shareholder, another attractive element is management's track record of

identifying and successfully putting together strong deals. These deals continue to add a growth aspect to the stock.

The key to earning a reasonable rate of return on your investments today is to pay attention to the risks associated with each security while allocating your portfolio into the highest-quality vehicles possible. Well-chosen dividend paying stocks can play a role in achieving this objective. ▼

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.