



February 2016

Here's news: Look beyond the exhausting Media reports!

Look for assets that are holding their own

First, let's underscore some important philosophical approaches here: We are investors, not speculators. But you know that already, or you would not be receiving this bulletin.

Amid all of the noise and haste that is making the Market news, we see that there are several securities that have been holding their own, and some doing more than that.

There are few who would question that the Preferred Share market has been in shreds. The cost of financing today has become a wholly different 'animal' and the Preferred Shares have had to evolve to accommodate it, well beyond the feature of being paid ahead of the Common. The Preferred Share Market has unique offerings available.

To illustrate: in January 2015, the Royal Bank elected to raise financing using a 5 year reset with a 3.6% coupon. Every 5 years it will reset to 2.74% plus the 5yr Government of Canada interest rate. They raised their \$600M. We did not think this was a good idea. We chose not to participate. The issue is now trading at \$18.80 (that's down 25% from its issue price) In today's environment, it is now worth \$450M. Ouch.

Clearly, the bank had to dig deeper to address their cost of financing. A year later, in December 2015, they issued another Reset Preferred with a much higher coupon of 5.5%. The reset feature on this preferred will reset to 4.53% plus the 5yr Government of Canada Interest Rate. That represents a much better deal than that issued 12 months earlier. *This* issue is now trading *above* issue price of \$25 and holding its own. Notable is that this is the first time such issues have traded over par in a year.

The good news to the canny investor is, as you can see here, should the interest rates go up, you are covered as at the turnover, you will have the raised 5yr Government of Canada interest rate plus the fixed reset spread [fixed for the life of the security] working for you. Let's be clear: if the GOC 5yr rate is at 2% at that turnover, your will be receiving 4.53% plus 2% for 6.53% yield. Nice. Should interest rates go down, you are still covered with a good yield. Or the issuer can call it in at \$25 per share.

OK. The Markets have been roiling. Commentators have been filling their space with dire and shrill commentary. It is true; I find it exhausting! But their commentary does not mean there aren't good places for *your* money to work for you.

This is a good deal. We are comfortable adding an asset like this to your portfolio for the high yield, particularly when compared to the alternatives. Well within the philosophy of **Own your Future™** you have an opportunity to secure an independent cash flow, guaranteed by one of Canada's strongest institutions.

These issues are bought and sold on a daily basis.

Royal Bank of Canada

Coupon 5.50%

Fixed Reset at 24 May 2021
4.53% over 5 year Gov't Canada Bond

Annual cash flow based on 2000 shares:
\$2760/year or \$690/quarter
(Federal tax already paid)

Call us for today's price

I think it is a good time for chat, don't you?

We are The Kingsmill Saar Wealth Management Group. Thank you for taking the time to read the Income Advisor today. We look forward to discussing the value of this within your portfolio.

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