



## **Global Securities Market Bulletin**

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### **COMMENTARY: As exceptional quarter ends, buy lagging high-dividend yielders** Elvis Picardo, CFA

Financial markets have recovered in style from the mayhem of the preceding two quarters so far in Q2, with numerous equity indexes on track to post their best quarterly performance in decades. Risk appetite has staged a strong comeback, as investors rotate from staid and defensive sectors to the higher-beta groups such as technology and commodities.

The divergence in performance between sectors and stocks that are at opposite ends of the risk spectrum proves this point. The Nasdaq Composite has gained close to 20% so far in Q2, compared with a gain of 14.8% for the S&P 500 and 10.6% for the DJIA. The S&P 600 SmallCap index is up 19.7%, outperforming its large-cap counterpart by almost five percentage points. Similar results can be seen from the Russell indexes, with the smaller-cap Russell 2000 outperforming the large-cap Russell 1000 by five percentage points as well.

The TSX Composite's 18.7% gains for the quarter are led by the Technology group, which is up about 41.7%, and the Financial sector, up 32.4%. The Telecom Services index is the only one in the red this quarter, with a decline of 1.7%. Utilities, the other group with a dividend yield exceeding 5%, has fared better, with an advance of 13.9% this quarter.

While the Financials index has a dividend yield of 4.8%, we are cautious on the group on account of its huge rebound in Q2. Our preference in terms of the high-yielders is for the Telecom Services and Utilities groups, which may have the potential to catch up with the rest of the market as the economy recovers. In an environment where interest rates continue to be near historic lows, blue chips that pay above-average dividends present a compelling investment opportunity.

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### **Highest dividend-yielders on the TSX 60**

Although most of the stocks on this list have lagged the broad market during the recent rally, BMO has been a stellar performer, having doubled from its nine-year low of \$24.05 reached on February 24. Its indicated dividend yield at that low, based on a quarterly dividend of \$0.70 per share, amounted to 11.6%. While there was much speculation at the time about a potential dividend cut, fortunately that did not occur.

<b>Stock</b>	<b>Ticker</b>	<b>Sub-index</b>	<b>Price</b>	<b>1-yr. Chg.</b>	<b>Dividend Yield</b>
BCE Inc.	BCE	Telecom	\$24.11	-34.9%	6.4%
Telus	T	Telecom	\$30.90	-27.0%	6.1%
Can. Imp.Bank	CM	Financial	\$57.30	-2.2%	6.1%
Groupe Aeroplan	AER	Cons. Disc.	\$8.29	-51.2%	6.0%
Bank of Montreal	BMO	Financial	\$48.50	13.9%	5.8%
TransAlta	TA	Utilities	\$22.30	-37.0%	5.2%
Manulife Financial	MFC	Financial	\$21.09	-41.5%	4.9%
TransCanada	TRP	Energy	\$31.05	-19.2%	4.6%
Bank of Nova Scotia	BNS	Financial	\$42.65	-11.9%	4.6%
Sun Life Financial	SLF	Financial	\$31.52	-25.4%	4.5%

Source: Global Securities Research, Bloomberg

We recommend using the TSX 60, which includes the largest Canadian blue-chips, as a starting point for identifying high-dividend yielders. It should be noted that there are a handful of stocks on the TSX Composite index that offer dividend yields higher than BCE, the TSX 60 stock with the highest dividend yield.

These stocks are – Superior Plus (dividend yield 15.4%), Manitoba Telecom (7.7%), AGF Management (7.7%), Brookfield Properties (7.3%), Mullen Group (7%), TransForce (6.6%), and Russel Metals (6.4%).

### **Income trusts and REITs with highest distribution yields on the TSX Composite**

The following table shows the income trusts and REITs with the highest distribution yields on the TSX Composite. The average decline over the past year for these ten trusts and REITs is 43%, with a number of them now trading in the low- to mid-single digits. While the distribution yields may appear tempting, the sustainability of these distributions may be an issue for a number of the trusts and REITs on this list.

<b>Income Trust/REIT</b>	<b>Ticker</b>	<b>Sub-index</b>	<b>Price</b>	<b>1-yr. Chg.</b>	<b>Cash Dist.Yield</b>
Jazz Air Inc. Fund	JAZ.UN	Industrial	\$3.37	-42.1%	29.8%
Consumers' Waterheater	CWI.UN	Cons. Disc.	\$6.40	-46.7%	20.2%
Innvest REIT	INN.UN	REIT	\$3.95	-59.5%	19.0%
Davis + Henderson Inc. Fund	DHF.UN	Financial	\$12.26	-23.1%	15.0%
Peyto Energy Trust	PEY.UN	Energy	\$9.62	-52.5%	14.9%
Yellow Pages Inc. Fund	YLO.UN	Cons. Disc.	\$5.38	-40.6%	14.9%
Chartwell Seniors Housing REIT	CSH.UN	REIT	\$5.35	-41.3%	13.8%
Extendicare REIT	EXE.UN	REIT	\$6.18	-28.0%	13.6%
AltaGas Income Trust	ALA.UN	Energy	\$16.16	-38.5%	13.4%
Pengrowth Energy Trust	PGF.UN	Energy	\$9.10	-55.3%	13.2%

Source: Global Securities Research, Bloomberg

### **Market Snapshot at 11:50 pm**

<b>S&amp;P TSX</b>	<b>10386.45</b>	<b>+30.60</b>	<b>Commodities</b>			<b>Yields (%)</b>		<b>Can.</b>	<b>US</b>
<b>TSX Venture</b>	1105.24	+2.19	Canadian \$	86.80	+0.20	90 Day T-Bill	0.15	0.18	
<b>DJIA</b>	8428.56	-43.84	Gold (Spot)	940.95	+1.70	2-Year Bond	1.18	1.09	
<b>S&amp;P 500</b>	917.54	-2.72	Oil (WTI-Aug.)	69.30	-0.93	10-Yr. Bond	3.38	3.50	
<b>NASDAQ</b>	1832.11	+2.57	CRB Index	251.30	-2.08	30-Yr. Bond	3.88	4.30	

### **Thought for the Day**

“The palest ink is better than the best memory.”– Chinese Proverb

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