CAPITAL MARKETS

HAYWOOD

SECURITIES INC.

VANCOUVER ● CALGARY ● TORONTO

CIPF
Canadian Investor Protection Fund

Investment Idea	Preferreds 5% + Upside	June 15, 2015

Good morning,

Canadian Preferred shares (prefs) have taken it squarely on the chin since the Bank of Canada came out with their surprise rate cut in January. With some prefs, such as that below, down 10% to 30% since late last year. My research and logic leads me to the conclusion that they have been excessively over-sold and that there is now an excellent opportunity for a good yield and likely even a capital gain. Just to be sure, I cornered a great friend of mine and award-winning fixed-income fund manager on Friday who agreed and was even as excited as a bond fund manager might get by the timing and potential of this idea.

The deal is that these Fixed-Reset prefs (60% of the pref market) reset their dividend every 5-years at a pre-set premium to whatever the Canadian 5-year bond is paying at the time. The Enbridge pref below, for example, will reset to 2.51% above the GoC 5-year, which currently sits at around 1%.

Therefore one important factor is the reset or call date. This is when the next 5-year dividend re-set occurs. For those that occur this year, ensuing dividends may not be much to get excited about. But keep in mind that this has already been taken into account in the now-lower pref share prices. (Most are issued at $25 – which is the price the dividend is still calculated from – and many now trade in the $18 to $23 range, thereby bumping up yields.) The prefs that caused concern were those re-setting in the near term and/or with low re-set premiums. There was certainly reason for such issues to take a haircut. But what happened was that *most* of the Fixed-Reset's were dragged down in the fray.

And herein rests the opportunity. You can get into the Enbridge prefs 26% below their issue price, collect a 5.4% dividend until June, 2018 at which time it will be re-set to 2.51% above the prevailing GoC 5-year. In my opinion, while that new yield would be 3.6% if nothing changes (or 4.73% based on the current $18.50 price) if bond yields rise – as I expect and we are already beginning to see in the States – your new yield could be quite respectable.

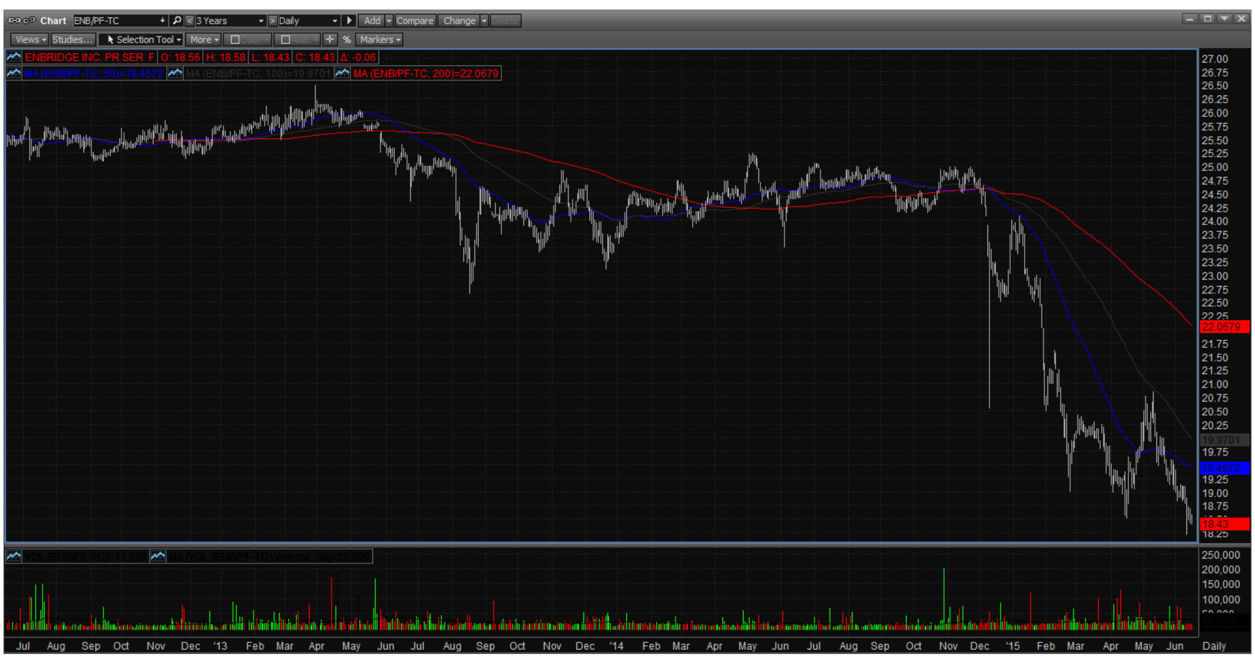
There are a few other considerations.

- Credit quality – aim for the middle for yield without excessive risk.
- Callability – issuers with multiple prefs outstanding may choose to call or let them mature on their re-set date, so those with the highest re-set premiums have a greater chance of that happening. I.e. you may only receive your return until said date and then cash – but at the full $25 value!
- Rate hike gains potential – if the GoC raises rates or we see the bond markets fall, these prefs could recoup their losses relatively quickly for a capital gain to those who bought at currently depressed levels.
- Preferred tax treatment – dividends are favourably treated in non-registered accounts. A 5% dividend could be equivalent to 6.67% interest income (this depends on tax brackets…)

I would be happy to discuss anytime.

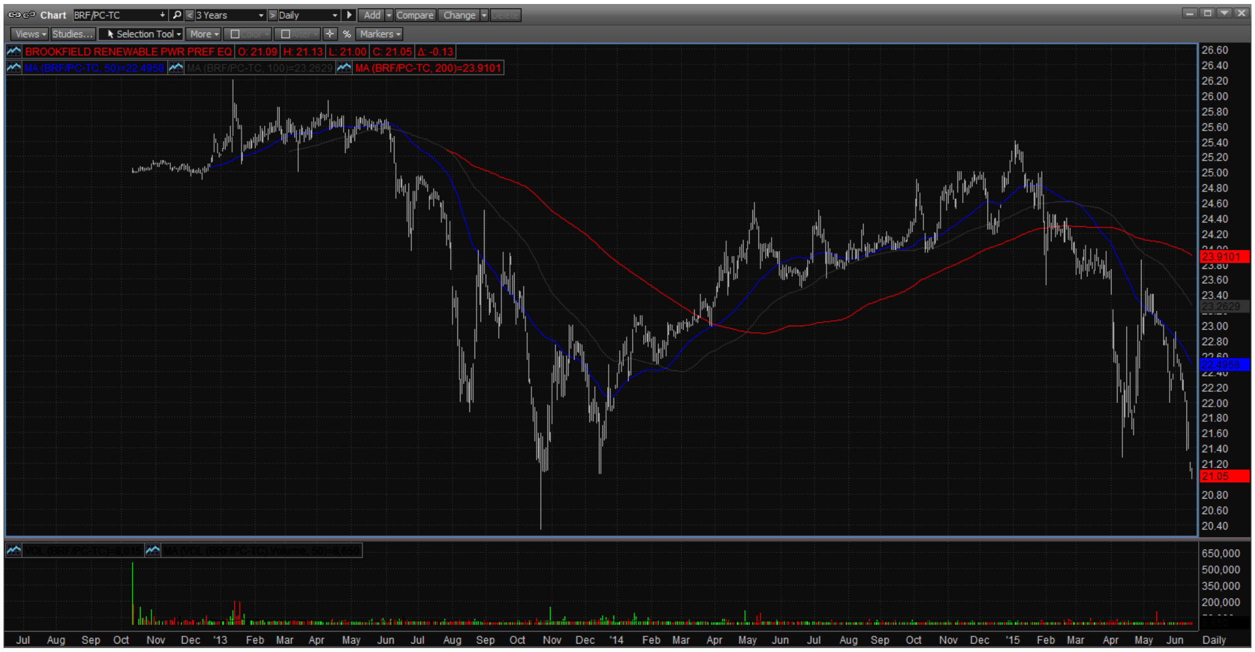
For the moment, consider a couple of prefs for great low-risk returns with significant gains potential. Call me for my top recommendations. Here are two:

Enbridge Series F: Price: $18.50, current yield: 5.4%, Reset date: June 1, 2018, Reset-premium: 2.51% over GoC 5-years:



VANCOUVER ● CALGARY ● TORONTO

Brookfield Renewable Power series C: Price: $21.20, current yield: 5.23%, Reset date: July 31, 2019. Reset Premium: 2.94% over GoC 5-years:



Cheers,

Randal van Eijnsbergen

Randal van Eijnsbergen
Registered Representative
HAYWOOD SECURITIES (USA) INC.
Direct: 604 697-7429
Cell: 604 616-9598
Toll Free: 1 800 866-6641
rvaneijnsbergen@haywood.com