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Building Wealth

THE INCOME INVESTOR

Volume 10, Number 10 Issue #1210 May 23, 2012

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Editor and Publisher: Gordon Pape
Circulation Director: Kim Pape-Green
Customer Service: Katya Schmied, Terri Hooper
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U.S. subscribers: $199.95 USD.
Electronic edition: $84.95 a year plus applicable taxes.
Single copies: $15.00 plus applicable taxes.
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Customer service: customer.service@buildingwealth.ca
16715-12 Yonge St. Suite 181, Newmarket, ON L3X 1X4

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June 20

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Week of June 4

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HIGH INCOME FUNDS OVERLOOKED

By Gordon Pape, Editor and Publisher

With all the income-oriented securities available, some investors are overlooking one of the most obvious choices: mutual funds. They seem to have fallen out of favour in the past few years as exchange-traded funds (ETFs) gained in popularity.

Some people have turned away from mutual funds because of the high management fees which many of them carry. Others are disenchanted with their performance. But the fact is that there are some very good choices in the mutual funds world for investors seeking a combination of above-average returns with average or below-average risk.

One segment of the market that has been attracting some interest in recent years is high income funds. These typically offer a blend of high-yield bonds, dividend-paying stocks, limited partnerships, preferred shares, and REITs. The make-up of the portfolios can vary dramatically: some of the funds in this group invest mainly in corporate bonds, some are heavily weighted to equities and trusts, and some are true balanced funds. This means you must be very careful in assessing a fund's performance and its suitability for your account. An equity-focused fund may boast a better track record but the risk factor may be too high for your comfort level.

Generally, people ask two questions when considering this type of fund. First, they want to know how much income they will receive and what that represents in yield terms based on the current price. Second, they are concerned about the safety of their capital.

I suggest that there's another question you may not think to ask immediately but which should be near the top of your list. It's this: Can the fund deliver its regular payouts without eroding net asset value (NAV)? I found some cases where distributions were consistently well in excess of a fund's returns, resulting in a significant decline in NAV over time. This means that the manager is paying you with your own money and charging you a fee for doing so. That's hardly a desirable outcome!

One fund that I like a lot in this category is the CI Signature High Income Fund. It's hard to beat on a risk/return basis. The fund has consistently generated above-average returns over many years and shows no signs of slowing down despite some changes in the managerial team in late

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THE REIT STUFF

By Gavin Graham, Contributing Editor

Real Estate Investment Trusts (REITs) have been among the best performing sectors of the Toronto and New York stock markets since the end of the financial crisis in early 2009. The question is whether that can continue.

REITs are structured to flow the income stream from property investments to unitholders and, as long as they distribute 90%-95% of their annual income, the trusts themselves are not subject to tax at the corporate level.

Furthermore, a substantial percentage of the cash received by investors is taxed at lower rates than ordinary income, either as dividends or as return of capital (ROC). This is treated as a reduction in the original cost of the REIT and is not taxed until the units are sold. At that point it is deemed to be a capital gain, only half of which is taxed.

In today's income-starved world it is not surprising that REITs have become extremely popular. Ten-year Government bonds yield less than 2% and short-term interest rates sit at 60-year lows (0-0.25% in the U.S., 1% in Canada). REITs look very good by comparison with tax-effective yields in the 4% to 7% range.

The iShares S&P/TSX Capped REIT ETF (TSX: XRE) has risen 10% in the last year as well as providing a yield of 4.5%. This compares to a 16% decline in the S&P/TSX 60 Index (2.8% yield). While this is an impressive outperformance by REITs, investors should remember that, as property investments, performance will be determined by the level and direction of interest rates.

Between May 2007 and the bottom of the market in March 2009, REITs fell 60% against a 45% decline in the TSX as short-term interest rates rose and then stabilized at a relatively high level for much of this period. More importantly for REITs, which tend to be valued on the difference between the return they can earn from their properties (known as the "cap rate") and their cost of funds, the yield on corporate debt and mortgages soared during the financial crisis. This meant that REITs appeared to have a higher cost of funds than the returns they could earn, which prevented them from issuing new equity to make acquisitions and stopped their growth in its tracks.

Once the authorities started to inject enormous amounts of liquidity into the economy through Quantitative Easing (QE) programs, investors realized the world was not coming to an end. The spread that corporate borrowers had to pay above government debt rapidly contracted and REITs once again could earn a positive return on their investments in properties. That's when the sector began to outperform.

As a result, not only have REITs provided excellent absolute returns to investors over the last three years, as well as a very competitive running yield, but they have done so while issuing large amounts of units that have generally been snapped up by yield-hungry investors. For instance, Dundee REIT, one of the largest investors in offices, has issued almost $700 million in new equity in 2011-12 (a 40% increase in its equity) yet its stock is up 10% over the last year.

REITs will continue to perform well as long as interest rates, particularly long-term corporate bond rates, do not increase substantially over the next 18 months. That possibility appears unlikely given the comments from the Bank of Canada and the U.S. Federal Reserve about the economic outlook. However, investors are understandably concerned that the rise in prices over the last few years has made REITs too expensive.

I do not believe this is the case but, as always, the answer depends on the individual REIT. I recommended Canadian Real Estate Investment Trust (TSX: REF.UN) in 2010 and it has performed well, up over 30%. But some of the healthcare REITs (such as Extendicare) have fallen over the same period. The hotel REITs have also not been great performers.

So what should you look for? First, the REIT must have good fundamentals regardless of the sector in which it operates (apartments, retail, office or hotels). Second, the management of the REIT must consistently add value by accretive acquisitions and by improving the quality of the existing portfolio by upgrading facilities and tenants. Additionally, investors should determine whether the REIT is selling at big discount or premium to its net asset value (NAV). As always in investing, the price paid will determine the likely return.

That is why this month I am recommending an office REIT, Allied Properties, as a Buy. It complements my other REIT recommendations: Boardwalk (apartments), Primaris (retail), and Canadian REIT (diversified).

Please see the Top Picks section for details.

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BULL BOND MARKET WINDING DOWN

By Tom Slee, Contributing Editor

It looks as though the historic 30-year bond bull market may finally be over. Ever since 1981 bond prices have trended higher but now the long cycle is coming to an end. All of the meaningful indicators point to higher inflation, rising yields, more traditional spreads, and, most important, improved market stability. We have even seen a flood of new issues as companies jump in to nail down cheap financing while rates are still relatively low. Central banks are sending signals that the days of cheap money are numbered.

Of course, nothing is ever certain but the feeling amongst traders is that we turned the corner sometime last fall when it became apparent that the European banking system was going to survive. Greece and other debt-ridden countries were a continuing problem but the European Central Bank (ECB) was prepared to underwrite deficits with an endless flow of cash. The overwhelming weight of government debt plus rising demand meant only one thing: higher interest rates.

At the same time there were subtle hints from the U.S. Federal Reserve that we may see short-term interest rate hikes sooner than expected. Forecasters started projecting that the Canadian prime rate, currently 3%, would move to 3.75% next year. It's been a long time since we have seen simultaneous upward pressure on rates in both the long and short ends of the market.

There have been false starts before but this new market trend does seem to have resilience. For example, on May 6 the French elected a President committed to renegotiating all the debt level agreements. At the same time, Greek voters failed to elect a majority government but certainly rejected on-going austerity measures. These results were body blows to the international bail-out program and analysts pressed the panic button. Talk about crises! The stock markets went haywire. European money poured into Germany driving 10-year government yields sharply lower, to 1.55% at one stage. Greek government issues soared to 23.5%. Yet here in North America traders took the news in their stride. Ten-year U.S. Government yields dipped from 1.88% to 1.86% but then bounced back.

It looks as though our bond markets are focused on the fundamentals rather than the breaking news. That's a welcome relief. Six months ago the European upheaval would have triggered another flight to safety. Now we are seeing a more measured response. Some fixed-income analysts are even suggesting that the political changes may be a positive development and will create more economic growth. Certainly the previous administrations failed to inspire much confidence.

Moving forward, I think that Canadian institutions will gradually be convinced that the bull market is over and start switching money from defensive bonds into stocks and other securities. As a result, interest rates should continue to inch higher. We could see Canadian five-year government yields up 75 basis points from the present 1.6% to about 2.35% by early next year, perhaps sooner. Even conservative forecasters expect 30-year issues to be yielding about 3.6% in the first quarter of 2013 compared to 2.6% today. That may not seem much of a change but it represents a 17% drop in secondary market bond prices. So this is not the time to go long in the bond market or to load up with perpetual (straight) preferred shares.

For now we are still facing extremely low yields, especially when you factor in inflation. For example, 10-year Canada bonds pay about 2% while the trailing consumer price index is at 2.6%. That means you are earning a negative 0.6% return.

But people need immediate income. It's a difficult situation with a lot of mixed signals. Extending term is not option. And there are conflicting opinions about whether corporate bonds offer good value vis-à-vis government issues.

According to Heather Mason-Wood, Vice President at Canso Investment Counsel, the yield spread between the DEX Mid Corporate Bond Index and the DEX Mid Canada Bond Index is currently about 140 basis points, well above the 98 basis points average since 1980. That suggests an obvious buying opportunity. Other analysts think that we need a government/corporate spread of close to 300 basis points in these difficult times to pay for the additional risk.

There is very little incentive at these rates to extend term or downgrade into corporate. None of the yields provide a decent return after you adjust for inflation. If the U.S. recovery gains traction the Consumer Price Index may surge, something that worries Ben Bernanke, Chairman of the Federal Reserve Board.

My suggestion therefore is that readers seeking a relatively short-term investment, providing a good yield as well as an inflation hedge, should look outside the traditional bond market. Good quality convertible debentures are a much better bet. Some of them

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Winding Down – continued from page 3…

provide secure regular income, limited term, and the possibility of growth in a stock market that is in much better shape than people think. Ignoring for a moment the energy sector, many companies are doing well. Take a look at the numbers:

In early April investors braced for a slew of dismal first-quarter earnings. Companies were busy issuing warnings while analysts prepared for the worst. Investors backed away and the forward price to earnings ratio on the S&P/TSX Composite dropped to 12.5, well below the 14.5 historic norms. We waited for the bad news but it never came! More than 400 of the S&P 500 companies have now reported and 68% beat expectations, a much better performance than the 62% long-term average.

Now I am not for a moment suggesting that you should run out and buy shares but I do think that our stock markets have a lot of underlying strength despite the recent bad run. That reduces the risk in convertible debentures. It also increases the chance of capital gains because these securities tend to rise in tandem with the underlying stock.

One convertible debenture that I particularly like right now is the Chemtrade 5.75% issue due Dec. 31, 2018. It's my Top Pick for May and you'll find all the details in that section of the newsletter.

Tom Slee managed millions of dollars in pension money during his professional career and is an expert in fixed income securities.

MAY'S TOP PICKS

Here are the Top Picks for this month. Prices are as of the close of trading on May 18 unless otherwise stated.

Chemtrade Logistics Income Fund 5.75% Convertible Unsecured, Subordinated Debentures (TSX: CHE.DB.A)

Type: Convertible subordinated debentures
Symbol: CHE.DB.A
Exchange: TSX
Current Price: $102.50
Conversion Premium: 30%
Yield to Maturity: 5.25%
Entry Level: Current price
Risk Rating: Moderate risk
Recommended by: Tom Slee
Website: www.chemtradelogistics.com

The business: Established in 2001 as an income trust, Chemtrade has grown rapidly into one of the world's largest suppliers of sulphuric acid, liquid sulphur dioxide, and sodium chlorate. Its acquisition of Marsulex last June provided a substantial presence in western Canada as well as product diversification and improved customer mix. With debt level at three times operating earnings and a book value of $8.21, the company has a strong balance sheet and a market capitalization of $700 million. In 2011, cash flow from operations totaled $77 million compared to $57 million the year before. Consolidated revenue was $881 million.

The security: The subordinated convertible debentures bear interest at 5.75% per annum and mature on Dec. 31, 2018. They are convertible at any time into units of Chemtrade Logistics Income Fund at a price of $20. In other words, you receive 50 units for every $1,000 debenture. Chemtrade can redeem the debentures after Jan. 1, 2015, at $100 providing the underlying units have been trading at $25 for 20 consecutive trading days. After Jan. 1, 2017, the debentures are redeemable at $100.

Why we like it: Chemtrade Logistics is a well-managed income fund with significant potential. Therefore, the convertible debentures provide the chance of capital gains. Trading at $102.50, the debentures yield 5.25% to maturity, 225 basis points more than 3% returns on comparable six-year Canadian corporate bonds. With the units priced at $15.82 you are paying an acceptable 30% premium for the increased security.

Financial highlights: Analysts have been impressed at how quickly the Marsulex acquisition has been absorbed and the International Division is expanding faster than expected. Operating earnings of $152 million are expected this year compared to $115 million in 2011, with a further advance to $160 million or more in 2013. The current annual distribution of $1.20 per unit is well supported.

Risks: A massive economic downturn could reduce revenues but the company has an ample cash flow and could increase this by cutting capital expenditures and reducing distributions to the unitholders. There is little risk

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to the debentures' capital and interest payments. Chemtrade can call the issue at $100 after Jan. 1, 2017, however most of that possible capital loss has already been built into the current yield to maturity calculation.

Distribution policy: Semi-annual interest payments of $28.75 per $1,000 of debenture face value are made on June 30 and Dec. 31 of each year.

Tax implications: The interest income is fully taxed if the debentures are held in a non-registered account. Any profit or loss on maturity, sale, or redemption is treated as a capital gain or loss at the time.

Who it's for: These securities are suitable for investors seeking secure, well above average income plus some growth, who are capable of assuming some risk.

How to buy: These are listed securities that you can buy through any broker.

Summing up: These convertible debentures straddle the changing and unsettled bond and stock markets. They provide steady income and a growth hedge against high interest rates and inflation.

Action now: Chemtrade Logistics 5.75% convertible debentures are a Buy. – T.S.

Allied Properties REIT (TSX: AP.UN)

Type: Real Estate Investment Trust
Symbol: AP.UN
Exchange: TSX
Current Price: $28.14
Entry Level: Current price
Risk Rating: Moderate risk
Recommended By: Gavin Graham
Website: www.alliedpropertiesreit.com

Background: Allied went public in 2003 with ownership of 14 former industrial buildings in downtown Toronto with 820,000 sq. ft. It has since become the dominant landlord in Toronto with almost 3.3 million sq. ft. in the niche "brick and beam" mixed-use segment comprised primarily of century-old historical buildings that have been restored, renovated, and modernized. These are known as Class I (Industrial), reflecting their former use, with the majority of the properties located within the Toronto central business district to the immediate east and west of the downtown core.

Allied has also expanded into other downtown markets with similar properties, including Montreal, Winnipeg, and Quebec City. It recently launched a major expansion in western Canada, buying properties in Calgary, Edmonton, and Vancouver. Because of their proximity, their distinctive appearance and working environment, and their cost advantage (in many cases up to 50% less than conventional office towers), the category has become very popular with tenants due to its compelling value proposition. Allied now owns 105 properties worth $2.3 billion and comprising almost 8.3 million sq. ft., of which 7.3 million is offices and 937,000 is retail.

The business: Allied has developed a geographically diversified portfolio with 43.2 % of its holdings in Ontario (of which Toronto comprises 39.6%), 40.3% in Quebec (Montreal 38.1%), and 16.6% in western Canada, with Calgary at 5.4%, Winnipeg 4.6%, Edmonton 3.3%, and Vancouver/Victoria 3.2%. Its tenant mix is also well diversified, with telecommunications and information technology being the largest group at 35%. This is due to the high ceilings and generous proportions of the Class I buildings, making them well suited to becoming server and communications hubs.

Several of Allied's downtown Toronto data centre buildings (151 Front St., 905 King St. West) are connected by cable to allow businesses requiring additional communications capacity to grow without having to physically relocate.

Business and professional services are next at 20%, followed by retail at 15%, media and entertainment (12%), other (10%), and financial (5%). The top 10 clients, including Ubisoft, Visa Desjardins, Cossette Communications, and Telus as well as telecoms and IT specialists like Switch and Data Toronto, MTS Allstream, and Telehouse Centre Canada, represent 23% of its revenues, down from 28% two years ago.

Allied has bought $848 million in net new properties over the last four years, which represents growth in assets of between 9% and 27% per annum. Included in this total is $200 million in purchases this year: its first foray into the Ottawa market with a $96 million purchase; $47 million in the Spadina and Adelaide area in Toronto; $34 million in Montreal; and $18.5 million in Calgary. The cap rate on these acquisitions was in the 6.7% to 7.5% range with the exception of the Toronto purchases where the management is confident that the initial 5% cap rate can be raised to 7% within two years by rental increases and improvements and expansions to the buildings.

Allied has secured mortgage financing for most of these properties at between 3.25% and 3.85%, giving it a comfortable net margin. Modest pro-forma debt to capital of 43.5% would allow Allied to borrow another

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$325 million for acquisitions if it was willing to raise its debt to capital to 50% and the management has indicated it is looking at a total of $250-$300 million in acquisitions this year, having raised $103 million in a recent equity issue in April at $26 per unit.

The security: Allied trades on the Toronto Stock Exchange under the ticker AP.UN. Volume is between 30,000 and 230,000 units a day, so liquidity is not an issue.

Why we like it: Allied has established itself as the dominant player in its niche Class I category, which is amongst the most defensive sectors of the office market, given its lower costs and convenience. For REITs, the equivalent of earnings per share is adjusted funds from operations (AFFO), which takes into account not merely the cash flow generated by the REIT (funds from operations, or FFO) but also the maintenance and capital expenditure required to keep the properties in good repair. Between 2009 and 2011, Allied's FFO dropped from $1.73 to $1.39 and its AFFO from $1.45 per unit to $1.10 per unit, which was partially due to four equity issues that raised a total of $372 million.

The decline was also due to allowing the Montreal lease of one of its largest tenants, software firm CGI, to expire at the end of 2010, which resulted in six floors in its Cité Multimedia complex becoming vacant. This reduced the percentage of its gross leased area (GLA) that was rented to 87% in 2011 from 91% in 2010. But Allied was able to rent out five and half of the six floors to SAP, Desjardins, and Abitibi on 10-year leases, raising its GLA percentage at the end of the first quarter 2012 to 93.8%. It also extended its lease term to five years from less than four years in 2010.

Allied estimates that each 1% increase in occupancy adds $0.05 per unit in FFO and AFFO. It has also been able to renew 58% of leases expiring in 2012 so far this year, with a 7.8% increase in rentals. With its new acquisitions, its re-leasing of the Cité Multimedia floors, and its $83.8 million in development properties (such as the open air car-park in Toronto's Spadina area it just purchased) Allied will see significant growth in AFFO over the next few years.

Amongst the most interesting of its new projects is a potential 750,000 sq. ft data centre and conventional office at 171 Front St. in Toronto with a link via the Skywalk to the Rogers Centre. This facility will become the Toronto terminal of the high-speed rail link from Pearson Airport (due for completion in 2015) and Allied has just leased 7,000 sq. ft to Metrolinx in the Skywalk for the next 20 years. Scotia and BMO Nesbitt Burns have forecasts of $1.46 and $1.51 AFFO respectively for 2012, and $1.63 and $1.62 for 2013, a growth of 21% from 2011.

CEO Michael Emory noted that "with a national urban office portfolio operating at a high level of occupancy, we're well positioned for the remainder of the year. We expect our FFO and AFFO to continue to grow and our acquisition and value-creation activity to continue to accelerate. We also believe our conservative balance sheet, low debt ratio, moderate mortgage maturity schedule, and abundant liquidity will provide stability and facilitate growth going forward."

Risks: Allied has risen 17% over the last 12 months, hitting an all-time high last week, and is selling at a 20% premium to its estimated 2012 net asset value (NAV). Should long-term corporate interest rates increase, Allied's NAV will be negatively affected, as will the premium that investors are willing to pay. Should the Toronto downtown core office market weaken, Allied's Class I properties will be affected, but their cheaper rents and better value will provide some protection, as demonstrated in 2008-09. While Allied has successfully applied its niche office formula in Montreal as well as Toronto, its new geographic expansion into western Canada and Ottawa may not prove as successful, even though the office markets there resemble eastern Canada.

Distribution policy: Allied has distributed an unchanged $1.32 per unit for the last three years and is forecast to do the same in 2012, giving it a yield of 4.7%. This has seen its AFFO payout ratio drop from 98.9% in 2010 and 119% in 2011 (reflecting the lower AFFO last year) to a forecast 90.6% this year and 83.9% in 2013, leaving room for an increase next year.

Tax implications: The percentage of the distribution that is classified as return of capital (ROC) has risen from 57%-58% in 2007-08 to 93% last year. For U.S. investors the distributions would be classified as foreign income.

Who it's for: Allied is for income-oriented investors who are willing to pay a premium above NAV to gain exposure to a dominant office landlord in a defensive niche, with growth in both AFFO and likely distributions over the next two years, while receiving a competitive yield. In 2009 Allied rejected a takeover offer from First Capital Realty and there is always the possibility a potential suitor might return, perhaps another REIT, property company, or a pension fund looking to diversify its Canadian office exposure..

Action now: Buy Allied Properties at market price. – G.G.

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MAY UPDATES

Following are the updates for this month. Prices are as of the close of trading on May 18 unless otherwise stated.

Telus Corporation 5.95% Series CE Notes due April 15, 2015

Type: Debenture
Recent price: $110.70
Originally recommended: May 19/10 at $108.50
Yield to maturity: 2.16%
Credit rating: DBRS: A (low)
Risk Rating: Conservative
Recommended by: Tom Slee

Comments: These conservative securities, with an A (low) rating from Dominion Bond Rating Service (DBRS), continue to provide safe income but are now in line with the market and are actually yielding less than three-year GICs.

In May, 2010, when we first recommended the Series CE, this was a five-year issue yielding a relatively attractive 4%. Now, rapidly becoming short-term paper, it has served its purpose. I think that investors should take the profit before rising interest rates drive the price lower. Those readers who bought in May 2010 have earned a safe return of approximately 7% on their investment. I will recommend a top-quality five-year corporate bond as a replacement in an upcoming issue.

Action now: Sell. – T.S.

Shaw Communications 6.15% Senior Notes due May 9, 2016

Type: Debenture
Recent price: $112.40
Originally recommended: July 21/10 at $109.65
Yield to maturity: 2.13%
Credit rating: DBRS: A (low)
Risk Rating: Moderate risk
Recommended by: Tom Slee

Comments: These notes have also performed well. Recently priced at $112.40 and yielding 2.13%, they have provided a 7.5% return during a period of record low interest rates. There is nothing wrong with Shaw and investors who wish to continue earning the original 4.31% yield to maturity should maintain their positions. Others may wish to take some profits.

Action now: Shaw Communications 6.15% Notes are a Hold. – T.S.

Progressive Waste Solutions (TSX, NYSE: BIN)

Type: Common stock
Symbol: BIN
Exchanges: TSX, NYSE
Recent price: C$19.78, US$19.33
Originally recommended: Sept. 23/09 at C$14.03, US$13.29
Risk Rating: Moderate risk
Recommended by: Gavin Graham
Website: www.iesi.com

Comments: I am recommending the sale of your position in Progressive Waste. The continued weakness in its U.S. garbage volumes and emerging softness in the pricing for its recyclable garbage (principally cardboard and newsprint) are causes for concern.

Readers may recall that I suggested selling Progressive last summer if they were concerned about the outlook for economic growth in North America. The patchy nature of U.S. growth since then has been reflected in Progressive's results. Despite the defensive nature of the garbage collection business, at least as far as the residential and landfill side of its operations are concerned, and the high barriers to entry owing to the difficulty of getting government approval of new landfills, the industry has proved it is vulnerable to declines in commercial and industrial waste, especially builders' waste. With the collapse of housing activity in the U.S., especially in Florida which Progressive entered with its July 2010 purchase of Waste Services, garbage companies have been suffering.

Furthermore, Progressive's expansion into the U.S. Northeast has seen unexpectedly weak volumes both last year and continuing into the first quarter of 2012. The company was looking to build volumes in its own collection network that it could send to its three landfills in the region, particularly its massive Seneca Meadows operation in New York State. Progressive took a $360.6 million (all figures in U.S. currency) write-down on its purchases there when it reported its 2011 results in February.

This followed shortly after the departure of founder and CEO Keith Carrigan last July. His successor, Joseph Quarin, had worked closely with Mr. Carrigan since 2000, including stints as chief financial officer (CFO) and head of the Canadian operations. So there has been no dramatic change in the strategy of organic growth supplemented by tuck-in acquisitions to build volumes in the existing collection network. However, the emphasis on a balanced approach in the management's

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report and a 12% increase in the dividend for this year from $0.50 to $0.56 a share indicate that the company is perhaps favouring a more measured approach.

For 2011, volumes were slightly ahead and, helped by price increases and the benefit of a full year of Waste Services, revenues grew to $1.84 billion from $1.43 billion. However, volumes grew only 1.2% in Canada (40% of revenues) and 0.2% in the U.S. compared to 4.3% and 1.1% the previous year. Price increases fell to 3.8% and 2.3% respectively from over 4% in both countries in 2010, as increasingly cash-strapped municipalities pushed back against the annual price rises that garbage collectors have enjoyed.

The situation worsened in the first quarter of 2012, with volumes for both Canada and the U.S. down 0.9% against an increase of 0.6% in the same quarter of 2011. Price increases fell to 0.6% from 3.3%, reflecting lower prices for recycled materials. Only acquisitions enabled revenues to grow 3.6% to $438.3 million.

While there were signs that volumes were stabilizing in the U.S. Northeast, it makes sense to take our profits on Progressive. At C$19.78, we're ahead 41% since recommending the stock in September 2009. Add another $1.64 in dividends and our total return is 52.7%.

Action now: Sell. – G.G.

Atlantic Power (TSX: ATP, NYSE: AT)

Type: Common stock
Trading symbol: ATP, AT
Exchange: TSX, NYSE
Current price: C$14, US$13.68
Originally recommended: Nov. 18/09 at C$9.96
Risk Rating: Moderate risk
Recommended by: Tom Slee
Website: www.atlanticpower.com

Comments: Atlantic Power has wasted no time in building on its transformative acquisition of Capital Power Income last June. That deal gave the company more size and liquidity and allows it to participate in major energy projects.

In April management purchased 99% ownership of the Canadian Wind Hills Wind Project near Oklahoma City. This increases the wind segment of Atlantic's net generating capacity from 3% to 15 %. The $470 million project (Atlantic reports in U.S. dollars) should be fully operational by November and provide Atlantic with $16 million to $19 million per annum through 2020, stabilizing the dividend.

Current operating results are encouraging. Because of the Capital Power purchase, year-over-year figures are not comparable but Atlantic reported an operating profit of $93 million in the first quarter of 2012, up from $53 million in 2011. The company is expected to earn $0.26 a share in 2012 with an increase to $0.30 or more next year. The dividend appears to be safe through to 2014.

Action now: Atlantic Power remains a Buy with a $1.15 dividend and an 8.2% yield, for income and growth. – T.S

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2010. As of April 30, the fund was showing a 10-year average annual compound rate of return of 9.36%, more than double the average of 3.88% for its peers in the Global Neutral Balanced category. The three-year average annual gain was an impressive 16.44%.

The portfolio is an almost equal blend of stocks and bonds, combined with a high cash position of 17.48%. This mix gives the fund a defensive posture that risk-averse investors will welcome in these volatile times. The equity side is made up largely of REITs, former income trusts which have been converted to high-yield stocks, and a few blue chips. Overall, REITs account for 9.6% of the portfolio. Canadian stocks make up 18.9% of the assets while foreign stocks weigh in at 11.3%.

Foreign bonds have the heaviest weighting in the fund at almost 30% of total assets. All are corporate issues; there is no sovereign debt exposure. In years past, that would have been considered a more risky approach but not these days!

The current distribution is $0.07 per unit a month ($0.84 a year) for a projected 12-month cash yield of about 6.1% based on a recent NAV of $13.78 (A units). A portion of this will be treated as tax-advantaged dividends and capital gains in non-registered accounts. We did see a slight erosion of 2.2% in NAV over the year to April 27 but the current NAV is higher than it was at the start of 2012.

This is not a zero-risk fund – it lost 21.46% in the crash of 2008. But that was an aberration. In most years, this fund generates better-than-average profits, often in double-digit territory. It is an excellent choice for anyone seeking a conservatively managed fund with an attractive yield and tax breaks. And you'll like the cost: the MER is only 1.6%.

I recommend the Class A front-end load units, purchased at zero commission. The code is CIG686. I am adding this fund to our Recommended List.