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Some Concerns with the S&P/TSX Canadian Dividend Aristocrats

Posted by **The Dividend Guy** in **Dividend News**

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In last week's [Roundup](#) I wrote about a news item that you would think Canadian dividend investors would be ecstatic about – the S&P is creating an index of Canadian companies similar to the U.S. [Dividend Aristocrats](#). I have been looking more closely at the new index and I must say that I am not too impressed. I basically have two issues with it:

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1. The criteria to get on the index is to have raised dividends for only the last seven years

From the S&P fact sheet on the fund, the fund is described as follows:

The S&P/TSX Canadian Dividend Aristocrats index is designed to measure the performance of S&P/Citigroup Broad Market Index (BMI) Canada constituents that have followed a managed dividends policy of consistently increasing dividends every year for at least seven years.

Seven years? The U.S. version of the Dividend Aristocrats requires dividend increases for the last 25 years. Why the huge difference? I imagine that it is a function of the fact that we have far fewer companies in our broad index and to get a useful number of companies on the index they had to be far less stringent in their criteria. In addition, I would bet that it would also be dominated by the banks which by my calculation already makes up 14% of the index. Keeping it limited to at least 7 years adds some other companies and diversification to the list.

2. There are income trusts included on the list

This to me is an issue. Income trusts are a separate asset class in my opinion. When I look for dividend stocks to invest in, I do not include income trusts. I treat income trusts as a separate asset class and use a separate index fund to invest in them. There are other things that an investor must analyze before investing in income trusts and steady payout increases are only one factor. It is important to note however, that the [Dividend Achievers by Mergent's](#) also includes income trusts which make up a big percentage of their index. This seems to be a function of the Canadian markets, but I believe investors need to be cautious when including them in their dividend stock analysis.

In summary, the new S&P/TSX Canadian Dividend Aristocrats has some issues, but at least we have another index other than just Mergent's Dividend Achievers. It will provide Canadian investors with another list of stocks to pick from when looking for companies to invest in. However, when the ETF that tracks the index comes out, investors will need to think hard about buying it because of the income trust issue. To see the stocks in the index, click [here](#).

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Geohjr said:

Great info, thanks. I've been a energy trust investor for awhile, and agree they are a different class. Recent legislation in Canada will change that, starting I believe in 2010. As trusts switch corporate types, conventional wisdom is that they will reduce dividends

I was shocked I only recognized one energy trust, Bonterra, on the list. I believe Enbridge is a MLP, not at trust. Possibly another ESI, seems to have the wrong ticker. Are there a number of income trusts on list that are other than energy: business development, real estate or other types?

October 22nd, 2007 at 10:19 am

Farhan Thawar said:

Good post. I agree with your concerns around the income trusts, but you didn't mention MER (which will likely be low, but non-zero). I also don't mind if a company keeps it's dividend steady as long as it doesn't cut it (so CIBC would have stayed on my list).

☹ Looks like we'll still have to buy these separately

October 23rd, 2007 at 10:19 am

Rob Madrid said:

Interesting that I just came across this post as I was just looking at this just yesterday. The wife and I are getting to the point where we can start seriously investing so I'm starting to do more reseach thanks for the tip.

January 1st, 2008 at 2:50 am

Brad said:

Just wondering if you have an update on this article for the new (2009) year.

I'm also wondering where/how you found the link for the stocks in the index (csv link).

Cheers,
Brad

January 16th, 2009 at 11:51 pm

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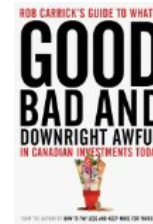
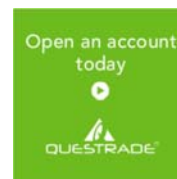
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