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Banks are no longer pillars of this select dividend club

Monday, December 14, 2009

JOHN HEINZL

Canada's most exclusive dividend club just got a whole lot smaller.

After a year in which some high-profile companies slashed their dividends and many others failed to increase their payments as they dug in for the recession, the S&P/TSX Canadian Dividend Aristocrats index is losing 15 members - including most of the banks - and gaining just one.

The dramatic downsizing will lead to a similar shakeup in the Claymore S&P/TSX Canadian Dividend ETF, which is designed to replicate the performance of the Aristocrats index. The number of constituents in both the index and exchange-traded fund will fall to 56 from 70.

Companies being shown the door include four real estate investment trusts, four banks and two insurers. The only company joining the group is cable operator Cogeco Inc. The changes become effective at the open of trading on Dec. 21.

The moves underscore both the depth of the recession and the stringent criteria for membership in the Aristocrats club. To qualify, a company's annual dividend payments - for the 12 months ending Nov. 30, based on ex-dividend dates - must have risen for at least five consecutive years.

Some companies barely squeaked by this year. Toronto-Dominion Bank, for example, last announced a dividend increase in August, 2008. But because its total dividends of \$2.44 a share for the 12 months to Nov. 30 were higher than the \$2.36 it paid the previous year, it was spared the axe. Bank of Nova Scotia also last raised its dividend in 2008 but kept its place in the index.

But Bank of Montreal, Canadian Imperial Bank of Commerce, Royal Bank of Canada and National Bank of Canada - all of which last raised their dividends in 2007 - got the boot.

Som Seif, chief executive officer of Claymore Investments, said he fully expected the changes, and they will not change the ETF's mandate.

"It doesn't surprise me in any way and I'm actually quite happy about it, because it shows the discipline of what we're doing," he said. "Yes, there are a few banks coming off, the names that everyone is so familiar with and everyone loves, but the reality is those companies didn't do their jobs last year, so they don't deserve to be in the portfolio."

If anything, the ETF - which, prior to the changes, has a 45.6-per-cent weighting in financials - will become better diversified once the four banks are dropped. Insurers Manulife Financial Corp. and Sun Life Financial Inc. are also getting punted. Manulife shocked investors this year when it chopped its dividend in half to help bolster its capital levels.

The constituent weightings are based on yield, with the highest-yielding stocks accounting for the greatest share of the ETF, with limits that prevent any single stock from accounting for more than 8 per cent of the index. The maximum weight for a single income trust is 5 per cent, and all income trusts together cannot exceed 30 per cent.

"You're still going to have a nice, well-diversified portfolio of companies in Canada that have continued to show that they can grow their dividends and payouts to shareholders, and that's the critical piece to this," Mr. Seif said.

The changes will have no impact on the price of the ETF's units, he added. After stocks are sold and bought to reflect the index changes, the portfolio will be rebalanced.

Standard & Poor's also announced changes to the benchmark S&P/TSX composite index. Effective Dec. 21, the following companies will join the index: Brookfield Renewable Power Fund, Celtic Exploration Ltd., Centerra Gold Inc., Cott Corp., Gabriel Resources Ltd., Lake Shore Gold Corp., Rubicon Minerals Corp., Semafo Inc., Taseko Mines Ltd. The only company being dropped is Cardiome Pharma Corp.

REVAMPING THE ARISTOCRATS

Standard & Poor's has revised its Canadian Dividend Aristocrats index. Here's a look at who made the cut and who didn't:

Who's in?

Cogeco Inc. (CGO-TSX)

Who's out?

Astral Media Inc. (ACM.A-TSX)

Bank of Montreal (BMO-TSX)

Boardwalk REIT (BEI.UN-TSX)

Calloway REIT (CWT.UN-TSX)

CIBC (CM-TSX)

First Capital Realty Inc. (FCR-TSX)

Manulife Financial Corp. (MFC-TSX)

National Bank of Canada (NA-TSX)

Northern Property REIT (NPR.UN-TSX)

Primaris Retail REIT (PMZ.UN-TSX)

Reitman's Ltd. (RET.A-TSX)

Royal Bank of Canada (RY-TSX)

Sherritt International Corp. (S-TSX)

Sun Life Financial (SLF-TSX)

Yellow Pages Income Fund (YLO.UN-TSX)

Source: Standard & Poor's

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