



Bombardier, Inc.: Collect a Massive (and Tax-Advantaged!) 8.3% Yield

Description

Many investors are finding themselves in a tough spot. They want to retire, but anemic yields from bonds, GICs, and other fixed-income products make it next to impossible.

We're all told a 4% withdrawal rate is the ideal number. But it doesn't take a math genius to realize that taking 4% annually from investments only yielding 2% is going to lead to some serious loss of capital over the years.

Thus, many investors are choosing to buy stocks. There are dozens of stocks in Canada alone that pay at least 4%, along with the potential for capital gains.

Some investors need a little more than 4%, however. Maybe they haven't saved enough for retirement. Or perhaps they're looking to add a little spice to their portfolios, swapping in a few high-yield names to boost the overall yield.

These investors should take a closer look at **Bombardier, Inc.** ([TSX:BBD.B](#)), specifically the preferred shares. They're offering some very enticing yields.

Get paid 8.3%

We'll focus on Bombardier's Series 2 preferred shares, which trade under the ticker symbol BBD.PR.B. These shares currently yield 8.3%.

Why would I focus on the Series 2 preferred shares, when Bombardier has other preferred shares that trade at higher yields? There are a couple of reasons.

The first is interest rate protection. These preferred shares are somewhat unique because of the built-in interest protection. The Series 2 preferreds pay a dividend equal to the Canadian prime rate based on the \$25 original issue price. If the Bank of Canada increased rates, this would push the prime rate up and increase dividends to shareholders. The opposite would happen if the Bank decreased rates.

These preferred shares trade nowhere near the issue price of \$25, which is why the yield is 8.3%. And

considering Bombardier's issues, it's unlikely they'll trade anywhere near \$25 for a long time.

The second reason why these preferred shares are attractive is because they pay monthly instead of quarterly, like most preferred shares. Retirees especially like getting paid every month like clockwork. Bombardier has delivered, never missing a dividend since these shares debuted back in 2002.

Tax-advantaged income

Here's why dividends are extra powerful for retirees.

Let's compare these Bombardier preferred shares to an imaginary GIC that pays 8.3%. Before tax, each investment would pay the same. After tax, the dividends would be way ahead.

GICs, bonds, and other products that pay interest are fully taxed at your marginal rate. Depending on the tax bracket, that can be as high as 40% or even 50%.

Dividends are taxed much differently. In many provinces, it's actually possible to not pay a nickel of tax on dividends up to a certain income amount—usually somewhere in the \$30,000-40,000 range.

It works out to a few thousand dollars saved on taxes if an investor chooses dividends versus choosing interest, ignoring all other factors.

I don't want to give specific tax advice, because I'm no accountant. Heck, I don't even do my own taxes. But what I do know is that dividends are taxed at a better rate than interest. These Bombardier preferred shares at 8.3% are the equivalent of getting double-digit yields on interest. This alone makes them an attractive choice for retirees.

Bombardier's troubles

There's a reason why the preferred shares have such high yields. Bombardier is having problems.

The company is doing a reasonable job of turning things around, however. It has secured additional funding from the Quebec government, and more could be coming from Ottawa. It has started delivering CSeries planes and has secured some big orders thus far in 2016. And management continues to cut costs any way possible, including laying off thousands of employees.

Bombardier is still awash in debt and recently posted a \$537 million loss. It's hardly out of the woods yet, which is why these preferred shares yield 8.3% instead of 5%. But as a small part of your portfolio, Bombardier could add some nice tax-advantaged income, which is something a lot of retirees could really use.

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1. Dividend Stocks
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