3 Sensible Replacements for Canada Savings Bonds

Description

It's hard to believe, but the 1981 edition of the Canada Savings Bond (CSB) paid 19.5% annual interest. By comparison, the TSX lost approximately 12% that year. Investors of all stripes were buying in; sales of CSBs hit a peak in 1987 when $55 billion was bought by Canadians coast to coast.

And now they're gone.

Well, not exactly. Approximately $5.5 billion are still outstanding, but those will soon mature, leaving nothing but memories for Canadian savers.

The 2016 edition of CSBs paid a paltry 0.70%, reducing demand to a trickle and, in the process, costing the Federal Government more to carry out the annual rite of passage than it was worth, so they cut it. Goodbye, old friend. You had a nice run.

Given the rate of interest, it's hard to imagine anyone buying the 2016 edition, especially Foolish readers, but some of you are income investors and genuinely interested in conservative investments that provide a reasonable stream of income.

For most of you, dividend stocks are the vehicle of choice.

However, if you do have a portion of your wealth invested in the $5.5 billion outstanding and wonder what to do with the principal once they mature, here are three sensible replacements.

iShares

As the largest ETF provider in the country with 45.7% market share, it makes sense to start with iShares's fixed-income offerings.

I've decided to go with the **iShares Canadian Government Bond Index ETF** (TSX:XGB) because it invests in nothing but investment-grade government bonds with maturities ranging from one year to 20 years and beyond. Approximately 50.5% is held in federal bond issues, 47.1% in provincial bond issues (Ontario is the highest, followed by Quebec and B.C), and the remainder in municipal issues.

Overall, it has 349 holdings.

The ETF’s 12-month trailing yield is 2.3%.

That means if you’d invested $10,000 in XGB a year ago, you would have received $19 in monthly distributions and, assuming things remain the same, you’ll receive $20.17 each month over the next 12 months.

The downside here is two-fold: 1) You have to open a brokerage account, but if you’re reading this, you probably already have one, and 2) You’ll pay a management fee of 0.39%.

Bank of Montreal

As of the end of February, **Bank of Montreal** (TSX:BMO)(NYSE:BMO) is second in terms of market share at 30.7%, so its bond offerings will provide my second sensible alternative to CSBs.

The iShares ETF has an average maturity of almost 11 years, more than three times the CSB’s at three years, so with my BMO selection, I’m going to bring the average maturity down to a holding period close to a CSB.

With that in mind, I’ve chosen the **BMO Short Provincial Bond Index ETF** (TSX:ZPS), which invests in bonds and other debt securities backed by provincial governments in Canada. The average maturity of ZPS is 3.1 years, almost bang on the CSB holding period. It pays $26 monthly per $10,000 investment.

It pays a bit more because the quality of the issues owned is lower; the ZGB has 55% of its portfolio invested in AAA-rated bonds, the highest rating there is, compared to just 8.4% for ZPS. That said, the quality of the 39 holdings is not in question.

Vanguard

While investors are very aware of the Vanguard name, here in Canada, it’s a distant third in terms of market share with just 8.8%.

Vanguard has brought some new fixed-income ETFs to market early in 2017. One of them is the **Canadian Short-Term Government Bond Index ETF** (TSX:VSG). Like all passive ETFs, it tracks an index. In this case, it’s the Bloomberg Barclays Global Aggregate Canadian Government 1-5 Year Float Adjusted Bond Index.

Currently, your annualized yield is just 1.2%, which means income investors would only receive $10 per month for a $10,000 investment. However, the ETF’s 62 holdings have an average coupon of 2.2%, which suggests the annualized yield will rise in the coming months.

Conservative income investors will love this ETF for two reasons.

First, it charges a Vanguard-like low annual fee of just 0.18%. Second, it invests 76.9% of its $5 million in total assets in AAA-rated government bonds; most of those are issued by the Federal Government.

Bottom line

If you own CSBs, you’re part of a dying breed — literally. These are three sensible alternatives once yours mature.

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