The Quest For Cash

The quest for investment cash – interest, dividends or other kinds of regular monetary distributions – puts the spotlight on common and preferred corporate shares and Income Trust units. Low equity prices boost yields of many of these income-generating investments. In addition, investment-grade corporations issue new preferred shares to raise further capital. Investors need to know that not all this cash is created equal in terms of tax treatment or safety of the anticipated returns.

Common Share Dividends

The key question for common stock dividend investors is whether the company's management will maintain the current dividend payout. These days, it's not an easy call. Even a consistent track record of dividend payouts may not provide enough comfort anymore. A tough financial year can force a company to reduce or eliminate – at least temporarily – its common share dividend to bolster its balance sheet and reserve cash for operations. That's a risk to consider.

Preferred Share Dividends

A more secure choice might be found in preferred share investments, but the devil is in their details. Preferred shares are often called "hybrid" securities – trading actively like common equity but frequently with a fixed rate of return and redemption price like a bond, and fluctuating in price based on the rise and fall of interest rates and any perceived repayment risk associated with the issuing company.

Preferred shares, most priced at $25 par value per share, come in a variety of shapes and sizes. Some are "retractable" and can be retired by the holder at given points in time. They may also be "non-cumulative", meaning the issuer can miss dividend payments without having to make them up later. Each preferred series tells the investor what it will pay as a dividend rate, what conditions affect its performance (non-cumulative, retractable, etc.) and when (if ever) the shares will be redeemed for their face value. Investors should pay close attention to the details and unique features that are specific to each preferred share issue.

Income Trust Distributions

Income trust cash distributions come in several different forms – sometimes as dividend income or more likely as a return of capital, or simply investment or other income. Some trust distributions use a combination. For this reason, many investors hold their trust investments in registered accounts (RRSP or RRIF) or in a Tax-Free Savings Account (TFSA) where distribution tax rates are not an issue. Otherwise, dividend and interest income receive different tax treatment in the investor's hands. Meanwhile, any return of capital is considered a tax-deferred distribution. These payouts accumulate and reduce the original cost base of the investment, thus affecting the potential capital gain or loss when the units are eventually sold.

Making Sense of the Choice

There are some attractive cash-generating opportunities for investors, but careful attention must be paid to their investment details. Your Raymond James Financial Advisor can clarify the differences and help you determine what will best meet your investment and tax objectives.