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# Preftrader

Preferred Share Intelligence in Today's Market Reality

THURSDAY, JANUARY 8, 2009

## The Perpetual Rally fizzles

Some kind of gift from the heavens was dropped on the perpie market just about 12 noon Christmas eve. After months, actually 2 years, of tortuous selling, and endless flooding of this market by the banks with new issues, for some totally unexplained reason (not even the HIMI experts have a clue), buyers came to the market and ran up Canadian perps by a good 20% across the board. Oddly, the newly invented rate resets were not bestowed this uptick, just the perps. This trend seems to be pretty much over now, with the bid slowly vanishing, the banks continuing their flooding ways, and the institutional sellers renewing their selling bias. This has been a great opportunity to unload what has become one of the scankiest investment vehicles of all time, and although I do not know who is responsible for this gift, all I can say is . . . thank you.

Posted by ~~~~~ Preftrader ~~~~~ at [11:16 AM](#)

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TUESDAY, DECEMBER 30, 2008

## Canadian Perpetual Pref Rally now in Day 3

It amazed me, over the past 2 years or so, how the Perp Pref market in Canada was able to get so badly run down. Low interest rate environment, and endless new issues at increasingly higher dividend rates. All P1, and none of any interest to anyone. Could the experts explain it? Nope. Just another "bad day", right?

Then, on December 24, what's become the most noteworthy rally in Canadian perps in recent time, was sparked by an admittedly very poorly publicized, yet very vital and obviously pivotal, press release. I've searched every pref blog I know to see how it's being discussed, but . . . nope, not there . . . not anywhere; not even here (yet, anyway!). Not even the most self-proclaimed pref gurus seem to know about it. (Don't worry guys, just keep doing YTW analysis, and forget about the relevent stuff! . . . like why your portfolio has increased in value by about 25% in the past 3 trading days)

At the very least, people, are you not curious why everyone (except you perhaps?) has all of a sudden jumped on the perpi bandwagon?

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Posted by ~~~~~ Preftrader ~~~~~ at [12:14 PM](#)

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### The Preftrader Mantra

Never invest in mutual funds. Never listen to mutual fund managers. Believe in yourself.

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### About Me

~~~~~ Preftrader ~~~~~

Vatican City

Have you had enough of Preferred Share issuers diluting your investments? Want to find out why yield/quality analysis is no longer of importance to this category? Are you fed up with so-called Pref Share experts telling you that losing money on your investments is a good thing? This blog is intended to discuss the reality of preferred share investing today, and offer an alternative idea-sharing venue to those sites that prefer to gaze through rose colored glasses at their declining portfolios.

[View my complete profile](#)

THURSDAY, AUGUST 28, 2008

## Canadian Banks remain unstoppable -- but prefs are still junk

It's unbelievable actually; with all the big 5 third quarter numbers on the street, and National in as well, the numbers defy reality. Scotia, Royal, and TD all reported a net profit in the vicinity of \$1 billion. BMO and CIBC came in with a half billion and about \$80 million respectfully showing the only ABC exposure that amounts to much in Canada. National reported a record profit of \$286 million.

Accordingly, all the common stock of these 6 which has been rising steadily all week, is on fire today. All in all, we have gains of approaching 10% in this sector over the past week or so.

What does it all mean? Well, for one, it means that regardless of financial calamity anywhere else, Canadian banks continue to do a wonderful job taking the average Canadian retail customer for the big ride. Fees for everything, and so much so that the resultant cashflow serves as protection for any dopy side dealings these banks may get involved with. Even CIBC, the so-called "cowboy" of the group that has more ABC exposure than all the other Canadian banks combined.

For two, it means that their prefs keep the coveted P1 status, and allows them to continue the policy of flooding the market with more and more of this paper. It's interesting that BMO themselves took as much of a writedown on their own preferred shareholdings as they did on ABC in the third quarter.

The conclusion is obvious: Canadian bank preferreds are little better than ABC, and have little or no growth prospects in the future. Sure, you'll continue to get the dividends. Nothing's really safer right now. But any rally in these prefs will continue to be snuffed out by ongoing new issues brought to the market.

Why do they keep doing it then? Well, the overly-analytical prefdronees will say it's got to do with Tier 1 capital ratios, etc. and that it's justified.

Wrong.

It's not justified, because it trashes the market, and the funding is simply not needed. The only problem is that the prefdronees continue to buy it up, which allows the banks to keep issuing it. If these so-called investors would do the right thing, and walk away from this prefjunk, then the rating agencies would assign the proper P3 or P4 labels on it, and the banks would have to back off. The market would cease being trashed.

Posted by ~~~~~ Preftrader ~~~~~ at [11:17 AM](#)

[No comments:](#)

TUESDAY, AUGUST 26, 2008

## Scotiabank earns big . . . and dilutes prefs once again

Bank of Nova Scotia today announced quarterly earnings just over \$1 Billion.

An hour later, Bank of Nova Scotia announced yet another Preferred Share offering, this one for \$200 million.

For all you analytical types that are ready to pounce on this with arguments pertaining to Tier 1 capital ratios, alternate funding requirements, etc., please save it.

You earn \$1 billion, you don't need another \$200 million. Period. This endless and pitiful pref share dilution by the Canadian banks is absolutely pathetic.

Then again, if investors are lame enough to keep buying it, while all their previous holdings continue to deteriorate in value, then why the heck not?

Posted by ~~~~~ Preftrader ~~~~~ at [12:04 PM](#)

[No comments:](#)

FRIDAY, AUGUST 22, 2008

## Buffett suggests Fannie and Freddie common & prefs are done

I've been touting the attributes of shorting Fannie and Freddie prefs for quite some time, with the usual resistance from the analysis-only pundhits of several other blogs.

The core of my point is that, regardless of yield, corporate significance, and all the other factors these so-called experts continue to put forward, the fact that Fannie and Freddie are essentially bankrupt supercedes everything.

Here's what Warren Buffett thinks about Fannie and Freddie, in case my humble comments are too extreme for you:

"They're too big to fail," Mr. Buffett said. "That doesn't mean that the equity can't get wiped out, and it almost has. In a practical sense, as institutions, they don't have any net worth."

Mr. Buffett forecast that "you'll see some action fairly soon" to support the companies, but that he has not been approached to assist in any bailout. He said "nothing is going to happen" to investors in the companies' insured mortgages or debt, but "the equity and preferred stock is another question."

Posted by ~~~~~ Preftrader ~~~~~ at [7:10 AM](#)

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THURSDAY, AUGUST 21, 2008

## Why are they called, "Perpetual"?

It's interesting how a once legitimate, highly respected investment vehicle like the preferred share can go so bad, so fast. Only a couple of years ago, any preferred share trading at a 20%+ discount to par would be considered "distressed". The issuer would be under severe scrutiny, and the rating of the pref would probably be P4 or less. These days, over 90% of pref securities issued in Canada are trading at discounts greater than 20%, and most of these maintain a P1 rating. Does this make any sense? No. I think the time has come for these issuers, especially the Canadian banks who have single-handedly flooded the market to the point of silliness, to have their securities re-classified as the junk they really are.

So why are they now called "perpetual" then? They're actually not. I cannot find this word in any issuer's annual report, or official documents. A preferred share is usually described as "cumulative, redeemable, non-cumulative, or retractable".

The label, "perpetual" has been affixed to preferreds by a lame institutional sector, who have slowly, and mindlessly, accepted the evolving fact that preferred stock is never-ending junk, but highly rated junk nevertheless!

Posted by ~~~~~ Preftrader ~~~~~ at [8:12 AM](#)

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**MONDAY, JULY 28, 2008**

## A new low for prefs

Early Friday, Brookfield Asset Management issued a new series of prefs. This one was very unique in that it was a \$25 par, retractable, redeemable, etc.

The unique feature was the issue price: \$23.75.

Amazing; launching a new series of prefs underwater by \$1.25 on issue.

A new low for this ABC, junk-style security.

This is an obvious IPO short. I believe it will open in the \$22 range at the most.

Posted by ~~~~~ Preftrader ~~~~~ at [9:06 AM](#)

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