

THE FACTS ABOUT RETURN OF CAPITAL & INVESTING

Dispersing the myths on Return of Capital

WHAT IS RETURN OF CAPITAL

Return of Capital or (ROC) is commonly referenced in distributions paid by some investments. A distribution from the investment can be made up of several characteristics. In its simplest form, a distribution is the dividend paid from your investment based on earnings which is taxable. ROC on the other hand, is a distribution is from non-earnings related items that is paid to the investor from their original capital. ROC is not immediately taxed when received.

WHY IS A RETURN OF CAPITAL ISSUED?

ROC is usually issued by managers to investors seeking a higher level of consistent income than they can receive from just a simple dividend. In cases like this, there would be a return of your original capital to meet the distribution, which will reduce the price or net asset value (NAV) of your investment by the ROC. This in turn creates a deferred capital gain until selling the investment.

IS RETURN OF CAPITAL GOOD OR BAD?

ROC can take good and bad forms. The bad form of ROC is when the income from the portfolio does not cover the target distribution. This is where your invested capital is literally returned to you and is usually called a “grind on NAV” (price). Although tax efficient, the investment really isn’t growing over all.

Good ROC is usually harvested from an options strategy overlay of the investments held. In this case, money is received from writing options and any losses from options, offset any capital gains triggered in the portfolio.

WANT TO LEARN MORE ABOUT ROC? CONTACT US.

The opinions expressed are those of the author and not necessarily those of Designed Securities (DS). This material is provided for general information and the opinions expressed and information provided herein are subject to change without notice. Every effort has been made to compile this material from reliable sources however no warranty can be made as to its accuracy or completeness. Before acting on the information presented, please seek professional financial advice based on your personal circumstances. DS is a full-service investment dealer and a member of the Canadian Investor Protection Fund (CIPF) and the Canadian Investment Regulatory Organization (CIRO). Investment services are provided through PensionizeMe Wealth Services (PMWS), an approved trade name of DS. Only investment-related products and services are offered through DS/ PensionizeMe Wealth Services and covered by the CIPF. Insurance related and other financial strategies are provided through PensionizeMe Financial Strategies (PMFS) an independent company separate and distinct from DS.



PENSIONIZEME
WEALTH SERVICES

rdragunas@designedsecurities.ca