

Tax Loss & Discount Bond Opportunity

Fixed income prices have fallen largely due to inflation concerns, which have caused central banks to be more hawkish on expected overnight interest rates and has also shifted the interest rate curve higher across the maturity spectrum as markets adjust.

Fixed income still plays an important part in a portfolio, providing long-term portfolio protection and diversification. Fixed income ETFs continue to magnify the general benefits of ETFs; **higher liquidity, better diversification, cost efficiency, and tax efficiency.**

The Opportunity

There is an opportunity to take advantage of a tax loss selling strategy and move your non-registered fixed income positions into more tax efficient discount bond ETFs (tax loss selling is not applicable in registered plans).

ZDB, ZSDB and ZCDB can help investors reduce taxable interest income relative to traditional bond funds with similar exposures. BMO's Discount Bond ETFs invest in bonds where the current yield is near or below par value. By investing in lower coupon bonds, and ensuring coupon and yield to maturity (YTM) are more aligned, helps improve tax efficiency. In a taxable account the higher the coupon, the higher tax the investor will pay. This does not impact the before tax total return, where coupons and price movement generally equal yield to maturity over time. [Click here](#) to learn more about the advantages of Discount Bond ETFs.

Sell			Buy	
Ticker	Name	YTD Gain/Loss (%)	Ticker	Name
VAB	Vanguard Canadian Aggregate Bond ETF	-11.38	ZDB	BMO Discount Bond Index ETF
XBB	iShares Core Canadian Universe Bond ETF	-11.44	ZDB	BMO Discount Bond Index ETF
HBB	Horizons CDN Select Universe Bond ETF	-11.51	ZDB	BMO Discount Bond Index ETF
ZAG	BMO Aggregate Bond Index ETF	-11.42	ZDB	BMO Discount Bond Index ETF
CACB	CIBC Active Investment Grade Corp Bond ETF	-10.33	ZCDB	BMO Corporate Discount Bond ETF
XCB	iShares Core Canadian Corp Bond ETF	-10.10	ZCDB	BMO Corporate Discount Bond ETF
VCB	Vanguard Canadian Corporate Bond ETF	-9.23	ZCDB	BMO Corporate Discount Bond ETF
Mutual Fund*	RBC Core Plus Bond Pool F	-9.79	ZDB	BMO Discount Bond Index ETF
Mutual Fund*	Manulife Strategic Income F	-8.89	ZDB	BMO Discount Bond Index ETF

Source: Morningstar Direct, August 31, 2022.

* Check to ensure DSC charges apply to sale of Mutual Fund.

Beware of “Superficial Losses”

While executing a tax loss strategy where the two securities (in this case, ETFs) are considered “identical properties” a capital loss on the sale of one followed by an immediate re-purchase (or re-purchase within 30 days) of the other would be considered a “superficial loss” for tax purposes. A best practice to avoid this is to ensure the two ETFs do not track the same index.

Reminder on Fixed Income Conversions

For fixed income trading at a loss, institutions and financial advisors can contact their BMO ETF Specialist and potentially convert them into a BMO ETF. By doing so, investors can realize losses on an individual security but remain invested in an asset class through a BMO ETF. For further details on the conversion please [Click here](#) or contact your BMO ETF Specialist.



Let's connect

 Call us at 1-800-668-7327  bmo.com/gam/ca/advisor

This article is for information purposes. The information contained herein is not, and should not be construed as, investment, tax or legal advice to any party. Investments should be evaluated relative to the individual's investment objectives and professional advice should be obtained with respect to any circumstance.

BMO ETFs are managed and administered by BMO Asset Management Inc. an investment fund manager and portfolio manager and separate legal entity from the Bank of Montreal. Commissions, management fees and expenses all may be associated with investments in exchange traded funds. Please read the prospectus before investing. The funds are not guaranteed, their value changes frequently and past performance may not be repeated.

This summary is of general nature only and is not exhaustive of all possible income tax considerations. You should therefore consult your own tax advisor about your individual circumstances. Information, opinions and statistical data contained in this report were obtained or derived from sources deemed to be reliable, but BMO Asset Management Inc. does not represent that any such information, opinion or statistical data is accurate or complete and they should not be relied upon as such.

For a summary of the risks of an investment in the BMO ETFs, please see the specific risks set out in the prospectus. BMO ETFs trade like stocks, fluctuate in market value and may trade at a discount to their net asset value, which may increase the risk of loss. Distributions are not guaranteed and are subject to change and/or elimination.

BMO ETFs are managed by BMO Asset Management Inc., which is an investment fund manager and a portfolio manager, and a separate legal entity from Bank of Montreal. BMO Global Asset Management is a brand name that comprises BMO Asset Management Inc. and BMO Investments Inc.

®/™Registered trade-marks/trade-mark of Bank of Montreal, used under licence