

# MUTUAL GAINS™



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Without money, possibilities are limited..... without personal relationships, life is barren...  
without balance, happiness and fulfillment are just a dream.



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## Assume There Is No "Market"

In less than forty years Warren Buffett turned an initial investment of just \$105,000 into a \$45 billion fortune, solely by buying shares in good companies. How exactly did he do this? How did he know which companies to buy shares in and when to sell with such profitability?

Buffett's genius lies in his ability to identify companies that perform extraordinarily well over the long term and in his discipline of when to buy them. He does this with a very unusual investing perspective, one that is very different from mainstream Wall Street.

Buffett sees himself as a business analyst, not an investment analyst. In other words he buys businesses, he doesn't invest in the market. He doesn't care where the DOW is or where people say it is going. He doesn't care about charts or what the

"The financial media often refers to 'investors' taking profits, bargain hunting, or driving prices higher or lower on a particular day. When I hear about such actions I attribute them to speculators, not investors"  
Charles Brandes

market pundits are saying, he actually acts as if the stock market didn't exist.

Investors like Buffett (Brandes, Harris, Templeton, Trimark etc) want to know what a company is worth and buy at a 30 – 70% discount to that while speculators prefer to guess or predict what a company's share price will be worth in the future. These are not the same.

## A Retrospective Of Value In Real Estate

I recommend to a number of my clients though out the mid 90's to buy real estate in various major U.S. cities, cities that were hit particularly hard by the Savings & Loans crisis. These cities included, Dallas, Phoenix, Denver and Las Vegas.

During that period many of my clients made over \$5 million dollar of real estate investments in those locales, many of which have now been sold with a healthy return on investment. The most successful of these investments shared the following; 1) Purchased at well below replacement cost, 2) Lots of income vis a vis the price paid for the investment, 3) You could borrow to buy the investment and still have lots of income coming to you after paying ALL COSTS (mortgage, taxes and maintenance etc.). In other words, you weren't sacrificing your personal cash flow to make the investment and 4) Lots of investment choices because most people didn't have the emotional fortitude to go against the crowd.

Today we aren't seeing these extreme values no matter where you look because we haven't seen a financial upheaval to match that one, other than say the leaky condo issue hear in the Vancouver area. Barring a similar scenario, the key today in making a successful investment is finding one that has a lot of little things better than 95% of the investments out there. Investing today requires more and much better homework.

## Everything Moves In Cycles

Don Vialoux, an independent market analyst has found that during the last 70 years, equity markets (represented by the Dow Jones Industrial Average) have moved in 16-year cycles, alternating between flat, choppy prices and periods of sharply higher prices.

1934 – 1950	Market was essentially flat but had much interim volatility
1950 – 1966	Market increased by 400%
1966 – 1982	Market went virtually no where with a lot of volatility year in and year out
1983 – 1999	Markets went up by 100%
1999 – 2015	If the pattern is consistent, the market will be essentially flat

If you are contemplating or have purchased shares in a particular big, household name company and plan on holding it blindly for the long term your investment may be worth the same 10 years from now. You can expect the same if you are buying an index unit or mutual fund. Disciplined value investing on the other hand (buying shares cheap and selling when shares reach their "intrinsic value") does very well in this kind of environment. Business people buying pieces of businesses should prosper greatly.

## Keeping The Companies You Own Accountable

It might not often look like it but your portfolio is a living and breathing thing. Even though all you see is a name of a particular mutual fund and the value of it on your investment statement, the investment managers who are managing your money are working behind the scenes to ensure that the companies whose shares your money is invested in are acting in the best interests of you the shareholder and ultimate owner of the company.

Here are some recent examples of accountability on your behalf:

Magna International Inc. - a lucrative \$54-million compensation package for auto parts chairman Frank Stronach was criticized harshly by investment managers. In protest, Royal Bank of Canada's investment arm, along with Ethical Funds Co. and Meritas Financial Inc., signalled they would withhold their votes for the company's board of directors at the May 6 annual meeting.

Wheaton River Minerals Ltd. - Fidelity Management Ltd., owner of a 14.6-per-cent interest (through the mutual funds they manage) in the Vancouver precious metals miner, complained it was prevented from voting some of its proxies against the proposed June 8 merger with Iamgold Corp. Wheaton bowed to pressure and agreed to hold a second vote July 6.

Molson Inc. - On June 22, AIM Funds Management Inc. and AGF voted against the re-election of Dan Colson to the brewery giant's board, citing the newspaper executive's ties to troubled Hollinger International Inc.

## Give Money To Your Adult Kids To Further Their Education

An RESP is not just for kids. It can be set up at any age. A couple of relevant restrictions on the RESP are: 1) The money must be used for education purposes and, 2) An RESP must be closed by it's 25th anniversary.

In this context, you as a parent of an adult child can contribute money to an RESP and they can only use it for educational purposes at some time in the future. In the meantime, neither you nor your adult children will pay any tax on any of the interest, dividends or capital gains derived from the investment.

Nobody would get any of the 20% education grant money but setting up an RESP for an adult child would allow you to put money away on a tax sheltered basis for a specific use. Your adult children don't even have to see that the money is there. You would be the subscriber and can have the investment statements sent to you directly.

## Life Is Less Expensive Now... Sort Of

I've heard it said, particularly by retired people who have adult children, that the daily cost of living is much more expensive today than it was 30 – 40 years ago. I have always believed that life isn't more expensive today. It's just that we, particularly those of us under the age of 50, want everything we can to make our life easier and more enjoyable, and we want it NOW.

In 1961, almost 53 per cent of all consumer spending went to the "necessities of life" -- food, clothing and shelter. By 1981, those 3 things accounted for only 46 per cent of spending and by 2000, its share had dropped to just over 40 per cent. Those are Statistics Canada numbers published in June.

Most of our spending over the past 40 years has been re-allocated to things that 1) keep us healthy (specialized health services like chiropractic and laser eye surgery), 2) entertained (expensive leisure equipment, massive TV's with specialized cable or satellite in every home and travel) and 3) in touch with each other (computers on every desk, cell phones attached to every human ear).

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The things we spend much less money now, compared to the early 60's are, 1) Food (down from 19 cents to 10 cents today) and 2) Clothing (8.7 cents on the dollar in 1961 to 4.4 cents today).

Life isn't more expensive. Each of us has chosen whether or not we have made it so.

## Tax Freedom Day

Income tax rates have come down quite nicely over the past 10 years however overall we are paying the same amount of tax.

June 28 was declared to be Canada's "tax freedom day" in 2004 according to the Fraser Institute. It is one day later than last year. While it differs from province to province, the date marks the point in the year when the average Canadian's earnings have passed the total of taxation from all levels of government. This includes all those hidden taxes we don't see.

The research firm says the average Canadian family saw an increase of \$1,327 in overall taxation between 2003 and 2004, with 40% of the increase paying for higher social security, pension, medical and hospital costs.

## These Insurance Prices Are Going UP

The cost of protecting your family's financial health against medical disaster is on the way up.

If the worry has crossed your mind more than once of what a cancer, heart attack or other serious sickness could do to your security then I'd suggest that now's the time to seriously look at protecting yourself with some Critical Illness Insurance. It's widely expected that the premiums could rise by something in the area of 15 per cent this year, and there's even speculation that less favourable policy terms may be on the way.

Critical illness insurance provides tax-free cash to you if you're diagnosed with cancer, heart disease, stroke or, in many cases, a list of 18 or so other conditions that includes multiple sclerosis, Parkinson's disease and kidney failure. Think of it as survivor's insurance that can be used to cover your mortgage or other expenses while you're laid up, to pay for medical treatments not covered by your provincial health plan or to bridge you until your disability insurance kicks in or to fly yourself ahead of the waiting line here in Canada.

The reason for the expected price increases is insurance companies are seeing signs of increasing claims in the future. This comes partly from a view that there will be more instances of diseases like cancer in the future, but also from the expectation that improving medical technology will make more cancers detectable.

In Britain where Critical Illness Insurance has been around for much longer than Canada, premiums have increased from 30 to 50 per cent. Critical illness insurance is soon going to cost more for you.

Today, as an example, \$100,000 of Critical Illness Insurance for 10 years costs between \$500 and \$700 per year for a 45-year-old male. A policy with premiums fixed to age 75 would cost approximately \$1,000 per year.

What if you don't get (or expect to get) a Critical Illness but still want to hedge your bets? You can get a policy that will pay back a portion of your premiums after a number of years.

## 100 Years Ago.....

These are U.S. stats, however Canada wasn't much different:

- The average life expectancy in the U.S. was 47 years.
  - A three-minute call from Denver to New York City cost eleven dollars.
  - The average wage in the U.S. was 22 cents an hour. The average worker made between \$200 and \$400 per year.
  - An accountant earned \$2000 per year, a dentist \$2,500 per year, a veterinarian between \$1,500 and \$4,000 per year, and a mechanical engineer about \$5,000 per year.
  - Ninety percent of all U.S. physicians had no college education.
  - Sugar cost four cents a pound. Eggs were fourteen cents a dozen. Coffee was fifteen cents a pound.
  - The population of Las Vegas, Nevada, was 30 people.
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- Marijuana, heroin, and morphine were all available over the counter at corner drugstores.
- Eighteen percent of households in the U.S. had at least one full-time servant or domestic.

Just imagine what things could look like 20, 50 or 100 years from now?

HHHhhhhmmmm.....

Gasoline prices had their highest monthly rise (13.6%) since 1983 (when prices rose 19.1 per cent) - Statscan

Bond prices just finished their worst quarterly performance in 23 years due to inflation fear concerns.

Canadian interest rates (short term rates) could jump by as much as 1.5% in the next 18 months, says Clement Gignac chief economist at National Bank.

Historically markets grow during a rise in interest rates. For example, the S&P 500 has risen during all five fed tightenings since 1983. The average market increase has been 14.3%.

Bond yields are at a low of 5% and PE ratios (a measure to determine the value of a company) are under 15. Historically, this has provided equity investors double digit returns going forward - Bill Miller, Legg Mason

Stocks are undervalued by about 32 per cent relative to bonds, which puts stocks at one of their comparatively cheapest levels in two decades according to National Bank Financial Inc.

AGF Investment Advisors (Dublin) is very selective when it comes to purchasing a company for the mutual funds they manage. Last year they had face-to-face meetings with over 800 companies and only five were deemed worthy for a new investment.

European companies are growing profits faster than U.S. companies and are 24% cheaper on a PE basis.

The average CPP at age 65 is \$446.55 per month. The maximum is \$814 per month. The average OAS is \$441.10 per month. The maximum is \$463.39 per month. The average person gets approximately \$900 per month from CPP and OAS combined. If your total retirement income is much below \$13,224 per year you will get the Guaranteed Income Supplement (GIS).

The average Canadian works 1,785 hours per year (33 hours per week). In 1979 the average was 34 hours per week. The least hours worked in a week are by Norwegians. The average there is 1,354 per year (26 hours per week). The Dutch were a close 2<sup>nd</sup> in the world for least hours worked.

Molson is the third-largest brewer in Brazil.

If you're 19 or older, or will turn 19 before April 1, 2005, and didn't file a 2003 tax return last April, do it now. You're eligible to receive the refundable GST credit. It's worth up to \$224 this year.



Chartered Financial Planner

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