

MUTUAL GAINS™



published bi-monthly since 1987

Issue No. 104 November / December 2004

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



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An Unsettled Time Is a Good Time

Even with hurricanes, continued uncertainty in Iraq, seesawing oil prices and unprecedented U.S. debt, 2004 has produced an environment of the lowest market volatility we have seen in 50 years, according to Harris Associates in Chicago.

Reading between the lines shows that many investors are sitting on their hands waiting for a catalyst to make them feel more optimistic.

Data confirms this. Households are swimming in liquidity based on the amount of money in cashable accounts and investments. In fact, in the U.S., according to Harris the amount of money in household cash accounts has doubled since 1995 and now sits at \$5 trillion. An amazing number since the interest you can earn on your savings is at all-time lows.

Investors usually follow the crowd and often invest too late which is why it's not surprising to see that corporate profits over the past 3 years have grown by 19% per year, according to ISI Group and cash is swelling company bank accounts. According to the U.S. Federal Reserve, corporate balance sheets are in their best shape in 40 years.

So, if you think there is a lot of risk in equity type investments it appears the opposite is true. Besides, historically things burst only when everyone you talk to is euphoric about investing. The opposite feeling seems to be much more prevalent today.

Success Isn't Always 5 Stars

Many people choose their mutual fund investments (if they are not working with a Financial Planner or Advisor) almost exclusively using the star ratings by Morningstar, Bell Charts etc. Sure, a 5 star fund shows how well a fund has done IN THE PAST however investors looking for long-term success would do better to steer clear of such funds. That is what a study by Finance Professor Matthew R. Morey of Pace University in New York shows. Here are the highlights:

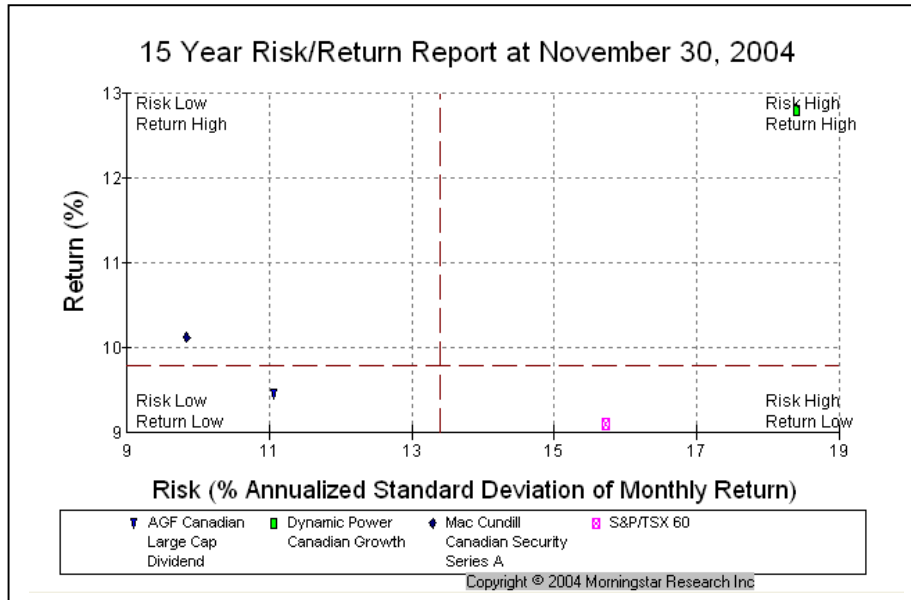
- Ø A fund's performance relative to that of its peers sinks dramatically in the three years after it receives a 5 Star rating
- Ø They generally invest in higher-risk companies
- Ø A tidal wave of new investors rushing into the funds after the ratings come out has investment managers struggling to find good uses for all the extra capital
- Ø There's very little indication that an average-rated [or three-star] fund is going to do any worse than a five-star fund
- Ø Some rating systems up until a few years ago had a serious flaw where all domestic equity funds were ranked together, so when many funds that loaded up on technology and other growth stocks in the late

90's got high ratings, managers who looked for value got low ratings. When the bubble burst, the rankings found themselves becoming completely reversed.

"Indexing" Versus Good Active Management

There has been an ongoing debate on whether investment managers earn their fees for managing our money or if we would be better off investing in a mix of some form of "index" fund where internal costs are lower.

The graph below shows how 3 mutual funds have done over the past 15 years, AFTER ALL INTERNAL COSTS against the Canadian index they are often measured against, the S&P/TSX 60 Index:



The 1st example I want to bring your attention to is the Mackenzie Cundill Canadian Security Fund. This fund has done better on a performance basis (10.1% per year versus 9.1% for the Index) yet it has fluctuated 36% less than the index. In other words, higher returns yet lower risk. The 2nd example, the AGF Canadian Large Cap Dividend, although it appears not as attractive as the Mackenzie fund, also produced higher returns (9.5% per year versus 9.1% for the Index). It too did it with much less risk. The interesting thing is that

the AGF fund was only rated 4 out of 5 stars yet still beat it's cheaper alternative. The 3rd example as well as the highest risk and highest performing comparison, the Dynamic Power Canadian Fund, produced returns 40% higher but with only approximately 16% more variability or risk.

Yes, it's cheaper to have our money in an index investment rather than have someone being paid to manage our investment portfolios however, if you have a good (but not necessarily excellent investment manager as ranked by stars) you will have a portfolio that will probably 1) Fluctuate less (less risk) and 2) earn more than the Index. In the end, you will have received more value than what you internally paid for.

Note: There are many investment managers out there who don't deserve to manage your money. My job as a Financial Planner is to ensure you are getting investment management that is worthy to work on your and my behalf. One of the ways I do this is to meet and / or have conference calls on a regular basis with the investment managers managing your money. If something material changes in their investment walk or talk, we fire them.

Disclaimer: Important information about mutual Funds is contained in their simplified prospectuses. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

You Need To Know Your Company Pension Plan's Indexing Formula

Currently Britain is trying to handle its pension crisis. In February their Secretary of State for Work and Pensions announced that they would be doing regular "pension health check ups". Britain's Pensions Bill also includes the establishment of a "Pension Protection Fund" to protect members of "defined benefit" pension plans. It is estimated that 65,000 of pension plan members will lose 20 – 100% of their expected pensions. This is a result of underfunded pension plans from insolvent employers being wound up.

In Canada we are also seeing cracks in the pension plans of some companies and some are even considering cutbacks to their pension plans to keep them going.

One expensive "bell" to company pension plans is indexing. Public-sector and unionized employees typically have plans with formal indexing however many pension plans have ad hoc indexing. While a defined benefit pension plan may promise lifetime income, if your pension has less than 100% indexing you will have less real money each and every year as your income will slowly be eroded by inflation.

Example: Louise retires on a \$20,000 pension indexed at 75% of the CPI (inflation) less 1%. After 10 years, she will need \$25,602 to maintain her buying power (virtually all her costs have gone up) however her pension will have risen to only \$21,821.

Technically, pensions for B.C. government employees are only indexed to the extent that's affordable. A widely used formula for company pension plan indexing is 75% of the CPI's year over year increase minus 1%. If inflation goes up by 3%, your pension goes up by only 1.25%.

If you have a company pension plan relying on it as your primary retirement income source could prove problematic. An RRSP can be an important inflation hedge for those with healthy pension plans.

What The CPP Investment Board Has Been Doing With Your Money

The CPP, at the end of September had \$75.2 billion of investments invested on your and my behalf. This is where a part of our retirement income will be coming from when you and I retire and decide we want to collect our CPP on a monthly basis.

48.8% was invested in publicly traded stocks, 2.9% in private equities, and 0.9% in real estate. The remainder, 47.4% was in bonds and money market investments. Our CPP fund has, over the past 5 years, been steadily increasing it's equity component while reducing it's bond investments.

Note: The CPPIB's mandate is to eventually increase it's private business investments and real estate holdings to 10% each.

The "In Trust" Account Is Your Children's Property When They Turn 18

You may have an "In Trust" account set up for children close to you. It could be in the form of a bank account or mutual fund held in '(your name) "In Trust for" (your children's names)'.

The lack of a "Trust Agreement" makes this "In Trust" account an "Informal Trust" because there is no formal or legally binding "Trust Agreement" laying out the parameters of how and when the money can be used by your child (or grandchild), the beneficiary.

What this means is that when your children (or grandchildren if you are a grandparent) turns 18 they are legally entitled to all of the money on their 18th birthday. They can do whatever what they will with the money. From a legal perspective, it's theirs and theirs alone.

Changing Your Principal Residence For Maximum Tax Efficiency

Only if you own a cottage along with a principal residence could this information be of value to you.

A principal residence is the accommodation that you own which is normally inhabited by you. Because capital gains on a principal residence is tax free you can only have 1 principal residence for a period of time. You can change your designation of which home is your principal residence but you can't have 2 at any one time. That rules has been existence since 1971.

Key point is this; you only have to designate a property as your principal residence when you sell it. So, the property you designate as your principal residence is your choice and will be based on what is most advantageous to you from a tax perspective. There is a phrase in the Income Tax Act, "normally inhabited", clarifying the definition of principal residence but it doesn't mean you have to live there full time however you must occupy the property on a regular basis each year. You can as well, split the principal residence capital gains exemption between 2 properties if it is to your tax advantage.

These rules can be used to your advantage, particularly if there has been a rapid increase in the value of one property more so than the other. I'd suggest talking with your accountant if this issue applies to you.

Note: You cannot designate a piece of land on which there is no building as your principal residence since there is no building for you to live in.

Your CCRA Information Is Available To You Online

"My Account" is a new online service from the Canada Customs and Revenue Agency (CCRA). This website allows you to see all of your personal income tax data 24/7.

Information on the site includes (and this is only a short list); your tax refund amount, tax instalments you've made (or due), Child Tax Benefit payments, your RRSP contribution limit, your Home Buyers' Plan and / or Lifelong Learning Plan details if applicable.

You can access your "My Account" information by providing the amount reported on Line 150 of your tax return from the previous year, along with your date of birth, social insurance number and your "web access code" which is printed on your "Notice of Assessment" for 2002 or later.

Don't have a copy of your "Notice of Assessment"? You can get an access code by calling the CCRA E-Service Help Desk @ 1 800 714 7257. Go to www.ccra.gc.ca/myaccount to learn more and log to on.

HHHhhhhmmmm.....

Over the past 30 years kid's birthday parties have morphed from cookies and pin the tail on the donkey to large birthday hooplas at one stop birthday locations specifically built for kids parties, with lunch or dinner included. The simple birthday party "loot bag" has now become a status symbol, which can include Lego, digital cameras and even hockey tickets.

80% of men over 65 are married. 80% of women over 65 are widowed.

If you apply to receive your CPP between age 60 and 64 you "must stop working or earn less than the current maximum CPP payment." But once you reach age 65 you can earn as much employment income as you like without affecting the CPP you get.

In 1970 the United States had approximately five square feet of retail space for every person. Now it's running about 20 square feet per capita, an increase of 300 percent.

China uses 50% of the world's cement production.

An RESP has a 25-year life maximum so if you set up an RESP when a child is 10 for example, it can continue to grow until they are 35.

There are 2 kinds of deflation, one is bad and one is good. Deflation caused by deficient demand was the case in the 30's. Deflation created by excess supply was evident in the late 1800's and the 1920's.

We have seen an up-tick recently in short-term interest rates, however the bond markets are showing that the 23-year downtrend in interest rates will continue.

With interest rates near historical lows the traditional safe haven of bond investing does not hold the same appeal as it has in the past. Institutional investors such as the very successful Ontario Teachers Pension Plan include "Absolute Return Strategies" (Hedge Funds) as part of their fixed income allocation (see page 17 & 24 of their 2003 annual report). In fact, Absolute Return Investments make up 14% of their pension plan, up from 10% just 1 year earlier.

In B.C. Video and DVD Rentals are charged both the GST PLUS PST even though you aren't actually buying anything.

My Christmas Wish For You

I hope that, while it is human nature to get caught up with the things the commercial world deems important, you may be able to strip that all away and enjoy this season for what it was and still is meant to be.

I wish you and your family Peace and the richest Christmas Gift available.



Chartered Financial Planner

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