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mutual gains

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Ups & Downs = Opportunity & $'s

I'm sure you've gone through these times, long stretches of personal life peace and tranquility; no health issues, no family conflicts, employment stability and satisfaction, etc. You may even think, if all is so good, that something's going to give.

Well, on the investment side, that period of calmness is the period we just came out of several months back. We are now back to normality. Days of uncertainty, with some uneasiness, a bit of nervousness and maybe a smattering of frustration, rolling in waves, with short reprieves in between. Yes, that time is now. As they say, "c'est la vie" (such is life). The investment side of the saying is "things will fluctuate".

The change has been triggered by the transition from a "low for long" low interest rate environment globally (the past 10 years), to the new era where interest rates look to be creeping upwards. This is much like taking the training

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We will listen carefully
to what you are saying
and be attentive to your desires
as well as your fears
so together we can build
and enjoy
a harmonious
and responsive relationship
in attaining your life's dreams
and through that
We will be attaining ours.

Carey

Why Fluctuations Should Be Ignored

I just got off a long and I must say, very rare phone call on a client's concern about their portfolio's decline recently. The concern was triggered by something that they heard or read in the news. The call was a reaction that was emotionally triggered. 1 negative article + seeing their portfolio down by $6,000 (a very modest 2%) = panic. Again, I said this was a "very rare" phone call over the course of a year because I only get 1 call a year like this at the most.

What obviously isn't understood is that the value of an investment is the yield or earnings it generates. This is much like how a commercial property is valued, on, capitalization rate or "cap rate". How much rent does it generate.

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What To Do With An Inheritance

You have 4 basic options on this. 1, spend it. 2, pay down debt. 3, invest it. 4, give it away. Of course, there are all sorts of personal philosophies that influence how these 4 choices interact with each other. The first though, is the wisdom of "putting your own oxygen mask on before you do anything else". Your oxygen mask is the income you need to meet your needs when you are just don't want to get up every morning to have to earn an income for yourself.

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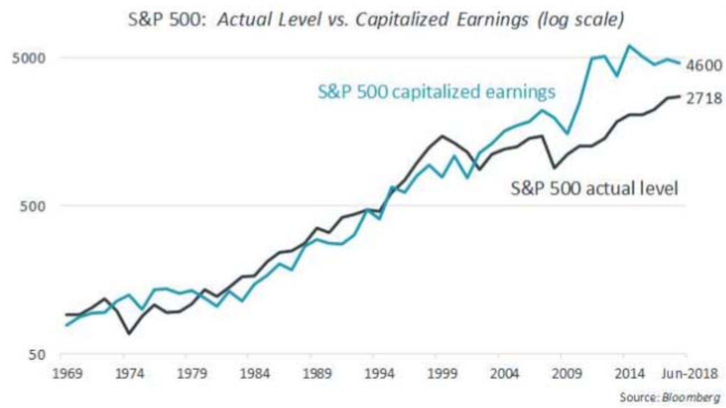
wheels off of a kid's bike after they have been racing around knowing they can't fall over. Without training wheels, they'll be travelling a bit slower for a while until they get adjusted and comfortable with their new reality. That is exactly why things have been a bit bumpy lately and will probably be for some time.

So what are some portfolio management teams doing? One in particular, who I work very closely with, gave me some stats. From January 1st to July 31st, 54% of their portfolio holdings had gone down in value. More holdings or "names" were down than were up. Average maximum decline of all those combined was –20%. What did they do? Buy more shares of decliners, increasing their number of shares by 11 to 822%. With all of that volatility, coupled with disciplined activity, the portfolio was +5.25%. Investment market volatility is a breeding ground for opportunity and they are loving this environment because…. success is where preparation and opportunity meet.

(...Ignored… Continued from page 1)



That is the basis of determining what the asset is worth. Investments are fundamentally valued on how much income they produce along with how fast that income or earnings, are growing. Publicly traded share prices however can fluctuate in the short term based on all kinds of market "noise" (opinions, government comments, etc.) that analysts think may effect that. In the long term however, share prices come back to reflect the earnings that they produce.

Healthy companies grow their earnings over time. They do fluctuate with the economy however, earnings increase steadily and their share prices rise, almost in lock step. You can see this on the graph to the left. The example here is 500 US companies. Their aggregate market prices (black line) goes up with their earnings. In a growing economy, earnings go up and therefore, share prices go up. It's that simple. The history of a capitalist society is your assurance that short term market fluctuations don't mean a thing. The only way this will break down completely is if everyone stops earning money and stop spending money. That isn't going to happen.

(...Inheritance... Continued from page 1)

With that, you are investing your inheritance (assuming all your debt is gone). The primary vehicle choices one may think of are, RRSP, TFSA or income property. Although, If you want to create the most amount of retirement income per every $1,000 invested, the RRSP and / or TFSA will be the 2 better options. That is a separate topic and one I'll go through in a BloG in the not too distant future.

If it has been projected (with a help of a Financial Planner) that your retirement income will not be high enough to being significantly effected by OAS clawbacks and you are earning income that is over $50,000 AND you will be earning less during retirement than what you earn now, the RRSP will give you the most bang for your buck. The advantage with the RRSP is you automatically get 30—48% refunded back to you, giving you 30 to 48% more money to make money (compound) with.

The TFSA is your slam dunk, next best choice. The ability to compound money tax free is an incredible wealth builder. No tax to pay on the money you make and no tax to pay on using that money as income. No tax, period… ever. However, the TFSA is only good if you hold excellent long term investments in it. If you are just depositing your TFSA money into a relatively low, interest paying bank deposit vehicle, your benefits are negligible and as I have said before, a complete waste of a TFSA.

How To Stay In your Home After Divorce

The writing is on the wall. Divorce or separation is inevitable for you. With the disruption and turbulence that you have and continue to go through, being able to stay in your home will definitely help. As well, it could be financially advantageous not to sell your existing home. But, how can this be done?

Under the regular mortgage refinance rules, you are only allowed to refinance up to 80% of the property's value. However, if you are going through a separation / divorce, you can finance up to 95% of your home's value with the Spousal Buyout Program. In some cases you may be able to consolidate some debts to help with affordability. You do not have to pay Land Transfer Tax again and we may be able to "port" (transfer) an existing high-ratio CMHC or Genworth insurance to try and help save some money.

In any event, to qualify for this program, you must have good credit and you must be able to afford the mortgage on your income alone. Both you and your ex-spouse or partner must currently be on the deed to the property.

Eliminate The Worry Of Running Out Of Money

If you die prematurely, there will most likely be lots of money left to pass on to your heirs. However, the longer you live, the higher the risk of you running out of money; money which you use to pay your ongoing living expenses. These 2 things can help with that:

Life Annuity— This acts like a pension plan. It gives you a guaranteed monthly income for the rest of your life. The older you buy it, the higher your income will be. This can work especially well if you are past your world travelling phase of life and are more home and neighborhood focused. The last phase of your life can be about maximizing your income. You can choose to spend it all as it comes in, give it away or create a balance of spending what you want and tucking the surplus away for unexpected expenses. I've become more an advocate of this idea as I become more attuned to the nuances and family dynamics, of dealing with clients in their 80's and beyond.

Insured Annuity— Also known as a "Back to Back Annuity". This gives you everything I said above but, your monthly income that you receive will be less. This is because, part of the income will be used to buy a "permanent" life insurance policy. With a regular annuity, you make a trade with the insurance company. You give them a lump sum of money, they give you and your spouse a guaranteed life time of income. With an Insured Annuity, you are buying an insurance policy for the same dollar amount as what you used to buy the annuity. This way, when you and your spouse are gone, your estate gets a payout of the same amount you used to buy the annuity. In a nutshell, you get worry free income for the rest of your lives and you leave money for your beneficiaries.

9 Powerful Financial Habits For Kids (and Adults)

Kids who learn critical financial life skills early on, grow up to be successful leaders of their own lives. Here are 9 powerful financial habits that can make them be able to use money as a really effective tool. They can be the controllers of their money, rather than money be the controller of them.

1) Develop a habit of dividing all of their earnings into Giving, Investing, Saving and Spending "pots". When 1 pot is empty, it's empty.
2) Learn "Cash Flow Management". This is simply, where is my money coming from and where is it going?
3) Write down Specific and Measurable goals, e.g., I want X dollars for this purpose by this date. This isn't only applicable to money but is a powerful results creator, applied to anything that one wants to accomplish. A habit that can be extremely fruitful over a lifetime.
4) Learn how to solve problems. In the younger years, you will have to list out possible paths and their outcomes. When they get older, let them think for themselves, critically. This will make them very resourceful through creative thinking.
5) Have them use cash initially and for a long period until they get to know what money feels like to take it in, as well as to allocate it.
6) Delay all purchases over a pre-determined dollar amount. This gives the brain time to pass emotional decisions and move to logic.
7) Make their money work for them. Investing and growing their money means they will not have to rely on their pay cheque or government to supply their financial needs.
8) Let mistakes be made. Mistakes = learning and builds confidence (let yourself feel pain watching your kids make their mistakes).
9) Give freely of the amount you have dedicated for that purpose. This stifles hoarding and helps create awareness that their life's purpose isn't just about their own pleasures and satisfaction.

Donate Investments Not Cash

I'm writing this on the last Tuesday of November, a day that has been newly ordained as "Giving Tuesday". This follows the hyper consumption days of, Black Friday and Cyber Monday. Ironically, the order of giving has, for thousands of years, been to "give of your first fruits" but, we're in the 21s century where it seems timeless wisdom has been turned upside down. But I digress…

The way to donate money has traditionally been by way of cash (ie cheque, direct deposit and credit card). However, if you have investments that have gone up in value significantly, you will be much better off to give a portion of those investments instead. If you donate an appreciated asset, you transfer $X to the charity of your choice. Normally, if you moved money like this to a family member or anyone else for that matter, you trigger a "deemed disposition". This means you sold it and thus you will have to pay tax on the capital gains. However, when giving to a charity, the government says no capital gains tax is triggered. The over all tax saving for an investment that has doubled in value, can be close to 75%. That means, your net cost is only approximately 25% of what you have donated. With cash donations, the tax savings maxes out at less than 50%.

Watch Out For 100% Tax On TFSA

Most people hold relatively conservative investments in their TFSA. There are some though that try to use a TFSA (or RRSP, RESP & RDSP) by artificially shifting value in and out of the plan, or using the TFSA to create substantial gains by trading in highly speculative investments. This is where you could be faced with paying all the gains you make to the government.

One way this is done is by over-contributing to a TFSA. You will pay a 1% penalty per month however, the objective is to earn much more than that and have it be completely tax free. There are many more ways to manipulate a "registered" plan, like a TFSA, for tax advantages, however, you face a substantial risk. A recent decision of the Tax Court of Canada revealed that the government can assess a 100% tax, essentially amounting to a complete confiscation of a person's TFSA.

Tech Gems— SmartPhone "Launchers"

I should have said "Android" rather than Smartphone because frankly, when talking about putting a different Launcher on your phone, as far as I know, you can only do that with Android phones. Apple products come the way they are and there really is very little you can do to customize it. However, an iPhone user, would have passed this great bit of info, by hence the "smartphone" title.

So what is a Launcher? It is a way to customize your phone to make it look and do things exactly, or as closely as you want it to. Samsung comes with it's own launcher, as does Sony, LG, Motorola, etc. They look similar but they all can work quite differently. If you install, as an example, Microsoft Launcher (the one I use), you can change phones and keep the same basic feel on how your phone functions. All the swipes and pull downs work the same. This is also a great way to make your old phone feel new. Try a different Launcher. It's like doing a reno on your home, delaying your desire to move to another home. Do you want your entire phone to have a Canadian theme, with red icons, etc.? How about a Disney themed phone? Try Nova Launcher. You can even make your Android function like an iPhone. Android is the king for letting you have things the way you want them, allowing for full creative expression.

Hhhmmm...

- The S&P Index (currently at 2651) is lagging behind what corporate profits and interest rates would dictate. This suggests that the index should be sitting at about 4600 or 70% higher than where it presently stands. If you use consensus earnings expectations for calendar 2018, the index should be more than 5600. Dixon Mitchell Investment Counsel, July 2018 #AintSeenNothinYet
- In a year when the S&P 500 Index fell between 10 - 20%, the market increases on average by 8% in the following year. It took on average 1.5 years to recover. In a year when the S&P 500 Index declines more than 20%, the market increases on average 30% in the following year. It took on average 1.5 years to recover (excluding the Great Depression). CI Investments, Nov. 2018 #IgnoreFluctuations
- We've seen a 10% drop since September and I think we are reasonably valued and it's a good time to buy with dividend yields looking a lot better than they did a month ago. David Sykes, Managing Director, TD Asset Mgmt Oct. 2018 #DipsMeanCheaperPrices
- In the first week of February, the market was down by about 10%. By mid-summer, all was forgotten as share prices went up from there.
- Shares of European banks are down more than 20% this year on average. Finimize, Nov. 2018
- The Canadian stock market averaged a 9.8% / year return since 1950. 2017 Morningstar Andex Chart. #LongTermWealthCompounding
- Since the Spring of 2008, the TSX (Cdn stock market), has produced a return of less than 1% per year. Business in Vancouver, Oct. 2018 #HowAbout10YearsFromNow?
- Tesla is priced higher than (profitable) Ford and (profitable) Fiat Chrysler Automobiles. On the other hand, Ford has eight times as much cash in the bank as Tesla; it could ride out a dozen moderate recessions and one complete financial collapse. As well, Tesla's factory in Fremont, CA requires 4 times the number of workers to build the same amount of cars, as General Motors and Toyota do, in their jointly operated plant. BusinessInsider.com, Nov. 2018 #TeslaLooksCoolBut...
- India's middle class will top the US's by 2022, according to the Brookings Institution. Morningstar, Nov. 2018 #DontDiscountIndia
- The US has the lowest unemployment rate since the late 60's. USA Today, Oct. 2018 #USLeadingTheWorld
- Men with apprenticeship training were making nearly $73,000 a year in 2015, 7% more than those with college diplomas ($68,000). Instrumentation technicians (install and maintain measuring and control instruments used in manufacturing, petrochemical and other commercial settings) were making an average of $130,000 a year, the highest-paid trade in Canada. Global News, Oct. 2018 #SkillsAreValuable
- Of the 2,000 people who recently took a survey commissioned by robo-advisory firm Betterment, 48% thought the stock market had not gone up at all in the past 10 years, while 18% said it had gone down. Perhaps the results provide insight into the folly of using a robot to be one's financial advisor (the market is up 137% to 426% depending on what starting point you use) Edgepoint Wealth, Oct. 2018
- 22% of urban homes in China are empty. That is 50 million empty homes. Canada has 9% of its housing stock sitting empty. CKNW money talks, Nov. 2018 #WeakFoundation #SignsOfSpeculation
- Oxford Economics cited the Canadian housing market as at imminent risk of a major price correction. Canada has the third most overvalued housing market in the world, 173% higher than their historical average. As a general trend among OECD countries, when prices rise 35% or more above their historical average, there is a 75% likelihood of a price correction within 5 years. When that occurred, the median decrease was 14%. In 1/3 of these cases, the correction was more than 20%. Western Investor, Sept. 2018 #SpeculativeTop?
- J.D. Power says the average car loan payment in Canada is close to $630 / month. Globe & Mail, Oct. 2018. #Try1LessCar
- I bought a new car in June. They offered an extended warranty on a historically, very reliable vehicle. It was $3,000. My thought: With the $3,000, I'd be pre-paying for a substantial amount of work I might never actually need. The risk equation is a loss of $3,000 for sure (the warranty cost) OR a small chance of having to fork out $5,000? I went with the latter and will do so every time. #OddsInMyFavor
- Read the book Good To Great by Jim Collins and you will soon see why any public school system (or any organization where a management team can't easily hire and fire team members so as to get the best people and in doing so let the best people excel... Or risk losing the best people because of a less than great environment) has a slim to none likelihood of ever being Great. #SecurityBreedsMediocrity
- When I was a kid, I remember the family car had summer tires and winter tires. Sometime after, all season tires became the problem solver to having 8 tires. Now we are being told we should have winter tires, despite global warming. #HybridsDoNothingWell