C.E. VANDENBERG & ASSOCIATES INC.
FINANCIAL PLANNING – WEALTH MANAGEMENT – INSURANCE

# mutual gains

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## 2018 Was Getting "Back To Normal"

Despite being very modestly down by historic standards, equity markets around the world in aggregate, had the worst year since 2008. The US equity markets had the worst December since 1931. A broadly diversified portfolio was down by approximately 5 or 6% for the year. 2018 has been a year of "back to normal" in terms of ups and downs. This follows 2017, which was an abnormally calm and profitable year.

There are many reasons for the bumpy 2018. Ongoing trade friction between the US and in particular, China, Brexit negotiations, rising interest rates (albeit still at historic lows) and economic growth that is slowing worldwide. This is really no different than any year in the past. Every year has a list of things that cause bumpiness and bumpiness like we saw through 2018 is very normal and very healthy.

To give you some perspective, the graph on the next page

*(Continued on page 2)*

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 Share Buybacks Are Good For You

Have you ever heard about "share dilution"? This is when a business continues to issue more shares by selling more shares to investors. The effect of this, existing shareholders own a smaller and smaller piece of the business with every round. There are reasons this can be necessary and actually good for the business, but lets say, it's generally not good for shareholders.

Share Buybacks are the exact opposite. Every share buyback, increases the ownership percentage of every existing shareholder. You as a shareholder, now own a bigger percentage of the business than before the share buyback. The profits of the business are the same. The dividends (if any) are the same. However, there are fewer shareholders and therefore, fewer people to spread the profits, dividends, etc. amongst.

Share buybacks often happen when a company has cash on its balance sheet. It might already pay dividends but, instead of increasing its dividends or spending money building its business, it uses the cash to buy back its own shares. A company may even borrow money to buyback its own shares. The reason this is often done is that management of the business has deemed the price of the shares of its business to be more attractive than any other investment they can make. Buying back its own shares decrease the supply of its shares being trad-

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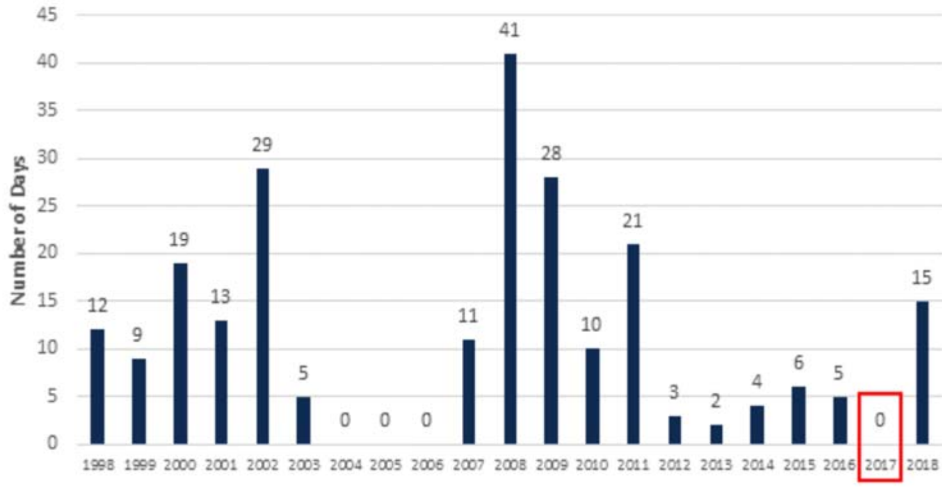
*(2018 Was "Back To Normal" - Continued from page 1)*




shows the number of days the S&P 500 (a US market index) fell by 2% or more. As you can see, as I stated, 2017 was abnormally calm, as was 2012 through 2016. 2018 is actually more normal historically than was 2004, 5 & 6 and 2017. We are more back to normal and you should expect more of the same.

Market ups and downs are actually a good thing. It is a continual wringing of excesses in the markets. Excellent investors thrive on volatility to be able to buy the companies they want, at bargain prices and sell them at higher prices.

The perception for many is that in a time like today, that risk is high. However, risk is actually lower when prices have come down and generally, people are more pessimistic. The best opportunities exist when expectations are the lowest. When expectations are high, risk is high. As Warren Buffet has been numerous times quoted, "be greedy when others are fearful". This is where we are today (although that fear has subsided a bit at time of my writing this).

Being only comfortable with 2012—2017 conditions, and now, wanting to allocate your portfolio more conservatively, will only give you lower, long term returns than what you may need, namely, to produce the maximum amount of retirement income so you can live the those 25,30 or 35 years or more, very comfortably.

*(Share Buybacks—Continued from page 1)*

ed on the public markets and when there is less supply, prices go up. This is very basic Economic 101. Increases in the share price may not go up right away. In fact, they could fall. However, despite what some real estate personality named "Ozzie" wrote about recently on 1 particular share buy back that he thought was bad simply because the share price declined in the short term, share buybacks are good for you as a shareholder of the business.

## 2 Reasons RRSP Loans Are Worth Doing

I can't remember the last time I set up an RRSP loan for a client. It's not that I'm opposed to them. The credit for that must go to the clients I work with and the financial discipline they have; to do RRSP contributions on a monthly basis. That is not to say that RRSP loans are a bad thing. They can actually work very effectively in 2 broad cases.

Forced Savings— Let's face it. Having an automatic, monthly debit out of your account can be stopped as easily as it was started. Face a large bill (ie after Christmas expenses or an expensive holiday on credit) and the first thing you will probably cut is for things that can easily be stopped without effecting your present lifestyle. With an RRSP loan, like any debt obligation, you have made a legal commitment to make payments. Your only choice is to continue to make loan payments on the RRSP dollars you borrowed. In the end though, you have a growing RRSP portfolio.

Investment Price Declines— When investment are cheaper (as they have become recently), the best course of action is to buy more. If you don't have the cash available, the only way to do that, at the opportune time, may be to take out a loan. If you are currently doing monthly RRSP contributions, it could actually make a lot of sense to replace that with making an monthly RRSP loan payment. As an example, if you normally make $1,000 / month RRSP contributions ($12,000 / year), you could do a 5 year RRSP contribution loan for $60,000. This would put $60,000 into your RRSP right away, taking advantage of today's cheaper investment prices and today's very low borrowing rates. Of course, you would need the RRSP contribution room to be able to do this (which I know, many people have).

Note: To receive an RRSP Tax Deduction for the 2018 tax year, you will need to make your contribution by midnight, March 1st.

## Tax Management Overlay Can Boost Your Returns

Overlay Tax Management is a powerful, but seldom used way, to reduce taxes on your portfolio, thus increasing the after-tax return on your portfolio. This can really only be done efficiently using a Discretionary Portfolio Management service; whereby you have all your investments made and changed for whatever reason the firm you are hiring, sees fit.

In an effort to save you some tax, the portfolio management team may strategically sell some of the investments that are below what you paid for them, thus triggering a capital loss. These capital losses, offset some of the capital gains that have been realized. Now, of course, selling investments just to save tax, could be a foolish move. However, with an efficient use of "tax-loss selling", a similar investment would be bought, for a minimum of 30 days. After that, this investment would be sold and the investment you originally held (the one that had declined in value) bought, putting you in the same position as you were at the outset. This series of transactions needs to be done to skirt the “superficial loss rules”.

This kind of series of transactions may sound complicated but in actual fact, it’s actually quite simple. That though, is really here nor there. All of this is taken care of for you automatically, with a Discretionary Portfolio Management service, one that has an active “Tax Management Overlay” system built in to the management of your portfolio. I have been told by one such service, that it has saved “select new clients” on average $7,000 each in taxes in November and December 2018.

## Go With A 30 Year Amortization If You Can

When you use the bank’s money to buy a home, investments, etc. you are using “OPM”; Other People’s Money, to make money. Using this strategy of “leverage” (borrowing) is what can increase your wealth, over the long term, faster than you could be simply using your own money. If you are adamant on trying to pay off this “good debt” fast, you could actually be hindering your wealth creation.

With a mortgage, getting a longer 30 year amortization rather than a 25 year amortization, means your requirement mortgage payments are lower. This gives you more free monthly cash flow, allowing you to re-direct money to another wealth building vehicle, such as a RRSP or TFSA. Alternatively, you can borrow more money to increase your financial leverage or if at all possible, only make interest payments on your “good debt”; that being, debt that is used to purchase an asset that is expected to appreciate in value over the long term.

## Why You May Want To Transfer Your “Pension”

People are moving from employer to employer more so than ever before. With every new employer, you potentially are being set up with a new “pension” plan. Over the course of time, this can add up to several different pension plans that you are entitled to.

The first important thing to know about a company pension plan is that, when you die, either prematurely or while receiving your pension, the pension money can disappear as well. This is more so true when you don’t have a spouse who can receive a portion of your monthly pension income. Despite that though, after you and your spouse are gone, the monthly pension income stops. The younger both of you pass on, the more money you are actually leaving in the pension. This goes to pay the surviving members of the pension plan.

The alternative is to transfer money from your pension plan to a “Locked In” RRSP. This gives you full control of the money you are entitled to and gives you the ability to pass money on to your heirs. As well, with the increasing number of employers you have in your lifetime, the more chance you are going to forget where money is. Transferring to one Locked In RRSP simplifies your life. It also gives you the ability to be in full control over the aggregate of all your bits of money. Because those bits, can accumulate to a sizeable sum.

Note: Many retirement plans at employers are called a “pension” however, they are not a pension in the traditional sense. Most “pension” plans today are simply glorified RRSP’s with a “pension” moniker.

## How To Use The 50/30/20 Rule

Sticking to a budget, that is what the essence of what the 50/30/20 rule is. This rule however is much easier to apply than what a normal budget requires; tracking and micromanaging the money that comes in and every penny that goes out.

The 50/30/20 rule is one of the easiest ways to set boundaries on your spending while also balancing out the planning of your future. It means allocating 50% of your paycheque for needs (“Necessities”), 30% for wants (“Play”) and and 20% to savings (“Plan”). Of course, laying this out first requires that you look closely at what you spend your paycheque on and what you consider priorities. Example would be on ordering food in rather than cooking it yourself or an expensive gym membership versus exercising in a more frugal manner.

50% for “Necessities”— These include housing expenses (rent or mortgage), transportation, groceries, internet, cable (or just go with Netflix), clothing, etc. What does this add up to? If you’re over 50%, you have to pin point which costs you can reduce within these areas. If you are over 50%, the motivating thing about this part is that it will give you more dollars in the “Play” area. Remember though, you only have the net (after-tax) income to base this 50% on. The income that comes into your bank account every month x .5.

30% of your income for “Play” - This is the funky new shoes, drinks and appies with friends, vacations and even a music subscription service like Spotify. You’ll soon discover what is most important to you because… you are limited to 30%

20% for “Planning” - This is all about paying down your debt and building your savings. The conventional financial planning wisdom of having 3 months set aside for emergencies makes no sense to me in this case (although, frankly it doesn’t make sense to me in any case). Get your debt down so you have wiggle room to borrow for the short term, should an emergency arise. Making RRSP contributions will bring your after-tax income up because of the tax deductions. So, when saving, that might me your first consideration. Although, with Financial Planning, it’s best to work with a Financial Planner. You’ll get much farther ahead and you’ll get there faster.

If you’re just starting out, or are trying to wrestle your current 45% “Play” down to a 30, it can be helpful to manually track your spending. For simplicity, I strongly recommend setting up an account with Mint, which I’ve mentioned in a previous “Tech Gems”.

## Tech Gems— Duolingo

When travelling, it always feels good to be able to order a drink or dinner with the local language. You can see it in the reaction by the person you are talking to. They definitely appreciate the effort which can translate to a much more fun experience. My first experience doing this was when Cheryl and I went to Spain several years ago. We have done the same in Italy but frankly, with my having Dutch immigrant parents, learning French in school and trying out some Spanish previously, I found I was getting my French words mixed with Spanish and Spanish mixed with Italian.

There are all sorts of language learning tools and I've tried a few. Duolingo is one of those that is simple, very interactive and can be done in the amount of time you want to spend (as little as 5 minutes a day). The interactive part comes with pictures and words or phrases, attached. This gives you hints to what the individual words could be, creating a sort of puzzle like way of learning a language. My work on this app is with the Spanish language solely so hopefully, getting my languages crossed, will be less likely to happen.

## HHHMMM...

• Stock prices fluctuate both below and above the trendline of 6.6 % average returns but eventually return to the trend. Economists call this behavior mean reversion, a property that indicates that periods of above-average returns tend to be followed by periods of below-average returns and vice versa. No other asset class displays the stability of long-term real (after inflation) returns as do stocks. AdviceForInvestors.com, Dec. 2018 #FluctuationsAreNormal

• By this morning (Dec. 31st 2018), the index (S&P 500) is selling at 14.3 times (earnings), about 11% below its 25-year average. By simple math, if, in 5 years' time the market is selling at 16.1 forward earnings, investors putting money in stocks today could expect 3% per year greater returns than they could 3 months ago. David Kelly, Chief Global Strategist, J.P. Morgan, Dec. 31st 2018 via LinkedIn #LowerRisk&CheaperPrices

• The UK's index of stocks, the FTSE 100, closed below the level seen at the end of 1999. This leads people to think that investing in stocks has been bad. However, because dividends are paid, an investor would have seen their investment grow by about 90% during that time. Bloomberg, Dec. 2018 #PerceptionIsNotReality

• Since 1931, holding cash has done better than equities (the US market) only 11 times, that last being 2018. However, when that has happened, only 2 times has the equity market had a 2nd year of negative returns (1 of them was 1931). The average return was 12.85%. Morningstar, Jan. 2019 #IgnoreUps&Downs

•The US stock market was created on March 8th 1817, over 200 years ago. IPC Investment Counsel, Jan. 2019 #202YearsOfHistory

• America's debt burdens are not high. Thanks partly to still-low interest rates, household debt payments, as a percent of income, are 30% lower than in 2006 and lower than anytime since at least 1985. That's true even with the student-loan explosion. MarketWatch.com, Dec. 2018 #CanadaOnTheOtherHand?

• In the 1630's, prices for tulip bulbs, which were new and fashionable in Europe, rose exoribantly in price. At the peak of "Tulip Mania", some single tulip bulbs sold for more than 10 times the annual income of a skilled worker. Prices collapsed in February 1637 leaving many investors financially ruined. Wikipedia.org #TulipsThenCryptoNow?

• Adrienne Clarkson, Canada's former Governor General, left office in 2005, almost 14 years ago. She continues to submit receipts for her expenses, which have added up to $1.1 million. This is on top of the $1.6 million she has collected from her pension and $3 million the government gave her to start a foundation. Former Governor Generals have been submitting expenses to the Canadian government since the 1970s. Canadian Taxpayers Federation, Oct. 2018 #EnoughAlready #WePayForThis?

• A, I'm guessing "30 something" doctor from the UK, who arrived in Canada 3 months ago told me while giving me my weekly allergy injection, that the Canadian medical system is at least 10 years behind the UK's. For example, she said, the pap smears they do in Canada (she acknowledged I may not know anything about pap smears and no, I don't), are what she did over 10 years ago, when she first became a doctor. #CanadaIsWayBehind #NotAsGoodAsWeThink

• "We have 3 levels of left wing government. Money will go to where it is most loved and investment here is very, very, very difficult right now. Vancouver is not an environment where a smart person would invest". Chip Wilson, Founder of Lululemon #$topWhenLeftReigns

• India is set to zoom past the UK and France to become the world's 5th largest economy in 2019, thanks to a whopping population favorable demographics that also make it the world's fastest growing economy. Finimize, Dec. 2018 #BigPopulationHighlyEducated

• 51% of Canadians have no Will, and only 35% have one that is up to date. Quebec and BC lead, with 58% and 54% of residents respectively having Wills. Less than 50% of residents of all other provinces have Wills. Advisor.ca, Jan. 2018 #GetAWillNow

•"There is more order in nature than we think, as in the symmetry of leaves and the geometric perfection of snowflakes." Start With Why, Sam Sinek #RandomChanceorDesigned?

•My new car is 6 months old. I have dents in it already, which all happened while I was parked in various parking lots. 1 of the dents is quite large. No one left a note. I've heard it said many times that people are generally "good". I believe that is an incorrect worldview and what was said by "Kris" (Kringle) in the movie "Miracle On 34th Street is much more accurate to reality: " ...the *selfish* and *hateful tendencies* that *rule* the *major part* of *our* lives". #TruthOn34thStreet