# C.E. Vandenberg & Associates Inc.

Financial Planning – Wealth Management – Insurance

mutual gains

ISSUE NO. 190 March / April 2019

## Perfect vs Really Bad Timing

2018 was the worst year since 2008 for investment markets overall and December 2018 was the worst December since the Great Depression. Ironically, it felt like only a hiccup to me but I've been through a lot of market ups and downs over the past 30 plus years. As well, there was no imminent danger of recession as far as I could see so I suspected the "down" would be very short lived and… it was. January reversed December's course and was the best January in over 30 years.

Frankly though, none of that really matters. You may have heard the axiom that when it comes to investment success, it is time not timing that determines it. Human psychology however and its byproduct, emotion, steer us from what the purpose of our long term assets are; to being grown and multiplied so as to produce a monthly income for us when we don't want to get up to work for our income anymore (retirement).

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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.

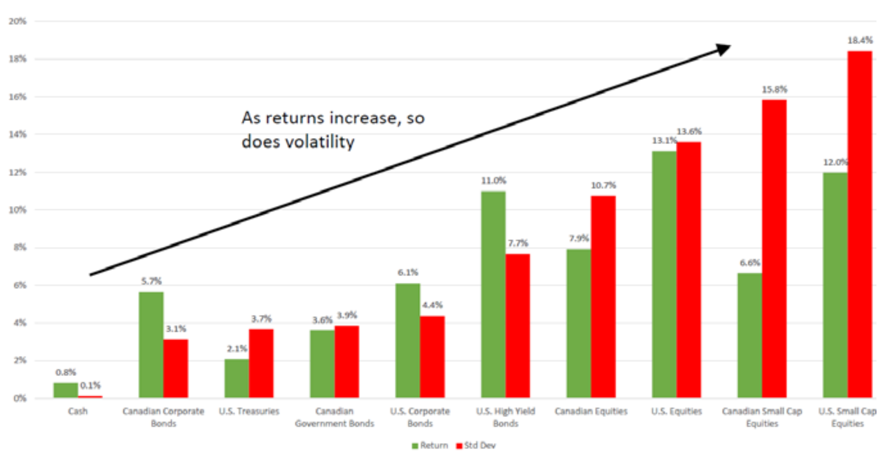
Carey



## Volatility Is Necessary (And Good For You)

If you want your money to grow you have to accept volatility as a by product of that. As the Red Rider song goes "Don't Fight It". As you can see from the chart below, that is what you should do:

Asset class returns & volatility




*Source: Morningstar, trailing 10 years as of December 31, 2018. Returns are in base currency. Cash = FTSE TMX Canada 91 Day Tbill; Canadian Corporate Bonds = FTSE TMX Canada All Corp Bond; Canadian Governm Bonds = FTSE TMX Canada All Government Bond; US Treasury = Bloomberg Barclays US Treasury TR USD; U.S. High Yield Bonds: ICE Bank of America Merrill Lynch US High Yield TR USD; U.S. Corporate Bonds = ICE Ba of America Merrill Lynch US Corporate TR USD; Canadian Equities = S&P/TSX Composite; Canadian Small Cap Equities = S&P/TSX Small Cap; U.S. Equities = S&P 500 TR USD; NASDAQ 100 = NASDAQ 100 TR USD; U.S Small Cap Equities = Russell 2000 TR USD*

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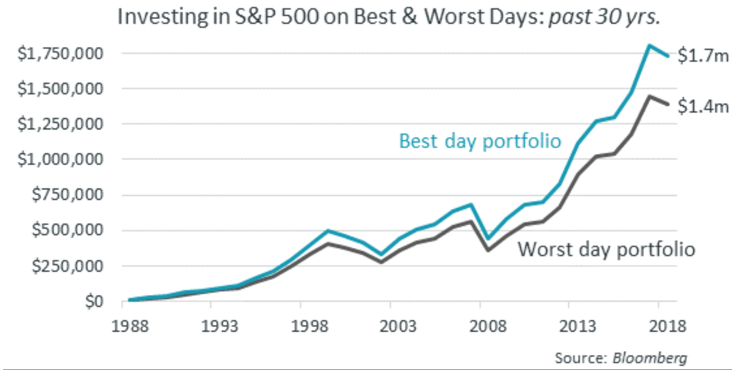


During much of the time we are working, we are stashing money away, trying to grow and multiply it for future use. The future use is, to produce income for the next 25—35 (or more) years.

All during our working years and our retirement, life happens. The world's economic cycle ebbs and flows, political agendas change with elections and occasionally, while all of that happens, you get those unusual events that create elevated, short term anxiety, be those personal or more widely felt, equity market events. It is with these, that people worry about what could happen in the short term. Emotions such as anxiety and fear are stirred by the events of the day. These have us second guessing how our long term money is invested.

The reality is, it IS time not timing that is the key to success. Even if you make bad timing decisions on new money you invest, you will do very well. This is illustrated in the chart in the upper corner. It compares investing $10,000 per year on the lowest days of each year versus investing at the absolute best time each year; the absolute worst possible scenario against the best possible scenario. Getting the timing 100% perfect every day, for 30 years in a row, versus being wrong 100% of the time, year in and year out for 30 years. The odds of hitting either of those is about 1 in 124 followed by 70 zeros so you'll more likely fall in the middle of those.

So, if you are stashing money away, concentrate your efforts on the habit of investing regularly (monthly is best) versus trying to figure out if your timing could be better. If you are retired, ensure that you do projections every year or 2 to ensure your money will still last you a lifetime. As the highly successful investor, Sir John Templeton always said , "the best time to invest is when you have the money". Do that, stay invested and you'll have made 2 decisions that will be the right ones.

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The red bars show degrees a measure of "volatility" or variability of returns and the green bar is the 10 year average annual returns. Rather than try to explain things, I'll let the graph speak for itself on what is clearly evident. If you want higher returns on a long term basis you have to be willing to subject yourself to the uneasiness of seeing the value of your portfolio statements, bounce around more rather than less. The only risk you face with high quality, broadly diversified investments is the variability of returns, not the risk of permanent loss.

## Retiring At 65 Isn't Your Only Choice

The traditional retirement of age of 65 continues to be the benchmark of when to retire. That age 65 retirement milestone, was first set in the late 1800's in Germany and in 1934 in the US. For Canada, that age was set when CPP was established in the 60's. The fallacy of that number today is that we are living much longer now. You will most likely be drawing retirement income from your assets that much longer than your parents were expected to. 30 years ago, life expectancy was closer to age 85. That is a potential 50% increase in your retirement years. Despite that, so many expect 65 to be the goal.

To be realistic, someone retiring at age 65 today should be assuming they will be living until age 95 (although, with my client's retirement projections I often use age 100 just to be safe). So, what are your choices? 1st is, work a bit longer. That could mean you stop working at 65 and work PT to age 70'ish. Alternatively, work fully through the 2nd half of your 60's and then officially retire. 2nd is, learn to live on a lot less than you are living on between 55 and 65. This way you get accustomed to living on a lot less because, let's face it, you'll have to when you retire at 65. Good luck with making that cut during your prime income earning years, though. I'm 56 and with good health and more discretionary cash flow than I had in my earlier days (and my own retirement projection on track), a short stint to a sunny locale in November or January is hard to say "no" to. 3rd is... stop supporting your kids. Let them accomplish things on their own. You weren't any smarter or more resilient than they are so why do you treat them as such? 4th, cross your fingers and close your eyes (not recommended).

The point is, you need to figure out how things will work out and have Retirement Projections (including a Portfolio Stress Test). Also, you need to be relatively conservative in what you think your portfolio will grow by. This is much like building a bridge and making sure you have more than enough financial strength rather than barely enough or not quite enough with the hopes you'll make it. I don't know about you but I like driving or walking across a bridge that I know can very easily handle all of the weight on it. As well, I'd suggest pushing your investment risk comfort level, within prudent reason. As a Financial Planner, I'm doing this all the time.

Do all that and I think you'll find that, although technically retiring is harder, working with a Financial Planner you have more tools and knowledge that can be drawn on, to make it happen. If it can't be at age 65, don't get to caught up on that number. In my view, it's outdated. More people just like you are choosing to work longer and are feeling good doing it, in one form or another.

## Are You A US Citizen? Why You Shouldn't Have A TFSA, RESP or RDSP

Are you a US Citizen in Canada? Are you a dual citizen? If you are either, a TFSA, RESP or RDSP is probably not the best place for your mon-

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ey. In fact, there may not really be any benefit in contributing to a TFSA, RESP nor a RDSP at all. Here is why.

Since you are a US citizen, you have to file a tax return in the US and pay US taxes despite not living there (I know, it's crazy but the US is only 1 of 2 countries in the world that taxes their citizens who live outside the country. Eritrea is the other one… no, I've never heard of it either). The US government does not recognize the TFSA, RESP and RDSP as tax preferred plans. Because of that, all the income you earn within all of these must be reported on your US tax return.

Much of the information passed on to the US government was created with FATCA (Foreign Account Tax Compliance). Then this was introduced, they required that all banks, investment firms, etc. around the world, report to the US government the assets of account holders who may be Americans so they know exactly where all their citizens money is and can tax them fully.

The irony is that the whole purpose of RESPs and TFSAs are to be able to compound money tax free. If you can't do that, why hold them? Well, for the TFSA the answer is simple; it doesn't make sense. There is no benefit. RESP and RDSPs though, are a bit different. Money from Canadian government(s) are added to the plans and you, as a US citizen, has to claim those as income. You are taxed fully on them the year they are received. You may think that it could still be worth it (and it possibly might be). You will have to complete and file additional tax forms for the IRS. As well, you'll face potential double taxation, there is nothing in the tax treaty to deal with that, in these cases. The solution on all these is if you have a non-US resident spouse. They could hold any of these kind of plans in their name only.

## A Copycat Annuity Instead Of Your Company Pension

Despite what most people think, your portion of your company pension plan doesn't have to stay there. You can choose to move the "commuted value" to something that is in your name solely. You would seriously want to consider this if you realize how much money has been accumulated on your behalf, inside the pension plan, for you. This can easily be several hundred thousand dollars to a couple million.

The key reason on why you would even consider transferring your commuted value of the pension plan is to lessen your risk. This may sound strange since virtually everyone who has a plan, believes the pension plan is guaranteed. The hard fact though is quite the contrary. Company pension plans are really only as stable as the company that set them up. The pension plans stability or lack thereof is directly linked to the financial strength of the company itself (remember Nortel?).

A good way to decrease the risk of your expected monthly company pension being cut in the future is by having your commuted value of the company pension plan transferred to a "Copycat Annuity" with a life insurance company. A Financial Planner can get several quotes for different, very financially strong life insurance companies, on what your commuted value will give you. As long as it at least matches your company pension plans stated benefits and features, it qualifies for a complete transfer without any tax implications. If your commuted value can give a higher monthly income than your pension plan says it will give, you could choose to receive a lump sum of cash AND have the same monthly income as your company pension plan. All good reasons to at least get some quotes on Copycat Annuities, don't you think? (Bell Canada has done the same thing by transferring $5 billion of their own pension liabilities to Sun Life)

## Helping An Adult Child Buy A Home Using Their RRSP Contribution Room

The amount you can withdraw from an RRSP tax free using the Home Buyers Plan (HBP) was just increased from $25,000 to $35,000. Despite being available, it is a relatively underused way to help a first time homebuyer, accumulate a downpayment. Here is how a parent can use that option for their offspring assuming the adult child has the RRSP contribution room:

Loan them $35,000. They use it to contribute to their RRSP. They will get a tax deduction that saves between $7,000 and $17,400 of income tax (depends on their income). You stipulate that you are to get their tax refund money. In turn, they pay you back on a monthly basis over whatever time frame you deem appropriate (ie 15 years). Your "interest" is essentially paid up front through the tax refund (or you could simply use that tax to reduce the amount they owe you. When they find a place of their own to buy, they withdraw the money from their RRSP, tax free.

One stipulation of the HBP is that the money be paid back into the RRSP over 15 years. If it isn't, the amount ($2,333.33 / yr in this case) is added to their annual income and income tax is to be paid on that. Everyone I've seen use this has made the payments back to their RRSP through an automatic, monthly contribution. It doesn't have to be that way and in reality, it may be restricting if they are already required to pay their parents (you) back on the money that was originally borrowed. However, you can structure it anyway you want. (As well, to be fair to your adult children that aren't asking for your help in this regard, you may want to write something out so that any amounts owing upon your death are deducted from their inheritance.)

## Tech Gems—Unlocator

Every time you use the internet, your location is identified. This is how you get local searches automatically coming up on things like Google, making finding things, quicker. However, this location identifying convenience can serve as a restriction on what you can access. Netflix is one example. A person located in Canada can't subscribe to the US version of Netflix, which has different movies and shows than the Canadian one. The same goes for sports and in this case, for me it's Vancouver Canuck games.

I subscribe to Rogers NHL LIVE and do so because, since I don't have cable (only Netflix), it is the only way for me to be able to easily watch hockey. The restriction here though is that, because I am in the area near Vancouver, virtually all Canuck games are blacked out. That is until I got Unlocator (does sounds like an infomercial?), a Denmark based, location masking service. Since using Unlocator (which is quite cheap BTW) I've watched bits of many of the Canuck games this year and 1 full game on TV (Vancouver vs Toronto). This is on top of my usual 1 game a year at Rogers Arena. I don't use it a lot but it has allowed me get more tastes of Canuck games than I normally would.

What if I didn't have Unlocator? I wouldn't go to any more live Canuck games. Frankly, I'd most likely be a follower and fan of another team.

## HHHMMM...

- After recent investment returns have been very good, people invest more money. When recent returns have been abysmal, less money is invested. Because of this, the historic returns of most mutual funds are better than what their clients experience and it is all to do with poor client behavior. Buying when times are good AND not buying (or worse, selling) when times are bad. #ItsNotTheInvestmentItsYou
- On average, you can expect 8 days every year where your investments can fall by 2% or more in 1 day. For a $1 million portfolio that is a $20,000 fluctuation in any given day. That is normal and a byproduct of having a portfolio that will grow over time. #SamePercentageMoreDollars
- The value of $100,000 invested for the past 30 years (Jan. 1st 1989—Dec. 31st 2019) in the S&P 500 (500 US companies) would have been worth $1,729,934. If you missed only 1 day (the best performing day of the 10,950 ) of that whole 30 year period, that would have cost you $179,548 (10.4%). If you simply missed the best 10 days out of the 10,950 that would have cost you $866,591 or just over 50%. Morningstar & CI Investments #StayingInvested=IntelligenceInAction
- The average shareholder owns Amazon for a little over three months (for Apple it's 6.7 months). Jeff Bezos makes decisions today that will payoff many years into the future. Yet the average Amazon shareholder is only willing to wait around for the next quarterly earnings report (and sells). Owning a business for 3 months sounds crazy because it is! Edgepoint Wealth, Feb. 2019
- Marijuana equities (as represented by the North American Marijuana Index) lost more than 40% after recreational legalization in Canada, Investment Executive, Jan. 2019 #CheaperToProduceBlackMarketProducts
- Prices in Manhattan fell by 4.3% in 2018 and 60% of homes listed at $1 million or more in 2018 failed to sell. The Economist, March 2019
- Canada has the highest proportion of unprofitable listed companies in the world, according to research by Aswath Damodaran, Professor of Finance at the Stern School of Business at New York University. Globe & Mail, March 2019 #BetterCompaniesOutsideOfCanada
- People who cohabitate have lower net worth and accumulate less financial assets than married couples who never cohabitate, with the gap in wealth increasing with the number of times a person has cohabitated. Iowa and Kansas State Universities study, "The Financial Implications of Cohabitation", #ValuableLifetimeCommitment
- The US government determines if a non-resident may be required to file a US tax return and pay US income tax based on how long they stayed in the US over a 3 year period. It isn't 182 days in 1 year as is common understanding. It is the total days you were in the US in 2018 plus 1/3 of the days you were in the US in 2017 plus 1/6 of the days in 2016. However, if it can be shown that you have a "closer connection" to Canada, you will be exempt from paying US tax. #CountYourUSDays
- "If you can't park your car in your garage on the foulest winter nights, then you have too much junk." Rob Carrick, Globe & Mail, Feb. 2019
- Google studies its own compensation practices every year to ensure wage equity among women and minority groups. The results for 2018? Google found it was underpaying more men than it was women for doing similar jobs. Recent lawsuits against Google illustrate an "internal culture war." On one side, an ex-employee accused the company of discriminating against white, conservative men. On the other, Google's facing a potential class-action suit claiming it underpays women. Morning Brew, March 2019 #SelfExaminationVsBlame #ObligationsVsRights
- National Center on Sexual Exploitation released their "Dirty Dozen" list, exposing entities that propagate and/or profit from sexual exploitation in one way or another. Amazon, Google, HBO, Netflix, the state of Nevada, Twitter and United Airlines are among the top 12. #WorseThingsThanOil #DefineEthicalInvesting
- Despite being elected on a platform of "modest" deficits and a return to balance in 2019, Ottawa is running deficits twice as big as promised. In fact, the most recent estimate by the finance department estimates that at the current pace, the budget won't be balanced for another 22 years. Canadian Tax Payers Federation, Jan. 2019 #USStyleGovernmentFinancing
- Egypt has ranked as the safest place in Africa and higher in safety globally (16th out of 135 countries) than both the UK (21st) and US (35th). Singapore was ranked the safest, with Venezuela rated as the most dangerous. Canada was tied with Switzerland as 7th safest. 2018 Gallup Global Law & Order Report #PerceptionVsReality
- Voters won't tolerate anything they don't want to hear during an election. "Politicians must choose to either stand up for what they believe or maximize their vote. To put it bluntly; they either lie or they lose." Guardian newspaper (UK), 2014 #WePushThemToLie
- Re: Augmented Reality (AR): If the temptation to live our lives online is bad enough right now, imagine a future in which the entire world has a virtual twin—one that's more exciting, fast-paced, and interactive than the "real" one (ie a friend or your spouse). The Culture Translator, Feb. 2019