MUTUAL GAINS™

published bi-monthly since 1987 Issue No. 112 March / April 2006

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

PARTNERS IN PLANNING
FINANCIAL SERVICES LTD.

C.E. Vandenberg & Associates Inc.
-Life & Disability Insurance Services-
-Comprehensive Financial Planning-
13230 – 16th Avenue
South Surrey, B.C. V4A 1P3
www.careyvandenberg.com

Interested In Becoming A Client?
Office 604-541-2690
Fax 604-541-2650
Toll Free 1-866-274-1222
carey@careyvandenberg.com

Do You Want To Be In our E-Loop and receive timely financial info. and mutual gains by e-mail? Send blank e-mail with "Mutual Gains E-Loop" in the subject line to
cheryl@careyvandenberg.com

The Effects Of "The Flu"

We have been hearing talk about a potential global flu pandemic off and on for a few years now. Here are some points from a report put out by Canadian Manufacturers & Exporters (CME) to give you some idea on the ramifications a pandemic could have.

The CME estimates that a pandemic would cause between 11,000 and 58,000 deaths in Canada, and wipe out about 5 per cent of the national economy.

Many large, multinational companies have plans in place for a pandemic, but most smaller companies don't. A pandemic could lead to the demise of many companies.

The report also says:

Between 4 million and 11 million Canadians, or between 15 per cent and 35 per cent of the population, would become ill enough that they wouldn't be able to work for at least half a day. On average people who become ill would miss an average of seven days of work.

Businesses would be hit with absentee rates of up to 50 per cent, as many workers become ill, stay home to care of family members, or simply refuse to go to work. Companies would need to change to an environment with as little physical contact as possible. All businesses will be affected.

Many experts say it's more a question of when the next global pandemic will hit, not if however not all experts believe avian flu is a major pandemic threat. One of those is Richard Schabas, Ontario's former chief medical officer of health. He argues the threat of avian flu is overrated because it has been around for almost a decade but has shown no signs of being able to gain a foothold among the masses.

The bottom line is this. A human pandemic could have negative ramifications on both your physical and financial health. It is imperative to have a portfolio that takes this risk into account and minimizes it. If you are unsure about yours, feel free to call me directly.

Contribute and Forget?

Many people think about their RRSP only once a year, at the time of their annual contribution. They make an investment decision on the spur of the moment, often in something quick and easy like a GIC or the hottest investment of that day, and then forget about it until the following January. The result can be a hodge-podge of investments that has no focus and is probably underachieving.

If you make an RRSP contribution as mentioned above you probably need to make a change or review your financial structure NOW.

Most people come to us with their whole financial life in a large folder. The seeking of assistance is usually triggered by a major life change, namely a severance package, change in family structure (marriage, divorce, pregnancy), death or inheritance. Obviously no one can predict these events, but a well planned portfolio will certainly raise your chances of coming through these changes with greater security and peace of mind. Every year you wait could mean not being able to do what you had planned or envisioned.

Using Flamboyance As A Red Flag

"Those with responsibility to invest money for others should act with prudence, discretion, intelligence, and regard for the safety of capital as well as income." Judge Samuel Putnam (1830)

There have been plenty of stories about some flamboyant character with a taste for Ferraris and partying in Vegas, and about how his investors are always so surprised when they discover they've been involved in a Ponzi scheme designed solely to finance his lifestyle. These investors' first warning sign should have been the recent purchase of a Hugh Hefner mansion, movie star car or private helicopter. These are often being purchased on the backs of other people's money. Sadly, we've seen and heard too many stories of people having their money disappear. The flamboyance test would have reduced the risk of loss greatly.

Your Mask First, Then Your Child's

Think about your last flight. What did the flight attendant tell those travelling with a child? "In the event of an emergency and your oxygen mask drops down, you're told to place the mask on yourself first before helping your child secure their mask". Why? If you save your kid first, you could end up gasping for air, unable to help anyone. The same is true about your finances.

You need to make provisions for your retirement first. Although I'm sure you don't want to see one of your children choking on debt to get a higher education, the fact is they can still borrow to go to school. For the most part, you can't borrow to live in retirement.

So what should you do? Encourage your child to contribute to his or her education fund (RESP) early by taking a part-time job before they get out of high school. Have them thinking for themselves and how their education is going to be paid for. It doesn't have to be solely up to you to pay for their future earning power.

Here is another thought. Stop thinking it's all or nothing. Invest a bit in your RRSP and a bit into the RESP. Every $1 saved now automatically becomes $1.20 (20 cents coming from the government for the RESP) and $1.21 - $1.43 (21 – 43 cents from the tax deduction for your RRSP).

What You Will Get From The Government During Retirement

You can start collecting Canada Pension Plan benefits (CPP) as long as you are 60 (at least), have contributed to the plan during your working life, and have at least 2 consecutive months of employment income below the maximum CPP monthly retirement income payable for a 65 year old. Once you start, you can earn as much employment income as you want to without affecting how much CPP you are getting. Currently the maximum CCP you can get is $844.48 / month.

Old Age Security (OAS) is available to every Canadian resident however you must be 65 to start receiving this and you must have had residency for at least 40 years after turning 18. Partial payments are available on a pro-rated basis to those with fewer than 40 years of residency. Currently the maximum OAS is $484.63 / month.

Find more information on both CPP and OAS at: www.sdc.gc.ca/en/gateways/nav/top_nav/program/isp.shtml

Raising Your ACB Will Lower Your Tax

If you don't know what an ACB is, and you have investments outside your RRSP and you prepare your own income tax returns you will likely pay too much tax……. eventually.

ACB or "Adjusted Cost Base" is the figure used to determine the capital gains when you sell an investment. The higher your ACB, the less tax you'll pay on the sale of that investment. So, before you file your 2005 tax return, make sure you've properly calculated your ACB on assets sold in 2005.

Here are some common ACB areas of confusion:

Reinvested distributions on a mutual fund - If you own mutual funds outside your registered plans, chances are good that you've received distributions that were reinvested. The value of these reinvested distributions should be added to the ACB of your funds. So, if you sold any funds in 2005, be sure to go back and track your reinvested distributions on those funds so that you don't pay more tax than necessary. (Note: Inside your RRSP ACB is called “Book Value”. BV is not the amount of money you invested. It goes up every year or two, just like ACB does).

Inherited assets - If you inherit assets from someone other than your spouse, your ACB will generally be equal to the fair market value of those assets on the day the assets were transferred into your name. If you sold any of these assets in 2005, be sure you know your correct ACB to avoid paying more tax than you should. Assets received from a spouse due to inheritance generally transfer at ACB, so the recipient spouse typically inherits the same ACB as the transferor spouse.

Exempt capital gains balance - If you made an election back in 1994 to use up all or part of your then-available $100,000 capital gains exemption, you might have elected to shelter capital gains on "flow-through entities" such as mutual funds. If so, you were deemed to have disposed of those assets at fair market value, and the realized gain was recorded in an account called your "exempt capital gains balance" (ECGB), which could have been used to shelter gains on those assets in subsequent years. Any unused ECGB on Dec. 31, 2004, was added to the ACB of any interest you still held in those flow-through entities. If you sold any of these assets in 2005, don't forget to adjust your ACB upwards by the amount of the unused ECGB.

Income trusts - If you own income trusts and have received a return of capital on your investment (a common occurrence with resource based income trusts), don't forget that the return of capital <u>reduces</u> your ACB in the investment. If you sold any of these income trusts in 2005, remember to calculate your ACB correctly.

Stock option shares - If you acquire shares under a stock option plan at work, your ACB of the shares will not be the amount you paid for the shares (your exercise price). Rather, your ACB will equal the amount you paid, plus any taxable benefit that should have been reported on a T4 slip to you in the year you exercised the options. In short, your ACB should equal the fair market value of the shares on the day you exercised your options.

New Car Smell Is Expensive Perfume

I snipped this from Michelle Singletary, a finance writer from the Washington Post. She talks about the “Car Financing Drug” being taken by many today:

So I asked folks who buy new cars every couple of years to tell me why. Here's what one reader, “Bored” from Fairfax, Virginia., had to say:

"My reason for wanting and getting a new car every three to five years is simple. I just get bored with the car that I have. A car payment is already in my budget, so when the lease is up or I've paid off the car loan, then I just go buy another one. I buy within the price range I can afford. If situations in my life change and I need more money for other things, then I would just keep the car that I have paid off and buy when I can in the future."

Okay. Bored, I get. Paying a car note for the rest of your life, I don't.

But that's just me. When I buy a car I pay it off early (or if I'm able pay cash for it). But here's a financial trick I learned from my grandmother, Big Mama. I continue to make a car payment to myself. So when I pay off my car note I then direct that money into my savings. Since I generally don't get a new (or used) car until eight to 10 years have passed, I'm able to save a great deal of dough.

Look, all of these types of decisions are personal. That's why they call it "personal finance. “Bored” is doing just fine now. But wouldn't it be nice to build up savings for whatever the future may hold? God knows, none of us are guaranteed our jobs or health.

I very much agree with Michelle and would like to give you a personal story to hit home the value of her ideas. I bought a car a few years ago. It wasn’t exactly the car I wanted but it was off the radar screen of most buyers and therefore the price was a few thousand dollars less than it’s sister car. Also, it had one of the best repair records of any used car on the market. It turned out the person I was buying it from had a loan on the car. I ended up giving the seller’s bank an amount for 56% of the loan to clear the lien on the car. I got the car and the seller still had a loan at the bank which I expect he is still paying for. You can’t find deals like this when you buy that new car smell.

If you are at the end of a car loan are lease, continue to make a car payment but instead make it to yourself. It is something I recommend clients implement whenever I put a financial plan together.

To start laying your financial planning foundation I invite you to visit www.careyvandenberg.com/lifestyle.php

And complete the questionnaire or just e-mail carey@careyvandenberg.com to start the process.

Reducing Your Spending by $15 / Week = $114,087

You're 35….. OK, maybe not, but let's pretend, just for fun.

You take your lunch to work 3 times a week instead of buying lunch every day or, for you Starbucks junkies, a few less coffee masterpieces. Net savings is $15 / week.

Note: Because lunch and coffee like everything else goes up every year (I can remember when a Big Mac was in the 79 – 89 cent range and I'm not that old although, my two sons tell me different) I've factored in price increases / savings increases of 3% per year.

The amount due to your reduced spending ($15 / week adjusted for inflation), reallocated to an investment account over 30 years (total $37,109), assuming a balanced portfolio return of 7.5% / year equals $114,087. If it was put into an RRSP you can add another $24,015 to $49,856 to that figure for a total of $138,102 to $163,943.

It's a simple concept but the simple concepts are the most powerful as they are the easiest to implement and the most likely to succeed. All it requires is the decision to start and the discipline to continue, both of which I can help you with.

HHHhhhhmmmm……….

Investment Growth: 3 examples of $10,000 invested annually over a 20 year period. Being impatient and chasing the winning investments = $517,752. Being contrarian and chasing the losers = $550,597. Diversifying across various asset classes and holding for the long-term equals $595,191 with half the ups and downs of the other 2 strategies.

Other Growth: In 1968 when the last flu pandemic occurred, the virus emerged in a China that had a human population of 790 million people, a pig population of 5.2 million, and a poultry population of 12.3 million. Today these population numbers are 1.3 billion (61% increase), 508 million (1,024% increase), and 13 billion respectively (9,460% increase) (BMO Nesbitt Burns).

Fixed rate versus floating rate mortgage - In December, 2000, when the prime rate was 7.5% and the five year fixed rate was 7.95%, variable rate mortgages were unpopular, as people felt it was worth paying the small premium for the locked in rate. Over the next five years, the prime rate averaged 4.7%. A customer with a $200,000 variable mortgage could have saved more than $33,000 relative to the five year rate.

The U.S. markets had their best 3 months performance in 5 years (to March 31st 2006)

Samsung has no debt. It earned more money than IBM last year and yet the price of the company is 1/3rd of IBM. (Templeton Management Ltd)

Real estate related industries accounted for 74% of new jobs (U.S.) over the past 5 years. (Washington Post)

Based on long-term factors, including demographics and income growth, the average annual increase in national home prices is likely to be around 4 per cent in the coming decade. TD Bank

Brazilian drivers can fill up with E85 fuel at 29,000 filling stations. "E85" fuel is a blend of 85% ethanol and 15% gasoline, and can be manufactured from sugar cane or corn. To read more about this alternative fuel go to www.usatoday.com/tech/news/2006-03-28-brazil-ethanol-cover_x.htm . Fascinating!

Carey

Chartered Financial Planner