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INVESTING NOW IS MUCH SAFER THAN IT WAS A FEW YEARS AGO

We continue to stumble our way out of many years of increasing government and consumer debt. This time was, as the band Rush writes in their song "Heresy", where … "people buy the things they want and borrow for a little more".

The cymbal crash that sounded after this 10 year plus debt crescendo was heard and very much felt through late 2008 to March 2009. The crash happened but now it's done and gone. The effects still linger which is why we are now cleaning up the mess and repairing what needs to be fixed. That will take a lot of time, years in fact.

The biggest investment risks have passed. In early 2009, a substantial leap of faith was needed to believe that things would not get worse. That the financial system would get repaired. Most were unwilling or unable to make that leap of faith and missed one of the strongest rebounds in history.

Today, no such leap of faith is required to see that economies around the world are going through a healing process. An objective evaluation of the available evidence should be sufficient to do so. Credit markets are much stronger and the banking system has been recapitalized. Most economic indicators point in the recovery direction. Corporate profits have snapped back strongly. Despite that, for most people who have cash to invest, the evidence has not been sufficient for investing comfort to return. It is however, safer to hold existing investments and to invest cash sitting on the sidelines now than it was 3 to 5 years ago. Much, safer.

Despite many people's (your?) uneasiness, hesitation, doubt or any prevalent feeling in today's economic environment, the large companies that you and I are invested in, through the many investment vehicles available to us, are in the best financial shape they have been in over 50 years. It is these, financially strong, resilient, world class companies that we are common owners of.

This is important to know so that the head, when it comes to making financial decisions, can overcome the emotional heart. If the heart leads in investing, poor judgement is the product and poor long term results are the result. With that in mind, let's look at what the cash piles being held within companies you may be holding in your portfolio can mean to you over the next few if not, several years.

Cash is strongly flowing into the largest companies around the world which is being helped by sharp earnings increases. In fact, non-financial companies in the Standard & Poor's 500 have a record $837 billion in cash. That's enough to pay 2.4 million people $70,000-a-year salaries for five years.

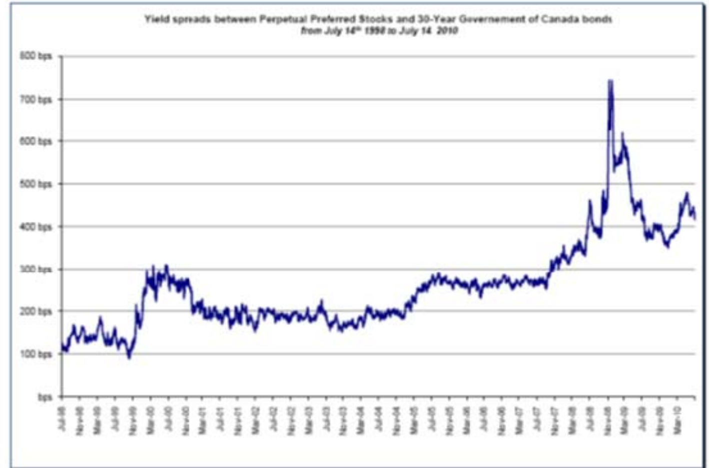
The thing to keep at the forefront of your mind every time you watch and listen to a financial commentator / entertainer pushing your "fear button" is this. "The companies I have invested in have so much cash they don't know what to do with it so why should I be worried?" I'd suggest that from an investment

perspective, not much. In time, the most likely things these companies will do is either start to increase the dividends they are paying or buy back some of their shares. Both of these, will push up their share prices. It's inevitable. (Source: USA Today, July 2010)

Dividends Are Higher And Better Than Rental Income

Dividend increases are much like increases in rental income on a revenue property. Rent generally goes up with inflation. If you own a single family rental house or condo you have 1 tenant and you will always only have 1 tenant. Your building doesn't grow bigger by just sitting there so you will always only have the rent from the 1 tenant, and the inflationary rent increases from that 1 tenant. You can call that a stagnant investment.

Dividends on the other hand can increase much faster than that because companies can continue to get bigger by increasing their market share on the products they sell. They also develop and market more products. Take Walmart, Coke, Home Depot, Johnson & Johnson, Royal Bank and Starbucks as only a few examples of the thousand upon thousands of companies like these around the world. If companies are selling products to an ever increasing population, they are taking in a growing stream of cash and their net profit will grow higher and higher. That in turn will mean increased dividends. As well, prices on these products will go up with inflation. As the dividends increase, the company's share price will, over time, increase in direct proportion to the dividend increases. You the shareholder (owner) will be enjoying every one of those increases. Those are the characteristics of a dynamic investment.



Currently, dividends rates are at very high levels when compared against the interest rate you can get on government bonds. On average, dividends are over 400 basis points higher (see chart on the right). In other words, if government bonds are paying 2% you can get over 6% in dividends paid to you on a high quality portfolio of dividend paying companies. That is like a $100,000 rental property paying you $700 to $800 in monthly rental income after paying all your property taxes and fixing and maintaining the property PLUS $200 to $300 in additional monies being set aside in a bank account (dividend paying companies usually only pay a part of their net income in dividends). The rest they hold for a rainy day, to increase their dividend, to buy back some of their shares or to use to acquire a smaller company to bring under their corporate umbrella.

Eventually more and more of the investing public around the world will start to see what is so evident in the investing world today. Seeing it is only a small part of the equation. Taking action by putting investable cash to work now is where you the thinking investor can excel while the investors guided by their emotional hearts waits for much sunnier days. THAT TIME when it comes, and it will come, will be the wrong and riskiest time to put cash to work. Today it's much safer. Source: National Bank, Legg Mason Capital Management (July 2010)

Why An "RRSP Meltdown" Doesn't Make Sense

Some financial "advisors" and financial book peddlers think you should never again contribute to a RRSP. I've seen some go as far as suggesting a meltdown of your RRSP, which is simply a strategy to withdraw money from it in a tax effective manner.

The biggest part of the equation this advice points to is that RRSP's expose you to more income taxes than capital gains do. In other words, they suggest, quite strongly, that it is better to make investments which will give you capital gains outside your RRSP instead of anything you can possibly hold inside your RRSP. They fail to calcalculate 2 parts however. The initial tax savings when you make the RRSP contribution and the 8th wonder of the world, tax free compounding.

Capital gains are very attractive. I don't discount that for 1 minute. You only pay tax on half of any capital gains you make. By contrast, you pay tax on every dollar you withdraw from a RRSP or a RRIF (Registered Retirement Income Fund). It is that tax difference that pads the argument to stop contributing to a RRSP. They think you should instead invest only in high-quality stocks or stock / equity mutual funds. They maintain that the capital gains you trigger when you retire will give you a lower tax bill than your RRSP or RRIF.

There are several serious flaws with this viewpoint. First, you get an income tax break within months of contributing to your RRSP. In other words, you get money paid back to you from the government and that can be as high as 43.7% of what you put into your RRSP. Those who invest outside of their RRSP on the other hand, get

no tax break which means the RRSP investor has 43.7% more money to work with and compound. That compounding can last for several decades.

Second, RRSPs let your money compound tax-free. That is the 8th wonder of the world. Sure, money held outside a tax deferred plan produces taxable capital gains but it is probably when you will be earning your highest income. High income means high tax. Besides the capital gains you'll have to pay taxes on the dividends these stocks or stock / equity funds pay.

Third, you'll likely only withdraw from your RRSP or RRIF when you're no longer working to earn an income. At that point you're most likely to face a lower marginal tax rate. The taxes on withdrawals may be less severe than some advisors would have you believe.

Walking In The Joint Ownership Minefield (Is This Mine Or Is This Yours?)

Joint ownership, one of the most commonly used ways to pass on an estate. Just because it is used so often however doesn't mean financial nirvana.

Over the course of time in a marriage relationship you accumulate stuff. Over the years it becomes hazy on who really is the beneficial owner of any particular thing. It may be clear for some of your possessions. All I have to do is look around my own house and it can be safely said that my wife's sewing machine and serger are hers and my drum kit, bass guitar and amp are mine. The Barbeque? Well, lately she uses it more than I do so does that make it her's? You tell me. The remotes? Definitely mine, all 11 of them.

The term "Joint Ownership" is joint tenancy with right of survivorship (JTWROS), the most commonly used form of joint ownership. With JTWROS, the survivorship feature means that when an individual dies, the deceased person's interest is automatically distributed to the remaining joint tenants. Think of this as "winner takes all". The asset will pass to the surviving owners outside of the deceased's estate. The result? Probate fees are avoided. Which is one of the reasons many people use JTWROS. The other is so that assets can be passed on very easily.

When someone else's name is put on an investment, and time passes, just like in my marriage relationship examples, the lines become fuzzy on definitively, whose is what. Holding an investment in joint ownership can become muddy if there are other people who will ultimately be affected by the transaction, namely other surviving children or beneficiaries of the estate. A parent may have transferred property through joint ownership, to one of the kids, but it may not be clear whether he intended to gift the property to that child, or he simply wanted that child to manage the property for him and the other siblings. The intention must be laid out in writing for it to be clear.

Before you jump to place your investment account, home, or other assets into JTWROS, consider some other mines in the minefield.

Ex-spouse exposure: If you place an asset in joint names with an adult child who later divorces, half the interest in that property may end up in the hands of your child's ex-spouse.

Creditor exposure: Property transferred will become open to attack by creditors of the person receiving the property. An example of this may be a parent who has put an asset in joint names so that the adult child could secure a business loan and the business is now on shaky ground.

Loss of control: Once in joint names, you won't generally be able to take back or make any transactions with the transferred property without the consent of the transferee.

Unintended distribution: If you place an asset in joint names without making clear your intention as to who really has beneficial ownership and ultimately how you want the money to be passed on, the asset may not be distributed in accordance with your wishes upon death.

Depriving your kids: You may be in a second marriage and intend to leave some or all of your assets to your children from your first marriage. If you place your assets into joint names with your current spouse, however, the property will fall outside of your estate and will be distributed in accordance with your current spouse's will, not your will. The kids from your first marriage may end up with nothing. There are ways to meet your current spouse's needs, and still leave the assets to your children, a spousal trust being one example.

Your TFSA Could Very Well Be In The Wrong Place

Although I've written about his before, I come across this issue almost daily so I thought it should be talked about again.

Many are under the assumption that a TFSA is simply a bank account, a place to put money so you don't have to pay tax on the interest. The common thought is, "I have put my maximum contribution into my TFSA of $5,000 in 2009 and in 2010. I'm done." Check, check. Those things are off the list of to do's.

If you have a TFSA and are earning very little interest you very well could have the wrong kind of TFSA. Is that money probably going to sit there for years? Do you have other investments? If both the answers are "Yes", then I can with great confidence say that your TFSA is definitely in the wrong place.

The whole point of the TFSA is to save tax on the interest you earn on your investments. If however, you are only earning 2%, the $10,000 you invested so far inside your TFSA is only earning $200 per year of interest. If you have other investments they will most likely, over time, produce a long term return that is higher than 2% per year. Therefore, you will save much more tax by taking $10,000 of your existing investments and putting them inside a TFSA and taking the money that is currently inside your TFSA out. Much more tax saved.

If you don`t yet have an investment portfolio outside of your RRSP and expect your TFSA to be a compliment to your RRSP as a long term investment parking place, there too again, your TFSA should be invested in something that will work and earn dollars on a full time basis instead of the part time work it is doing now. An investment vehicle that pays dividends or a portfolio of corporate or high yield bonds could be a perfect fit.

Purpose And Money—You Need Them Both In Retirement

Having the biggest pile of money will not guarantee happiness or fulfilment when you are retired. What's the purpose of your retirement time of life if you don't have purpose? Sure it's nice to wake up and have a serendipitous day in which you just let time happen. That can be very enjoyable for a day or two after a long period of stressful work or events however, if you are doing that day in and day out during retirement, it loses its beauty and in time it becomes a curse. The place to start is to brainstorm on what you would like to achieve.

Start by setting out a vision of how you will stay physically, intellectually and socially active. Then decide how much money you will need, and how much you can do without, to fulfill the lifestyle you envision. It has been found that those who were the least satisfied with retirement were spending the majority of their leisure time watching television or listening to music or the radio.

It's been proven that the continual working of your mind will keep you sharp in retirement and lessen the effects of aging. Crosswords, Sudoku (both of which don't even come close to making my list), learning or bettering your ability to play an instrument or some other coordination feat like juggling are just a few things that will help keep you sharp and agile.

Volunteering is the perfect thing to cut off retirement letdown at the knees. It will allow you to meet new people and remain engaged in society. If it is important for your self esteem to get paid while working then by all means working part time can do that. I've often very much appreciated and highly valued being able to go into Home Depot and talk to a "retired" person who works part time, someone who has years of experience in home renovation or home repair issues. Maybe this would fit for my retirement? Hmmm….

Being physically active through work and regular exercise helps you feel better about yourself. It keep's your body relatively strong and helps insulate your body from disease, fatigue and feeling lethargic.

To avoid frittering away time, you may want to keep a time log like Captain James T. Kirk of the Starship Enterprise so you can identify time-wasters that distract you from your priorities. I've always found that writing down the day before what you will be doing the next day, will make the first hour that you are awake a productive one and that will set the tone for the entire day. Also, when you start something, see it through.

When you control time, you control your life. Satisfaction lies in accomplishing the things that are most important to you.

Web Gems

Kids-in-mind— Cringing during a movie you are watching with your kids or grandkids can be minimized if you do a search of a movie on www.kids-in-mind.com. It uses 3 colour coded bars, going from 1 to 10, so you can get a quick visual on how much Sex, Violence and Profanity are within a particular movie. Need a clearer description of what you could be watching with your young impressionables? Read through the commentary. A great resource. I give it 2 Thumbs up. Way up.

Hhhmmmmmmm......

The CGM Focus Fund, with a 18% per year annual return from Jan 1st 2000 to December 31st 2009 was the best performing U.S. diversified stock mutual fund available to Americans. Due to investors emotions (lets name them fear and greed) the typical CGM Focus Fund investor lost 11% annually during that same time frame. It was clearly the investor not the investment that didn't do the right things (Morningstar Research Inc., January 2010)

An Investors Group survey of 1,006 Canadian residents between March 30th and April 9th, found that the median outstanding mortgage balance among Canadians is roughly $130,000. Nearly 2/3rds (62%) of those surveyed say they plan to carry debt into retirement or have already done so. For retired mortgage-holders, the median mortgage balance is $82,000. (Globe Investor, April 2010)

The cost of being out of the market is greater than the cost of being in the market. From November 1999 to November 2009 $10,000 invested for the full amount of time would have been worth $18,784 (6.5% per year). Miss the 10 best days and you are down to $10,231 (0.23% per year return). Miss the 40 best days and your $10,000 turned into $3,512 or -9.94% per year return. (Bloomberg, December 2009)

CPP and OAS will pay out a maximum combined income of $34,800 for a couple in 2010 (Service Canada)

Warren Buffett pledged in 2006 to give away 99 per cent of his $46-billion fortune and Mr. Gates has contributed much of his wealth to the Bill and Melinda Gates Foundation. Despite that, wealthy Canadians on average donate about 0.5 per cent of their income to charity. That compares to 0.75 per cent on average for all Canadians and 2 per cent for low-income people. Globe & Mail, June 2010

Chrysler, Ford and GM beat their foreign rivals in this year's Initial Quality Survey from J.D. Power and Associates, which means they had fewer design-related problems and defects or malfunctions within the first 90 days of ownership. This is the first time in almost 50 years. Globe & Mail, June 2010

The RESP is the most generous savings plans across all countries of the Organisation for Economic Co-operation and Development (OECD) (Benefits Canada, July 2010)

The average retirement age would have to increase from the current age of 60 to 70 by 2060 if workers are to continue supporting retirees at current rates. Germany will raise the retirement age to 67 in 2029. Spain is considering a similar hike and Britain is discussing increasing it to 68. France's government is pushing for people to retire at 62, instead of 60. Financial Post, July 2010

As of May 11th, the Financial Post reported that Canada was a real winner, topping the OECD's list of countries as having the highest debt-to-financial asset ratio. To put that in perspective, that beats out Greece, the U.S. is in fourth and every man, woman and infant is, on average, in our country is $41,740 in debt

4.5 trillion cigarette butts pollute the environment every year. USA Today, July 2010

Only 4% of Chinese over the age of 14 and 15% of Indians have cars. In South Korea, the figure is 26%. In the US 44% and in Japan 46%. Report On Business, July 2010

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