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mutual gains™

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In this issue....

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Low Public Confidence Is Good For Investing

I love it when the investing public, particularly the average Joe and Jane Public are nervous about the economic environment. Reason? Bad consumer confidence stats can actually turn out to be good news and these stats add up to almost half of the average confidence rating over the past 20 years.

When confidence was high the Dow gained an average of only 0.2% over the next 12 months. When confidence was moderate the index gained 5.9%. The biggest gains came when confidence was low. It was then the Dow plowed ahead by an average of 13.1%. We are currently well in the “low” category.

Why is consumer confidence a contrary indicator for investing? When confidence is low, many people have sold their investments, whether because of fright, disgust or simply robbing Peter to pay Paul. Lots of cash is on the sidelines, and that cash is potential fuel for an equity investment rally.

When confidence is high, many investors have already committed much of their capital to stocks, and there is little left to fuel the fire.

A look at the historic extremes may be instructive. The highest reading in the past 20 years was in May 2000, about two months after the Internet-stock bubble started to deflate… fast.

The most extreme lowest confidence reading in the past two decades was in February 2009. That was just a few days before the U.S. markets began a major rally of about 50% in the subsequent six months.

The emotional distress from late 2008 to early 2009 is still burned in our memory. You may still be quite cautious. This is healthy. Even small news and events about problems can make people pull the “sell” trigger. However, it's time to look at things more objectively and stop worrying about the flood that happened. It happened. The lowest risk of another flood is after a flood. It's going to take years for the water level to get to dangerous levels and put pressure on the dam once again.

Note: We just experienced the biggest gains of any September since 1939.

Source: Bloomberg News, Ned Davis Research Inc., Aug. 2010

Gold—It's Simply Insurance For A Falling U.S. Dollar

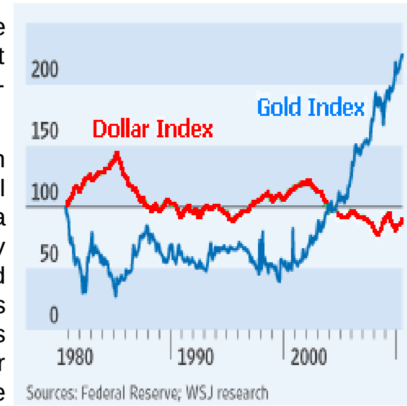
Like all investments, people want to own gold after it has gone up in price… a lot. But like all rocket ship investments, gold has some characteristics that you have to be very aware of.

Unforeseeable events can dramatically affect the price of gold, in both directions. Geopolitical instability (ie a terrorist attack) can drive up the price of gold. The trouble is, how do you plan for such unforeseeable events when you can't see them coming?

(Continued on page 2)

(Continued from page 1)

It's nearly unquestioned in investment circles that gold acts as a hedge against inflation. It’s Interesting to note though that this yellow metal has been on an upward price trend despite inflation in most countries around the world barely hovering above flat-line. All the while economists and central bankers are increasingly contemplating the threat of deflation taking hold. In other words, the price of gold isn't all that predictable.



Another notable drawback is that gold has a terrible record as an investment in the long run. Over more than 200 years, gold has delivered very poor total real (or inflation-adjusted) returns. If one of your long lost relatives had invested a U.S. dollar in gold in 1802, at the beginning of 2007, it would've risen to only $1.95. That's a real return of just 0.3 per cent a year. Yes, the number would now be higher due to the recent jump in the price of gold but the fact remains that for most of the 20th century, that dollar invested in gold almost 200 years ago was worth less than a current day's dollar. By contrast, had one of your ancestors invested a dollar in equities, it would've turned into $755,163 at the start of 2007-even after accounting for inflation.

Holding gold will most likely exert a considerable drag on the return of a long-term investor's portfolio. After a run-up in the price of gold in 1979 and 1980, gold did nothing for 20 years.

Against conventional wisdom, though a recent study by Ibbotson Assoc. found that gold and inflation in fact bear almost no relationship with each other. Instead, the precious metal exhibits a strong inverse correlation with the US dollar, rising in price when the greenback weakens and vice versa. As the graph above illustrates, this historic link has recently decoupled, suggesting that either gold or the dollar could be in for a material fall.

Source: Dixon Mitchell Investment Counsel, Ibbotson Associates, Sept 2010; Jeremy Siegel, Professor of Fi-

How NOT To Pay Thousands Of Dollars In Probate Fees On Your Bank Deposits

Probate fees. It’s not a 4 letter word but I’ve often heard some colourful language when describing probate fees. Why? They are simply a tax on a deceased person’s estate. Nobody likes taxes as most recently evident with all the news coverage about the HST.

Bank deposits and many other investments for that matter, can end up costing an estate thousands upon thousands of dollars in those... (insert your own colourful words but let me plug my ears first... OK, go ahead….) “(____________) probate fees”.

I often come across people with long life histories who have substantial assets in bank deposits, bonds or various other investments. Bank deposits seems to be the most common and substantially held investments of those with a long life history. The emotional attraction is they seem to feel comfortable. Safe.

Those things come at a steep financial cost however they don’t have to. That probate cost can be avoided while at the same time enjoying the same kind of feel good, feel safe investment in a seg fund. Feel good, feel safe without being subjected to thousands of dollars in those (__________) probate fees.

Let me give you a sense of just how much those probate fees can cost a person who has $500,000 in bank deposits. It does vary by province as each province in Canada sets their own rates but we’ll use B.C. numbers.

Probate fees are $300 on the first $50,000. That’s the cheap part. Anything over $50,000 gets charged at a rate of 1.4%. That equates to an additional $6,300 for a total of $6,600 in (_________) probate fees on a $500,000 estate. That’s just probate fees. There may still be a bunch of income tax to pay on top of that.

What would you pay in probate fees with a seg fund? $0. What is the guarantee on a seg fund? It can be 100% of the initial investment. That is the minimum. Depending on the investment chosen, the estate could end up with substantially more and again, with $0 in probate fees.

Get $10,000 In Tax Savings With A $10,000 Investment (and it’s not too good to be true)

Masses of people are taking to the streets running, cycling, walking and climbing all I the name of raising money for a good cause. The most public of these are cancer related however there are many other charities that may not get as much publicity. No matter what the cause, it is the sign of a great nation in how much it's people give to support causes for the greater good of each others neighbours.

(Continued on page 3)

(Continued from page 2)

There are many people who support these causes. Not necessarily by participating in these heart beat pounding events, but by giving hard, cold cash. Of course, most of us have limited resources in which to do this so the key is to find out how you can squeeze the most out of every dollar you earn.

With income taxes the highest expense of your and my budget, the first thing we can look at to put more money in our pocket is to find ways we can cut our taxes. When it comes to charitable giving, the best way is by investing in flow through shares. These can in a relatively short period of time, be given and subsequently and almost simultaneously sold by the charity for cash. At the end of the day, you have made a fully tax deductible donation AND received a substantial tax deduction for investing in the flow through shares. All-in cost to you can be virtually $0.

It works like this. You invest in a flow through share offering. For this you get tax deductions and credits. The total tax savings can add up to over 60 cents for every dollar invested. Invest $10,000 and you are saving $6,000 in tax. That is the first part. Once the shares roll over into a mutual fund (normally 12 - 24 months) you can then gift part or all of that to the charities of your choice. Donating all of it (assuming the investment is valued at $10,000), would give you over $4,000 in tax savings. $6,000 + $4,000=$10,000.00 in total tax savings. Remember, you initially invested $10,000. **

I haven't talked about this in a while however there are a few reasons why I bring this up again now. 1) We are getting into the last couple of months of the year. This means the deadline for many tax saving ideas for your 2010 tax return is fast approaching. I have done this transaction every year as have a number of my clients.

I will personally be doing this "double dip donation" transaction again this year. It is relatively easy and offers more than twice as much in tax savings as simply donating cash.

<u>Do you want the tax savings of the investment but don't have any intention on donating your investment? Absolutely fine. It's your money. Keep the investment for yourself and you have $6,000 more in your pocket than you had before you made the flow through investment.</u>

PS. I know. I hear you. It sounds too good to be true so it can't be. Let me tell you with firm conviction. I am a staunch believer in that axiom. In my almost 24 years of financial services experience I have seen many things which appear to be exactly that, too good to be true. Virtually all of them are. Since early 1987 I've seen only a couple of things that fall under the "sound to good to be true" label but when looked at closely, they prove perfectly compliant with the Income Tax Act. This is one of those gems.

**For illustration purposes we have assumed the $10,000 investment value doesn't change and the highest tax rate in B.C. of 43.7% which applies to any income earned over $126,000.

How To Pay For That Unexpected Expense When You Need To

All things we spend money on have to be paid for at some time. The trick is to have the money by the time the expense comes up. That may sound old fashioned but basic financing principles like this didn't create the largest economic crisis since the Great Depression. It was created by "buy what we want and borrow for a little more".

One of the things I often insert as a recommendation into a new client's "Financial Planning Recommendations Summary", is to create a "Deferred Expenses Account".

If you want financial peace in your life, creating a Deferred Expenses Account will put you financially well ahead of most of your friends and family (unless they are as smart as you however you can determine that for yourself I'm sure).

Deferred Expenses are those things you have to pay for at sometime in the future. The simple premise of this idea is to determine today what large expenses you expect 1, 2, 3, 5 and 10 or more years from now. An aging furnace, clothes washer, dryer, dishwasher, hotwater tank or the very expensive, roof on your house. Or maybe it's a luxurious cruise or other trip you want to make reality. Take that dream in your head to you actually living it, without taking on debt to pay for it. It can all be done with a Deferred Expenses Account.

Make a list of all of those needs and wants and what you estimate the cost to be. If you have a $4,000 furnace to replaced in 3 years and a $3,000 vacation in 18 months you need to save $ $7,000 over 3 years. You will need

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$3,000 in 18 months for the vacation ($167/month). When your vacation comes around you will need to have accumulated 50% of your future furnace cost ($2,000) by that time. That is another $222 / month. The total is now $389 / month. Add up any other expenses in the same manner.

If it seems you can't afford to save that amount then technically, you won't be able to afford the expense when it comes either. Unless of course you borrow for it. This is what people do who never have financial peace. They just take on more debt and amortize it over a long period of time only to have to do it all over, or add to it, when the next expense comes around. That however becomes a never ending cycle, one that can have severe negative consequences.

Remember the turmoil with the debt crisis we went through and are still cleaning up? That could happen to you personally where you'll find that you'll want to borrow for a little more but there will be no one willing to give you the money. When you are at that point, you won't have any choice but bankruptcy and then, you won't really have a choice where your money goes, that will be determined for you by the courts.

Get A Cheque Sent To You When Serious Illness Strikes

In PEI it can quite easily cost $65,000 for a single course of cancer treatment. In B.C., Alberta, Saskatchewan cancer drugs are fully covered. Facts like these certainly reinforce the importance of being financially prepared for a critical illness.

Those little costs add up when you are fighting a serious illness. You most likely would not be able to work for a period of time. This could put you behind on your mortgage payments or going heavily into debt just so you can fight and heal.

Critical Illness (CI) insurance can prevent that financial strain. With a modest amount of coverage, $25,000, $50,000 or $75,000 your living costs are covered while you recover. CI has immense value. It's not a windfall. It is simple security. A foundation primarily designed to help remove stress when you need that relief the most.

I know of one kind of CI that is basic and relatively inexpensive. It covers the 5 primary and most common critical illness situations namely, life threatening cancer, heart attack, stroke, coronary bypass surgery and aortic surgery. It also has a Return of Premium rider where you can get all your premiums back at age 75 if you haven't claimed on your policy.

To apply is relatively easy. There are a minimal amount of questions that you answer yes or no to. You can pay by credit card and as well, there is a 30 day money back guarantee. Almost sounds like an infomercial but this insurance has been put together for you by one of the largest life insurance companies in the world.

The cost for coverage is approximately this: For age 30 it's about $10/ month for $25,000. Age 40, $10 / week for $75,000. If you are 50, $10 / week for $50,000.

PS. This kind of coverage is particularly important for single people, families with young children and people or families who have debt.

Web Gems

Google Voice— I discovered and tried this when I was on a short holiday break on Vashon Island just west of Seattle. With GV you can call any number you want over an internet connection for free. You can do it in video as well (much like Skype) but unlike Skype you can call a land line and talk or video call (to another computer) as long as you want… absolutely free. Try it. Go to Google Voice, install it and make a long distance call and talk as long as you want. You can also put this app on your smartphone and call over a wifi connection for free.

TED.com— As it says on their website, "Riveting talks by remarkable people, free to the world". TED is a site of short and long video talks and presentations. They have them rated in several different categories including, "jaw dropping", "courageous", "inspiring", "beautiful", "funny" and "informative". Or you can click on a particular topic (Technology, Business, Global Issues, Entertainment etc). One of the newest releases is 3 minute presentation by a very successful business woman named Stacey Kramer. The value on TED is immeasurable.

Hhhmmmmmmm……

When oil prices peaked at just over $147 per barrel in July 2008, it resulted in a drop of 4 million U.S. drivers. (The Bottom Line, May 2010)

The U.S. imported 998,000 barrels / day of Saudi oil in the first 11 months of 2009, its lowest level since 1988. (Financial Times, Feb 2010)

LED's are 10 times more efficient than incandescent bulbs and twice as efficient as compact fluorescents (CFLs). They have a lifespan of 20 years (@ 3 hours/day). (Fortune, Feb. 2010)

The underlying conditions of the world's largest economies are fragile yet the fundamentals of corporations around the world are very compelling. If the last decade was one of vibrant economic growth and disappointing equity investment returns, we could very well be in a new era of disappointing economic growth and more prosperous investment returns. (Altrinsic Global Advisors, LLC, March 2010)

The 500 U.S. companies that make up the S&P index have in total just under $2 trillion dollars in cash that is sitting idle. This is money that they aren't currently using because they have more than they need to run their business. Eventually that cash will be used to start or increase dividends, buy back shares or buy up other companies which will push up equity markets. (CI Consulting, Quarterly Review, June 2010)

January 1st 2000 through December 31st 2009 is called the lost decade as global equity indexes and most investors were lucky if they at best, broke even. The last time this occurred was between 1964 through 1974. However, between 1974 and 1984 the equity markets returned 15% per year for that 10 year period. (CI Consulting, Quarterly Review, June 2010)

Growth of money coming into savings accounts and the like has most recently turned negative. This is the first time this has happened in recent history and the 6th time this has happened since 1950. The average equity market index after such an event has risen 18% for the next 12 months. (CI Consulting, Quarterly Review, June 2010)

Since 1926, the U.S. equity market has averaged 6.6% per year, <u>above the inflation rate</u>. (Investment Executive, April 2010)

Large institutional players such as the Canadian Pension Plan (CPP) understand the importance of foreign investing. Global stocks currently make up close to 70% of the equity component in the $130 billion CPP. (CPPIB, as of June 30th 2010)

For a 65 year old couple, there is a 50% chance one of them will live to age 90. 1 in 10 couples will see the last survivor reach age 98, a 33 year time horizon. (Investment Executive, April 2010)

In Wilkinson County, Miss., a home has been flooded 34 times since 1978. The insurer has paid claims every time, required no flood proofing, never raised premiums after a claim and vowed to continue insuring the house, forever. The home's value is $69,900. Yet the total insurance payments are nearly 10 times that: $663,000. Who's the insurer? The U.S. government. (USA Today, August 2010)

If Europe wanted to feed itself only organically grown foods, it would require an additional 28 million hectares of crop land, equal to all the remaining forest cover in France, Germany, Britain, and Denmark combined. (Dixon Mitchell Investment Counsel, Sept 2010)

It used to be that media tried to be unbiased in their reporting as there was a limited amount of information the public could readily access. Now, media thrives on "narrowcasting" by focusing on smaller audiences and gaining their trust by mirroring the biases of particular audiences. (USA Today, Sept 2010)

Carey