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mutual gains[tm]

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ECONOMIC HEALING IS HAPPENING SO TAKE ADVANTAGE... NOW

Governments and consumers in most of the developed countries around the world have been buying what they want and borrowing for a little more for a few decades. The debt disease we have been going through for those many years finally hit it's breaking point at the end of 2008 and into early 2009.

Now we are seeing the after effects of this borrowing binge. What we are now experiencing is the healing which will continue to feel unstable and uncertain. The reality is that healing is a repairing process. During this mending and re-building, things are getting stronger. We just have to look for it. It is there.

In some places of the world that process is well under way. In others, the healing is not as far along. Many governments are starting to make cuts to their spending. This is most evident in Europe where consumers there are fighting the inevitable return to balanced government budgets.

Cost and benefit cutting has to happen and it has to happen now. Consumers in many countries are understanding that you can't borrow into infinitum. Canadians aren't there yet however consumer saving in the U.S. has increased significantly. Also the U.S. "Household Financial Obligations Ratio" is back down to levels not seen since the mid to late 90's.

This is all good. If economies don't go through pain and suffering they won't and can't get stronger. What we have and continue to experience could be the foundation of a much stronger world economy. The time now is not to fear the present but grasp it and take advantage of the opportunities that are so evident today.

Corporations are very strong financially. They continue to accumulate substantial amounts of cash on their balance sheets (2 Trillion in fact). This cash can't stay in their coffers forever which is why we are starting to see signs of companies increasing their dividends. With dividends currently at historically high levels compared to 10 year Treasury Bond yields, this has been slowly pushing up share prices. It is expected that his will be a long term trend.

As more and more people feel comfortable with what is happening economically in the world around them the cash coming out of bank accounts and Government Bonds will snowball, creating a chase for fewer and fewer viable investment opportunities. Like in all times past, most people will miss the several years of significant gains. I've seen it many times in my 24 years of Financial Planning experience. I don't want it to happen to you.

ANCHORING IS GOOD FOR BOATS NOT INVESTMENT DECISIONS

The first factor that causes anyone, from doctors to investors, to go in the wrong direction or make poor decisions is called "anchoring". This is where one or two factors are focused on and other evidence is discounted substantially or ignored completely.

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One area of anchoring is how we humans intuitively associate higher income and sunshine with happiness. As a result, we dramatically overestimate the impact that an increase in income or living in warmer climates has on our happiness despite neither being supported by facts.

Another is the mistake to focus only on past performance of an investment ignoring all the other significant positives and catalysts that will most likely propel the investment to significant future outperformance.

Human nature's anchoring tendencies also cause us to only look at high profile or recent events, in other words, easily accessible data. Consider this. After significant media coverage on a plane crash relatively close to home, many people will be reluctant to fly and in it's place take the car for their planned long-distance trip. The chances of dying in a car accident are exponentially higher than when flying a similar distance yet anchoring convinces us otherwise, despite the facts.

A fault closely associated to this is that we tend to give more recent information higher weight. This leads to chase investments that have done well in the past. The most recent "chase, crash and burn" of this is when I saw people throwing money at tech investments. Nobody wanted to miss out on something everyone else was making money at. The end result is that most people lost significantly and will never recover fully.

Another deadly bias is falling victim to stereotype investments rather than looking at cold, hard facts. For instance, investors often dismiss boring, old style investments in favour of the something that has a more powerful sounding story. Stories stir emotions and often it's the story that we buy rather than a solid investment.

Add to all those things the most costly trait of human nature which is overconfidence. This is true of military and political leaders. It's just as true of CEOs as it is lawyers, doctors and investors. It's been said of both successful military commanders and top investors that one of their common traits is humility. This gives them a constant awareness that they may be wrong. As a result, they're always open to new evidence that contradicts preconceptions and existing views. In this environment particularly it's important to think about strategies to avoid traps of human nature that can steer us astray and sabotage our future success.

4 Niche Investments For Your Optimum Inflation Protection

As governments in the developed world try to deal with the huge deficits and debt that was run up to keep the recession from turning into a depression, inflation will become a growing concern . Many investment strategists and economists believe that governments globally, including ours, will be faced with a number of difficult choices to curtail and fix their deficits and debt. These are; raise taxes, reduce services, make our economies far more productive and efficient or let inflation run higher. The last choice is by far the easiest path politically. With the sheer size of the debt problems there may prove to be only one option. That is to inflate our way out of debt.

To insulate and protect against inflation there are 4 niche investment areas that do perform well and even thrive in an inflationary world:

Inflation Indexed (Real Return) Bonds— With these you get a fixed rate of interest like all other fixed income investments such as bank deposits and regular government bonds. However, with Inflation Indexed Bonds you enjoy an additional rate of interest that is adjusted as inflation rises. In effect, 2 interest rates rather than one.

Corporate and High Yield Bonds— Higher inflation is typically accompanied by economic growth and high yield companies are leveraged to this growth. This translates to credit improvement for corporate bonds pushing the price of these bonds higher. You get a healthy stream of interest PLUS capital gains potential.

Commercial Real Estate— Over time, rents and cash flows on real estate grow at the rate of inflation. The faster inflation is going up, the faster commercial rental income is increasing. This in turn pushes up the price of the underlying asset. If there are sharp increases of inflation with a corresponding quick increase in interest rates, commercial real estate will see a short term set back however as inflation continues upward, commercial real estate becomes an excellent alternative to bank deposits and government bonds.

Infrastructure— This is the most exciting investment area. It is an emerging trend that will become bigger and bigger as governments try to build bridges, roads, highways, dams etc. Many will be done as a P3 (Public Private Partnership) which is business and government working together on a common infrastructure project. These will all be done with some form of revenue sharing, most often through user tolls. Once the asset is built the tolls are collected for decades and as inflation increases the tolls will increase to match inflation. It might be annoying to pay the toll but what could be better than being on the other end as a shareholder of the companies that collect these tolls, paying a portion of them to you as a shareholder.

Reducing The Potential For Estate Legal Battles

The main objective of "Estate Planning" is to preserve estate assets when you pass on as well as making sure the money goes were you want it to. There are several ways to do this however, even if all the strategies have been used to reduce tax liability and probate costs, these best efforts can be totally useless if the estate is fought over and winds up in court.

Family dynamics, favouritism and second marriages or blended families are the main breeding grounds for sparking estate litigation. All it takes is one disgruntled family member, close friend or any others who believe they are entitled to part of the estate or deserve a bigger piece of the pie.

The risk of someone challenging the Will goes much farther than just the thousands upon thousands of dollars it can cost in legal fees, potentially reducing the amount paid out to the beneficiaries. Estate litigation can also destroy families and create a lifetime of estrangement. Not a good legacy to leave.

Of course, the first defence against this is actually having a Will. After that however…

An "In Terrorem Clause" within your Will can greatly deter litigation. This clause can state that any beneficiary who contests the Will automatically forfeits their portion of the estate. Of course, for this clause to be effective, the beneficiary's potential or desired portion must be valuable enough to be worth pursuing litigation.

Another way, one which is iron clad, is to put investment assets into a "Seg Fund". Seg Funds are investments held with a Life Insurance Company that have various guarantees to protect the estate. On top of that, holding a Seg Fund eliminates the much hated probate fees. However, the key point for our purposes to avoid a potential court challenge by a family member or friend of the deceased. With a Seg Fund you name the beneficiary(ies) on the investment. There can be no court challenge. You can't do that with any other investment you hold.

Ask yourself this. Are you open to sharing amongst your family and friends how your estate will be divided? If not, and you get an uneasy feeling thinking about it, estate litigation could be inevitable outcome.

Having Insurance Doesn't Mean You Will Always Collect

The most common reason an Insurance Company will deny a death claim is misrepresentation or change in insurability. This is because they find in many cases people don't disclose everything about their health or need to know activities. This is often by mistake however, the insurance company still won't payout.

Post mortem underwriting, used in life insurance you get on your mortgage through your bank, is a significant culprit in this. I strongly advise watching the CBC Market Place video report if you have mortgage life insurance.

The 9 Costs Of Home Ownership

The justification I often hear for buying a home is that, "what I will be paying in mortgage payments is the same as my current rent". As many of us who have owned a home know, home ownership costs are much more than that. Below are 9 costs that will occur continually, on top of the mortgage payments.

Heart Costs— When shopping for a home, the purchase price often budgeted for the home increases as the house hunting gets underway. Reality and the picture in the mind's eye often prove to be very different and therefore, at the end of the day, that mortgage payment ends up being more and sometimes much more than what was being paid in rent.

Property Taxes— This can add another $100, $200 or $300 per month to the cost of home ownership. And with governments needing to add more city services in the future, that will increase on an annual basis.

Insurance—When you rent an apartment, basement suite or home, you only need to insure your contents. This is relatively inexpensive. Owning a home means you will need insurance to cover all kinds of disasters like fire, water damage and natural disasters that can bring your home to a pile of rubble.

Appearance— Before you move in you will already have ideas on what you think you simply must change because after all, this is now YOUR HOUSE and when people see your house you want them to know that you have taste. The bathrooms and kitchens are the key targets and expensive targets they are. "We'll have to get rid of those

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white appliances and that laminate countertop. Those are so 90's".

The Lawn and Landscaping— If you forego the cost of hiring someone to cut your lawn and keep up the yard, you'll need to buy a lawnmower, weed eater, various garden tools, hoses, sprinklers etc initially. Related to that are the ongoing costs of whatever fertilizers and chemicals you need to keep everything looking green and attractive. Various plants, trees, dirt, edging and other landscaping items may need to be added. Oh yes, add the shed to give you that extra storage space for all that stuff.

Add-Ons— When buying an older home things like closing in the garage or doing an addition to make more living space seem to be common. You'll pay more on your property taxes assuming you got the building permit.

Maintenance— This is the broadest category and it keeps on going. The costs are a combination of big hits to the your finances and nickel and diming you to death. Things like furnaces, roofs, hot water tanks, and large appliance don't last as long as they used to. Then there's repainting, re-staining the deck and the myriad of smaller things that eat your cash. Also, the eventual updating you will need to do to kitchens and bathrooms if you didn't do them shortly after you moved in.

Time— Unless you hire someone to do everything around the house, this is your most precious expense. When you go from renting to owning a house, you will notice that you just don't have as much time as you did when you were renting.

Buyer Demands— This is actually all of the items before this one. If you didn't update, replace, fix and spend time making sure all of the previous items were taken care, when you sell you will get a lot less money. The building structure will depreciate over time. All that is actually appreciating is the land underneath.

CPP Changes Starting in 2011 You Should Know About

Currently you can take your CPP as early as age 60. However, for every month you start collecting before your 65th birthday, your CPP income is reduced by 0.5% . Start taking your CPP on your 60th birthday and that equals a 30% reduction in monthly CPP dollars coming to you.

You can also delay receiving your CPP and wait until as late as 70. Under today's rules, your pension is increased by 0.5% for every month after your 65th birthday you wait to collect CPP. Again, to a maximum of 30% in total.

Starting in 2012, new pre-age 65 CPP collectors will receive a reduction in their CPP income to a maximum of 36% less by 2016. This results in a maximum reduction of 36%. New CPP collectors after age 65 will see their benefits increase by 0.7% per month starting in 2011. This change will mean as much as a 42% increase in CPP benefits compared to taking them at age 65.

What the government appears to be doing is actually giving an incentive to keep working longer. This was needed because there was an actuarial advantage to taking CPP early. That advantage is being eliminated.

Before you sign off on taking your CPP early or late, it's important to get some direction from a Financial Planner so you actually end up with the most amount of money. Along with the other changes I haven't mentioned in this piece, there are other things to factor into for your unique situation. These include your life expectancy, current health, family history, your tax situation and whether you are an employee or are self employed.

Web Gems

TireRack.com— With the threat of a snowy winter on the "Wetcoast", my expected ski trips to Whistler and maybe the Interior and the reality that my all season tires are 2 1/2 years old, I thought it would be good to buy some dedicated snow tires. My experience has shown me very clearly that Canadians pay significantly more for almost every consumer item under the sun vis a vis our American neighbours. I instinctively knew the same would hold true for tires. To make a long story short, I ordered 4 middle of the road, Continental tires online for my hard to find tire size on a Sunday afternoon. Monday morning I got the email saying they were shipped. They arrived at my Blaine address on Tuesday. Yes, it was a little (very little) more work to go the route I did however, an equal comparison made a Canadian purchase 51% more expensive.

Hhhmmmmmmm……

American homes are priced at around fair value on the basis of rental yields, but homes are overvalued by almost 30% in Britain and by 50% in Australia, Hong Kong and Spain. (The Economist, Jan 2010)

The U.S. remains the #1 manufacturing economy in the world by a mile. The average American factory worker is more than 2 times as productive as the average worker in the next 10 leading manufacturing countries. The US produces 22% of the world's manufactured goods. Japan is at 13% and China 12%. (Globe & Mail Oct 2010)

Audi, BMW and Mercedes Benz are among the worst automakers overall in terms of reliability. "Yaris is the most-reliable Toyota in our survey, but we don't recommend it because it isn't very good". (USA Today, Oct 2010)

U.S. prices for hybrid electrics are 30 to 40% higher than internal combustion engines, while battery-powered cars could cost twice as much. (Globe & Mail, Oct 2010)

61% of consumers surveyed said they would be interested in buying a hybrid vehicle. That number fell to 30% when they discovered the price could be $5,000 more than a comparable gas vehicle. (Globe & Mail, Oct 2010)

People in B.C. are the least likely to own their home and be mortgage-free when they retire. Only 24% of B.C. boomers own their home mortgage-free, and nearly one third of boomers in the province still have more than 60% of their mortgage to pay off. (Advisor.ca Nov 2010)

Housing has gone through painful corrections in the past. New homebuyers are likely too young to remember the housing bust in 1981, and the slow recovery that followed. The average real home price in Vancouver took more than 10 years to get back to its peak, before dipping again in the mid-1990s. Calgary fared even worse. Home prices didn't return to 1981 levels until early 2006. Toronto homebuyers experienced similar pain when the speculator driven bubble burst around 1989. In real terms, prices didn't recover until 2007. (Canadian Business "Why Buying A House Is A Bad Investment" March 2010)

America is the most generous nation on the planet, making up nearly half of the world's total giving. The average American is 14 times more generous than the average European, because Americans see philanthropy as their individual responsibility not as a governmental activity, as most Europeans do. (USA Today, Nov. 2010)

16.3% of consumers polled said they used credit cards on "Black Friday", down from 30.9% last year. This is the lowest percentage seen in many years. (Globe & Mail, Nov 2010)

In January, the MSCI Germany Index was trading at 13.7 times forward earnings, compared to 13.1 times for the rest of the world. Today it's down to 10.2 times forward earnings versus 12 times for the world today. German companies were selling at a 5% premium to other companies around the world. Now they are at a 15% discount." (Canadian Business, Dec. 2010)

We make two types of mistakes, implementing a bad idea, and failing to act on a good one. In times of radical change, making a mistake is less risky than doing nothing at all. (Globe & Mail, Nov 2010)

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