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mutual gains™

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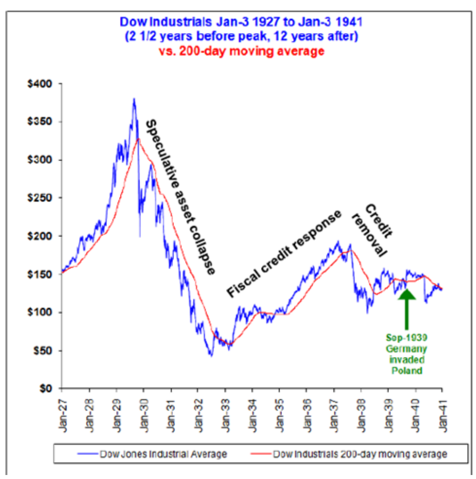
IT LOOKS LIKE WE'VE BEEN HERE BEFORE

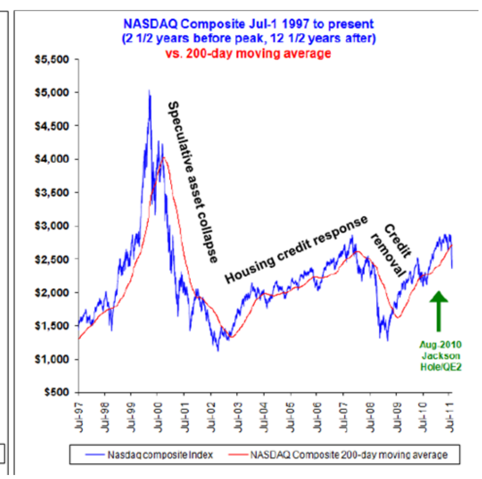
During the course of a week I come across all kinds of information. There is so much to take in. There is often a tidbit that inflates a bubble above my head in which I think enthusiastically to myself, this is something I should definitely let clients know about.

The fact is, we can't and shouldn't make financial decisions based on 1 compelling piece of information. Instead, it is only sorting through a broad spectrum of data and opinion that one can come to a conclusion. That process produces an informed, non emotionally charged idea of what is the most probable picture of the future.

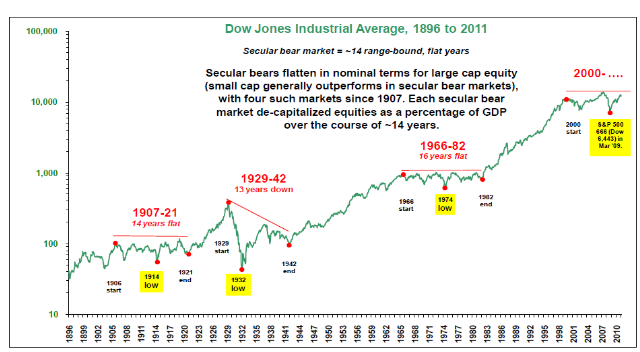
The following 5 charts were presented to me in White Rock by a key member of a 3 person investment management team who combined, have won numerous awards for investment performance. Collectively they oversaw well over $30 billion for a U.S. based investment management firm prior to the recent hanging up their own shop's shingle.

The first 2 charts is a comparison between two very different, fairly long periods of time. On the left, the Great Depression of the 30's through to the middle of World War II. On the right, the past 14 plus years that included both the tech bubble and the more recent credit crisis:





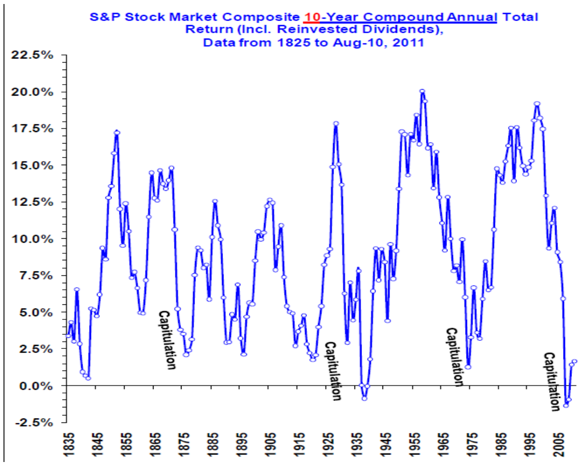
It would be a stretch to say these times were the same — no times are. I don't think anyone would have rather lived through the tumultous years of the 30's than today. Having said that, there are some striking similarities in the degree of speculation and that in both cases, government responded with similar tools to fix the problems that followed.



Source: Dow Jones, U.S. Census, Stifel Nicolaus format.

To the right you will see 4 periods since 1896 where there were several years of go nowhere equity investment markets. The last one is what we are potentially in now, and if history is any guide, we could be nearing the end of crawl and entering an extended period of market appreciation.

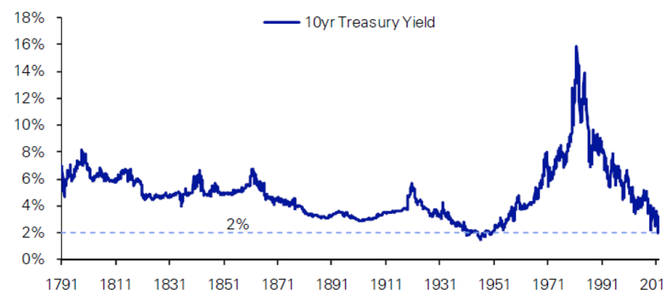
Below is a 10 year annual compound rate of return chart. The low or "capitulation" times should be particularly noted. These are times when investors finally gave up on their investments, surrendering to the ups and downs of the market. Selling in droves, fleeing to bank accounts and bonds. After extreme cases, decades of much higher returns were enjoyed for those who maintained composure and discipline to stick it out.



The last chart (below) doesn't deal with compelling evidence for potentially strong investment returns but rather of the potential for interest rate increases and the degree to which they could rise.

In meeting with clients, namely baby boomers and older who may have a mortgage, there seems to be an under current fear, that interest rates could head upwards, well into the teens. Not surprising and definitely a valid concern since it happened once before.

Interest rates will rise; it is inevitable. That being said, historically, the norm in the U.S. over 200 plus years of history is interest rates in the mid single digits (Canadian data is relatively the same). We have been in a range well below that over the past several years and it is likely to continue for a while longer. The more the world struggles with cleaning up the debt sins of the past few decades, the longer interest rates will stay low. When they do rise it will probably be subdued.



These graphs are not absolute evidence of strong investment returns going forward nor a crystal ball into the future of interest rates. They are however a few of many bits of data and stealthy financial measures which give compelling indication that the next several years could be one of very strong investment returns. Of course, those will only be recognized in hindsight after we are well into it and will only be realized by those who are invested today.

Corporate Bonds Just Got Very Attractive.... Again

People have become enamoured with owning government bonds over the past few years. Understandable leanings considering what we have gone through. The fact remains though that governments and individuals are in debt up to their eyeballs yet corporations are in the healthiest financial shape they have been in over 50 years.

Early 2009 we saw a once in a lifetime opportunity to invest in corporate bonds, selling for much less than their maturity value. The simple reason was people were worried a lot of companies wouldn't survive so corporate bond prices were selling for Depression like prices. Those of my clients who invested cash they had available at that time reaped substantial gains.

Over the past few months corporate bonds have experienced a bit of a retrenchment. The interest rates paid on high yield corporate bonds are on average 7.41% above government bonds for an average interest rate of well over 8%. As things settle down, bond prices with interest rates as high as these will be bid up again and those who have used cash at this time to invest in corporate high yield bonds should be well rewarded.

Flow Through Shares For Significant Year End Tax Deductions

If you have or plan to maximize your RRSP contribution for the 2011 tax year but still want more tax deductions, flow through shares could be the place where you will get them and are the longest surviving tax assisted investment available to you. An investment of $10,000 can give you a tax saving of as much as $6,000.

Flow through shares are on the upper end of the risk spectrum however, the tax savings takes a lot of risk out. With $6,000 in tax savings back, the investment value can fall to $4,000 and you would be at break even.

For the past few years I have been a huge fan of using flow through shares in conjunction with charitable giving. I used this extensively for clients and personally. You could make the investment, get the tax savings from investing ($6,000) and in 18 to 24 months, when the investment "rolled over" into a mutual fund, save an addi-

(Continued from page 2)

tional $4,000 in tax from using the mutual fund shares as a donation.

Of course, all good things must come to an end and that end came when the Federal Government passed its last budget this past spring. However, despite that change the tax savings for flow through shares are written into the Income Tax Act and have been since 1954. They are the last and longest standing tax assisted investments in Canada and can be used by anyone who is earning a very healthy or unusually high income in any particular year. They are an excellent vehicle to get a much needed significant tax deduction with no investment limits.

TFSA— It May Be Better That You Don't Have One

Financial institutions are really good at selling a financial program like Tax Free Savings Accounts. Too good in fact. Don't get me wrong. TFSA's are an amazingly powerful tax saving vehicle but they aren't for everyone. I have seen on many occasions where someone has thought they should have a TFSA simply because they are available and they were told putting money in a TFSA was an excellent idea. Often, the opposite is true.

Do you have a mortgage? A TFSA is probably not for you unless you know you can get a return that is higher on your TFSA than what you are currently paying on your mortgage. If your TFSA is only going to be sitting in a 1 to 2% interest savings account…. pay down your mortgage or other debt. That would be much better for you.

Have you maximized your RRSP? For this question, whether you should have a TFSA or not is a little more subjective. It has a lot to do with what kind of financial position and income you expect to be enjoying when you are retired. When you stop working and will be living on more than just CPP and OAS then maximizing your RRSP contributions should be done before you even consider putting money in a TFSA.

Those aren't rules of the Moses carrying stone tablets kind but they are good rules of thumb. The best thing to do is discuss your situation with a Financial Planner who can make an assessment and give you an answer on what is best for you rather than the bank. It could mean the difference of thousands of dollars for you.

5 Ways To Avoid Property Hassles

I've heard a jointly held property called the "poor man's Will", a way for a person to transfer wealth on death without spending a cent to put in place a proper Will. It is also, on the surface, an appealing and often used way for spouses and for parents of adult children to minimize probate "fees" (fees is a misnomer because it feels and smells like a tax. B.C. has a probate fees of $14 per $1,000 in excess of $50,000).

If you have or are considering transferring property into joint ownership, particularly with someone other than your spouse, here are my devil's advocate things to play through in your mind:

1. You put property into the name of 1 of your children. When you pass on, what is the potential for that person to say to their siblings, "I'm keeping the house" rather than splitting it with them as you mother intended to be done? How do you know for sure that what you intend will be followed through with?
2. If you want, put the property back in your name solely, how sure can you be that the other person simply says, "no"? This is particularly possible if the relationship falls apart while the joint ownership is in place.
3. Have you calculated the tax you will pay as soon as you add another person's name to the title of the property? This doesn't apply to principal residences but definitely applies to rental property or "cottages".
4. If the joint owner adult child is 'married' and that relationship falls apart, you could all of a sudden have another joint owner who could reek(sp?) havoc and their wouldn't be anything you can really do about it.
5. A property that is worth considerably more than you paid for it has substantial tax from capital gains imbedded into it. A "testamentary trust" should be considered for significant initial and ongoing tax saving.

Web Gems

Www.songsterr.com— As the name implies, this site relates to music. If you play guitar, bass or drums this is a fantastic site to learn the songs you love. You can search for a popular song and play along to an electronic version of it. Technically, this is a paid site if you want the full features which are extensive however, with the free version you can mute any or all of the instruments. If, as an example, you are learning to play the bass, you can mute everything else except the bass line. As the song is playing, a vertical line is moving with the beat along the music chart. This could be an excellent Christmas gift for $69 if you have an aspiring musician who you want to get something completely different for. There is an amazingly broad range of songs available so your gift recipient will be busy for all of 2012 and learn way more than the $69 you'll pay.

Hhhhhmmmmm......

"This (European debt situation) is a much smaller problem than anything we faced in the fall of 2008." Sabastian Mallaby, Director of Geoeconomic Studies at the Council on Foreign Relations

Going back to 1802, $1 invested in U.S. stocks would have been worth almost $700,000 at the end of 2010 (6.7%). Bonds? $1,530 (3.6%). T-Bills? $292 (2.8%) Gold? $4.02 (0.7%) Jeremy Segal, University of Pennsylvania Wharton School of Business

Despite the market's 2.5% drop on the last day of October, the S&P 500 stock index finished October up 10.8%, its best monthly gain since 1991. USA Today, Nov 1st 2011

Canada's public debt as a percentage of GDP is 82% (slightly better than in 2000). The U.S. is at 68.9% (more than double from 10 years ago). Greece? 135.2% (111.4% in 2000). Japan is just over 200% (vs 133.2%). Why can Japan have so much debt? Japan's government debt is held by the Japanese people. Economist.com

Billionaire Warren Buffett has been calling for higher taxes on ultra high income earners like him. He disclosed that he paid just 17.4% of his taxable income ($6.9 million) in federal income taxes. Republicans are opposing any hint of raising taxes on those who benefit most from the US's market economy. USA Today, Oct 2011

During the Babylonian reign of King Nebuchadnezzar, 2,500 years ago, it is said an ounce of gold purchased 350 loaves of bread. The same ounce of gold still bought 350 loaves (at $2 a loaf) in the 1980s when gold sold for $700 an ounce. Today, an ounce of gold buy's about 800 loaves of bread. Globe & Mail, Oct 2011

40% of India's population is under the age of 15 with a median age of 25. This is an enormous pool of potentially productive labour. In 2020, the average Indian will be only 29 years old, compared with Canada at 42, the U.S. at 37 and Japan 48. Portland Investment Counsel, Nov 2011

Independent pharmacies are sold based on the value of their prescription files. These files sell for $20 to $50 each, depending on local competition and customers' age and medical state. Typical small pharmacies sell for $3- to $5-million today. Globe & Mail, Nov 2011 re: Zellers selling Target its pharmacy business.

A small 1 bedroom apartment in one of Beijing's large, new condo projects sells for about $400,000. Large units cost more than double that. In comparison, a typical Chinese middle manager, teacher or government official earns less than $1,000 a month. Globe & Mail, Nov 2011

At $2,250 a square foot, retail rental rates at the best spots on Fifth Avenue in Manhattan are the priciest in the world. Bloor Street in Toronto is just $326 and $249 on Robson Street in Vancouver. Globe & Mail, Oct 2011.

Working an additional 3 years and continuing to save 15% of your income could increase your retirement income by 22%. Working an additional 5 years can boost your annual retirement income by 39%. USA Today, Dec 2011

First marriages have a 67% chance of lasting a lifetime. Institute of Marriage and Family Canada, Nov 2011

For the past 3 years, Equador has been ranked No. 1 in the International Living global retirement index as the best place to live. This takes into account real estate prices, benefits for retirees, cost of living culture , entertainment, recreation, health care, infrastructure, telecommunications, safety , political stability and climate. They say you can live extremely well for $1,200 a month including housing.

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PS. Do you want to stay more fully connected and communicated with, particularly during these tumultuous times? Search for me on Twitter LinkedIn and / or Facebook then.... "Follow", "Connect" and / or add me as a "Friend".