Issue 149 May / June 2012

mutual gains™

published bi-monthly since 1987

THE NEXT 10 YEARS WILL BE VERY DIFFERENT THAN THE LAST

For the month of May I have been in and out of town attending a vast array of meetings, from a broad range of financial experts. These included investment managers and teams I use for managing the pieces of my client's portfolios as well as some I don't. As well, I gleaned perspective from David Dodge the ex-Governor of the Bank of Canada and, over lunch, Wilbur Ross, known for turning around distressed businesses and through that amassing a net worth of $2 billion dollars.

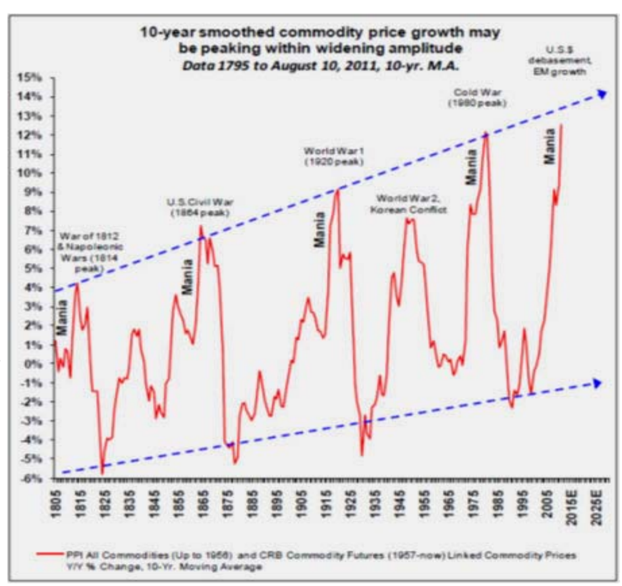
I shared a bit of the information I absorbed (through furious note taking) by email to those subscribed to our "Mutual Gains E-Loop". If you haven't been getting emails through the "E-Loop", directly from me, you can subscribe at www.careyvandenberg.com).

In one meeting, there was some very interesting historic data presented, showing where we could be in relation to commodity prices. I found this compelling particularly since there seems to be a widely held view that the commodities we use, namely those that come out of the ground, will continue to go up strongly in price.

Prices exploded in the last 10 years because through the 80's and 90's we saw abnormal underinvestment in resources. This resulted in capacity shortages and price spikes as emerging market demand exploded. All of this was fueled by an increase of spending and debt by countries all around the world.

China, with it's spending on road and bridges was a huge driver of this. They now have huge highways that are overbuilt for their current use. As someone who recently went there said to me, "I drove down this expansive highway and I felt like I was the only person on the road".

Collectively, the world has accumulated mountains of debt over the past few decades and in China it wasn't debt but rather unbridled building of their infrastructure. All of this is coming to an end and because of this, commodity price increases will not continue, at least not nearly to the degree they did over the past 10 years. Long term historic data shows where we could very well be, in the commodity price cycle (see graph on right).



Interestingly enough, I heard hints of this from

C.E. VANDENBERG & ASSOCIATES INC.

FINANCIAL PLANNING— INSURANCE— WEALTH MANAGEMENT

ATTENTIVE - ATTUNE - ATTAIN™

WE WILL LISTEN CAREFULLY
TO WHAT YOU ARE SAYING
AND BE ATTENTIVE TO YOUR DESIRES
AS WELL AS YOUR FEARS
SO TOGETHER WE CAN BUILD
AND ENJOY
A HARMONIOUS
AND RESPONSIVE RELATIONSHIP
IN ATTAINING YOUR LIFE'S DREAMS
AND THROUGH THAT
WE WILL BE ATTAINING OURS.

WWW.CAREYVANDENBERG.COM

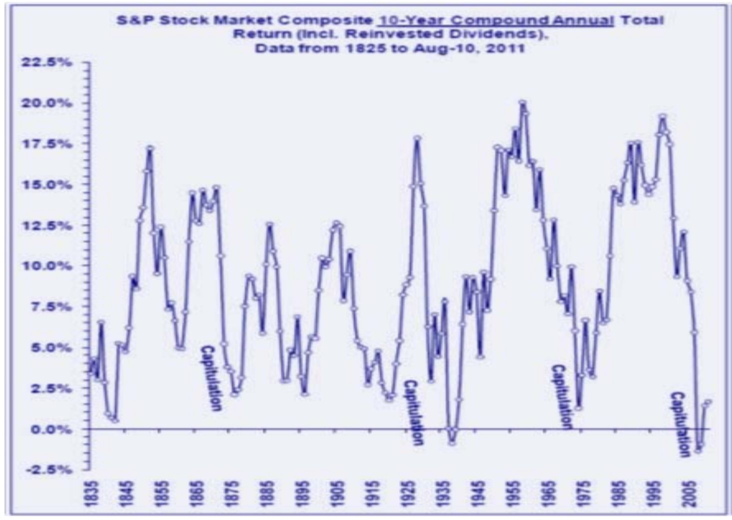
CAREY@CAREYVANDENBERG.COM

604 541 2690 1 866 274 1222

SOUTH SURREY / WHITE ROCK OFFICE
13230—16TH AVENUE
SOUTH SURREY, B.C. V4A 1P3

BURNABY / VANCOUVER OFFICE
4400 DOMINION STREET, SUITE 410
BURNABY, B.C. V5G 4G3

other investment managers and recently read a KPMG article suggesting exactly the same thing. All of this goes against what Joe Public believes.

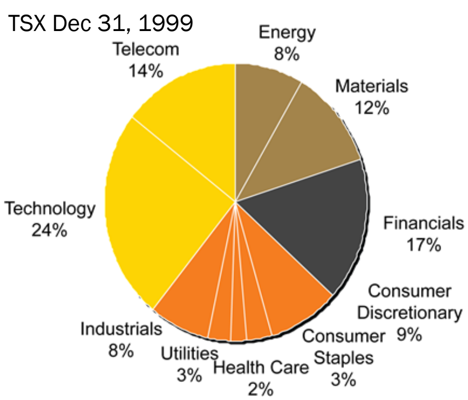


Take the economic lethargy to how it will apply to equity markets as a whole and the assumption would be that, if the economy isn't doing well, how can we expect shares in companies to go up in price?

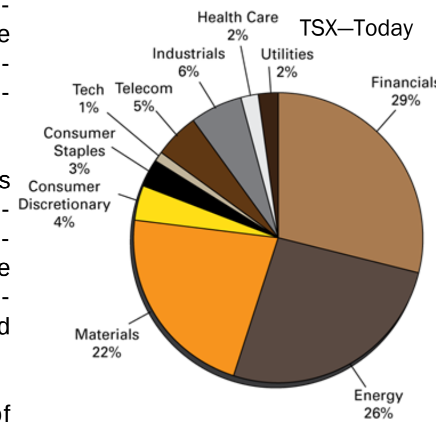
Generally, it may sound counter intuitive and it definitely flies in the face of common belief but the fact is that when the economic growth trend is slow, equity markets actually do quite well. Sadly enough, it does quite well when most people have given up on holding an equity based portfolio.

Another historic graph which was presented, shows historically where we have been and where we could be now. As you can see from this graph on the right, those trends are generally multi decade and the current one we could be in, has probably just started.

The 3rd and 4th charts show the breakdown of industries in the TSX index as it relates to their prices in relation to all the other companies and their respective industries that make up the index. The chart on the left is from December 1999. This is when nobody wanted to own banks and instead technology and telecom companies were what many investors were chasing, bidding up their prices to astronomical levels.



Today (the chart on the right), shows that companies in the industry of Materials (commodities), Energy (oil) and Financials (banks) is what people have pushed the prices up on, shunning companies that are in the technology and telecom industries.



The key point I want to make after all of this is: The trend finally becomes real to us WELL AFTER we are a long way into it. Positioning your current affairs on what has been doing well over the past few or even several years and basing your life and future on that relatively recent experience on that will prove to be wrong. The wise and benefical approach is to look to the future through what history has taught us and what the facts of today are showing.

How Much I$ Enough To Retire On? The Misconception

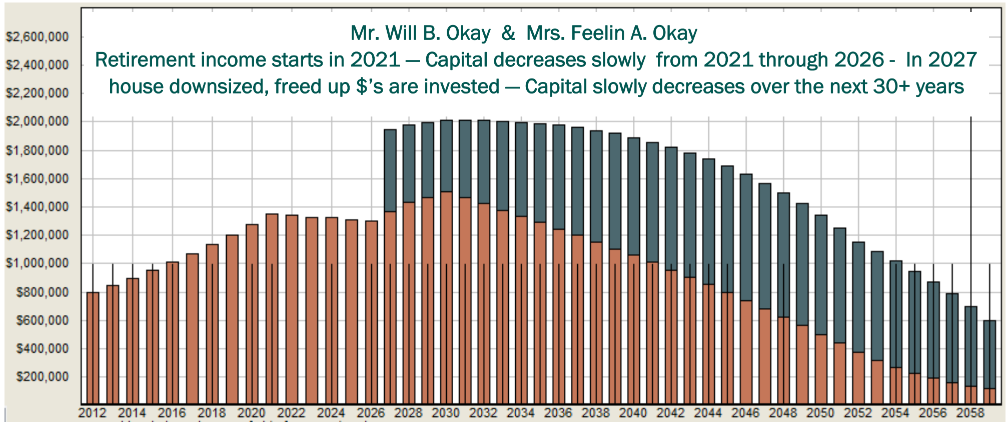
There seems to be a misconception, one which I find appearing in financial planning articles in the biggest newspapers in Canada. The misconception is about how much money you have to accumulate to provide an income during your retirement years. I am not saying these articles are deceptive, I believe they are simply incorrect and do not fit with reality, the reality I see everyday with real life client examples, those who have long been retired.

In any given scenario or "case study" I find written, it will suggest that a person who requires $40,000 of income in retirement will need $1.2 million dollars socked away. This is assuming the portfolio can earn 3% of interest and dividends. On the surface, that simple math seems correct but again, it doesn't fit with the reality of life in retirement with the clients I have worked with for years.

If you have amassed, as in my example, $1.2 million dollars, and you are only spending the "income" what happens to that $1.2 million when you pass on in 20 or 30 years from now? Unless you want to leave it all to your kids, that money can be used during your lifetime. As I have heard many times in planning conversations with clients, "I want the cheque I write just before I die to bounce".

(Continued from page 2)

The balancing act is to use the income AND a small part of the principal over the course of your life so as to give yourself the most income you can. The mechanics is very much like a mortgage in reverse. The difference is, you aren't borrowing the money. You have it. You are simply using all or much of it up over a long period of time (see graph on the right, how it declines over time).



The second part relates to home ownership. Many people have substantial equity in their home and either downsize to a condo or townhome or move to a less expensive part of the city they are currently living in. I have seen this move happen when the kids have moved out, when nearing or just after starting retirement or simply when the yard and the stairs are just too much to deal with every day. For many people, the equity freed up with that downsizing is invested and provides additional income they need. Again, it's not only the income that can be used but a part of the principal.

The third part is expenses. Those too aren't level. As we age our fitness level and energy slowly decreases. Our want for stuff, expensive trips and outings diminishes and this happens right along with how ambitious we feel about doing those things. When we retire initially, expenses can be higher but they generally decrease with a normal aging process. There are however the potential expenses of professional care as we get into the twilight of life. That generally means more expense however, very often it is tied or closely related to one spouse passing on and further downsizing. If your Financial Plan has been monitored and projections updated on a regular basis, everything should work out seamlessly with all of those life changes.

The Juggle Of Paying For Post Secondary Education

Paying for a post secondary education for your kids is expensive. There are many ways to pay for it and the most common is by contributing to an RESP. It is attractive because you get 20% added to your account by the Canadian government and, if your income is modest, additional monies are kicked in by again, the government.

Of course, saving for your children's education can come at the expense of a reduction in RRSP contributions and / or mortgage payments. There is a limited amount of cash flow that we all have to work with in our own family budgets. It really becomes a balance of saving for costs that will come sooner (education) over costs that come later in life (retirement) along with debts that we like to pay off eventually (mortgage).

Instead of pre-saving for post secondary education costs, I have heard of some taking the approach of having their children get student loans when that bill needs to be paid. This can work if you have modest income and limited resources to pay for school. Technically, the benefit of an interest free student loan and the payment of Grants by the government to an RESP is equal. There is the thought process that if you pay your mortgage down faster using the money you would have put into an RESP, you can simply borrow the money for post secondary education when that time comes.

With any choice you make from a menu of financial choices, it comes down to the assumptions you base your math on and whether you like to accumulate savings to pay for an expense or borrow to pay it. Also, do you have your children save and pay 50% of the cost so they take ownership of their education?

Web Gems

Www.VRBO.com — We are going into the traditional time of year where a trip out of town for a week or two of R&R is common. The VRBO (Vacation Rental By Owner) is a place you can search for accommodations outside of your typical hotel chain, for wherever you are heading. If you need a feeling of a home away from home for a day or two, a week or even a month, you know you will find it on VRBO. Cheryl and I have used it many times and this summer will be spending a week in San Francisco. After looking at a bunch of floating homes in Sausalito, CA we decided on, found and booked a nice condo in a nice neighbourhood, a few km's from downtown.

Hhhhhmmmmm......

Canada now has the highest stock of unsold condos since the early 1990s. Globe & Mail, May 2012

The combined cost of mortgage payments, utilities and property taxes to purchase a 1 storey detached home in Vancouver eats up 88.9% of the average homeowner's income. In Toronto it's 53.4%, Montreal 41.4% and Calgary 36.7%. Increasing interest rates, along with very high consumer debt levels, will make affordability harder, putting downward pressure on property values. RBC Economics Report, May 2012

Conventional mortgage payments in the U.S. now account for just 12% of median family incomes vs. a historical norm of 20%. USA Today, May 2012

Real (after inflation) short term interest rates on government of Canada bonds and T-bills are actually negative (paying less than the inflation rate). This can't continue. Rex Chong, Head of Fixed Income Investments, Invesco Canada, June 2012.

AT&T subscribers on contract-based plans pay an average of $64.46 per month, while other AT&T customers pay an average of $11.52 per month. (Those "free phones" are definitely not free). USA Today, May 2012

AT&T, Sprint, and Verizon sell consumers the Iphone for between $50 and $200 but they pay Apple an average of $659. It is believed that Sprint is in a precarious financial position and that it could go into bankruptcy by marketing and selling the Iphone. USA Today, April 2012

Nokia, Palm, Nortel and RIM (Blackberry) all rode the wave in the technology development cycle and eventually were out maneuvered by competitors. Apple is riding the current wave. USA Today, June 2012

"The likelihood is the Euro will survive because a breakup would be devastating not only for the periphery but also for Germany. It would leave Germany with large unenforceable claims against the periphery countries. A return to the Deutschemark would likely price Germany out of its export markets, not to mention the political consequences. So, Germany is likely to do what is necessary to preserve the Euro, but nothing more." George Soros (22nd richest person in the world, 7th wealthiest American), June 2012

The Walton family (founders of Walmart), with a combined network of over $90 billion (more than Bill Gates and Warren Buffet individually), have been buying Walmart shares in the public market. (They probably aren't worried about Europe because, on the world stage of things, it isn't relevant to the success of the business).

Nearly 200 years ago, China was the largest economy in the world accounting for 1/3 of global production. Advisor.ca, June 2012

Out of 178 countries worldwide, the U.S. is 1 of 3 that does not have guaranteed paid leave for new mothers. Papua New Guinea and Swaziland are the other 2 that don't. Forbes, May 2012

Ink for our office copier / printer was ordered and delivered from the U.S., all taxes included, for $132.50 (US). The same would have cost $267.43 (Cdn) if purchased in Canada. Why is there such a difference?

Carey

PS. Stay fully connected by Following me on Twitter
Connecting through LinkedIn OR
Friend me on Facebook