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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

MY PAST 25 YEARS AS A FINANCIAL PLANNER REVISTED

I became a Financial Advisor in April of 1987. That was just over 25 years ago. I started writing mutual gains immediately and this issue is the 25th year anniversary and 150th issue of those first scribblings.

I thought it would be an interesting and educational exercise to quickly walk through some of the historic and most economically challenging events, ones where at the time, it was thought that there was no light at the end of the tunnel. Catastrophe was expected and viewed as the only possible outcome.

In April of 1987 people had been making money on their investments very easily for the last 4 years, when the DOW, an index of the price of shares for big U.S. companies, was at a low of 776. That was up until October 19th ("Black Monday") when markets around the world fell by over 30% in 1 day. Not a slow grind but a swift, large, 1 day free fall. I remember coming back into the office mid afternoon after some meetings and found out what had happened. My reaction was "Wow! This is great!". I was excited at the opportunity to tell my new clients about how cheaply they could buy investments now. In 1 day they were cut in price by over 30%. I didn't really understand how much it had scarred people who had so much money invested. At 24 years of age, this is not surprising. The DOW was at a low of 1739.

The market did rebound strongly after "Black Monday" however psychological damage amongst the investing public ran deep and wide. My office of over 12 advisors slowly dwindled down to me alone. I was left responsible for being the Regional Manager for the remaining advisors scattered throughout B.C. for our Toronto headquartered firm.

The Savings & Loans crisis in the U.S. was just beginning and was triggered by a loss of money flowing around due to Black Monday. Although about 25% of all Savings and Loans (local banks) went bankrupt putting a significant strain on U.S. government finances, the equity markets weren't affected in any significant way.

In 1993 I partnered with a couple of Canadian real estate companies, buying up apartment buildings in the hardest hit areas of the U.S. (Dallas, Denver and Phoenix mostly) on behalf of our mutual clients. I can still picture a trip down to Dallas seeing office buildings on the edge of downtown completely empty, with grass and weeds growing up through the pavement in the parking lots. I remember client's questioning, "why are you buying apartments in Dallas? It's terrible down there." (Yes it was and we continued picking up properties until 1996.)

The market moved up after "Black Monday" through the first half of 1990 when the Persian Gulf War flared and of course, when uncertainty hits, the markets decline…. And like all other times before it, they did. There were many debates about whether this war was just about oil and my vivid recollection of how one of my colleagues in the office was so angry and disgusted on why he thought this war was being fought. The DOW fell to a low of 2722. Despite it all, after the Gulf War became a normal event on the news, the markets continued upwards.

The 1993 World Trade Center bombing. The terrorists intentions were for the North Tower to knock into and bring down the South Tower. That single event created great nervousness worldwide and the market declined over several months due to not knowing what could possibly happen on any particular day. The DOW came down to a low of 3674. After the news stories ran their usual course and time passed, fear subsided and the markets advanced once again.

1997 Asian financial crisis and fears swelled about a worldwide economic meltdown. Government debt soared. The low point of the DOW was 6738. It took until 1999 for the economies of Asia to recover but recover they did and of course, the market continued upward.

Many people during this time were getting sucked into and setting themselves up for permanent loss of money by investing in anything that had a story of technology related to it. In Canada, Nortel was the biggest example of this. I can replay a short clip of memory of an investment manager whose clients money I had entrusted to his firm. He was laying out how great a company Nortel was and why he was invested in it. Because of my “value” based investment wiring, I went back to the office and made sure none of my clients had any of their money managed by this individual and his team.

Early 2000 the tech bubble burst and those who bought significantly overpriced investments by all fundamental economic measurements will never make up their losses. Those losses are permanent. The vast majority of my client’s assets sailed through this time unscathed. If someone had technology in their portfolio it’s because they were adamant on buying it. The story was their guide rather than sound investment fundamentals.

September 11th 2001. Visions of that day will be burned in our heads forever. The shock of that event, terrorism fears and uncertainty brought the rest of the market down. Even highly profitable, large companies that sell things we buy every day, whose shares were reasonably priced by all measuring sticks were sold by many simply because the future was very unclear and scary. The markets bounced around grappling with the fallout and remnants of the tech bubble, along now with the fight against terrorism, through the spring of 2003. The DOW bottomed at 8235. The dust was settling and as the world dealt with the new reality, the markets continued moving upwards.

That upwards trend of share prices continually moving higher was virtually uninterrupted for several years thereafter. The DOW reached an all time high level of 14164. That was until the debt and loose lending policies that seemed to create good feelings around the world started to unravel, culminating into the worst worldwide economic storm since the early 30’s. Unlike the tech bubble which really only affected those who were gambling on a promising story, the declines through the last half of 2008 and into March of 2009 affected the masses and there was nowhere to hide. The DOW index, a measure of the combined share prices of biggest companies in the U.S. dropped to a multi year low of 6547.

In early 2009 the market started a strong march upward, however the clean up of the debt taken on for the centre part of the decade will take a long time to get done. It is still getting done. We are witnessing this in the struggles that Europe in particular is having. The DOW at time of writing is just over 13,000.

Bones benefit from stress otherwise they lose density. Just as a forest needs controlled burns to prevent a forest fire so do markets need economic stresses and burns to keep it healthy. The past 25 years has given us lots of both of those. What will it look like a year from now? I expect more of the same going forward. Through it all, good quality investments will continue to be the wealth generator that they have shown to be, throughout hundreds of years of history. Yes, the current times are different however, “Plus ca change, plus c'est la meme chose” (the more thing change the more the stay the same). God willing, I plan to walk with you through many more years.

YOUR LOW INTEREST PAYING BANK DEPOSITS ARE LOSING YOU MONEY

As you will see in the chart on the back page, interest rates will probably be low like this for a long time. The economic struggles and clean up being done in Europe, the U.S. and many other nations confirms that coming true.

The highest interest you can get on a savings account is 1.5%. Inflation is running at 1.5%. Just from that, you aren’t making any money. Minus the tax you have to pay on the interest you earn and you are losing up to

(Continued from page 2)

.67% per year. If you hold your money in a savings account for 5 years and everything stays the same you will have lost up to 3.35%. Keep ignoring it and in 10 years you will have lost almost 7%. That is a guaranteed loss.

Savings accounts are something that are useful for parking money for a short period of time however, leave them there and you are guaranteed to lose money. The painful truth is that you will never be able to make up that loss. Inflation and taxes are silent, cancerous killers so rather than let your money lay in bed and let the killer have its way with it, do something with your dying money by having a Financial Planner help you lay out some options that fit your situation and comfort level.

If You Are A Business Owner A PHSP Is A Must Have

Most businesses are owned by 1 or 2 people and because of that, the ability to set up some kind of insurance plan for things like Dental and Prescriptions (including optical) is often cost prohibitive, restrictive or simply not possible. My own company, C.E. Vandenberg & Associates Inc. falls into that group and because of it, we set up a Private Health Services Plan (PHSP) making virtually all of our family's health expenses tax deductible.

A PHSP is simply a conduit to flow health expenses through your company rather than pay them personally. When you pay them personally you are paying these expenses with dollars you have already paid income tax on. Instead, flow them through the company using a PHSP and they become tax deductible. Because of that, the actual cost is reduced by as much as 43.7% (in B.C.). These include dental, prescriptions, massages, chiropractor, naturopath, fertility treatments, laser eye surgery, private MRI, artificial limb, etc. fully tax deductible.

Even if you could set up a company insurance plan for your dental, prescriptions and other health related costs, a PHSP is much more flexible and will save you money rather than cost you money which is one of the reasons I set a PHSP for my company over 10 years ago. Let me know, and we can easily set one up for you too.

6 "Just In Case" Documents and Info. You Should Have

What would happen if something catastrophic happened to you this week? Here are some documents you should have in place so everything about you and your money can be handled exactly the way you want, so money doesn't go missing and so there is no government interference:

Will—This simply says who gets what when you die. If you have kids it says where they go. If you don't have a Will those decisions will be made by the government in the jurisdiction in which you live.

Living Will— If you are unable to make decisions about your own health, this document says exactly how you want to be treated. Do you want to be sustained to stay alive? Do you want your organs donated? This says it.

Power of Attorney— Gives someone the power to make financial decisions and transactions if you are unable to. Again, if this isn't in place, the government decides how things are handled.

Account Statements— A list of where your money is. This should include any investments, bank accounts and of course, if you have one, where your safety deposit box is. You don't want your money to be added to the almost $500 million that is in unclaimed bank balances in Canada.

Insurance Policies— Life Insurance is the big one in this category because you will want your heirs to be able to collect the insurance money that you have paid premiums on.

User Names and Passwords— Especially with so much being online now, these passwords may apply to social media sites like Facebook as well as your investment and bank accounts.

Web Gems

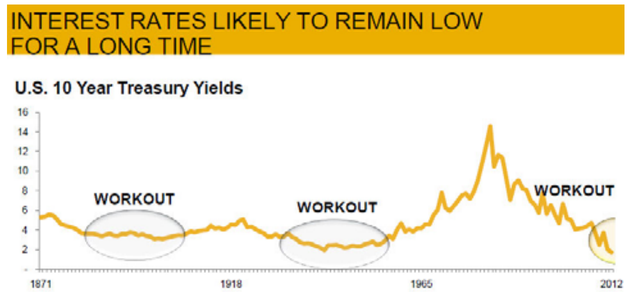
Www.howtogeek.com — This site is an excellent source of info for anything related to your computer. It has a huge library of instructions for all sorts of computer fixes, software solutions to make your computer easier to use or simple tips on how to change settings a program you may use daily. I particularly like how the instructions they have written out show shots to illustrate the instructions. This makes following and implementing the instructions much easier. You can also can get their daily email, something I've been receiving for quite a while now and because of it have come across info and free software that I never knew existed. This site isn't just for computer "geeks" as the name implies. This site is a must have resource for anyone who uses a computer.

Hhhhhmmmmm......

We've had 86 times since WWII that the market declined by 5% or more; in 83 of these times we've recovered everything we've lost in a median of 14 months or fewer.

Avoid true risk, which we define as the opportunity for permanent loss of capital. The best way of doing this is to worry about stuff before the rest of the world does because once the world starts to worry about it, the risk is already reflected in the price of the asset. Said another way, once the rest of the world starts to worry, it's too late for you to worry. Tye Bousada, Co-CEO and Portfolio Manager, Edgepoint

At a recent town-hall-style discussion with about 100 citizens from across Germany, Merkel fielded questions about the future of their country. During the hour-long discussion citizens brought up education, child care and other issues. None asked about the eurocrisis. USA Today, June 2012



The economic turmoil in Europe is benefitting borrowers worldwide. Low rates are a huge savings for the tax payers of all countries with significant debt (ie USA). Mortgage rates will continue to stay low, saving billions of dollars in interest for borrowers.

Almost half of today's 50-59 year olds surveyed have less than $100,000 saved for retirement. Globe & Mail, Aug 2012

Why lend money to a government in great debt (buying government bonds) when you can lend money to corporation with no debt (buying corporate bonds) and get paid more?

Price-to-rent ratios are above historical norms and indicate that (residential) real estate is overvalued by as much as 10%. Globe & Mail, July 2012

In 1990 the 5 year mortgage rate was 11%. A specific condo in Richmond sold for $102,000 and the payments on $102,000 of mortgage was $982 / month. Today that same condo, now valued at $282,000, with a 5 year fixed rate mortgage at today's rate of 3.09% has mortgage payments of $1,348 / month. Minimum wage in was $5 in 1990. Today it is $10.25. Real estate prices went up to the degree they did because interest rates declined to their lowest level in 65 years.

The electric Honda Fit (Fit EV) costs $500 of electricity to run it for 15,000 miles while the regular Fit costs $1,800 / year to run. Sticker price on the EV is $37,415. The gas powered Fit can be bought for $16,915. At current gas prices it would take over 15 years to break even if you could buy the EV (and a lot longer if you include the opportunity cost of shelling out the extra $20,500 for the EV). USA Today, June 2012

Carry on luggage with wheels was invented 25 years ago by a pilot from Northwest Airlines.

One of the investment managers we use says that as soon as his team buys shares in a business they immediately start to look for reasons on why they should sell it. Email carey@careyvandenberg.com for a recent example of this.

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