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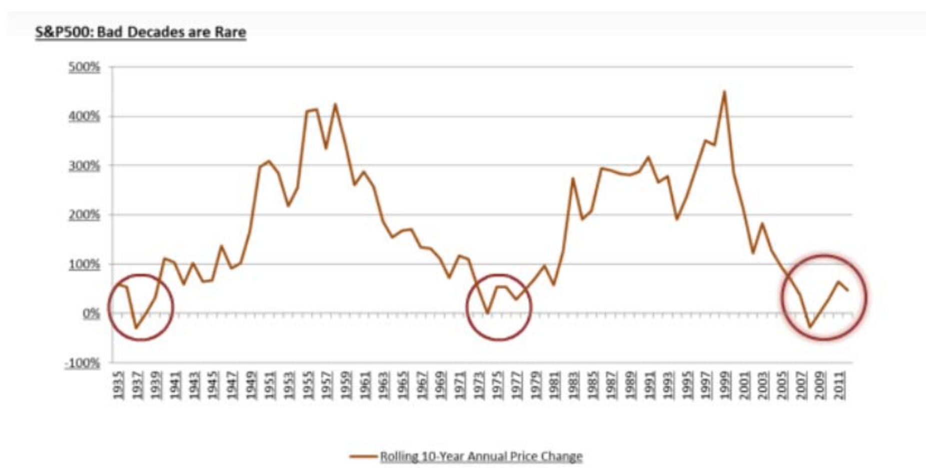
KNOW WHAT YOU INVEST IN DURING THE "GREAT ROTATION"

The start of the 21st century has definitely been tumultuous for all of us. Since the 2000s began, we have experienced 2 significant market declines. The first of which was related to tech and really only effected those who paid too much for a "story". The more recent and significant one hit everyone and was the worst since 1929. Over the past several years the U.S. housing market along with many housing markets in Europe fell precipitously. We are still coping with a massive "deleveraging" to rollback the borrowing binge that started over 20 years ago by governments and households worldwide.

Since late 2008, American's have withdrawn over $400 billion from equity mutual funds and the story is similar here in Canada. Despite that, markets have been on an upward trend since March 2009. Through it all, money has been pulled from equity investments only to be put in bank accounts and bonds. In this, many people have been seeking safety of their money after seeing just how quickly their investments could decline as it did through the few months of mid 2008 through early 2009. Reaction has been the operative word and reaction rarely serves us well.

With that, rates are at the lowest levels we have seen in 80 years. Despite this, most people would agree true inflation is above the level of interest rates. With that, people who have money sitting in bank deposits continue to lose money the stealthy, cancerous way. Year after year after year; bit by bit. Unlike experiencing the ups and downs of high quality investments and eventually making money again, money lost to inflation is permanent loss.

Rates are likely to stay low for a few years yet. Low interest rates are the primary healing tool for economies worldwide. Government bonds will continue to offer ultra low interest rates. As people become a) more comfortable as



Over the long term, it's rare to see prolonged periods of flat to negative returns. Are we on our way to a new era of reward?

the memories of 2008—2009 fade and b) realize that there is no sign of interest rate increases in site, corporate bond yields (interest rates) will continue to trend down as investors bid up their prices.

This ever increasing move of money out of "cash" accounts is creating a trend some are calling "The Great Rotation". This Everest sized mountain of cash, which was built as equity markets have been trending upwards, is slowly moving from earning those miniscule rates of interest in search of a better "yield" (monthly, quarterly or annual income paid on an investment).

This "Great Rotation" started out moving to corporate bonds. However, as the interest rates on these continue to decline, alternatives are being sought. The mistake being made by the masses is one of yield chasing, without really looking at the quality of the underlying investment. People are buying yield for the yield alone. I have been told by many of our Investment Management Partners, responsible for managing tens of billion dollars in assets, that there is a continuing tendency for investors to buy the highest yielding investments they can find, without analysis of the risk that is being taken.

Below you will see a simple financial analysis comparison between 2 companies to make this clearer. With it though, you will need a better understanding of some basic financial measurements.

	Company A*	Company B*
P/E ratio (analyst estimate for current year)	10.8	8.5
Return on equity (ROE)	16.2	19.8
Total debt/capital	65%	10%
3 Year forward EPS growth	7.4%	16.8%
Dividend yield	4.2%	2.5%

P/E ratio is simply a basic measure of how much you are paying for a companies earnings. A lower PE is better. ROE is how efficient a company is with their capital. Here, higher is what you want. Total debt/capital is simply how much debt is held. You can look at it like a mortgage on a house. A lower percentage is lower risk. EPS growth is how fast it is projected that the company's earnings will increase. Higher earnings growth could mean higher dividends paid out in the future. The last one is dividend yield. It is simply the dividend you are being paid as a percentage of a company's share price.

So what company would you buy? I think I know your answer and if my assumption is correct, it is a smart one.

There are a few things that don't show up here. One is the amount of a company's earnings that are being paid out as dividends. Some companies are boosting their dividends as high as possible by actually paying out close to 100% of their earnings. If there is just a slight hiccup in their earnings they may have to cut their dividend or borrow money to continue paying at the current rate. Ironically, the companies that offer the most upside and the lowest risk, are those that are paying out less than a 1/3rd of their earnings in dividends.

Again, the vast majority are buying their investments based on dividend yield alone. The result has been a lot of money over the past 4 years has chased the highest yielding, and although many don't realize it, the highest risk equity investments. There are many investments that nobody is looking at. This is leaving a lot of underappreciated gems available for purchase at great prices. These are being purchased by those that do what the majority aren't doing, digging. This is what my clients and I demand of the Investment Management Partners we use for our portfolios.

The last thing I will bring your attention to is the chart on the first page. This shows the diminishing returns we have seen over the past 15 years. We could most likely be at or near the bottom of many years of above average, compounding returns. Making sure you have the best investment portfolio, not simply the most comfortable, or highest payout on a monthly or quarterly basis should set you up very well in the "Great Rotation" ahead… with less risk.

Divorce And Division Of Inheritance Assets

We live in a world of broken relationships. With it, comes the inevitable dividing of assets. What happens to assets that a couple has received through an inheritance or "gifts". How do assets that have come into the marriage or common law relationship get divided should either connection fall apart? For simplicity's sake we'll be talking in generalities as the rules vary greatly from province to province. This will become quite evident as you read on.

Spouses who are splitting will divide equally the value of all assets accumulated during the marriage. Spouses are allowed to keep the value of the assets they brought into the relationship. In a number of provinces however, the marital home is divided 50/50 no matter if one of the spouses owned the entire property out right before the marriage.

So what happens to the money, house or business you pass on to your adult offspring when they go through a divorce? Half could go to your ex-son or daughter in-law which may be fine to you. Relationships are initially entered into with the intent of lasting a life time and you may be quite okay with the money you gifted to children, either before or after your earthly residence ends. It doesn't have to be that way though, particularly if that thought makes you

(Continued from page 2)

shudder. If so, you just need to be strategic about how you spell things out.

The first is to have your adult child keep the money in their name alone. Recognize though that this could be very hard for someone in their 20's who's newly married and wants to buy a house. Again, in a marriage or marriage like break-down the home is often split 50/50 no matter who actually owns it or where the money came from (ie you).

A surer option is writing up the will so the assets go into a trust, with the child as beneficiary. They could enjoy the assets (ie the home could be purchased within a trust) but they technically don't "own" the assets. The trust owns the assets. This "testamentary" trust also offers tax benefits because the trust is considered a separate taxable person. This is very helpful if your adult child earns a healthy income. In a testamentary trust, the interest, dividends and capital gains earned on money inside it are calculated starting from the lowest level rather than at your child's upper tax bracket. In other words, rather than all of the income taxed in 1 name (your adult child's) the income tax is split like it was earned by 2 names; your adult child and the trust. The end result could be several thousand dollars of tax savings for many years forward.

3 Estate Planning Mistakes

Most of us have no experience as an Executor on the settling of an estate. Despite that, most people name a family member or friend as their executor, those with no practical knowledge of the responsibilities associated with the title. If you appoint someone without the appropriate experience, it could cost your estate thousands of dollars, as well as months or even years of uncertainty for the beneficiaries of your estate. 3 mistakes in this area include:

1) <u>Underestimating the time involved in administering an estate</u> - A lot of people think that an estate can be settled in a few months with most believing it can be all taken care of in much less than a year. In reality, complications, tax errors and litigation can delay estate administration for several months, or even years. I've been involved in the perfect storm as it relates to estate settlement and yes, years (plural) is a real possibility:

2) <u>Choosing the wrong executor</u> - The duties of an executor include funeral arrangements, determining the value of all estate assets and liabilities, filing individual and estate tax returns, collecting insurance proceeds, and accounting for the estate financial activities including paying all taxes owing. Because of this, your executor will need to have the time and skills to deal with many parties, including lawyers, accountants, financial institutions, insurance companies, government agencies and beneficiaries.

3) <u>Prepare your Will and then forget about it</u> - Most of us do a Will and then do exactly that....forget about it. Your Will most likely will need to be changed for; marriage, divorce, birth of a child, children becoming adults and you relocating to another country. To make sure things run smoothly, keep good records and ensure your executor knows where to find your Will. Often, estate settlements are delayed because a Will or other crucial documents can't be located.

An Individual Pension Plan For You And Your Business

Own a business? Are you over 40? Does your company have cash inside it? This idea may be for you.

Individual Pension Plans (IPP) are just like big company pension plans. An IPP however can be set up just for you and your small business, as long as you are an employee and have T4 income.

An IPP is used instead of an RRSP as it lets business owners to contribute larger amounts. If the plan earns less than 7.5% annual rate of return, the company can make up the shortfall by putting in additional funds into the IPP, all of which are tax deductible to the company. Because it is a true pension plan, the money inside your IPP is now protected from your company's creditors.

Unlike RRSP's, where you need to wait until age 65 to split retirement income with your spouse, an IPP lets you retire as early as 55 and split retirement income immediately.

Before an IPP is set up, a calculation is made taking into account how much you currently have in RRSP's (which will be transferred to the IPP), your income history and your age. It will become quickly evident if an IPP makes sense for you.

Web Gems

Skydrive.com — There are many versions of this Microsoft file sharing and syncing service. The most popular are Dropbox, Google Drive and Box. With these you can have any electronic file you want to have access to from anywhere you are. You simply download the software and place pics, pdfs, music etc in different folders within Skydrive. You can set up different folders, each having specific privacy settings. Skydrive currently offers 7GBs of free space.

Hhhhhmmmmm……

4 years into a recession that has been touted as the worst since the '30s, the U.S. housing sector is giving markets something to smile about. Between August and September 2012, housing starts leapt 15% to a seasonally adjusted annual rate of 872,000, the biggest surge since July 2008. Advisor.ca, Nov. 2012

Germany's national unemployment rate was at 6.9% in December 2012, close to a 20 year low. This data continues to reflect a relatively robust labour market compared to other European economies. CI Investments, Jan. 2013

"We believe in focusing on a few (investment) ideas, studying them a lot and only acting on a few things" Richard Jenkins, Black Creek Investment Management (one of our Investment Management Partners and a multi year award winner for investment performance). He only invests in 25 of the best businesses he can find….anywhere in the world.

The "Lake Wobegon Effect" has come to mean the tendency to overestimate one's capabilities. It is named after the fictional town where "the women are strong, all the men are good looking, and all the children are above average." It's called "illusory superiority" and virtually all of us have it.

Fees and strict contribution schedules are problematic in Scholarship Trust RESPs. In one case, a couple found that the bulk of the more than $2,000 they contributed in less than 2 years went to marketing and administrative fees when the beneficiary, their daughter died, at the age of two. Morningstar, Feb. 2013

The average annual salary for college football head coaches is $1.64 million, up nearly 12% over last season - and more than 70% since 2006, when USA TODAY Sports began tracking coaches' compensation. USA Today, Jan. 2013

Over the past 25 years the average family income in Canada has risen by 68.4%. StatsCan

No company, not even Apple, can come up with the one product that is all things to all people. However, Apple operates that way, which is actually a weakness. Inc.com, Jan. 2013

The Google "Street View" feature, in 2007 covered 5 cities in USA. It now stands at 3000+ cities in 43 countries.

The average internet speed in South Korea in 2012 was 15.7 Mpbs, over 200% higher than the average of 6.7 Mpbs in the U.S. 94% of South Koreans have high speed WiFi, compared to 70% of U.S. citizens. HowToGeek.com, Jan. 2013

In 2004, Jerusalem became the first city in the world to launch a city wide Wi-Fi network. This was shortly followed by Mysore, India. HowToGeek.com, Jan. 2013

Mediterranean style meals which include olives, nuts, avocados and dark leafy greens offer high doses of Vitaman E and Folic Acid, reducing your risk of dementia. Including fish and / or a daily glass of red wine is actually better than none at all for dementia prevention. Costco Connection, Jan/Feb. 2013

Our attention spans and patience have decreased over the past several decades. The average number of pages in a book on the New York Times non-fiction bestseller list has steadily decreased with it; from 406 pages in 1965, 396 in 1980, 318 in 1995 down to 306 pages today. Report On Business magazine, Nov. 2012

There were about 90,000 U.S. infant adoptions in 1971. This has precipitously fallen to 18,078 in 2007, according to the most recent five-year tally from the private National Council for Adoption. USA Today, Jan. 2013

Despite what cartoons have taught us, the coyote can run up to 65 km per hour while the roadrunner can only run up to 42 km per hour.

Carey