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OVERBOUGHT BUT FAIRLY VALUED

In a number of recent review meetings, clients have pointed to the bottom line value on their recent RRSP or total portfolio statement, knowing what the value on their previous statement was and said, "is this correct?"

I'm sure they knew the answer would be "yes" however, the query had more to do with confirming what they liked to see along with the underlying wonder of "can this continue at this pace?"

In May last year, at one of the conferences I attended, I listened to a presentation by one of the portfolio managers I use for client portfolios. He said that people could be very surprised at the swiftness and magnitude of how things will move up. Aside from some recent conference calls with this individual, I had never heard this level headed, low key person talk with such excitement in the 25 years I have heard him speak. Although, we may have seen what I believe to be just a small part of this upside "swiftness and magnitude" we are probably in an "over bought but fairly valued" place. This could mean a pause or a bit of "giving back" some of what was gained since the fall of 2012. This is a normal and very healthy part of the financial markets which have extreme pessimism and hyper euphoria at their emotional extremes. If you own financially solid investments, the emotions of the masses and the indiscriminate decisions they make about buying and selling are moot.

Below, are the key signs to look at when determining where an economy is in its health cycle. Since the U.S. experienced the pain of 2008 first and it is such an important economy to Canada and the rest of the world, we'll look at some recent U.S. data points.:

Household Finances – The U.S. Federal Reserve recently reported that *consumer debt declined in the first quarter by $110 billion, "resuming the longer-term downward trend"*. First-time delinquent home mortgages fell in March, the first month below 1% since 2007 and well below the almost 3% peak reached in January 2009 at the height of the world's financial stress point.

Government Finances – In late April, the US Treasury said that it plans to pay off $35 billion of debt in the April to June quarter. It predicted earlier that it would have to *borrow* $103 billion over this same period. This is the first time that the U.S. government will be paying down debt in 6 years.

Jobs – US unemployment continued its steady march downward, reaching a post-crisis low of 7.5% at the end of April. Although I've seen some info. Explaining why this is a flawed measure, this common stat shows improvement.

Consumer – Consumer confidence figures show the most optimism by the general public in 5 years.

Housing – The Case-Shiller Home Price Index was updated in May and it showed US house prices rising by more than 10% over the past year, the largest annual gain since 2006.

Central Bank Policy Position – Because of the improving economic statistics of the above, the Federal Reserve is now beginning to openly discuss the conditions and potential time frame that would see a tapering off of its quantitative easing programs (ie low interest rates). Note: These "discussions" have created a bit of uncertainty and one of the many reasons for the recent pause in the rising portfolios you and I have been seeing on our portfolio statements.

Interest Rates – The US 10-year Treasury yield rose from 1.63% to as high as 2.23% during May; anticipation that the economy is firming nicely.

Gold – As of early June, the yellow metal has fallen 20% below its recent high. This is due to the dissipating risks of a significant economic downturn and recognition that central banks are doing the right things.

Commodity Prices— *Over the past year, many industrial commodity prices have fallen. Whether it's steel for cars, concrete for bridges or cotton for clothing, lower material costs could prove a boost to the economic recovery.*

This last point could have longer term repercussions for Canada and anyone who has a portfolio heavily weighted in Canadian investments. From the late 80's until 2000, if you had a Canadian focused portfolio, you saw very subdued returns compared to those with a portfolio more globally diversified enjoyed. The last 10 years saw a reversal of that, where Canadian investments outshone the rest of the world. The main driver was surging oil and other commodity prices.

It is looking very much like that time ended a couple of years ago. Canadian based investments could significantly lag a portfolio of U.S. and more globally diverse holdings for many years to come. If your portfolio hasn't been reviewed and re-allocated to reflect this, it could prove very timely to do it now.

A House As The "Retirement Plan" Is Not An Option

I've heard many say that their house is their primary retirement plan. Is it really? Would you be willing to sell your existing, single family home and move into a condo as soon as you retire? Do I hear a "no" or "probably not" or maybe a "only if I absolutely have to"?

The personal fact for many of us is we love our homes. They generally put us in a neighbourhood, where our kids can grow up and everyone in the home can get in a deep seeded daily, monthly and yearly rhythm. Along with a sense of security and knowing we always have a place to go, our homes are attached to so many subconscious ties. This is where significant emotional chains cement and restrict many of us from the home being a part of a retirement plan.

In a recent survey among 50 year olds and older, 50% of households believed they will exhaust their retirement savings in 10 years of retiring. Paradoxically, those who didn't think they have enough retirement savings were less willing to consider any option that involves selling their principal residence. The majority in this survey also agreed to the statement that "Staying in my home is critical to my quality of life."

This applies to vacation or second properties as well. If the simple idea is to use these assets to produce retirement income, evidence, both statistical and empirical, is that you are placing yourself in in a very tight place. You don't have the diversification of assets. If all you have are things that you use in life, there is an unwillingness to part with those that are so tied to. These can either give us a deep sense of security and are intertwined to our identity and what we see as our quality of life. Sell it and you sell part of your life. It's a very difficult thing to do, especially when you are cutting yourself away from the other significant part of your life, often tied to your sense of purpose—your job.

Creating Income From a Lump Sum Of Cash For The Nervous

You are retired or maybe you have parents who are retired. A home was recently sold or maybe, there is money doing nothing other than giving you a few thousand dollars in interest every year. You need income and realize that something needs to be done now to start creating that.

The traditional way to approach this dilemma is to invest in a "balanced" portfolio; 50% in government bonds and the other 50% in equities (ie dividend paying companies). With the bond section earning 2% and the equity portion projected to earn 8% you have a 5% portfolio return. Over a long period of time, the equity portfolio should produce returns in that range as has it has done historically. The bond part of the portfolio however is what will create the drag on overall portfolio returns and in the end, reduce your money's income producing potential. But despite all of that, you're nervous. You want something that you can rely on, something that has more certainty than "balanced".

In today's interest rate environment you can't get sufficient income from a portfolio made up of GIC's / bank deposits only. Assuming 2% interest, someone requiring $35,000 of income from their $500,000 will run out of money in 17 years. Invest that money in an annuity* and you have $35,000 of after tax income, guaranteed for as long as you live. If that happens to be until you are well into your 90's then you can know that $35,000 / year will keep coming in.

(Continued from page 2)

Money earned in a GIC will destroy your money over time. A GIC is a guaranteed loss of money if you need to live on it. One of the best attributes of a life-only annuity is that you NEVER run out of income. Along with that, you never have to worry about stock markets, interest rates, currency fluctuations or any other broad economic event.

Taking Money Out Of An RRSP To Pay A Big Bill

You have a big tax bill to pay or a creditor hounding you for money. One of the paths many often go down (or at least consider) is taking money out, or "de-registering" an RRSP. Although it doesn't happen often, when someone comes to me asking about de-registering RRSP money to pay a bill I always strongly advise against it. Not only does it set you back several years in retirement planning, it is the most expensive form of getting access to cash. Simply put, $50,000 coming out can net you as little as $28,150. That is a 43.7% cost which, at todays low interest rates is well over 10 years worth of borrowing costs paid in 1 year. Ouch! It doesn't have to be.

Under the Income Tax Act (ITA), you can use money inside an RRSP to invest in a mortgage on Canadian real estate. Applied to the scenario I mentioned, you would simply borrow money from your RRSP. The money comes out, secured by the equity in your home.

There are strict rules in place if you own the property the property that your RRSP is borrowing against (which is "non-arms length") including the interest rate must be at market rates and the borrower must purchase mortgage insurance covering default of payment (ie CMHC). However, as long as you payback your RRSP according to a normal mortgage payment schedule, you have taken money out of your RRSP tax free and alleviated the financial bind you found yourself in. It doesn't work in all circumstances, but it is another solution to a stressful situation.

Monthly Investing Wins In So Many Ways

When I started in a Financial Advisory role way back, over 26 years ago, I was encouraged to read "The Richest Man in Bablyon". Not long thereafter, David Chilton came out with his simple yet very effective ground breaking book called "The Wealthy Barber". Both of these encouraged the habit of taking a piece of all you earn. Today, many people do that in the form of a monthly or twice monthly investment, most often into an RRSP. What I have seen is that these clients are more successful financially. Their deeply rooted habit of saving has created a peace of mind about them that is very evident. When you look at the charts of their portfolios, the upward trend you see is compelling.

8 Mistakes To Avoid In Teaching Kids About Money

Some of the best things to know about what to teach your kids is the mistakes to avoid. Here are *????:

⇒ Having more negative talk about money or not talking about money at all.

⇒ Assume you have to have it all together financially before you can teach them.

⇒ Only teaching them about how to be a good spender.

⇒ Making unplanned purchases, whether they are with you or not (they will pick up on very subtle things).

⇒ Overindulging kids with "stuff" and / or buying them something most or all of the time you go to a store.

⇒ Getting upset with a child's decision rather than using it as a teaching moment.

⇒ Going shopping as a regular pastime.

⇒ Not having them work for something because it is either too painful emotionally for you or easier just to give them things.

Web Gems — Mint.com

I often get asked about budgeting software. Although our household has used Quicken and Excel for years, frankly, it is a lot of work. Budgeting this way isn't the easiest of solutions. However, there is a solution in Mint.com. Mint automatically pulls all of your financial information into one place so you can get the entire picture with very little work. It puts all your transactions into categories… automatically. If you want a tool to get a handle on your daily spending, this is an excellent one. Glitch Warning: When we tested it, the email summary had our joint accounts shows up as 2 entries each and thus, the money in a joint account is in fact doubled, creating a better picture than what actually is.

Hhhhhmmmmm……

"I have a Financial Planner—everyone should have one." Sherry Cooper, BMO's recently retired Chief Economist (80% of portfolio is dividend paying companies contrary to conventional wisdom saying you should be more conservative by having a lot of bonds). Report On Business, Feb. 2013

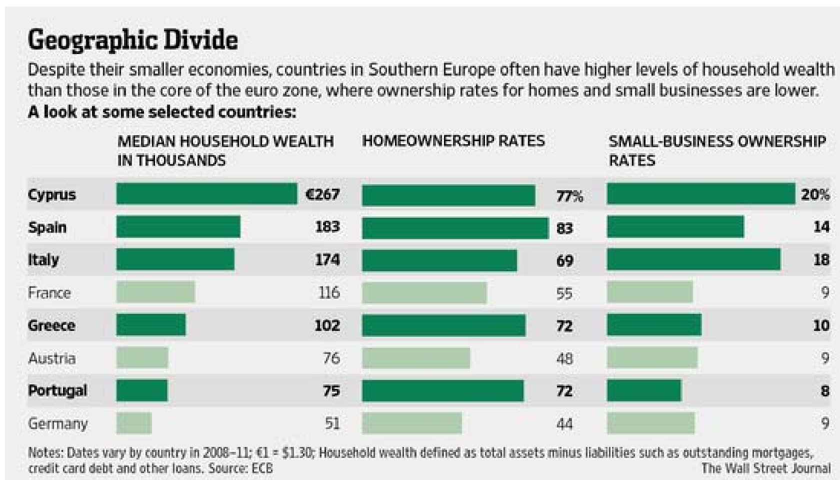
The interest rate on high quality corporate bonds is almost half of the dividends paid by these same companies. In other words, the cash paid to you is higher owning the company (shares) than it is lending to the company (bonds).

On average, companies in the S&P are only paying out approximately 35% of earnings through their dividends which is historically low. Justin Charbonneau, Matco Financial (Calgary)

One sign of just how addicted users of Blackberry Messenger (BBM) have become to the service is that almost half of all messages are read within 20 seconds of being received. Manulife Weekly Soundbytes, May 2013

"If you buy (shares of) a good business at a bad price, you have not made a good investment." Keith Graham, Rondeau Capital Inc.

$500,000 for a U.S. property can go a long way. In Arizona, Scottsdale median home prices are $354,100 and Phoenix at $136,500. For Florida, Boca Raton median home prices are $217,300 and in Ft. Lauderdale they are $219,700. Zillow.com



The U.S. is the only country that requires its citizens to file a tax return and report their worldwide income, no matter where in the world they might live. Jamie Golombek, Managing Director of Tax & Estate Planning at CIBC

After many of Cyprus's largest banks became insolvent recently, they forced depositors to swap their guaranteed deposits for shares in the bank. This action has never happened before in post-World War European banking. Investment Executive, May 2013

Turkey hasn't really been affected by the global financial crisis because of its good financial policy over the past decade. Its other pluses include a young population (median age is 29), low household, corporate and government debt and a solid banking system. Investment Executive May 2013

Equifax had 7,500 fraud victim notifications on its accounts in 2000. By the end of 2012, they had 28,651, a 24% increase from 2011.

Lake Wobegan is a fictional town in Minnesota where "the women are strong, all the men are good looking and all the children are above average". The "Lake Wobegon Effect" has come to mean the tendency to overestimate ones capabilities. In psychology it's called "illusory superiority". CBC News, The 7 Deadly Financial Mistakes

Quantum computers exploit the bizarre quantum-mechanical properties of atoms and other building blocks of the cosmos. At its very smallest scale, the universe becomes a fuzzy, surreal place. Objects can seemingly exist in more than one place at once or spin in opposite directions at the same time. Ironically, "science" would have previously said that this wasn't possible.

Carey