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TELL YOUR MONEY TO GO OUT AND GET A JOB

The U.S. government is shut down—first time this has happened since 1995 and there were another 16 government shutdowns between then and 1976. Should history repeat itself, which it always seems to do in some variation, this shutdown will end and life will go on with no change to our everyday lives. Does that sounds familiar? If so, it is because it always turns out to be true.

In the context of where we are today, this is simply another piece of the struggle of getting governments to get their fiscal houses in order after racking up debt for 40 years. The final blow of debt incurrence started in late 2008 and was simply a transfer of bad debt created by corporations and to a lesser extent consumers, to the government. Today, corporations are in the best shape they have been as long as I have lived and consumers are well on their way to making their own financial houses stronger. Canadians are the exception. We as a whole, have only just started reducing their debt.

With all this uncertainty, what should you do with cash that you have sitting idle in savings accounts? Continue to be frozen by the events that have arisen since you were born and since your parents were born and so on? That nervous inaction will do exactly the opposite of what you are trying to avoid, that is, losing money. Besides, there are many guaranteed options available.

You can hold your cash in bank deposits that pay less than the rate of inflation. Yes, you have the assurance that the value on your statement doesn't change however, you are guaranteed to lose money with every passing day gas, food and other prices go up, yet your money isn't. Year by year passes by and you get poorer and poorer.

Here is how that has played out over the past few years in actual dollars:

$100,000 invested in the best rate bank deposit will earn $1,650 per year in interest. That rate has remained virtually unchanged for the last few years. Subtract $500 for income tax and you are left with $1,150. During that time inflation has gone up by about $2,000 / year. On paper you still have your initial $100,000 but that $100,000 is in reality losing $850 / year.

The last thing you need is for your money to sit on the couch all day eating the chips and cookies from your cupboard and watching your TV. Tell it to go out and get a job. The longer you wait to kick its butt out the door to work as hard as you do, the more difficult it becomes and the worse off you will be.

The alternative and frankly, what has proven to be the most solid and reliable choice over time is to invest in a portfolio of financially strong corporations that have cash in their bank accounts, are selling products that the world loves and needs to buy and look like they will be doing that into the future for longer than you will live. How does that compare to your lazy money?

$100,000 invested in a very well diversified portfolio of dividend paying companies currently earns $3,000 per year. Over the past 50 years, earnings have grown at 4.5% which is what dividends are paid out from. If earnings are going up by 4.5%, your dividends over time, will go up by 4.5%. That in turns pushes the share prices up by 4.5%. 3% in dividends along with 4.5% increase

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in share price works out to 7.5% per year. It's really just simple and the most basic of economic reality.

Yes, if you push your money to go out and get a job, it could catch the flu from other money it is working with. It may have to go on strike and be earning very little for sometime and you may get impatient. An injury while working may put it in the hospital. All these things have always been temporary setbacks. If however you are worried about that you can always get some kind of insurance to cover risk of injury your money may face. In any event, having your money work as hard as you do is better for both of you in the long run.

Floating Rate Bank Loans—The Alternative Interest Paying Investment

You have may have heard all the warnings about the losses you can experience in traditional "fixed income" investments when interest rates go up. That red flag simply means that when you have a government bond that you can buy and sell at anytime, if you cash in your investment you could very well receive less than what you initially invested. Much less. In other words, don't assume that government bonds are risk free because they are not.

Floating Rate Bank Loans is where a lot of money has been flowing to as an alternative investment choice to government bonds. These are simply loans made by banks to companies, where the rate adjusts every 30 to 90 days. They are secured be a company's collateral which make it the most secured corporate "bond" that you can buy.

Along with this security, floating rate loans generally do better than any other "fixed income" kind of investment when interest rates are rising. Currently, a diversified portfolio of floating rate loans can yield in the 5.5% range which is about twice as much as most other traditional interest paying alternatives.

High Interest Savings Accounts — The Rates Can Vary Greatly

My job as a Financial Planner is to ensure my clients are squeezing as much money out of their money as possible. I also recognize that not all money has the same time horizon. Some cash needs to be kept in a place that has a shorter term purpose and therefor can't fluctuate in value. Also, some people simply find more comfort in having a sizable amount of their cash in bank accounts and are willing to let it sit in a bank account earning very little interest. Although I am here to make recommendations, a client's comfort is definitely a factor.

Being an independent financial planner (not tied to a particular financial institution) allows us to shop the market for our client's various financial needs, including high interest bank accounts. What I have found with high interest savings accounts is banks generally take advantage of their depositers not looking at the competition.

I was sent a recent survey on what the biggest financial institutions were paying, many of which we work with on behalf of our clients. These include PC Financial, ING, Manulife, HSBC, Royal Bank, CIBC, ScotiaBank, BMO and TD. The rate of interest on these accounts range from 0.40% to 1.65% per year. Some earn money from dollar one, others you don't get paid their highest rate of interest until you have at least $50,000 on deposit with them.

If you have money parked in a bank account, particularly if it is one of the big banks, calculate how much interest you are earning on that account. There are alternatives out there that have exactly the same security. The only difference is that you will be earning more. Feel free to contact me directly for guidance on this issue.

RDSP—Free Money Paid To Families With Disabled Dependents

The RDSP (Registered Disability Savings Plan) is intended to help the disabled and their families with the extra costs that come with having a disability. Think of it like a RESP. You put money in and the government contributes as well. However, with the RDSP, what the government contributes is much more generous than any other savings plan.

When you contribute money to an RDSP, it can earn interest, dividends and capital gains completely tax free. On top of that, for every $3,500 per year you contribute, the government will match your contributions dollar for dollar until the disabled person turns 49 (there is a $70,000 lifetime limit the government will pay out to you).

The RDSP may also be eligible for the Canadian Disability Savings Bond which pays up to $1,000 / year until the disabled person turns 49. This is for low income families who only need to open up a plan to get the government's money.

Investing In Insurance IS Not An Oxymoron

In most cases, we look for insurance to take the financial sting out of a potential risk, be that death of an income earner in the family or some other general risk of loss. For that, we pay a monthly or annual premium to an insurance company and in turn they agree to pay the agreed amount should something catastrophic happen.

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There are however insurance contracts that are more investment related. A segregated ("seg") fund is one example. Seg funds have guarantees on your invested dollars. There are others where you have insurance on the life of someone but they also have a very attractive savings component. The latter is called "permanent insurance" (aka "whole life"). This kind of insurance contract currently has an average return of 4% paid to the policy holder.

"Participating" whole life policies are particularly effective as an investment portfolio diversifier for anyone who has a lot of interest bearing investments. Because you are a "participating" policy holder, you are entitled to participate in the profits of the life insurance company yet still have very strong guarantees on your money. These insurance investments are particularly useful for someone who has healthy cash flow, has a need for life insurance, wants investment guarantees and would love to collect a dividend from the life insurance company.

So, what does that look like? If you have a policy with $100,000 cash value and you receive a $4,000 dividend from the life insurance company, the policy will have a new guaranteed value of $104,000. That cash value will not go down, no matter what the market does.

What Is An Executor And What Do They Do For You?

Your Executor is someone you appoint to put in the driver's seat; to make sure the wishes spelled out in your Will, are carried out when you pass away. If there is uncertainty, the Executor does their best to act as you would in distributing the assets you have left.

Often, an Executor is also a beneficiary in your Will. The person you choose should be responsible, organized and a good communicator particularly since communication is usually the difference between all the beneficiaries being happy and a long term family feud with life long estrangement between surviving family members.

The first task of an Executor is arranging a funeral and informing others of your death. This isn't just your friends and family. It also means the government, banks, investment firms etc.

The next thing an Executor needs to do is make an accounting of all the assets, liabilities, what is disbursed through the Will (a home, personal assets, etc.) and what goes to beneficiaries directly (life insurance, RRSP, RRIF, TFSA etc). The latter will avoid probate. This means no probate fees to pay and the money can be transferred to who is named on those plans directly, in a much shorter time than assets that need to go through probate.

The process of selling assets and liquidating the estate can take a lot of time. Detailed financial records must be kept for all transactions within and out of the estate. When everything is completed, a final tax return for the deceased must be prepared and submitted by the Executor. As well, a tax return will most likely need to be filed for the estate itself. An estate is a taxable entity between the death of a person and the beneficiaries.

Probate seems to have a lot of mystery for those who haven't had to deal with it before. A "Grant of Probate" is official confirmation given by the courts that the Will is the last valid Will, and that the person named as Executor is the proper person to deal with and settle the estate. Most financial institutions require a Will be probated so that they can be given assurance that the money they release is done so lawfully. As an example, the Land Title Office requires probate in order to transfer the title of a home from the name of the deceased to the name of the Executor who will then in turn, transfer it to the beneficiaries. Generally, the courts will process the probate application in 2 to 3 months, at which time the Executor will have the authority to deal with the estate.

Because the work of an Executor can take up a lot of time and effort, Executors are given the ability to charge up to 5% of the value of the estate as compensation for their work. Obviously, this comes out of the estate and reduces the amount available to the beneficiaries.

Web Gems — Never Ending Play List

I play drums and subscribe to a drummer magazine. In it, all kinds of musicians and music are mentioned. Many I have never heard of or aren't in the mainstream. I will read an article describing a particular band and because it isn't popular, I could never discover what a group or singer's "sound" is like.

At www.neverendingplaylist.com listen to any musician or band you can think of. My most recent try was Winery Dogs, a new trio with a drummer I am very familiar with through his work in Dream Theater. Wahlah!, 13 songs of Winery Dogs brand new album are listed and I can play them all. Remember Journey? Their amazingly talented drummer Steve Smith has a jazz band called Vital Information. You can listen to their music here on NEPL. And unlike a lot of music playing services, this one doesn't have the frustrating blackouts just because you are on the wrong side of the border.

Hhhhhmmmmm……

The S&P 500 has risen 11% on average in the 12 months following a government shutdown since 1976. That compares with an average return of 9% over all the other 12 month periods. Bloomberg, October 1st.

The average dividend yield you can get on Canadian and U.S. stocks (~ 3%) is higher than what you can get on government bonds. The last time this existed was in the late 50's. Couple that with earnings growth expectations of 4.5% on average (below the 50 year average), your investment increases by 4.5% per year AND you get the dividend for a total long term return of 7.5% per year. Dixon Mitchell Investment Counsel, Oct 2013

The Loonie today at about 96 cents US, is still 10% higher than it should be based on the currency's purchasing power. That would mean the true value of the Canadian currency is under 88 cents US. Financial Post, Oct 2013

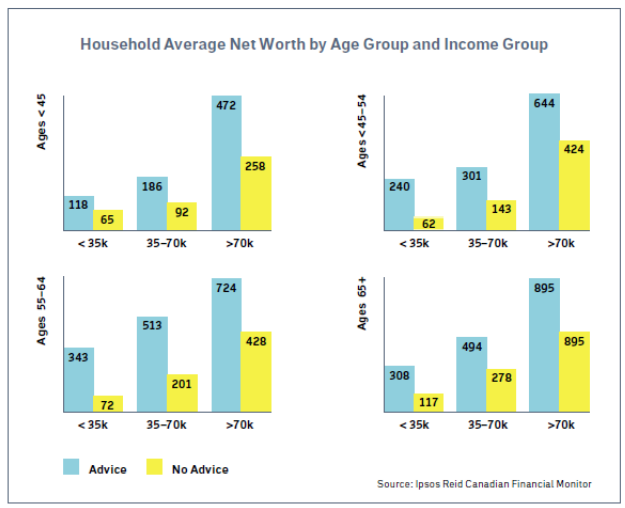
Hedge funds with the highest performance fees have been the best at producing consistent long-term net returns for their investors. Advisor.ca, Sept 2013

"We're facing a looming crisis with Canada's 9 million baby boomers entering retirement… 17 to 20% of them will need long term care at the end of their lives." Stephen Frank, Canadian Life & Health Insurance Association

By 2013, 1 in 4 Canadians will be 65 and older and the big question is, whether governments can continue subsidizing elder care for the huge baby boomer group. Insurance Journal, June / July 2013

The life expectancy of a 60 year old male today has increased by 2.9 years (from 24.4 to 27.3 years. The life expectancy of a 60 year old female has increased by 2.7 years (from 26.7 years to 29.4 years). Advisor.ca, Sept 2013

People who work with a Financial Advisor have substantially higher net worth than those that don't in their same income group. Ipsos Reid (see chart to the right)



A replica of Paris was recently built in China called Tianduchen. This gated community includes its own Eiffel Tower, and housing for 100,000 of China's wealthiest citizens. It was opened in June but there are only 2,000 inhabitants currently. It is widely talked about as a ghost town. Yahoo Finance Canada

The minority of drivers (15%) who don't keep up with the flow of traffic or who speed excessively are at greater risk of a crash than the other 85% of drivers who may be going somewhat over the posted speed limit. Todd Stone, B.C.'s Transportation Minister

Cyprus is essentially bankrupt however it is sitting on vast amounts of gas and is one of the most cosmopolitan parts of the world as an offshore banking centre for wealthy Russians. Report On Business, May 2013

1 in 5 baby boomers admit they have put their own financial security at risk to help their adult children. This includes letting them live at home rent free (43%), subsidizing a large consumer purchase like a car (29%), giving them money for groceries or rent (23%) and helping pay off their credit cards (20%). This is helping them? I think it communicates, "you aren't capable of taking care of yourself". TD Canada Trust, May 2013

Carey