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C.E. VANDENBERG & ASSOCIATES INC.

FINANCIAL PLANNING— INSURANCE— WEALTH MANAGEMENT

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IN ATTAINING YOUR LIFE'S DREAMS
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THE "WONDER WHAT'S NEXT" PHASE

Investment markets around the world went through quite a run, being up in some cases over 30% or more in 2014. However, once we started 2014 we went through a bit of a "hhmm.... I wonder what's next" phase. In it, there has been a very modest, albeit healthy decline (except the TSX).

It may sound strange, but I love it when this happens.

Over the course of a year like we saw in 2013, the members of our investment management team to create well diversified portfolios for clients, continued to make careful calculations and found themselves selling the investments they had bought 1 to 5 years earlier because they were now too expensive.

Nearing the end of 2013, many were sitting on cash from the proceeds. With the market's relatively small correction phase we have gone through (it might be over now), excellent values starting to present themselves. Only a few months ago, high quality investment opportunities at a good price were becoming harder to find. Today, I am hearing specific instances of investments being purchased at prices that are very favorable. That is what these "wonder what's next" phases do. You have willy-nilly selling by many and selective buying by those who have done research well in advance of investments they didn't own but would like to if the price was right. They could and they have been, buying in the moment, intelligently and prudently, yet aggressively.

While writing this piece, I received a report from one investment manager showing what they held in 2012 versus what they are invested in today. Of the top 10 names they were invested in at the end of 2012 for our mutual clients, representing over 43% of the portfolio, only 2 are still there. In 2012, of the top 5 companies they owned shares in, 3 were U.S. companies. Today, only 1 is a U.S. company and that U.S. company wasn't even in the portfolio in 2012.

It is important to have an actively managed portfolio because it reduces risk but also enhances long term performance. Excellent companies become expensive when many are chasing them. It doesn't make sense to hold on to an investment that is priced significantly above its true worth. It may make sense to sell and move on to something that offers much better value.

These investment market dips allow steward minded investment managers to allocate money to investments that offers much better value. That value is a number that has to be calculated ahead of time, using all methods of measurement available, along with some proprietary insight. Only then can it be used to determine if an investment is good value and offers strong upside potential while at the same time has limited downside. That kind of work is done all the time but it is when we get into times like we have or may still be going through that portfolios are optimized to take advantage of the future.

PUT 3 LEGS (AT LEAST) ON YOUR RETIREMENT INCOME

Whenever I meet with a new client, part of the Financial Planning process

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involves doing some projections on where their retirement income will come from and how much they can expect from each source. To illustrate, I use a stool that you can stand on as a symbol of how diversified one's retirement income is. The more legs you have, the better. As well, if you have a lot of weaker legs (those that pay less), you will want more of them. Here are some of the main sources (legs) of retirement income that one could be relying on :

Canada Pension Plan (CPP) - The maximum amount you can currently get when you reach 65 is $1,038.33 / month. This is based on your earning history over your life time. It could be less but it won't be more.

Old Age Security (OAS) - Every Canadian resident gets OAS but to get the maximum amount you must have lived in Canada 40 years at least. The maximum you can expect to receive at age 65 is currently $551.54 / month.

Defined <u>Benefit</u> Pension Plan— These are pension plans that tell you exactly how much you should get. Teachers across Canada have this kind of pension plan in place. So do federal and provincial government employees. You put in a certain amount of years and you get $X / month. These plans are often seen as guaranteed however, that isn't really the case as history has shown, particularly with company or union defined benefit plans.

Defined <u>Contribution</u> Pension Plan— Frankly, the name is really deceiving because it isn't really a pension plan as you may think it to be. In my opinion, it is a nice sounding name for a Group RRSP. Your employer contributes to it and you may too. You make the decisions on how the money is invested, within a relatively small list of investments.

RRSP— I call this your "personal pension plan". It is much like the Defined Contribution Plan above however, you are the only person who is putting money into this plan, unless of course your company is willing to write cheques and send them to your financial planner to have deposited into your RRSP. This creates a pool of money that can provide a monthly income stream to you throughout your retirement.

TFSA— This should be called a TFIA or Tax Free Investment Account to make it really worth having in the first place. Within the TFSA you can build an investment portfolio and have any distributions paid out to you completely tax free on a monthly basis. An income portfolio can give you 3.5—4% and still leave your original investment in tact.

Home Equity— Available if you are prepared to sell your current home and move into something that is cheaper, freeing locked up cash. This cash can be used to create another leg of monthly income.

Rental Property— This could be a dedicated property or it can mean renting out a portion of your home. After subtracting the costs of property taxes, strata fees, regular maintenance and property management fees (if you don't want to be involved with the day to day management), you can have inflation adjusted rental income coming to you as long as you own it.

How Much Life Insurance Do You Actually Need?

In the financial planning process, life insurance is always part of reviewing what is in place and seeing if it fits with what is needed. I find in many cases a new client may come to me to establish a formal financial plan, that there may be life insurance in place but there is no reasoning behind the amount that they have. It seems that a random number of $200,000, $250,000, $500,0000 etc was chosen. Or it may have been, "I only want to pay $X / month".

Not everyone needs life insurance. In my opinion, it's usually for a specific time in your life. The simple question to ask is "if I die what happens to those who live with me?". That is a good basic gauge to determine if you need it or not.

When you buy car insurance, do you say, "I only want to spend $X per month"? Not likely. You buy what is needed. The same with your house insurance. You buy the amount of coverage you need to replace what you could lose in the event of fire and complete loss of your home and its contents. In the case of life insurance, you are replacing a person's income, the income that is currently coming into the household that won't be, if that person isn't there.

A common family situation may be of a young family. 1 of the 2 parents is earning a full time income while the other earns a part time income. Eventually, the kids will be self sufficient and the part time earning parent could have the ability, time and energy to earn a full time income. As well, mortgage debt will probably be lower or eliminated. Generally, I start by taking the amount of income earned by each individual and multiplying it by the number of years until the youngest child is 22. We take into account the time value of money and that is the starting point on determining the amount of life insurance that is needed on that person. In the event of a premature death, the life insurance keeps the family finances in the same position as before. That is buying life insurance to match the need.

Deadlines And Contribution Limits

RRSP deadline—if you want to get the biggest refund possible on your 2013 income tax return, you have until midnight, March 3rd to contribute. The usual deadline is March 1st but it falls on a Saturday so we get 2 extra days.

TFSA contributions—As of January 1st this year, you are allowed to have contributed up to $31,000 ($5,000 x 4 plus $5,500 x 2). If you fully contributed and pulled money out of a TFSA last year, as of January 1st, 2014 you can put that amount back in again.

Get Up To $2,000 For Free, You Just Have To Ask

Post secondary education can be an expensive proposition. I estimate that a child born today will face costs of about $50,000 once they reach 18 and that is going to a local school for 4 years. A $100 / month investment per child should make up that amount assuming a 6% annual compound rate of return. If however, you can't do anything, you can do something and that is get the free government money that you are entitled to.

The Canadian government has made available up to $2,000 for each child that is named on a RESP. You don't have to put any of your own money to get it. It is available for everyone in Canada who has kids. All that needs to be done is an RESP set up. Then, up to $2,000 will automatically be put in the RESP on your kids behalf. Here's the breakdown:

$25 to help cover the cost of opening an RESP (there usually is no cost) + $500 shortly after the RESP is set up + $100 / year until the child turns 15. To get the money out of the RESP is for the child to get into something as simple as an apprenticeship. Note: Whatever you do, don't set a "scholarship trust" RESP up as that commits you to contributing.

The "Make Kids Better At handling Money Than Us" Checklist

* Involve your kid in your everyday finances. This doesn't mean making them calculate your taxes. Talk to them while grocery shopping. Show them that you're comparing prices.
* Figure out what you spend on your teen clothes and give that amount to them to budget. If they overspend on 1 item and don't have enough to replace their well worn shoes, don't bail them out by doling out more money.
* Point out ads in the media and talk to them about strategies the company uses to try to convince them to buy their product. There is a reason companies make logo brand t-shirts. It's for them, not for you.
* If you volunteer or donate money, explain why you do it and let them see it happen. Donate old toys, books and clothing to others. Let them put money in charity boxes. Get their help picking out canned foods during food drives.
* Tell them why you aren't buying something and also tell them why you are.
* Help them to defer the things they want until they can pay for it 100%. Don't lend them the money so they can have it sooner.
* Have them open a bank account and let them make mistakes with their money now so they won't make much bigger ones later on.

Being a money coach for our kids helps them to be better money handlers then we are. If you think most of these things seem unreasonable then I'd suggest you could very well be setting them up to be financially dependent.

Tech Gems— CardStar

Several years ago, most of the new ways we could use technology to make life easier for us was a website. Now that everyone has their tech power in the hand via smartphones and tablets as well as the tried and true desktop computer or laptop, technology includes the use of many "apps".

CardStar is one of those simple little things that work really well. A checkout person at a local grocery store suggested it to me. What CardStar does is keep all your loyalty or "points" cards in one place. You simply open the app, point your phone at the bar code and the app saves it, along with the barcode numbers. This works for coupons you get as well. I even used this for a ticket I had at a weekend event. The ticket was purchased online however, rather than having to worry about taking the printed ticket with me I simply had CardStar take a picture of the barcode and it was saved. I then put the details in as I wanted them, including the date of the event. My wallet now has 12 less cards in it.

Hhhhhmmmmm......

A total of 460 stocks in the S&P 500 index ended higher in 2013, the most since at least 1990. Bloomberg

There has been much media attention on Canada's housing market lately, with some forecasters calling for "the bubble" to pop in 2014. While we think the housing market in Canada is overvalued and due for a correction, the correction will likely happen over several years. Pimco, Jan 2014 Click here for Full Report

Ed Clark, TD's outspoken chief executive officer, says he and his fellow bank CEOs should be cautious about the country's heated real estate market. "If you run a bank, you should be worried about it."

Deutsche Bank says that Canada has the most wildly distorted real-estate prices in the world. The Economist, Dec. 2013

A typical measure of price valuation in residential real estate is the ratio of house price to rents. Canada is now the most expensive place in the world to own relative to the cost of renting. Financial Post, Dec. 2013

On the average Canadian mortgage of $378,000, the savings between 2.99% and 3.49% would amount to $100 per month. Financial Post, Feb. 2014

Canada's unemployment rate had its biggest monthly increase in nearly five years to 7.2% from 6.9% a month. This happened at a time when Canada's household debt stood at 164% of income, double where it was 20 years ago and significantly higher than the U.S.' 130% at the peak of its housing bubble. Household debt in Canada has continued to increase when almost everywhere else in the world it has been going down. Wall Street Journal, Jan 2014

A healthy diet costs $2,000 / year more than an unhealthy one, for an average family of 4. Harvard University

The world's first Bitcoin ATM went online Oct. 29 at a Waves coffee shop in downtown Vancouver. People are now even selling cars for Bitcoin on Craigslist.

Old Age Security (OAS) is something that is paid to all Canadian residents. Nobody pays into it directly. You have to be a Canadian resident for at least forty years after age 18 to receive full OAS benefits.

In 2011 Obama said that by 2025 the U.S. would cut crude imports by 1/3. It didn't take 14 years, it took less than 3. Texas pumps more oil now than Iran. Financial Post Jan. 2014

Chicken, the most consumed meat in the U.S. has a salmonella contamination rate of 10.8%. Denmark and Sweden, who have a zero tolerance policy, have levels under 1%. Consumer Reports

Couples who watch and discuss movies about relationships are at a lower risk of getting divorced, Researchers found that a movie-and-talk approach can be just as effective in lowering divorce rates as other more intensive therapist-led early marriage counselling programmes. University of Rochester

Stephen Harper has been a stalwart defender of Israel. Canada supports Israel because it is right to do so. "This is a very Canadian trait, to do something for no reason other than it is right even when no immediate reward for, or threat to, ourselves is evident." Washington Post

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