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WHAT STOPS THE EQUITY MARKETS FROM GOING UP?

"Recession". That's the answer and yes, it's really that simple.

Below is a chart going back to '66 showing the statistics on "Bull" markets (when markets are on a long uptrend), "Bear" markets (when markets go down for a time) and when our economy has been in a recession:

Bull Markets since 1966

Bull Markets				Recession		Bear Markets*			
Trough	Peak	Return	# Mo.	Peak	Trough	Peak	Trough	Return	# Mo.
Oct-66	Nov-68	48%	26	Dec-69	Dec-70	Nov-68	May-70	-36%	18
May-70	Jan-73	74%	32	Nov-73	Apr-75	Jan-73	Oct-74	-48%	21
Oct-74	Feb-80	90%	65	Jan-80	Aug-80	Feb-80	Mar-80	-17%	1
Mar-80	Nov-80	43%	8	Jul-81	Dec-82	Nov-80	Aug-82	-27%	21
Aug-82	Aug-87	229%	61	n/a	n/a	Aug-87	Dec-87	-34%	3
Dec-87	Jul-90	65%	32	Jul-90	Apr-91	Jul-90	Oct-90	-20%	3
Oct-90	Mar-00	417%	115	Mar-01	Dec-01	Mar-00	Oct-02	-49%	31
Oct-02	Oct-07	101%	61	Dec-07	Jul-09	Oct-07	Mar-09	-57%	17
Mar-09	Apr-14	178%	61						

Source: S&P, NBER, Haver and RBC Capital Markets
Note: The 17% loss in 1970 is technically not a bear market, however, it is included because of the recession and nearly 20% decline
The 1987 market decline was not the result of a recession, but rather due to a market crash

Here is a statement I often hear from people on why they think the present time is a bad time to invest:

"Things have gone up so much already. They are bound to fall soon."

Sounds logical on the surface but it couldn't be more wrong if this measure is one (or the few) being used. Bull markets don't get tired, run out of steam or stop going up just because they have risen a lot. Equity markets rise and fall based on the strength of the economy. There is really no more to it than that.

Sure, we may have a political event come out of nowhere that can set things back for a spell however, the more meaningful downtrends in your portfolio will come because we are going into a recession. In the meantime, it's as important as ever to make sure you have investments that aren't overpriced. As well, that any new investments you make are at fundamentally good prices as measured by mathematical metrics used to value companies. Those good buys are still presenting themselves today, even while the market as a whole trends upwards. This will continue until a recession makes it do otherwise because the economy determines Bull (up) and Bear (down) markets not how much they have gone up.

HAVE A CONCRETE PORTFOLIO WITH CONCRETE IN IT

There is an chronically aging infrastructure of roads, airports, water, electricity, gas delivery and rail worldwide. You may be noticing this close to where you live. In the Vancouver area it's very clear. No sooner has one aging bridge been replaced, another big bridge or highway project is announced.

These kind of infrastructure projects have traditionally been funded by large

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pools of money, namely pension funds and other institutional pools of capital. Because governments around the world need more and more money today than ever before for these kind of infrastructure projects, money is being attracted from an ever widening investor base.

The fees and profits collected from assets like toll roads, airports, dams, etc. are very steady over the long term. Businesses managing infrastructure assets negotiate with material suppliers, agree on set fees and make long term commitments before they start building. Within those fee agreements is built in inflation protection using ongoing price increases. When a recession hits, the income paid to the business managing the asset continues to collect revenue because people keep driving, flying and using electricity.

Although the company managing the infrastructure project doesn't own it, they normally have a long term agreement in place to operate the asset. This can run for several decades. For that they collect tolls and are responsible for maintaining the highway, bridge, airport, etc. As the population grows, so do the revenues which is another inflation protection measure for the infrastructure business and all that own a piece of it.

Underestimating Your Longevity Could Be Very Harmful To You

Pension plans have built in longevity insurance. This insurance comes in guaranteeing you a certain amount of income for as long as you live. If a pension won't (or doesn't) make up the majority of your retirement income, or gives you just enough for the bare necessities OR if you don't have a pension at all, it is imperative that you have other assets to give you additional income.

There are 2 extremes to simply guessing if you will be okay rather than annually calculating and reviewing where you are at. First, you could be so afraid to run out of money that you aren't using what you have to its fullest. In other words, you may actually be able to enjoy things like travel, a new car, lunches with friends and other excursions and activities more than you do now. Second, you could simply get squeezed as the years pass, by continually rising living costs. This could mean always needing to cut back (year after year after year) in order to make ends meet. If you don't, you will run out of money before you run out of you.

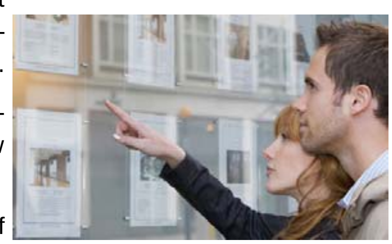
Are you aware how exponentially more you need to retire at 60 versus 65 or even, 65 rather than 67? The dilemma much of the population faces is that retirement comes earlier than they expect; not because they want to but because of poor health, from a lay off or forced early retirement.

How long do you think you will be retired for? Most people see retirement as being a relatively short time, like 10 years or less. The fact is, if you are retiring at 65, a 35 year retirement life could be your reality. In other words, you could be retired longer than your spent working. Because of this, you need to ensure you can pay for your longevity.

Want To Buy Your First Home? Do This Trial Run Exercise First

It seems harder and harder to buy a first home. Getting the down payment together is one hurdle however, the more pervasive struggle can be the ability to make your mortgage and other home ownership cost payments, for a long period of time. If you get into something over your head, you could be selling and moving to something less costly. That can be an expensive and very stressful exercise.

Banks will give you a mortgage based on your Total Debt Service (TDS) Ratio. This adds up all your housing costs (mortgage, heat, property taxes and 50% of strata fees) and compares it against your gross income. The normal ratio of expenses to income is 40%. The absolute highest any mainstream bank will go as a percentage of your income is 44%. That is a lot.



If you are currently renting, I hope you are not paying anywhere near that percentage of your income to all your obligations. This trial run exercise comes in, to see how making those mortgage payments would actually feel. Start adding these up:

For every $100,000 in mortgage you plan to take on, you should assume payments of $500 / month. Add in your property taxes at a rate of $50 / month for every $100,000 of the property price. This is a ballpark number as every city has different tax rates. If you live in White Rock, Vancouver, North Vancouver, New Westminster, Port Moody B.C. use $70 / month per $100,000 of home price. A strata build-

(Continued from page 2

ing is closer to $30. Add in $300 / month for strata fees (again a ballpark), another $100 / month for every $100,000 of property price for maintenance. You may say this is high but if you want to be realistic, it definitely isn't. You'll find owning a home has continual costs and those that jump out at you when you least expect it. In time your home will need upgrading or you'll want to modernize, replace or make an improvement (hard surface kitchen countertops are pricey). Hot water tanks, furnaces, appliances, flooring, roof replacments, lawn care etc cost money and the expenses on that are very lumpy. You've heard the saying "when it rains, it pours"? That is home expenses to a tee. If you live in a strata building, be prepared for a special assessment, even if the building is relatively new. Oh, and don't forget the expenses you may not be paying now including heat, water, sewer (in Surrey we get a separate bill for that, ~$30 / month). Add another $200 / month to give you a buffer.

You aren't finished yet if you are moving further away from family or work. Will you be travelling a longer distance to those? Will a 2nd car be needed? Even if not, you are going to need to replace your current vehicle more often. Are there limited public transit options? Add another $500 to $1,000 per month to pay for those additional expenses.

Finally, take your current rent and subtract this total expected home ownership monthly cost number. Set up a monthly withdrawal out of your paycheque and have it go into a completely separate bank account. Do that for several months. A year is even better. How does it feel? Can you live like that for several years? Are you willing to make the sacrifice. Are you actually able to do it?

2 Ways To Use A Spousal RRSP For Saving Tax (At Almost Any Age)

Since the government allowed retirement income splitting in 2007, Spousal RRSP's haven't been talked about much. They are however, just as relevant today as they were then. Here are 2 entirely different age specific applications:

Home Purchase— with the Home Buyers Plan (HBP) you can use up to $25,000 in your RRSP to finance the down payment. If one of you has a lower income than the other, the higher income earner should be contributing to a Spousal RRSP for the other as well as their own. That way you are getting a larger tax refund—more than if you each just contributed to your own RRSP's.

Withdraw As Little As Possible From Your RRIF— You have to convert your RRSP to a RRIF the year you turn 71. At that juncture you will have to take out 7.38% of your RRIF in the first year. If you want more flexibility and your spouse is quite a bit younger than you are, then contributing to a Spousal RRSP delays the mandatory conversion to a RRIF until your younger spouse turns 71. This gives you a few more years of compounding. If you do want the RRIF income earlier you can always set up the RRIF before 71.

Note: Spousal RRSP's have a 3 year attribution rule which says that if you make a contribution to a Spousal RRSP within 3 years of withdrawing it the tax will attribute back to the contributing spouse. This restriction however doesn't apply on the Home Buyers Plan.

Caution To Those With Rental Suites

Many people have rental suites within or on the same piece of land as their primary residence. This is most often used to offset the cost of their principal residence mortgage. There are caveats to be aware of so you don't lose one of the biggest benefits of your home, tax free capital gains.

The government stipulates that your home must not have been structurally altered to provide for the suite. You can't deduct expenses for repairs under "capital cost allowance" and the suite must be "ancillary" to your principal residence. "Ancillary" is quite subjective however some accountants interpret this as, if the suite is bigger than the portion of the house you use for your own living, you will be subject to tax on the capital gain.

Tech Gems— Email Hack Alert and Password Safety Vault

This is actually 2 separate tech gems that work together. The first is www.shouldichangemypassword.com. Type in your email address and this site will tell you if a website you have used your email address with has been compromised. This site will track and warn you in the future if something fishy is going on with any site that has stored your email address.

Another tool I've used for years is www.lastpass.com. LastPass can store all your passwords in one place. When you need to create a new password, it can create a unique one for you. With this tool (which is available for your smartphone as well) you only need to remember 1 password and that is to LastPass. Every other one is securely stored.

Hhhhhmmmmm……

Every bank run mutual fund on the list of 12 popular funds is more expensive to own than it was 5 years ago. Globe & Mail (April 2014)

The relative P/E (one measure of the price) of the largest 25 S&P 500 Companies has actually declined since a peak in 2009. In other words, they have become cheaper. Citi Research (Jan 2014)

2013 was the most extreme year in 41 where you didn't need (portfolio) diversification. Scott Wolle, CIO Invesco Global Asset Allocation (Conference Call, June 2014)

Warren Buffett cut his allocation to bonds within Berkshire Hathaway because he sees more opportunity in his stock purchases than he does in his cash and bond holdings. He said bonds are “wasting assets”. In lieu of bonds he has been turning to infrastructure investments. Bloomberg (March 2014) - see page 2 on “Concrete” re: infrastructure investments

“We believe that the market will likely deliver double-digit returns over the next several years,” Jonathan Golub, Chief U.S. market strategist, RBC Capital Markets (Financial Post, April 2014)

Contrary to popular belief the deficit picture in the U.S. has improved dramatically over the past 3 to 4 years. The U.S. is now on track for a lower deficit than at anytime in the last 40 years; lower than the Reagan era in the ‘80’s. Jim Gilliland, President & CEO, Leith Wheeler Investment Counsel (Feb 2014)

Many of Canada’s pension funds have outsourced their portfolio management to outside investment managers because it believes it can get access to superior investing talent that way. Globe & Mail (Sept 2013)

The federal government charges GST on taxes on gas. The price for premium is 10 cents more per gallon in the U.S. yet 10 cents more per liter in BC which works out to about 38 cents more per gallon. Peace Arch News (May 2014)

It costs $243,660 (adjusted for inflation) to raise a typical child to age 18. (MoneySense, Aug 2011)

Status anxiety. It’s the need to show your high end purchases to validate your self worth. The fear that if you don't get their toddler into the right preschool they'll fall behind. This spurs the spending of ungodly sums on tuition, tutors, and enrichment activities (sports, dance etc).

About 68% of U.S. children live with 2 parents. It is around 80% in Canada. New York Times (May 2014)

Nearly 45% of people living in condos (as of 2011), were single. The majority of condo owners are younger than 35 and older than 65. These groups generally have significantly different lifestyles and sleep patterns. StatsCan

Canada is home to the richest middle class on the planet. Luxembourg Income Study Database (April 2014)

Canadian mortgages reached $1.2-trillion in early 2014. That’s a 202% increase since 1999. DBRS Inc.

Barack Obama knows the way to make the absolute best decisions he can is to focus on the most important ones and get rid of the others. To do this he wears only blue or gray suits and has schedules set for what he eats. Doing so, eliminates decision fatigue. Investment Executive (Sept 2013)

People often say that they want options. When it comes to getting things done, however, options aren’t always a good thing. When everything is a possibility, it actually becomes harder to make the right choice (or any choice at all). This is the paradox of choice.