Issue 163 - Sept / Oct 2014

C.E. VANDENBERG & ASSOCIATES INC.

Financial Planning— Insurance— Wealth Management

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so together we can build
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in attaining your life's dreams
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published bi-monthly since 1987

Seasonal Softness In A Good Environment

We are in the traditional season of market uneasiness. Because we haven't seen a "reset" in about 3 years, what we have, or are still going through, isn't unexpected. Concern about the stronger dollar, an economically weaker Europe and Ebola have hurt investor confidence. Despite more down than up over the past few weeks, underlying conditions strongly warrant the belief that we are simply seeing a short term release of excesses along the market's saw tooth path.

Just because investment prices have gone up significantly since 2009, with an interruption through a negative return experienced for most in 2011, doesn't mean by default a significant decline is coming. The fact that people are thinking this gives me additional confidence. Over a long term basis, share prices are moved by fundamental business reasons, namely corporate earnings. It is this metric that you can look to as an indicator of how much people are paying for today's investments.

Since 2009, there has been a skepticism about the robustness of the economic recovery, distrust of the financial system, and reluctance by many to put money back to work. This has caused equity prices to lag the bounce back in corporate earnings. Because of this, a significant portion of the spectacular gain produced over the past few years has actually just been catch-up. Equity prices have been moving upward to match actual earnings at roughly the same ratio that has endured since 1960.

With the light of this perspective, recent market performance is more accurately viewed as a "reset to normal" rather than a swelling of speculative excesses. In other words, we aren't seeing one of the primary reasons for equity markets to do anything other than their usual seasonal softening.

Equities are unquestionably more fully valued now than they were a couple of years ago, meaning that the extraordinary returns of the recent past are unlikely to be repeated in the near future. At the same time though, the prices or more accurately put, the valuations, remain reasonable.

Prices have gone up. Supporting fundamentals have strengthened alongside increasing share prices. In fact, the market has actually gotten cheaper from a "valuation" measure. This is reflected in S&P dividends, which have actually grown at a faster rate than the index itself since the 3rd quarter of 2010.

Apply Engineering Principals To Your Financial Plan

Ask any engineer about building a structure 2, 3 or 10 times stronger than it needs to be and they will tell you, you will be spending a proportionately greater amount to make it so and that it isn't necessary.

The same principle applies in financial planning and more specifically, portfolio construction. If you want less up and down risk in your portfolio, you will need to save a lot more money to build your financial bridge. Generally, the safer you feel with an investment (the stronger you want your financial bridge to feel) the more you will need to save from your working income. In other words, you have made your retirement planning costs go up.

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Very often, people tend to be more conservative with their portfolio than they need to be and thus, they end up having to set aside that much more of their pay-cheque to build the financial planning bridge they need.

Alternatively, a well constructed portfolio with a mix of financial "building materials" with different characteristics, contributing complimentary attributes, does 3 very important things. With it you get:

1. A wider bridge. You can build this because your costs to build it are lower. This means more traffic can be flow from the bridge every month. In portfolio terms, that means more income to you per day, per week, per month.
2. A longer bridge. It can stretch over a longer distance. In other words, your portfolio's life will span that much farther meaning you have less worry of money running out before you do.
3. A strong bridge. You haven't over built it but it's still as strong as it needs to be. If it was any stronger, you would be giving up on features 1 and 2.

Your Lifestyle—What You Need To Do To Pay For It

I have always said that the higher your lifestyle expenses are when you are working, the harder it is to "retire" and keep your same lifestyle going. The reason is that you need to have accumulated that much more to meet the lifestyle expenses you have grown so accustomed to. To give you a better understanding of that let's break down a few common household expenses and see how much each of them will cost you in income producing assets.

Virtually everyone has a cell phone. Cheryl and I have 1 each. $90 / month is the total cost for us. If we don't want to work to earn the money to pay that but rather, we need our portfolio to pay for the use of our cell phones, from when I am 65 through to when I am 95, we would need to have $21,000 in investment assets assuming a 6.5% return.

How about a car? Do you have 1, 2 or 3 maybe? What does it cost to replace your car every few or several years? How much does it cost to keep each one of them on the road? According to Consumer Reports, the median annual ownership cost of a car is $9,100 / year over the first 5 years of ownership (keeping your car longer reduces those costs to $7,800 / yr). In other words, if you want to have those same vehicles when you aren't going out to earn the income to pay for them but rather, you want your retirement income to pay for them, you will need to set aside $176,000 per car by the time you plan to stop working.

Add each one of your lifestyle costs up and you get the total income you need every year to pay for them. Since, you can't or mostly likely, won't want to continue to work to pay for them, you will need your portfolio income along with any work pensions, CPP and OAS to pay for them.

At the end of the day, you can either start modifying your lifestyle requirements, particularly what you can probably do without now or keep your lifestyle going as you have grown accustomed to it and be prepared for you to go out and earn an income longer than you would like.

CR car ownership cost article: http://consumerreports.org/cro/2012/12/what-that-car-really-costs-to-own/index.htm

Using Your TFSA As A Tax Free Income Paying Golden Goose (TFIA)

The government likes to tax your income. That is where most of its revenues come from, income tax. An amazingly powerful tax free investment vehicle has been made available to you, it's called the TFSA. Too bad the "S" stands for "Savings" as that leaves people to believe a TFSA is really just a savings account. The TFSA should more accurately be called TFIA— Tax Free INVESTMENT Account.

As of today, you are allowed to have contributed as much as $31,000 into your TFSA in total. The yearly contribution limit is $5,500 however, there is talk by the government that they could be raising it to $10,000 per year very soon. It won't be too long that TFSA's could very well have balances like the 6 and 7 digit RRSP's that are so common today.

Rather than having money piling up in a TFSA and lazily earning 1% or so I'd suggest invest in something more fruitful than a mediocre savings account. How about an investment that is paying a higher rate of interest or perhaps dividends? Invested this way, you can have the interest or dividends paid out to you every month from your TFSA to your chequing account. That income is paid out to you completely tax free. As your investments grow inside your TFSA, so does the monthly income paid to your chequing account. This is perfect investment vehicle for creating income that

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you can rely on for the rest of your life. Your money is working and paying you instead of you working. Your working income is taxable. TFSA income is tax free. If your TFSA isn't set up to pay you monthly, tax free income, maybe it should?

The 3—6 Month Emergency Reserve Myth

If you are a reader of financial planning topics I'm guessing I got your attention with that title as it refutes commonly quoted financial planning advice.

Financial planning #101 says you should have 3 to 6 months of living expenses stashed away in an account you can readily access. That means, if you adhered to this text book rule, you would have thousands upon thousands of dollars sitting in a relatively idle account for most of your life. It says, before you can anything, like buy a car, contribute to your RRSP or buy a home, you need to accumulate a whole lot of cash and stash it away. I have always thought this advice to be cumbersome, unrealistic and frankly, very inefficient.

The purpose of an emergency reserve is to be able to get you through a temporary job loss or any short term cost that you can repay back once this expense is in your rear view mirror. Yes, it's important to have cash available to meet a potential "emergency" but there are better ways to accomplish the same thing.

In lieu of the "cash" emergency reserve, I'd suggest a "line of credit" (LOC). Your ability to secure a LOC is based on your income, so you should be able to secure a LOC in proportion to your income. The more income you earn, the higher your expenses probably are and thus the size of the LOC you can set up is directly related to your expenses.

My opinion is that an LOC should be your emergency reserve. It only costs you when you use it. If an emergency comes up, you simply pay it back once that bump has passed. Of course you need the discipline to do that however, you would need the discipline to sit on a pile of cash for years upon years without using it as well.

Just because the financial planning text book says a cash emergency reserve is a must, doesn't mean it's true.

You Will Create Wealth By Investing Monthly

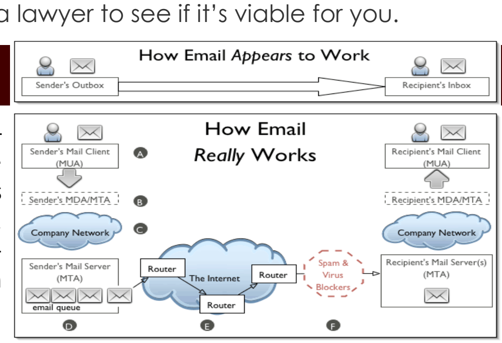
One of the first concepts I learned about finance is that if you want to ensure you will be strong financially all you need to do is set up a monthly contribution to an investment account. No matter how little or how much you make, a systematic amount of money going from your bank account to an investment account will create wealth you would never accumulate otherwise. With the extra advantages of an RRSP or TFSA that monthly investment will grow exponentially over time. Need inspiration to start? Read the Richest Man in Bablyon. You can find it free on the internet.

Using 2 Wills To Cut Probate Fees

The most common way I've seen people try to reduce probate fees is by putting an account, investment or even a home, in joint name with another person. There are many potential pitfalls to doing this however. With WESA (Wills, Estates and Succession Act) coming into effect this past March in BC, you may be able to do it a different way, which has already been the case in a handful of provinces in Canada.

Probate is only needed by 3rd parties who require verification that the Executor has the authority to deal with financial assets in the estate. Certain assets in an estate don't need to go through probate. The most common of those are personal assets including valuable collections as well a company owned by the deceased. Having a separate, non-probate Will for these items has these assets treated separately meaning no probate fees on the value of those assets. You will need a separate Executor however for this second Will. Check with a lawyer to see if it's viable for you.

Tech Gems— Sendinc for Email Security



When you send an e-mail it may go though various places where the information in your email can accessed. Between the time you send it and the time it is received by the person you are sending it to, your email goes through a few servers and a number of routers where it can be intercepted. Sendinc is a tool you can use to have your email and any attachments encrypted before you send it. This means, any information in your email, even though it can still be intercepted, cannot be accessed.

Hhhhhmmm…...

If you owed 17 trillion dollars to yourself, would you raise interest rates? (re: how likely indebt countries like the U.S. will raise interest rates) Jason MacKay, VP Invesco Global Portfolio Services

A recent study was conducted by Fidelity Investments to determine which of their client groups had enjoyed the highest portfolio returns over time. The answer? People who had forgotten that they had an account with the company. In other words, the attempts by everyone else to outsmart and time the market had collectively backfired.

If you have less than a 20% down payment for a home you must get mortgage default insurance when borrowing from a financial institution for the mortgage. If you only have 5% down, you pay a 3.15% mortgage insurance fee.

You may think that your biggest expense is housing but it is in fact, tax. The average family income in 2013 was $77,381 paying out 41.8% of that in various taxes. 36.1% went to food, clothes and housing. Fraser Institute, August 2014

Almost 1 in 5 people in the 30 to 33 age group live with mom and dad, as did 29% of those 25 to 29 years of age. 71% of 30 to 33 year olds said they were getting help from their parents to pay their bills. Yconic/Abacus Data Survey of Canadian Millennials

To pay your mortgage down quicker but not pay out more per year, multiply your current monthly payments by 12 then divide by 52. That number is how much you should set your new weekly payments at. Over the course of the year, you are paying the same amount but the by paying more frequently you are paying less interest.

45% of British Columbians don't have a Will. That could mean decisions are made about guardianship of their children and division of their money and property in a way they didn't intend. Vancouver Sun, April 2014

If you take your CPP at age 60 rather than 65, you will get 34.8% less monthly CPP income for the rest of your life. If have chosen to collect CPP early, but are still earning a reasonable income, you are best to redirect it for RRSP contributions.

Do you have a website for your business? Is a profile of what your business does, anywhere on the internet? CRA now says you must file a Schedule 88 with your tax return. With it, you either have to report how much income you earn directly from your website or give an estimate of how much can be attributed to your site. You also must give them the url address. Taxtips.ca

As of June 30th, when you go across the border, Canada and the U.S. will be scanning your passport and will be sharing the information between on when you are coming and going so they can determine if you have stayed too long.

Oil prices hit their lowest price since June 28th 2012. Financial Post, October 2014

On Oct 20th @ 8pm, 1 U.S. gallon of regular gas was $3.32 (converted to Cdn $'s). Gas in South Surrey was $4.85 for 3.7854 litres (1 U.S. gallon) or 46% more.

In 1981, mortgage rates were over 20%. In, 1990 a 5 year mortgage was at 11%. 10 years ago they were around 6%. You can get a mortgage now at less than 3%. Borrowing costs are about 1/4 of what they were 23 years ago. Since housing is highly financed (leveraged), is it coincidental that home prices have gone up by about 4 times (the same amount that interest rates have dropped) in that same period?

Carey