Issue 164 - Nov / Dec 2014

C.E. VANDENBERG & ASSOCIATES INC.

FINANCIAL PLANNING— INSURANCE— WEALTH MANAGEMENT

ATTENTIVE - ATTUNE - ATTAIN™

WE WILL LISTEN CAREFULLY
TO WHAT YOU ARE SAYING
AND BE ATTENTIVE TO YOUR DESIRES
AS WELL AS YOUR FEARS
SO TOGETHER WE CAN BUILD
AND ENJOY
A HARMONIOUS
AND RESPONSIVE RELATIONSHIP
IN ATTAINING YOUR LIFE'S DREAMS
AND THROUGH THAT
WE WILL BE ATTAINING OURS.

Carey

WWW.CAREYVANDENBERG.COM

CAREY@CAREYVANDENBERG.COM

604 541 2690 1 866 274 1222

SOUTH SURREY / WHITE ROCK OFFICE
13230—16TH AVENUE
SOUTH SURREY, B.C. V4A 1P3

VANCOUVER OFFICE
2050—1050 WEST PENDER STREET
VANCOUVER, B.C. V6E 3S7

mutual gains™

published bi-monthly since 1987

VOLATILITY MAKES FOR BETTER RESULTS

The following is a paraphrased recent writing by one of the investment managers we use for client portfolios:

We are extremely pleased volatility has returned. Volatility is the friend of the investor who knows the value of the businesses they are invested in and the enemy of the person who doesn't. It's our job to know the value of our businesses and capitalize on their price fluctuations.

Here are a few of analogies to help clarify what is meant by that. If we're on the side of a busy street selling brand new Toyota Camry's for $1,000 each, most people would screech to a halt and buy as many as they could. If the next day we sold Camry's for $2,000 each, the same people who bought them the day before for $1,000 would line up again to buy them for $2,000. They wouldn't worry about the fact that yesterday they only paid $1,000 and today they had to pay $2,000. Why? Because the buyers know the value of the Camry is closer to $25,000 and when sanity returns, they know they will be able to sell them for closer to what they are truly worth, $25,000.

Likewise, if I said I was buying Costco memberships at $100,000 each, everyone would rush to sell their Costco membership to me. If the next day I was only paying $50,000, the same rush to sell me Costco memberships would occur and no one would begrudge the fact that yesterday they got $100,000 and today only $50,000. Why? Because most people know a Costco membership is between $55 and $110.

However, what happens if the price of "Big Company" in the stock market falls by 20% in a short period of time? Most people panic because there it is very uncomfortable seeing the price of something you own go down. Why the fearful concern? It's very simply really. Because, I can only assume, you don't really know the dollar figure on what your investment is actually worth. However, just like the Camry, it has a worth that can be measured.

A history of declines: 1946-2013

Size of decline	Number of declines	Average frequency
5% or more	174	2½ times a year
10% or more	55	About once a year
15% or more	21	Once every 3 years
20% or more	12	Once every 5½ years

The key thing an investment manager must know is how much the business they are buying a piece of, is worth. This way we can capitalize on short-term price fluctuations. Historically, our investment approach has added material value during volatile periods in the stock market and we don't believe this is going to change in the future. We have done exceptionally well over the years for ourselves and those whose money has been entrusted to us through their Investment Advisors. Without the bouts of volatility over the last several years however, we wouldn't have done nearly as well.

With the recent volatility, we have added to approximately 1/3rd of the investments we had already held, using up some of the cash we had been stockpiling.

If you have good "stock pickers" making the investment choices within your portfolio, the markets ups and downs will be thoroughly taken advantage of.

(Continued from page 1)

This is done, not by trying to anticipate the emotional reactions of the market but by buying pieces of the companies when they are below what they are truly worth. Portfolios with disciplined investment managers who know the value of what they are buying, are improved the most during times like these.

Why Bank Deposits Don't Make Sense NOW

5 year GIC rates have hovered around 2.3% for a long time now. On a "high interest" savings account you might get about 1.30%. Everyone knows inflation is higher and it is clearly evident in basic living expenses such as food and until recently, gas at the pump. However, the reason interest rates are low is because there is a lot of slack in the economies of the world due to the debt bubble bursting in late 2008. That debt bubble was being blown up for the past few decades. The effects of that won't disappear overnight. In fact, it's been 5 years and we are still in ultra low interest rate territory. This is not expected to change much any time soon. 2024 maybe?

This leaves conservative investors, those clinging to the inordinate amounts of cash in bank deposits, facing a stark reality. You can expect to have your money losing money to inflation every month you continue to hold them. This is mostly likely going to continue for several years.

O.P.M As A Long Term Strategy For Building Wealth

I'm a strong proponent of investing on a monthly basis. A cross section of my clients who contribute to their portfolios, whether that be their RRSP or TFSA, have been better wealth builders than those who don't. There are 3 parts to their success: Adhering to a healthy financial habit, automatically taking advantage of the downs by investing when many people are scared to, and letting time work it's compounding magic.

You can apply the same principal using OPM or "Other People's Money". This is simply the use of borrowed money to "leverage" the amount of money you have working for you. The power of using OPM is one most people may have seen the benefit of through their own home. It's not that real estate has been such a fabulous investment on it's own, it's much more so the power of using OPM. You may have very little money to invest however, you have cash flow that can pay the borrowing costs of a loan to finance a much larger investment.

Let's compare investing on a monthly investment versus using that monthly instead to finance an investment loan:

- Dylan invests $400 / month and averages 7% per year. After 15 years his portfolio grows to $129,060.
- Ashley applies the $400 / month to cover the interest on a $120,000 investment loan. Using the same 7%, this lump sum investment grows to $331,080. Pay off the $120,000 loan and you are left with $211,080.

These are 2 totally different ways to use cash flow that you can work with. They also have very different levels of risk. Investing on a monthly basis is much more conservative, one that anyone and I mean ANYONE can use and should use to build wealth. The OPM strategy can be effective but it should only be used with care and in the context of a concisely laid out financial plan.

Withdrawing Money From RRSP To Pay Debts (Not A Good Idea)

Should you find yourself in a financial bind and you owe money which you can't pay with your non-RRSP resources, or by borrowing somewhere else to consolidate your debts, the RRSP should not be used to pay those debts. The reason for this is simple. Your RRSP's may actually be protected in the event you are forced to claim bankruptcy which could be the inevitable path you are heading down.

Rather than raiding your RRSP (Peter) to pay Paul, you may want to take action to protect any assets that your creditors can seize. Depending on your situation, debt restructuring through a consumer proposal or perhaps an assignment in bankruptcy (i.e., using a trustee) may make more sense.

Recourse through the courts means that the people you owe money to have the right to sue you in order to recover the debt. If the lender's lawsuit is successful, the court will issue a judgment, usually followed by a Writ of Execution or a Writ of Seizure. These writs allow a creditor to seize bank accounts, garnishee wages, and register a claim. The writs however don't allow the creditor to seize RRSPs. This will leave you in a financially better place than if you had withdrawn money from your RRSP, allowing you a base to build from once again. (Note: although RRSP's may be protected from creditors, other registered accounts such as RESPs and RDSPs are not as secure).

Controlling The Inheritance You'll Be Giving

Your adult children are great people but one thing you are unsure and a bit uneasy about is, that one child who doesn't seem to be very good with money. In fact, they could burn through the money that you will leave them really fast. There is a way however you can set things up so the money they get from you when you pass on, provides for them for the rest of their life and then have your money pass to your grandchildren.

You first determine how much money you want to lock up which will provide a monthly income to the adult. That money is deposited with an insurance company where the adult child is named as the beneficiary. You make your grandchildren the contingent beneficiaries.

Just because you have put this in place doesn't mean you can't change it. You can request the life insurance company return your money to you. It is in fact, in your name while you are alive. If you leave things in place however, when you pass on, the deposit you have set up for your adult child is used to purchase an annuity. That annuity will pay out an income for the rest of your adult child's life and should there be money left over, that money will go to your grandchildren.

There is more than one way to allocate money to your adult children and grandchildren and control how that money will be used when you pass on. As well, you can customize it to so it will happen exactly as you want it to, even when you are gone.

Postpone Your OAS And Get More $'s

As of July 2013, you can choose to start getting your Old Age Security (OAS) as late as age 70 instead of the traditional 65 years of age. With more people continuing to work past 65, this can be a very important choice to make because, 1) a large part of what you could be receiving may either be paid back to the government in tax and 2) the amount of OAS could actually be reduced because of the "clawback". In other words, at the end of the day, you won't be getting $6,082.32 / year but instead it could be as low as $0 because of extra tax and clawbacks. This is all because no planning was done.

So how do you decide? Shortly after your 64th birthday, you'll receive a letter from Service Canada indicating that you will be eligible for OAS as of your 65th birthday. If you do nothing, your OAS will start automatically. If you wish to defer receipt of OAS, tick the box "I declare that I do not wish to receive OAS at this time" at the end of the letter, sign it, and return it to Service Canada.

Of course the decision of "to take or not to take" should be done in consultation with a Financial Planner. That way, you will be ensuring that you are maximizing the amount of money that you keep and minimizing what you have to send back to CRA.

Open RESP Before Child Turns 7 And Get $1,200

B.C. Training & Education Grant which is a one time offer of having $1,200 being paid into an RESP for your child or grandchild. That grant money, if left in the RESP to grow without adding any of your own money, would mean each of your children would have $2,415 (@ 6% / year) or $3,022 (@ 8% / year). All you have to do is open an RESP and you need to do it before your child turns 7.

After August 15th 2015, you will get a notification from the B.C. government that you need to apply for the grant. The $1,200 should follow shortly thereafter, deposited directly into your new RESP. You can get all the details on the B.C. Government website.

Tech Gems— Starbucks App

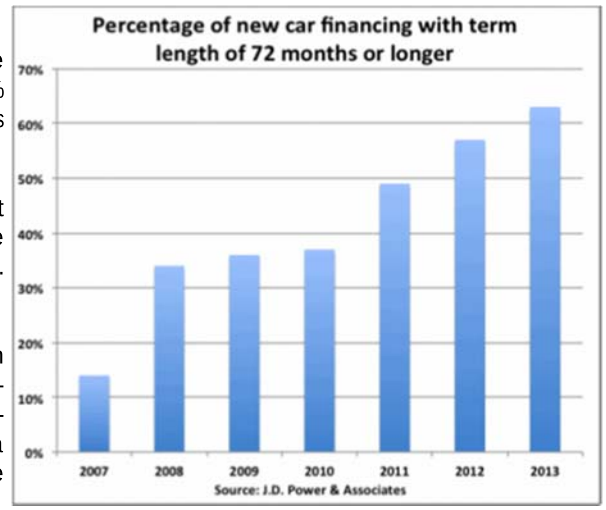
You actually don't really need the app for this although the app makes things easier. You just need to register. With each purchase at Starbucks you collect a "star". The key thing is to have them ring in each purchase separately. For Cheryl and I, it's 2 coffees, each rung in separately. We buy "short" coffees and sit to enjoy them while spending an hour or two reading on Saturday and Sunday mornings. A refill is free. After 12 stars you earn a free item on the menu—ANY item. Save those for when you want one of their expensive drinks or even a sandwich. Using the program this way puts each star's value at approximately 45 cents. With mental accounting our 2 short coffees only costs us $1.85 instead of $2.80. I say "mental accounting" because what you get free you may not have actually bought them if you had to pay for them yourself. Although, that free sandwich has come in handy when I've been running around.

Hhhhhmmm……

39% of workers age 50 and older report having $100,000 or less saved for retirement, not including pensions or homes. 24% have less than 10,000. Center for Public Affairs Research (2013 survey)

Jim Hall, head of esteemed Mawer Investment Management, highlighted in in a meeting in Hong Kong on Nov 5th that both his personal portfolio, and his parents' retirement account is 100% invested in a Global Equity portfolio. This is very different then what text book financial planning would say to do. (I lean in Jim Hall's direction on this). Manulife email to Financial Advisors, Nov 2014

In a recent poll by BlackRock, Canadians spend 43% of each dollar of household income on housing related costs. Among the 20 countries surveyed, only the Netherlands and Sweden had higher housing costs at 51% and 45% respectively. China had among the lowest hosing costs at 15%. The U.S. came in at 42% and Germany at 35%.



The Bank of Canada says Canadian residential housing prices are inflated by between 10% and 30%, with overvaluation of at least 10% since 2007. Moody's Analysts believes the national housing market is overvalued by "a little less" than 15%. Globe & Mail, Dec 2014

RRIF's started in 1992 with a minimum withdrawal starting at 7.38% at age 71. That is when one was expected to live until 80. Today, the minimum withdrawal is the same yet life spans are 4 years longer. Insurance & Investment Journal, Dec 2014

Canada was one of the biggest exporters of asbestos in 2011 when the last asbestos mine in Canada closed (Quebec). In 2013, asbestos exposure was the single largest on the job killer in Canada, accounting for more than 1/3rd of total workplace deaths. Australia stopped mining in asbestos in 2003 yet their work place deaths due to it have continued to increase. Globe & Mail, Dec 2014

Incandescent light bulbs are being outlawed despite many people wanting to continue to use them yet the government doesn't place the same law on gas guzzling vehicles. With those, it lets the market decide.

Studies of computer hacks have found the average time from infiltration until the security breach is detected is 229 days. USA Today, Nov 2014

Canadians have become so wild about Halloween we now spend more per capita on costumes, candy and décor than our U.S. friends do. Financial Post, Oct 2014

Couples whose wedding cost more than $20,000 divorced at a rate 1.6 times higher than those whose wedding costs between $5,000 and $10,000. Couples who spent $1,000 or less on their big day had a lower than average rate of divorce. The average amount spent on a wedding in the U.S. in 2013 was $29,858 which is a record high. CNN, Oct 2014

Canada provides less publicly funded dental care than the U.S. and internationally, Canada is among the lowest funders of dental health care programs. Dr Paul Allison, The Province

In all of Metro Vancouver, the highest populations of seniors who live alone are found in South Surrey (where I live) and Vancouver's Downtown Eastside. Peace Arch News, Oct 2014

There are those that block their phone's identity from being revealed on a call display of someone they are calling. Should it be expected, that the person receiving the call, pick up the phone if they can't tell who it is?