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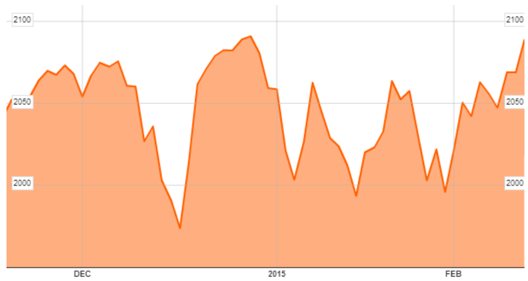
UP'S & DOWNS MAKE AN ACTIVE PORTFOLIO BETTER

I've been on my regular education and due diligence and pro-d diet by means of conference calls and webinars. These are for the most part, updates from the investment management teams I use for client investment portfolios.

What particularly struck me with the updates I've had over the past few months is how much buying and selling has been done by all of these investment management teams. This is a function of taking profits on holdings that are seen as "not cheap anymore" and reallocating the proceeds to other opportunities. In other words, my client's portfolios have been extensively revamped; more so than in many years.

This is very important information particularly in the context of this question: "The market has gone up a lot. Is it still a good time to invest?". The simple answer is, yes. I strongly believe this to be true only if you have (or will have) active investment management at the helm.

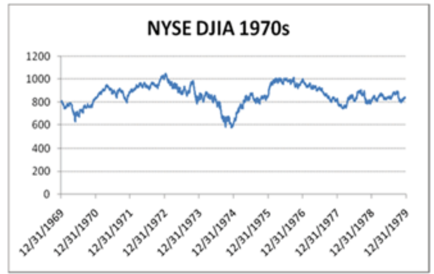
What has happened through 2014 is many of the investment management teams I keep in regular contact with, have enacted a large turnover within the investment pools they are responsible for. Many of the holdings that they have made a lot of money on have been sold. Completely new investments have been bought in their place. These new investments were purchased because they were cheap and significant upside is expected on these over the next few years. This simply means, despite the market as whole being around the highest level it has ever been, the ups and downs of late have made some high quality investments sell for below what they are truly worth.



Since the beginning of December 2014, the "market" has been going up and down a lot within a relatively short time (see graph on right). However, the "market" (measured by the U.S. indexes) is doing this fluctuating within a band and in that time, not going anywhere. This market action creates a candy store for active management. The ability to make money is greatly enhanced, despite a stagnant market.

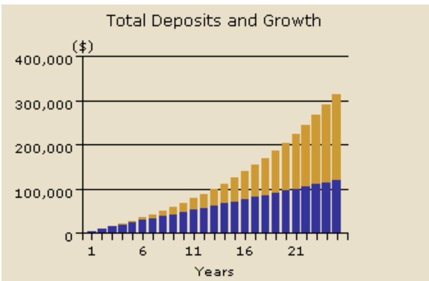
That may sound good however, what if the "market" continues to bounce around this band and really doesn't go anywhere for a much longer period of time? In other words, it could be that at the end of 2015, the index could be at the same level it is at now. It is possible it could be bouncing up and down like this for several years.

That too, is when disciplined, full time, active investment management is worth it's weight (and management costs—MER) in gold. I remember hearing about the benefit of disciplined, active investment management going through the 70's. The "market" went virtually nowhere however, the performance of one active manager I followed, was in the double digit returns, compounded annually. He did that as an employee of an investment management firm and then, in 1981, started his own firm. He had an enviable track record there and sold it about 20 years later and retired. A handful of new generation active investment managers were hired by him from 1981 through the early 2000's and trained under his watchful eye. It's these kind of people I seek out for my clients. It is these investment management professionals who are taking advantage of these ups and downs and making an investment portfolio perform very well in the long run, despite and actually being helped by, what the market does.



Use Habit 1 & Habit 2 To Build Your Financial Freedom

The vast majority of things that determine personal finance and investing success has to do with simple habits. Wealth is built through these 2 key habits. Here are the Habit 1 and 2 combo which richly rewards those who follow it.



The habit of spending less than you earn. This may sound simple but especially in today's hyper consumerism force that media, including social media perpetuates, it can be very difficult however, it is a habit you need to set in place.

The habit of having a fixed amount come out of a chequing account and go toward a historically sound investment vehicle. The client portfolios that I usually am surprised at the most are a) the ones who investment a regular amount every month (or twice per month) and have done so for a very long time and b) those who have held an investment through thick and thin.

It seems that we always have money to pay our cell phone bills, have enough to keep gas in the car and enough to insure the car. The mortgage always gets paid (or rent). Apply this simple principle to paying YOU. That is habit 2.

If you can't always stick to habit 1, habit 2 will correct it automatically. Set up Habit # 3, working with a Financial Planner, and your chances of succeeding go up even more. You'll also probably will get there faster.

Take Advantage Of Your Employers Matching Program

It has been estimated that employees are passing up $3 billion per year by not taking full advantage of employer matching contributions for Group RRSP's and Defined Benefit Contribution Pension Plans. The most generous scenario is an employer offering to invest $1 in your RRSP for every $1 you put in. Who wouldn't take that deal? This is free money for the taking. Well, it actually turns out about 1/3rd of all working people whose employer offers some form of matching program don't do what is necessary to get their free money.

1) If you have a matching program at your work, participate in it. 2) If you aren't sure if your employer matches contributions to your plan at work, ask. If yes, go to 1).

Note: Many of my clients have a retirement plan of some kind through their work. I most often review these to ensure that the plan is set up and being used most efficiently as it can become a large part of a client's net worth and future retirement income.

The Spousal RRSP Withdrawal Strategy

Spousal RRSP's can be used very effectively as a tax saving tool for families where 1 person within the couple has a significantly lower income than the other. Here is how the Spousal RRSP Withdrawal Strategy works.

Dr. Melissa earns $180,000. Her husband Dan fills the homemaker duties for their school aged kids and does some counselling in a non-profit rehab facility when he's not running the household. His income is $0. Melissa contributes her maximum, $24,270 to a "Spousal RRSP" in Dan's name. She gets the tax deduction and cuts her tax bill by $10,606.

3 years later, Dan withdraws the $10,606 from the Spousal RRSP. This amount is considered income in Dan's name and because he has no other income, he will pay virtually $0 in tax (in BC $37 to be exact). In the end, $10,569 of tax is saved.

Note: The reason for the 3 year delay in withdrawing is that if it is done sooner then the RRSP withdrawal gets added back to the contributors (in this case, Dr. Melissa's) income. This would mean, the $10,569 of tax saved would have to be paid back.

When You Should Take CPP and When You Shouldn't

I often see people applying for their CPP at the wrong time. Because of that I thought it maybe helpful to give a couple points on when to take CPP and when not to. This is an important issue because of the penalty on taking it early (minus 0.6% for each month you take it early and increase it 0.7% for each month you take it later). This means you could be getting 36% less if you take it at age 60 vs 65 and you could get 42% more if you started your CPP at 70. As well, you could be subjecting yourself to paying more tax, reducing the amount of money you get even more:

- If you are in good health, it doesn't make sense to take CPP when you are working and when your income will drop after you stop working. Why? You are just reducing your CPP even more because you are paying more in income tax.
- Not in good health? The CPP is based on averages so if you are worse than average on life expectancy it could very well make sense to take your CPP as early as you can. It may make sense to use the next strategy...
- Are you already getting CPP benefits but not needing it? You should probably take what you get in CPP and put it into an RRSP. That washes out the extra tax you would have to pay on this extra income.

Have Ten's Of Thousands More By Deferring Your Property Taxes (55 And Older)

Anyone 55 or over is allowed to not pay the property tax on their home. Okay, that isn't the whole story as you actually have to pay your property taxes when you sell your home. In the interim however, you can choose to keep the money in your own hands and pay simple interest (not compounded) of 1% per year. In B.C., this is actually a loan that is made to you by the government (some cities in Canada have similar arrangements for their residents).

To make this work to your advantage, you need to be able to earn more than 1% simple interest. That isn't very difficult since almost any investment vehicle available today pays more than 1%. Obviously, paying 1% interest and earning 1.3% isn't much of an advantage, however, if you move a few steps up the investment ladder you'll be well on your way to making this strategy very worthwhile. Here is an example of a 1 year $5,000 property tax deferral scenario:

$5,500 of property tax deferred for 10 years @ 1% simple interest ($55 of interest cost / year) = $6,050 to be paid in 10 yrs

$5,500 of @ 6% compounded annually for 10 years = $9,850

If you put the money into your TFSA, the $9,850 is tax free. If you do this every year you live in your home from age 55 and on, the multiplier effect of the compounding of your money becomes like a money making snowball. When the property tax is finally paid it could amount to tens of thousands of dollars extra in your pocket. The key is to take what you normally would pay the government in property taxes and put it into an investment account earmarked to pay that property tax loan back when you sell your home. Need ideas? Call or email my office.

Live Like You're 50 Until Your 80

These are 5 things that will do just that (from the book, Younger Next Year):

1. Exercise 6 days a week (not 3, 4 or 5)
2. Eat what you know you should and cut out the crap
3. Spend less than you make
4. Meaningfully connect with other people
5. Be engaged in something you are passionate about

Tech Gems—CamScanner

One of the great tools of a mobile device (phone of tablet) is the on board camera. This is great for taking photographs or pics of things you want to remember however, using your camera app for saving a copy of a bank, RRSP or credit card statement etc. is far from ideal. CamScanner uses your device's camera but instead of saving the shot as a picture, it saves it as a pdf. Because your doc doesn't need to have the nuances of a photograph, CamScanner smooths much of the lighting issues out and what you get is a nicely readable doc that you can save for your files or email to someone. As well, because pdf's take up much less memory than a digital picture, you save space on your mobile device. Better in every way. Next to my email program on my phone, it is my most used app.

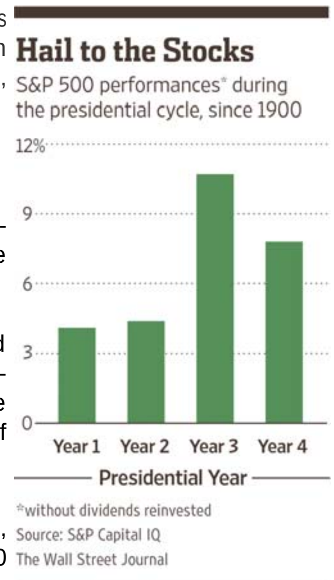
Hhhhhmmm……

Between 1870 and 1900, the U.S. experienced eight recessions, and the U.S. economy spent as much time contracting as expanding. Yet the expansions were strong and exceptional and the U.S. surpassed Britain as the world's leading industrial nation. Financial Post, Jan. 2015

In 1920, U.S. policymakers cured a severe depression in 1920 by doing nothing. Financial Post, Jan. 2015

U.S. homes closest to a Starbucks have appreciated faster in the past 5 years than those further away. Zillow Talk (book described as the Freakonomics of the real estate market)

U.S. banks are lowering down-payment requirements, allowing home buyers to put down as little as 3%, or even less, of a home's purchase price to get a mortgage. Many had been requiring down payments of at least 20% since the recession began. MarketWatch.com , Jan. 2015



Today China is having the slowest economic growth in 24 years. USA Today, Jan. 2015

It is predicted the price for oil will stay at about US$55 per barrel in 2015. The average Canadian family stands to save about $1,500 on direct gasoline costs this year, with related price reductions adding an additional $500 to $1,500 in savings. Financial Post, Jan. 2015

The brain's circuits devoted to scanning, skimming and multitasking are expanding and strengthening, while those used for reading and thinking deeply, with sustained concentration, are weakening or eroding. What's the consequence? Habitual multitaskers may be sacrificing being focused on getting the most important things done. The 4 Disciplines Of Execution: Achieving Your Wildly Important Goal (book I'm currently reading)

In the past 14 years the average life expectancy of an American woman, current age 65, has risen by 2.4 years to 88.8 years of age while men's life expectancy has increased 2.0 years to 86.6 years of age. Wall Street Journal, Oct. 2014

Average life expectancy in North American and Europe has grown from 26 years in 1100 to 78 in 2014. Investment Executive, Dec. 2014

Classical economics assumes that all consumers will make rational decisions based on the best available information. What behavioural economics teaches us is that isn't usually true. Insurance & Investment Journal, Nov/Dec 2014

25 year old puts $500 in an investment that earns 8% a year, adds $100 each and every month until age 65. End result $335,000.

35 year old who invests $2,500 (5x a much as the 25 year old) and then does $100 / month until 65. End result? $167,000.

My experience is that on an average day on a local highway I see more than 50% of traffic driving in the left lane, and for the most part, staying there. I've seen signs saying "slower traffic keep right". I'm assuming these people are using that modus operandi and that those in the left lane simply don't want to consider themselves slower. Often the result is a faster left lane driver, switching out of the left, into the right, passing on the right and switching back into the left lane.

Translink, Metro Vancouver and Municipal revenues are going up by 4.8% / year on average (inflation is half that). If government reduces their expenses so revenues have to only go up by 4.3% / year, that would pay for the whole proposed Translink plan and we wouldn't have to increase taxes by 0.5% as is being proposed. www.notranslinktax.ca (I was completely behind the HST but this Translink tax? Not so much)