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FINANCIAL PLANNING— INSURANCE— WEALTH MANAGEMENT

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IN ATTAINING YOUR LIFE'S DREAMS

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WE WILL BE ATTAINING OURS.

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THE DANGER OF TOO MUCH YELLOW THINKING

There is a very enlightening video on YouTube. It's an ad by a U.S. financial company, illustrating the differences between what we have experienced in the past and what we expect for our future.

In the video a group of people is asked to put their past experiences on a billboard. Good experiences of the past are in yellow, bad experiences are blue. When you step back, the "Past" billboard is completely covered in both yellow and blue magnets. Not surprising though, it's quite equally balanced between the 2 colours:

Next, everyone is asked to write down all the good and bad things that could happen in their future. Again, yellow magnets for good things and blue for bad things. This time, the billboard is predominantly yellow, which shows that people are generally optimistic for the future: (watch the video here).

This is an excellent illustration on how we tend to view the future; more positively than what it most likely will turn out to be. My own personality tends to lean very much this way when looking at my own future.

This positive thinking is a very healthy way to view the world and our own future. It allows us to see the future and what can be so we can live life to the fullest. This is particularly important when there are so many things in our future that we have no control over. If we knew what awaits us, we would probably not be able to live in the present. However, this "yellow thinking" can get us into serious trouble when making financial projections. It also can put us in a precarious position when we are in fact over estimating our own abilities in determining our abilities and our outcomes.

I see an undercurrent of these things happening today. Because of the particularly good investment climate over the past few years, I'm finding people are expecting continued, healthy investment results. With that, the thought is, "investing is easy". "I can cut out having an Investment Advisor or Financial Planner involved and do this myself" or.... "I know this guy who is great at investing money plus, he is a family member. I'm entrusting everything to him".

The last time I saw any significant amount of this was in the late 90's. I remember a particular meeting I had back then. A person came to me with a portfolio that was worth well over $1 million. The operative word when we met is "was" because in it was then I found out his portfolio had tanked by over 60%. The irony is the investments he held were seen by Joe & Jane Public as big and popular and these investments could do no wrong. Well that yellow thinking it turned out, was completely wrong.

Interestingly enough I've talked to many people over the years who, after being able to look back, told me what they should have done in hindsight.

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The thing about expectations of the future and not having other people involved is that our human nature tends to think yellow. This is why I have many people I rely on for their investment management expertise for my client's portfolios. Having several of the most talented investment managers in Canada if not the world is simply prudent because it takes out the biggest risk to our financial lives; too much yellow thinking. The bigger danger is that most people don't realize it until it's too late.

When A Pension Plan Isn't Really One (Calling A Spade A Spade)

It used to be that when you worked for a company, you and your employer paid into a plan that, upon retirement, you would get a fixed amount of money per month paid to you and you would receive that monthly income for the rest of your life. That kind of plan is called a "defined benefit plan"; "defined", how much monthly income you will get and that you will get the "benefit" for your entire retired life. As well, that monthly income will go up every year as inflation (the cost of groceries, gas, etc.) goes up**. The investment decisions within the plan are taken care of for you.

Today, generally speaking, only those working for the government or a large trade union will have a "defined benefit" pension plan. Everyone else, even some of the largest companies with employees in Canada, now have "defined contribution" pension plans for their employees. Strangely enough, that plan you may have at work may still be called a "pension plan" however, I think the title "pension" in this case is very misleading. It is better and more accurate to look at a "defined contribution" pension plan as a Group RRSP which is frankly much closer to what it actually is.

A Group RRSP is a retirement savings plan that a company may set up for the employees where they do exactly the same things as a "defined contribution" pension plan. Contributions go into the plan and the employee has to make their own investment choices. Because of that, the employee or member lives and dies by the choices they make. When they retire, the value of their own plan is what they get. Often, upon retirement, they most likely will transfer it to their own RRSP (albeit a "locked in" RRSP instead of a regular one). From there they will have to manage the portfolio and the retirement income they will get from the plan, most often with the ongoing guidance of a Financial Planner. If that doesn't really sound like a pension plan to you it is because (in my opinion).... it isn't (in the traditional sense).

** Many of these plans have been revised so that cost of living increases aren't automatic and are based on the financial health of the pension plan. This is a significant change that could mean a monthly pension plan that is much less than what it said when you retired.

How To Stop Giving The Government An Interest Free Loan

When you get an income tax refund, you have in fact lent the amount of your refund to the government at 0% interest. Sure, it may feel good to get a nice tax refund in the spring, but it is one of those small disadvantages you may be doing to yourself every year. There is a simple way to get an even better result.

The money the government is refunding back to you is actually money that they have owed you for as long as 12 months. Many people use tax refunds as a forced savings plan on which they use the money for a holiday or to make a big purchase however, there is a better way to do it. Here's how.

With a T1213 form, you Request to Reduce Withholding Tax At Source. "At Source" being when your employer does payroll. On this form you write down the amount of any tax deductions you normally put on your income tax return. Things like, RRSP contributions, interest on investment loans, child care expenses etc. This form is sent to to CRA, they approve it and then send authorization to your employer to deduct less tax from every pay cheque. You then take the amount your pay cheque has increased every month because of "tax savings at source" and have that amount automatically withdrawn from your chequing account twice per month and put into a savings or investment account.

Reducing withholding tax at source gives you the ability to have this money paid to you sooner. With it, you earn interest, dividends or capital gains on those dollars. If you don't, the government is going to continue to use your tax refund for their benefit and pay you back what is owed to you next spring. That sounds like a bad deal to me.

2 Pension Plans For the Self Employed

Most self employed people with healthy incomes contribute money to their RRSP mainly for tax deductions today but as well, to build a nest egg that will give them a monthly income at retirement. There is an alternative to the RRSP which can be more advantageous in both these regards. It is called the Personal Pension Plan (PPP).

The PPP is for professionals or self employed people with corporations who have a healthy income history and are over the age of about 40. Money is paid out of the person's corporation into a PPP creating a tax deduction for the corporation. This lowers its taxable income and its tax bill. All costs associated with the PPP are deductible by the person's corporation.

There is a similar thing to the PPP called an Individual Pension Plan (IPP) . The PPP however gives the corporation more flexibility in how much money is paid every year into the plan. With the IPP the amount is fixed based on actuarial calculations, making it more like a traditional pension plan. The biggest advantage to both however is to put much more money into one of these plans then you can with an RRSP giving you more tax deductions (to your own company) and give you a higher retirement income.

5 Things You Need To Know About Your Downpayment On A Home

Banks and other mortgage lenders are required to verify where you got the down payment for your home purchase. They need this verify that you aren't borrowing your down payment which could change the lending ratios they must adhere to, to reduce their lending risks. Here is what you may need:

⇒ A 3 month history of any bank accounts and where you have been saving your down payment. It must show that it is in your name.

⇒ If you had large deposits, you need to show where the money came from.

⇒ If the down payment was a gift, you need to have a letter from whomever gave you the money saying that.

⇒ If the Home Buyers Plan is being used (withdrawal from RRSP), it must have been in the RRSP for 90 days at least.

⇒ You'll need an additional 1.5% of the purchase price to cover closing costs.

The Tax Side of Owning U.S. Property

Many people I know own property in the U.S. As a financial advisor, I did a lot of buying of U.S. real estate investments on behalf of my clients in the early to mid 90's due to the Savings & Loan Crisis when property values cratered.

A person buying a property with the intention of renting it out has to file a form 1040NR every year which is a U.S. non-resident income tax return. On it, you report gross income from the property but you can also deduct against the income, expenses like insurance, utilities, mortgage interest, property taxes, repairs, maintenance and depreciation of the building. In the end you could end up with a loss for income tax purposes. If you don't file this income tax return to the IRS then they can file it on your behalf. If they do, they won't take your deductions into account so you will pay tax on the gross rent you received.

For your Canadian income tax return you need to include the fair market value of the property and the income that had been generated from it. If you don't file, you could be penalized up to $2,500 for each year you don't.

If you sell the property in less than a year, you will pay tax on the net gain, anywhere from 10—39.6%, depending on the sale price. If the property is held longer the tax rate is 15%. Any tax you pay to the IRS is offset by the tax you owe in Canada. In other words, you generally aren't paying more tax than if you had just owned the property in Canada.

Have An Advance Directive For End Of Life Wishes

If you are someone who agrees with the statement, "I don't want to be kept alive by machines" then an Advance Directive is what you should have as part of your Will. An Advance Directive is simply instructions laying out exactly under what circumstances you would not want to be kept alive. This normally involved things like a ventilator to keep you breathing, IV medications to maintain life and reduce pain as well as feeding tubes. It is also helpful to let those closest to you know what those wishes are so they collectively can be your voice should they be faced with having to fulfill what you would have wanted done because you can't speak for yourself.

Tech Gems— Network Attached Storage (NAS)

With more an more people using "the cloud", data is moving away from paper. As well, there is a need to have data stored in one place so you can access it anywhere from any device in the household. A NAS drive is the way to have your own cloud with as much space as you want. For our office we have a Synology DS713+ NAS. Our 6 devices can connect anywhere in the world to all of our files, pics and music. The NAS can be controlled from anywhere on the planet through a web portal. Our NAS also has RAID1 (as do our office PC's). This is where you have 2 hard drives that are identical to each other; 1 continues to copy the other as data is added. If one fails, you don't miss a beat. Just put in a new hard drive. Despite that protection, we still back up everything to another location. If you are relying on keeping more and more data on your electronic devices, a NAS will do it better than anything else, quite seamlessly.

Hhhhhmmm......

6 out of 100 "older Canadians" are the victims of financial fraud, where someone lies to you to get you to put money into an investment they are promoting. 17 out of 100 knew someone who was a scam victim. Morningstar, June 2015

The Ontario Securities Commission has proposed a whistle blower program for investment scams. The one blowing the whistle could get a financial reward up to 15% of penalties assessed that are over $1 million. The maximum reward amount could be capped at $1.5 million. Morningstar, June 2015

Just because a company's share price has gone up 10 or 50 times doesn't mean it's over priced or can't go much higher. 10 years after Walmart issued shares to the public, its share price was almost 20 times higher. It could still rise dramatically because at that time it had stores in only 15% of the country. One Up On Wall Street, Peter Lynch

Many large companies around the world are sitting on piles of cash. A simple way to use that cash is to buy back shares. Example: MacDonalds has bought back over 24% of it's shares since 2004. Generally, a declining availability of something means....

Apple derives almost 70% of its revenues from iPhone sales (most companies get their revenues from several even hundreds of products). Dixon Mitchell Investment Counsel, May 2015

TD Bank has more branches in the U.S. than in Canada; NYC alone has 460 branches. Investors Digest, May 2015

A ridiculous reason a market can go up or down is the “Super Bowl Indicator”. With this, the stock market moves up when a NFC team wins the Super Bowl and heads lower when an AFC team wins. MPL Communications Inc., May 2015

Only a relatively small number of people with a disability have opened an RDSP. Why so few when you consider that if you put $1,500 / year into it, you get up to $4,500 in matching government contributions (these stop at age 49). Advisor.ca, May 2015

46% of workers 55 plus say they’ll retire at age 66 or older, up from 25% in 1995. Forbes.com

A general rule of thumb is that if you’ll live beyond age 74, you will be better off to delay your CPP. If you live to age 80 or beyond, you’ll get more if you start your CPP at age 70 (your monthly CPP will be 42% higher). Statistically, the average Canadian who makes it to age 65 will live to about age 85. Knowledge Bureau, February 2015

63% of the oil in the ocean is from “natural seeps”, 32% from cars, boats, etc., 4% from oil transportation and 1% from drilling and extraction. Graph in Ocean Star Offshore Drilling Rig and Museum, Galveston, Texas

Would you travel more than 1,500 km just to buy a bag of disposable diapers? The new Chinese middle class is doing just that, attracted to the designer cachet of the Kao brand. Because of it, retailers in Tokyo are restricting shoppers to buying 2 packages of diapers per trip. Japanese goods are synonymous with the best quality. Morningstar April 2015

In Sacramento, Nestle pays $186 dollars / 250,000 gallons of water. They package it and sell it for $2.1 million, a markup of more than 1 million % on water taken from one of the most drought stricken regions in California. Change.org

Mercedes-Benz Driving Academy is a driving school for new drivers that competes with all the other private driving schools (ie "Young Drivers") and does so at competitive pricing.

Montreal has about 6,500 restaurants, more per capita than any other North American city. One reason the profit margin on the average restaurant there is only 2.6%. Investment Executive, February 2015

In 2014, 52,513 Canadians travelled beyond our borders to get medical treatment. It was 41,838 in 2013. This suggests that the Canadian health care system is not filling the needs and demands of a substantial number of Canadian patients. The average wait time in Canada is more than 4 months where a specialist is involved. Fraser Institute, March 2015