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C.E. VANDENBERG & ASSOCIATES INC.

FINANCIAL PLANNING— INSURANCE— WEALTH MANAGEMENT

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Discipline To Not Chase What Everyone Else Is

One of the things that makes for great long term investment results is not to chase something that everyone else (or so it seems), is talking about and chasing. Over time, as you hear a particular investment brought up in conversation or written about, there is a mounting emotional pressure to finally say, "OK, I must buy this". The motivation is the risk of losing out on what so many people seem to be benefitting from.

Just looking at the past 15 years in the Canadian investment scene, this has played out with the end result being billions of dollars lost. At the height of the tech boom, Nortel was the darling of the day. It ended up making up 35% of the TSX index. This means, if you added up the value of all Canadian companies you could buy shares of on the TSX at that time, including all the oil companies, banks and insurance companies, Nortel was 35% of that value. Crazy when you think of it however, in the moment, many people didn't think so. The price was pushed simply by a growing group of people chasing what everyone else was chasing without doing a thorough, unemotional, mathematical analysis and asking, is this company really worth that much?

Research In Motion or RIM, the maker of the Blackberry followed Nortel and then Potash, both of which also had their day as the largest, most valuable company in Canada. Nortel went bankrupt while Potash and Blackberry shares are 65% and 95% below what they were at the height of their "gotta have this company in your portfolio" frenzy.

Today it's Valeant Pharmaceuticals. Based on it's current share price and the amount of shares held, it is the biggest company in Canada at approximately $4 billion which makes it more valuable than Royal Bank.

You may not own this company directly or even think you own it however you actually might. If you have your money invested in an investment pool of some kind, Valeant could make up a disproportionately large part of your portfolio and you could very well not even be aware of it.

This can happen with an index investment because, by most index investment's very nature, they have to own all of the companies that make up the index. As the price of that 1 company goes higher and higher, you actually own more and more of it. There is no mechanism to sell just that one holding when it becomes overpriced. Your portfolio gets riskier as time goes on.

The other way this can play out is when you have entrusted a part or all of your portfolio to a portfolio manager and they succumb to the pressure to not fall behind the performance of the index for risk of losing their job. This was felt by all kinds of portfolio managers in the Nortel chase. If a portfolio manager is doing what most of his peers are doing, despite the risk to client's money, he won't lose his job because he did what most everyone else was doing. The irony is the portfolio's risk is increased so the portfolio manager's job loss risk is decreased.

That is the conflict portfolio managers face every day and unfortunately, it comes from 2 sides; the pressure from their superiors and the pressure from their investment clients not to miss out on what everyone else seems to be

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enjoying.

This is why I believe, more important than anything else, is to have disciplined, active management, that will steer clear of something that can add the risk of permanent loss to your portfolio. One of my jobs is to ensure that the people who are making the investment decisions within your portfolio, continue to have that discipline to reduce risk. If they prove not to, we'll fire them, just as I did in the tech boom (I can tell you about that if you like) and will today.

Feel No Pain Of Falling Canadian Dollar With Non-Canadian Portfolio

If you travel to the US (like Cheryl and I do on a regular basis), I'm sure you have noticed how much more it costs you to buy things down there. Whether it be a holiday, a meal, groceries or gas, the price to spend money in the U.S. has gone up substantially since the summer of 2012 with the biggest change coming in the past 12 months.

We don't even have to go to the U.S. to notice the price increases. A lot of what we buy at the grocery store is produced in the U.S. so on our necessities prices go up as our dollar falls (apples from Chile have gotten cheaper because their currency has fallen against the Canadian dollar).

The Canadian dollar has fallen dramatically against China's currency, the Yuan, as well. Although many of the manufactured goods we buy come from China, we have been insulated a bit from these price increases because goods costs money to transport and a large part of that cost is the price of energy which has gone down in price.

Many of us have the majority of their investments in Canada. We own Canadian real estate, shares of Canadian companies, Canadian bonds and cash in Canadian dollar bank accounts. The point of having money invested is to ensure you don't lose purchasing power. When the Canadian dollar falls and you have all you money invested in Canadian holdings, you are in fact losing purchasing power.

This is most felt when you are relying on your portfolio to produce an income for you. Things like an RRSP (which is your own, personal pension plan) and other portfolio pieces such as a TFSA, are losing buying power when held in Canadian investments primarily. The way to offset that risk is to diversify your holdings out of Canadian investments and into investments from all around the world. You can do that with money you have in an RRSP, TFSA, RESP, etc.

3 Things My Most Successful Clients Do (or Don't Do)

I work with a very wide range of clients. They have jobs of all kinds. Some earn very modest income while others earn significant sums. Outside of RESP accounts, they range from 18 years old (account is held in parent's since the legal age to have an investment account is 19—but they wanted to invest their own money) to age 96.

There are things that the I have noticed about those who are most successful at building wealth. This is what they do or don't do and what has brought them to where they are today:

<u>Don't spend or look like they are doing better than anyone else financially</u> - They don't have any of the things that would make people say, "he/she must be doing very well". They more often than not live in homes and neighbourhoods that are very average.

<u>Intentional about their money</u> - They save money automatically, usually through a monthly withdrawal from their bank account. They put money into things that will grow in value over time and don't make knee jerk decisions on fear.

<u>Trust and confidence in a Financial Advisor they have chosen</u> - They have been intentional about finding 1 person to work with in helping them oversee the handling of all aspects of their financial planning and investments.

How To Get Money Out Of An RESP

An often asked question I get on an RESP is "How do I get money out?". It's actually quite simple and very flexible.

As long as a beneficiary to the RESP is attending school you can withdraw money from it. The first withdrawal can only be for $5,000 maximum, however after that withdrawal and 13 weeks, there are really no limits.

2 things to keep in mind however are the fact that the money in the RESP is made up of 2 portions. The first is your contributions. The second part is the combination of what your money has earned in interest, dividends and or capital gains along with what the government has contributed. What you contributed comes out tax free, all the rest is taxable to the beneficiary (your child, the student). You want to keep this in mind on what portion you take out and when.

I normally recommend that, as soon as possible, money be withdrawn from the RESP and it be done as fast as possible. This is to ensure that money is taken out when you have the open window to do it (while 1 of your kids is in school) because, if your other children don't go to school, you have freed the money from the clutches of the RESP.

The Downside Of Paying Off A Mortgage

Leverage is one of the tools that makes real estate the wealth builder that it is. There is no other investment where you can use so little money to control an asset that costs so much. For 5% down and using 95% of the banks money, you can buy it. That is a significant amount of investment leverage (20 to 1).

As you decrease the mortgage balance on a home or rental property however, you decrease the amount of leverage. Technically, you would be better off to leave the leverage in place and use what you normally would to pay off the mortgage, to invest elsewhere. An RRSP or TFSA with growth oriented investments are 2 such places. This way you are continuing to add to your portfolio and equity. If you are paying down your mortgage, you aren't doing that.

Leverage can be dangerous as it magnifies the amount of money lost as much as it magnifies the amount of money gained. If you use $25,000 of your own money to buy a $500,000 property using $475,000 of the bank's money and the investment goes down in value by 10% your $25,000 is gone and you still owe the bank the $25,000 more.

Investing though is never a short term proposition. Building wealth is best done with a long time horizon and with these low interest rates, making money at a higher rate than the cost of borrowing can be done quite easily. Because of this, it actually makes less sense to pay off a mortgage today than it ever has. The key though is, to make sure you take that money you would normally use to pay down debt to invest elsewhere. Spending it just makes you worse off.

Not A Fan Of Blue Cross

I just put that title to get your attention. I want to be clear out front, it's not Blue Cross per se that I am not a fan of. It's the insurances that Blue Cross and other companies like it promote so widely and one I get the occasional question about the merits of.

The insurance plans I am talking about are extended health plans. These are most often looked at by the self employed who recognize their vulnerability to health costs and people retiring who will be cut off from the plan they had at work. The coverage includes things like vision care, registered therapists, ambulance, dental, prescriptions and even travel medical**.

Why I am not a fan of these kind of plans is that in the end, the average user of the plan will pay about 15% more in premiums than they would actually spend if they paid these costs out of pocket. This is because with vision therapists, prescriptions and dental, everyone who is enrolled is using it to about the same degree. Everyone is paying out money in monthly premiums and about 85% of those premiums are paid out in dental costs, vision and prescriptions. The insurance company has to cover their admin costs and make a bit of money, which is the additional 15%.

My view has always been to insure against catastrophic events such as the income lost of a family member due to death or disability. Most of the other costs that you may run into such as dental, should be factored into a budget. If there is an expensive procedure, it will be painful both financially (and physically) when it comes up, however it is something you can eventually recover from over a period of time because your income remains in tact.

** Travel medical insurance is something that should be purchased separately and that is definitely recommended.

Take The Free Money Your Employer Is Offering

If your place of work offers some form of matching retirement plan contributions, I say take advantage of it to the fullest. Someone earning $100,000 with a retirement plan at work at the age of 40, with the employer contributing 4% of their pay to the plan will have $214,676 at age 65. The same person who takes advantage of their employer's additional matching program of 5% for an employees 5% contributions, will have $751,368 (assuming a conservative, 5% annual rate of return. The difference in potential lifetime monthly retirement income is $8,587.04 per year for not taking advantage of the matching program versus $30,054.72 per year for participating to the fullest. Get your free money.

Tech Gems— EFT (Electronic Funds Transfer)

For a lot of people, especially those younger than me, this may seem like a very old technology and I apologize to those who think it is however, I find that many people still write cheques when, in so many cases, life can be simplified and banking fraud risk in fact, reduced by moving money using an EFT instead of writing a cheque.

In the financial industry, money (even significant amounts) can be moved from a chequing account at one bank to an investment account somewhere else, with a few clicks of the mouse. As well, money can go the other way, from an investment account to a chequing account and you usually see the money moved the next day right on your computer screen.

Hhhhhmmm……

The last time the U.S. government increased interest rates was June 29, 2006. This 9 year gap to today means that many of the people who have bought investments (and houses with big mortgages on them) haven't experienced a time when interest rates have gone up. CI Investments "Market Board", August 2015

Since 2009, most economists have predicted interest rates will rise, but these predictions have not come true. Once again, the consensus is that interest rates will rise in 2015. Investment Executive, January 2015

Whenever oil prices fall, the U.S. dollar rises against the Canadian dollar. One zigs, the other zags.

Creditor's Life and Disability Insurance (usually tied to a mortgage and often sold by bank branch employees) and travel insurance (often sold by travel agents) are in most cases, done so by people that know very little about insurance and have no licensing requirements. Investment Executive, August 2015

The average middle-class couple only needs about $625,000 to retire comfortably. The average retiree spends $2,400 / month. Moneysense.ca, July 2015

Average Vancouver house price = $819,336. Monthly mortgage payment = $3,570. Property Tax = $251/month. Annual Income required = $190,581. Huffington Post, July 2015

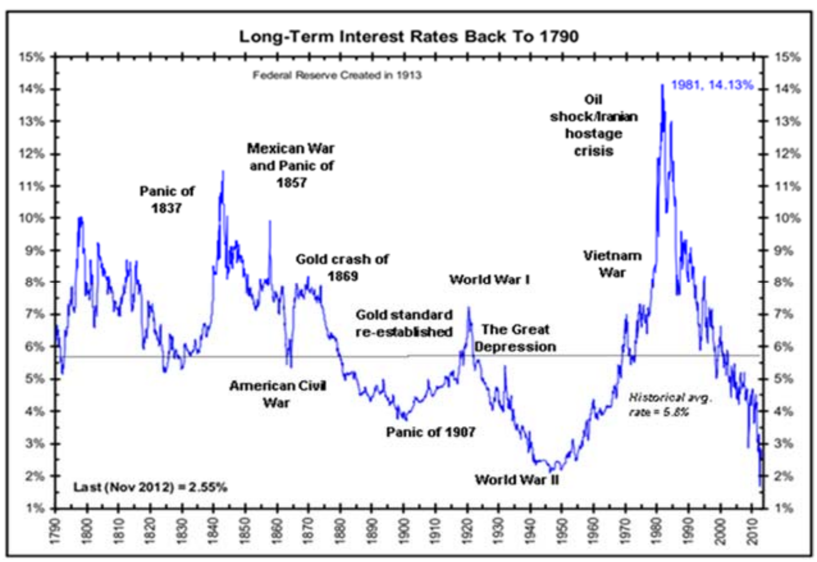
The increasing price of homes in the Greater Vancouver / Fraser Valley area for the past few years has been almost exclusively driven by single family homes. The price of townhouses and apartments has remained flat or slightly down since 2008. White Rock / S Surrey Real Estate Guide, July 2015

The cost to move a passenger on a Ryanair flight is €29. Its closest competitor's cost is €52. The average Ryanair fare is €47. Edgepoint Weath, July 2015

In the financial statements of Peace Arch Hospital Foundation (in White Rock, BC) it takes 13 staff members at a cost of $1.32 million in wages and benefits to collect $2.5 million in donations. Peace Arch News, July 2015

The amount you would need to turn over to an insurance company today to receive a guaranteed, inflation-adjusted $6,780 / year for life just like the OAS pays is approximately $130,000 for men and $150,000 for women. Globe & Mail, July 2015

Safety in an investment is determined by the price you pay for it. Buying an asset believed to be risky at a bargain price could provide a margin of safety that makes it a much better investment than overpaying for an asset perceived to be safe. Frank Mullen, Edgepoint Wealth July 2015



The Province of BC attributed 88 deaths to distracted driving in 2014; more than impaired driving and second only to speeding. Peace Arch News, July 2015

When the 2010 Winter Olympics concluded in Vancouver, the iPad had not yet been released to stores. So, if you recall checking hockey scores or medal counts on your tablet, that's just your memory deceiving you.