

# mutual gains™

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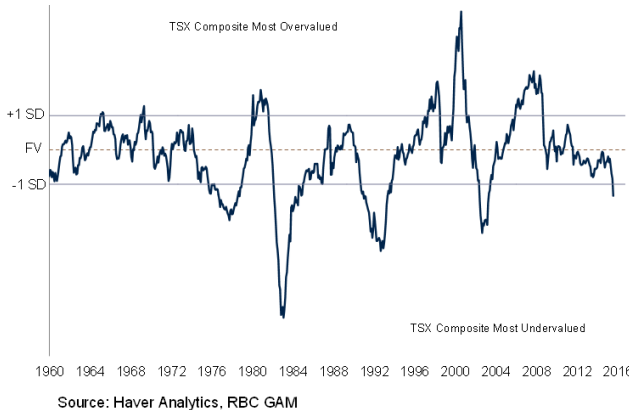
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## 4 CHARTS TO HELP YOU SEE MORE CLEARLY

On a daily basis, I get fed all kinds of information from various sources. I get it from the investment management teams I use for client portfolios and various news outlets. I read the pessimistic, the optimistic and everything inbetween. With these diverging views, information can paralyze if you don't develop a way of sorting through it all.



I recognize, that me like everyone else, has a tendency to put more weight on information that supports their preconceived view of the world. If you have a tendency to look at the bad things that could happen, then it is this information you think is more valid than other more positive information and vice versa.\*\*\*

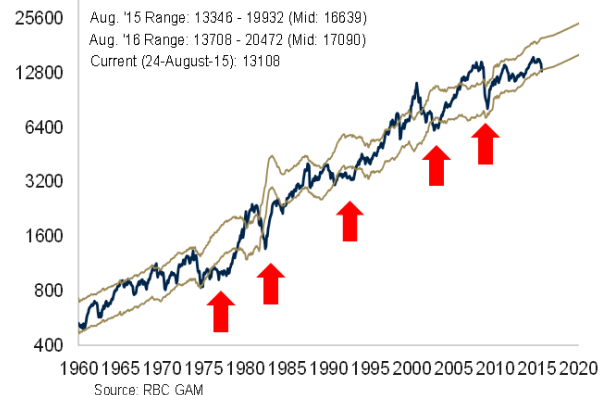


What we are trying to do with economic information is get an idea of 1) the investment climate ( ie. where the general public is on the optimism / pessimism scale) and 2) where prices are on the cheap to expensive scale. I love charts because they clarify, making emotional decisions more rational. I hope

these few charts give you a sense of where we are today (chart #1, 2 & 3 are related to the Canadian market, the last one is U.S.).

The first chart is a Canadian preferred equity index to December 8th, 2015. Preferred shares are one of the most conservative Canadian equity investments you can own. The downside they experienced recently was to the same magnitude as was experienced during the global financial stress in late 2008 / early 2009.

**S&P/TSX Composite equilibrium**  
 Normalized earnings & valuations



The 2nd chart shows how the TSX index (a mix of large Canadian companies) was priced between 2 bands (Overvalued and Undervalued) over the course of the past 55 years. With so much of Canada's economic health determined by energy prices, and with oil prices

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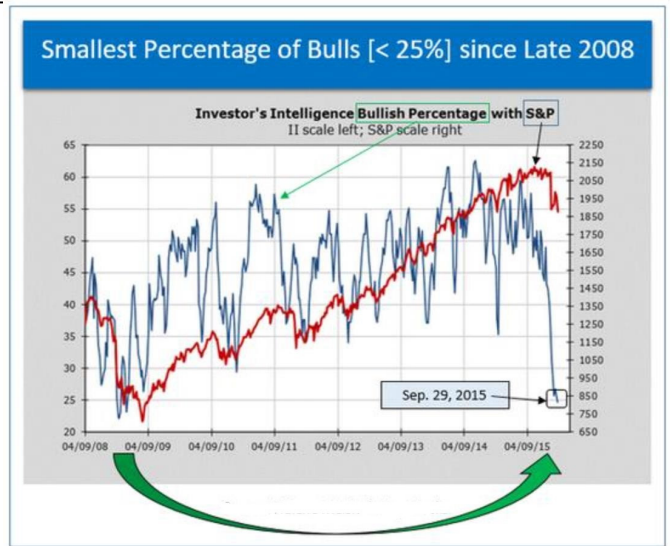
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(Continued from page 1)

still dropping quickly, things could get more undervalued than they are now.

The chart at the bottom of the previous page shows valuations compared to historic earnings. Earnings have increased over the last several decades as they have since the beginning of time (rising earnings means rising share prices and generally companies get larger over time and with that, earn more). The valuation measure is on the lower end.

This chart on the right shows just how pessimistic the public is about investing today (Bullish means Optimism). On Sept. 29th pessimism was at a level we haven't seen since late 2008. The world however has fixed (and continuing to fix) a lot of the structural economic problems since then. Nervous money has historically been in the wrong place at the wrong time.



The portfolio managers I use for clients trimmed or completely sold their big investment winners several months ago. Cash had accumulated and a large portion of that cash has been redeployed in the bargains they have found over the past few months. This could only be done using these large daily price swings we've seen recently. An up and down market is the active investment managers friend. Things grow in the valleys (money and character).

### PERFECT TIMING VS BAD TIMING (AND EVERYTHING IN BETWEEN)

Here are 5 hypothetical scenarios of someone having \$2,000 to invest at the beginning of every year for 20 years, ending in 2012 (Source: Charles Swab & Co.):

Perfect Timer: Invested when the market hit its lowest possible day each and every year for 20 years = \$87,004

Get It, Invest It: As soon as the money came in, it was invested = \$81,650

Monthly With Blinders On: \$2,000 divided into 12, invested on the 1st day of every month = \$79,510

Perfectly BAD Timer: Invested same as Perfect Timer but instead invested at the highest day each year = \$72,487

Paralyzed Into Doing Nothing: Left the money in cash because of fear = \$51,291

As you can see, even if you had the worst investing luck possible, you would be better to invest than do nothing. Since nobody could possibly be the Perfect Timer, investing when you get the money or simply setting up a monthly investment program are the smartest things you could do. Doing one of those 2 things (or a combination of the 2) will make you a successful investor and increase your wealth more than any other strategy. Plus, you will have freed your mind and time to do other things. That is win / win or "Mutual Gains".

PS. This analysis was also done over 30, 40 and 50 year time periods starting before the worst economic catastrophe in moder history (1926). Still, investing when you had the cash and monthly investing always came up with good results.

### HOW THE CPP IS INVESTED

Use this as a check against how your own RRSP is invested. The government is investing in a wide range of assets because they need to give the highest income to you and me in the form of CPP income payments when we retire. A few things you will notice:

Less than 1/3rd is invested in Canada.

Real Estate is a relatively small portion

Almost 1/2 of the money that is in there (\$108.8 Billion) is from earnings on their investment (capital gains, dividends and interest).

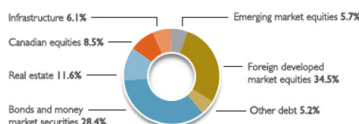
AS AT DECEMBER 31, 2014

**\$238.8** BILLION  
CPP FUND

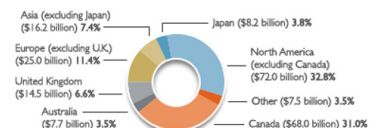
**7.3%**  
TEN-YEAR ANNUALIZED  
RATE OF RETURN (NET NOMINAL)

**\$108.8** BILLION  
CUMULATIVE INVESTMENT  
INCOME FOR TEN-YEAR PERIOD  
(NET)

Asset Mix  
AS AT MARCH 31, 2014



Global Diversification by Region  
AS AT MARCH 31, 2014



### THE MOST COMMON INVESTMENT SCAMS

Over my Financial Planning career I've seen hundreds of investment ideas and schemes. When they have been scams, I have seen the devastation they have caused to people I know. Here is a list:

Exempt Securities— these are investments in an investment package that doesn't have to file the more detailed information that the more broadly used investments have to go through. Having said that though, just because they are issued as an Exempt Security doesn't mean they are a scam. Unfortunately, the scammers use this vehicle to get your money and unfortunately, the legitimate investment ideas get tarnished as well.

Forex— Forex is short for Foreign Exchange. The pitch here is that you will get amazingly high returns using some form of foolproof, black box investing. If you can't see what is happening and there is no 3rd party accountability, beware.

Pump & Dump— There are a few movies I've seen that put this kind of thing into a story. It comes in a phone call and more recently, email or text, inviting you to get in on a ground floor investment opportunity. Generally, the scammer owns all the shares, pumps up the price with people buying and then dumps his shares at high prices or, there aren't actually any shares. You simply get duped into giving the promoter your money and he disappears.

Tax, Pension and Offshore Schemes— These are the most dangerous since they often seem like the most legitimate, leading you to let your guard down. They often deal with the most amount of money and are done by those working hard to gain your trust by becoming your friend. Introductions are often made by your friends or relatives who are connected through some form of social network like a church or other group of like minded people. High returns are promised and of course, you are among the chosen few to participate in this once of a lifetime opportunity.

If you come across something like this, get an opinion from someone who isn't connected to the offering.

### DO YOU HAVE A USELESS TFSA? CHECK HERE

In the past, I've explained what you can hold inside a TFSA. More often than not though, I still come across a TFSA that is frankly, useless or more accurately, ineffective (I say "useless" to get your attention.. I did, right?..not to be in disdain). There seems to be a common perception that a TFSA is just another form of savings account at the bank. You put money in it and get a piddling amount of interest. You believe you are better off with a TFSA because the financial world says you should have one. It's not that simple.

This kind of savings account TFSA is what is really quite useless (in most cases). The purpose of the TFSA is for you to be able to save a lot of tax on interest you earn within the TFSA . Many people are earning less than 1% / year. Assuming you make a TFSA contribution of \$5,500 at the most common 0.75% interest rate, your interest is \$41.25 over the course of 1 year. If you're taxable income is between \$45—\$76,000 you save a whopping \$12.25 in tax. Yes, it is savings but was it worth your time to set it up for this? As well, if food, clothing etc. is going up by 2 or 3% / year, with .75% you are losing purchasing power. Doing something blindly like this isn't the way to go.

If you plan on keeping money in your TFSA and using it to its fullest advantage, there are many other investment options that you should consider. The difference between the useless TFSA and a good TFSA is like night and day.

### TAX CAVEATS ON HAVING A RENTAL SUITE IN YOUR HOME

The money you make (capital gains) on a principal residence is tax free. That can change though if you have a rental suite in your home. You are usually considered to have changed the use of part of your principal residence when you rent part of it out. This means, you may have to pay tax on part of the money you make on your home when you sell. This however, depends on a few facts. It doesn't apply if:

- ⇒ The part you use for rental purposes is small in relation to the whole property. This is subjective however the common view is if more than 50% is rented out, you have changed the use.
- ⇒ You don't make any structural changes to make it suitable for rental purposes.
- ⇒ You don't deduct costs related to rental suite (many do this to offset the tax portion of the rent they are collecting but, that may be short sighted because with that, you are making part of the gain on the house taxable)

If you can't affirm these, then when you sell your home, you could be faced with a tax bill.

### TECH GEMS— SHAWOPEN

For those of you who don't have a data plan on your smartphone or if you have very limited data, this is for you.

Shaw has spent a huge amount of money building a network of 70,000 public WIFI hotspots throughout Western Canada (we pronounce it Why Fy, other places in the world call it WeeFee) . If you are a subscriber to Shaw's phone, internet or TV service, you have free use of this WIFI while you are out and about. I discovered this in Kelowna a few years back. Since I am on the WIND network, I only have full, unlimited coverage and data in a handful of major cities in Canada (and full, unlimited coverage and data throughout the USA for only \$40/mth I might add), I really needed this. You can walk or drive and have continuous connection. I love this feature. I'm guessing you would too. Sorry Telus.

## Hhhhhmmm.....

Dr Marius Barnard, a South African heart surgeon, who along with his brother, performed the world's first successful human heart transplant in 1967. They helped develop Critical Illness (CI) insurance which provides a lump sum on an illness. He did this because when people did survive an operation they were often left in serious financial difficulty; "They didn't lose their life, they lost their life savings." Insurance & Investment Journal, Jan. 2015

CEO Steve Williams of Suncor said "We have too much cash on our balance sheet; we've been generating more cash than anticipated and have put \$5 billion in the bank". Dixon Mitchell, Oct. 2015

"While they (Canadian banks) are quality businesses, the banks growth prospects aren't as strong as they have been in the past." Clayton Zacharias, Dec. 2014

Microsoft is not a consumer-oriented company (like Apple). More than 70% of Microsoft's profit now comes from its commercial operations serving business, government and non-profit clients. Odlum Brown

16% of home buyers are single women, while only 9% are single men (2014 U.S. data). Reuters, Sept. 2015

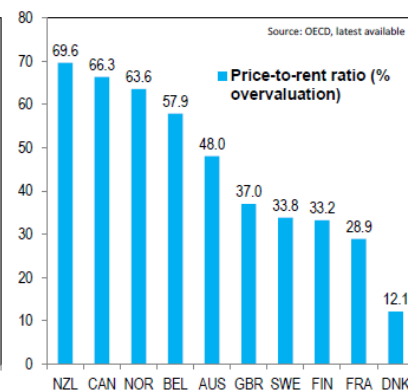
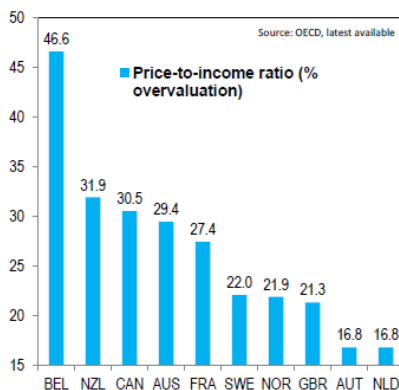
45% of Canadians make a regular, monthly contribution to their RRSPs. H&R Block, Nov. 2015

40% of students have absolutely no idea how much they spent or earned last month. BC Securities Commission

53% of Canadians don't have a budget to plan their spending. PracticalMoneySkills.ca (a VISA financial literacy program)

I sometimes hear that accumulating money in an RRSP is detrimental since you have to pay tax when it comes out. I have always said this is flawed thinking simply because it was an opinion without any mathematical basis. "In the end analysis, tax savings today are almost always worth more than taxes paid in the future." The Blunt Bean Counter, Dec. 2015

Top 10 Most Expensive Housing Markets



Annuities are often discounted by Financial Planners and the general public alike however, they can be an excellent retirement income tool to guard against the risk of you living longer than you expect. Your annuity value could reach \$0 but you would continue to get monthly income for as long as you live.

Dollars you earn are a lot like pasta. You're paid with dollars that haven't been taxed yet. Before-tax dollars are like larger, wet, cooked pasta. But after federal and provincial income taxes suck all the water out, you're left with after-tax dollars – smaller, dry pasta. Putting money into an RRSP and contributing the tax refunds to your RRSP puts all of the water back in.

The Government of Cda is increasing tax bracket thresholds, CPP and OAS income that is paid out to retirees by 1.3% for 2016. Most would suggest that inflation is higher than 1.3%.

\*\*\*Oceans of global economic data can distract us from what we should focus on. What that data means depends on our your own personal point of view (bias). Ken Norquay, author of behavioral finance book "Beyond The Bull"

On Saturday night, Dec. 5 2015 in Abbotsford, all those given a roadside suspension for impaired driving were done so because of marijuana, not alcohol. CKNW, Dec. 2015

"I have a job to do that is not very complicated, but it is often difficult: to get a group of men to do what they don't want to do so they can achieve the one thing they have wanted all of their lives." Tom Landry, late Head Coach, Dallas Cowboys (the most valuable role of a Financial Planner is to do just that with each client)



A Christmas money saving idea. If you want to save a lot of money on Christmas presents this year, talk about your political views on Facebook.

Wishing you Peace that surpasses your own understanding, during Christmas and throughout 2016.