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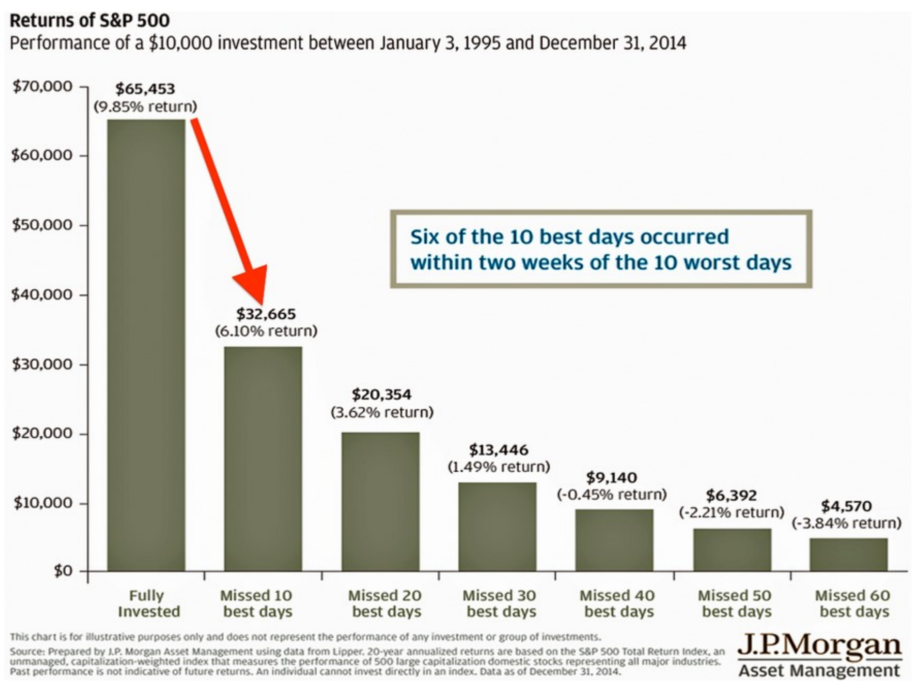
GLASS HALF EMPTY, GLASS HALF FULL

It is a very glass half full, glass half empty kind of investing environment. I'm finding some portfolio managers I use for client portfolios have significant amounts of cash within their mandates, and have had so for several months. On the other hand, there are others who have, on the short term dips, been picking up what they deem to be very good investment buys. They are buying as the share prices of the companies they are interested in reach the prices they deem to be "good value". They able to pick up these good buys because of the and ups and downs caused by the push and pull, between the glass half empty and the glass half full camps.

I have heard many comparisons made from where we are at today, to economic and investment environments of times past. Late 90's and 70's are two of the most common ones. While it is important to have a sense of the probability of what direction or economic environment we could be entering, or are in, it is vital not to get stuck to the believing this WILL happen.

The fact is , we don't know what the future holds so, rather than continue to guess, I believe it is best to control what we can do. First and foremost is, having a portfolio management discipline in place that is defined by things you can measure. A system that has proven to have worked in the past, over a long period of time. Ironically, the portfolio management teams I use occupy both of these "glass half full and empty" camps currently.

Once you have chose the portfolio managers to make day to day decisions on your portfolio, it is important to let them do what they are trained, experienced and significantly respected by their peers, to do very well. Let them make the changes to your portfolio on a day to day basis that they deem to be the correct ones, based on the information they have today. Trying to second guess them by making your own bet of moving a portfolio to cash at a particular time and then investing back in again is a sure way to fall further and further behind. You may just get it right once, maybe twice in a lifetime



but no one, absolutely no one, can do it with more accuracy than that. The odds are stacked significantly against you if you or anyone else tries to do so. With that in mind, here are a few simple truths about investing which I can help you with:

Volatility is the friend of the investor who knows the value of a business and the enemy of the investor who doesn't. In other words, if you know what a company is worth, what does it matter if someone (and often many) are stupid enough or so short sided to sell it for below that price. Eventually, people realize "this company is really cheap" (based on earnings, profits, future business growth etc) and they end up buying it back again when prices have gone up significantly.

Volatility is caused by emotions. The two primary emotions that drive volatility are greed and fear.

We don't buy businesses just because they fall out of favour. We try to take advantage of irrational price movements in great businesses caused by short-term noise (which people react to emotionally)

Simply buying something because its price has fallen can have disastrous results.

We would prefer to outperform 100% of the time but we don't think it's possible. Short-term underperformance is required for long-term outperformance.

A stock is not a piece of paper, it's a business and it's your chance to have an ownership stake in a business. That's what the stock market is and that's what it was set up to be. The minute that you deviate from that is the minute when a business person can (and will) exploit you.

"Knowing the facts is easy. Knowing how to act based on the facts is difficult."

Be Careful With RRSP & RRIF Beneficiary Designations

You're single, divorced or widowed. You have an RRSP or a RRIF or maybe both. If something happens to you, either sooner or later, where will this money go? With "registered" plans you can name a beneficiary or a list of beneficiaries. Those named will get the money that you can't take with you.

Naming a beneficiary sounds like it solves that problem doesn't it? Your money goes directly who you want it to, outside of your Will. It doesn't go through probate so your provincial government doesn't get a probate fee from you. All that happens is income tax will be withheld and paid to the government by the institution you hold the RRSP and / or RRIF with.

Almost always, the withholding tax isn't enough to pay the income tax on your "final tax return". This means, the extra tax owing will be paid by the beneficiaries who weren't named as beneficiaries on the RRSP/RRIF. An example of this is if 1 of your 3 adult children were given your house and all other investments, including your RRSP and / or RRIF were split between the other 2.

Many people simply have all their adult children listed as beneficiaries on the RRSP/RRIF equally and also in the Will. With this set up, there won't be a problem. However, many people are in situations where 1 or 2 children are given 1 particular asset (like a RRSP/RRIF) and other(s) are given totally different assets (ie principal residence). Despite the intention of trying to split these equally on a percentage basis, the actual dollar figure to each of the beneficiaries can be very different when all is said and done, something you probably want to avoid, even if it costs a bit in probate fees.

Biggest Risks Aren't On Your Investments

The greatest risks you face most often don't have anything to do with your portfolio. The biggest risks have to do with you.

You don't know what the future will hit you with and you can't really do anything about not actually going through life altering events. The only thing you can do is to put something in place before, to offset the financial pain and turmoil they can create. The biggest risks of these you face are:

Critical Illness— Cancer is the most widespread of these. If missing a paycheque or 2 could put you in a tight position, Critical Illness Insurance (CI) is well…. Critical. CI pays out a lump sum amount ($25,000 to whatever amount you want) when a bad thing happens. I use CI for those with relatively high debt to income and no cash buffer or big Line Of Credit.

Disability— There is a reason many employers have insurance for their employees, that will give them an income should someone (you) not be able to work. Disability insurance usually gives you 2/3rds of your income. Are you self employed like me or don't have this coverage? Get it NOW. It is the most important insurance you can buy of any kind available. If you have 2 income earners in your family, you probably both need this coverage, unless you only really need 1 income.

Long-Term Care— If you come to a point where you can't take care of yourself, you can get insurance to cover the cost of someone to get you through each day. This care can cost several thousand dollars every month. A must if you are single and have very limited assets from which to draw from.

Life Insurance— Everyone knows about this, however if you don't, please contact me on your situation. Enough said.

TFSA Strategies

The TFSA is the most flexible and in my opinion, most underutilized tax saving vehicle we have available. For 2016, you can contribute up to a total of $46,500 to your TFSA and that limit increases every year. Here is how your TFSA can be used.

TFSA now, RRSP Later— If your income will probably be higher in the future, it can be best to accumulate money into your TFSA first and then, when your income is higher (and your income tax rate is higher), move the money to an RRSP. This can mean several thousand dollars extra for you in tax savings.

TFSA For Income— With an investment paying you 6% (see Dead vs Growth TFSA), you can get $2,790 / year of income paid to you tax free. There is bit of record keeping to do on this in regards to withdrawals (which this $2,790 will be) and with future contributions but, over time you could have thousand upon thousands of tax free income being paid to you. This is particularly effective if you are currently (or will be) subject to OAS clawbacks, something this strategy can reduce or eliminate.

Dead TFSA vs Growth TFSA— TFSA earning .70% at the bank vs other choices (assuming 6% / year), of which there are many that can fit your comfort level. The Bank Deposit TFSA will be worth $53,562 in 20 years. The Growth TFSA $149,132. That is almost $100,000 more, completely tax free, in your pocket from 1 simple financial decision you make, so make it.

How To Cut The Court Out of Your Decisions

A Will is a legal document, telling the world who you are giving you money to when you have passed on. Yes, you are telling the world whether you like it or not because division of an estate of a deceased person, through a Will is of public record. Anyone can see it.

That is where the problem lies. When you have decided that you would rather not give as much of you money to 1 or 2 of your adult children, the courts in many provinces (BC included) can override your wishes. I read a recent case of this in the May 16th 2016 edition of the Vancouver Sun.

I'm not going to suggest there are any valid reasons to exclude an adult child from a Will, however I work for my clients to help them achieve the outcomes they want for their money. It is their money after all and who am I or anyone else for that matter, to say where that money should go. With that in mind, there is a way you can cut the courts right out of any of your estate planning decisions.

The first, is simply to give assets to your adult children when you are alive. I haven't heard of a court stepping in on a case like that. The downside to this action is that your money is now out of your hands and out of your control.

Second, is to put as much of your money into investment vehicles where you can name a beneficiary designation (ie "registered" plans: RRSP, RRIF, TFSA etc.). However, if you have money outside of those plans, the only simple way to pass money on directly to your beneficiaries, is through an investment contract with a life insurance company. These can be very much the same as any other investment the only difference is the company you hold it with.

Shredding Those Old Tax Returns

I am currently going through a move of my home. Being in a home for 21 years means a lot of things that need to be purged and one of these are old paper files.

The CRA says "As a general rule, you must keep all of the records and supporting documents that are required to determine your tax obligations and entitlements for a period of 6 years from the end of the last tax year to which they relate." If you work it out, this means in most cases, you are actually keeping your records almost 7 years.

The fact that you must maintain your records for at least 6 years does not mean, should you be audited, that it will be for a full 6 years of tax returns at a time. Typically you are barred from being reassessed by CRA 3 years from the mailing date of your Notice of Assessment, assuming there is no tax evasion and you don't have an audit already open.

When you are have tax returns and financials the going back to the 90's like I do, you can sure free up a lot of physical space. After all of this purging I've just done, I've kept my records for an extra year, just to be safe.

Tech Gems— CRA My Account

Looking at this site you will realize that government isn't all that antiquated after all. You can pull up any of your past years tax summaries (Notices Of Assessment or NOA) going back as far as 2005. You can access any notices, letters etc. that Canada Revenue Agency has sent to you. You can pay your income taxes owing, generate a "proof of income" statement, change your address and / or phone # and even amend any of your tax returns. My clients and I use it most often for finding out RRSP and /or TFSA contribution limits as well as making sure income tax is cut down to a minimum. Signing up is relatively quick but you do have to wait for something from the CRA in the mail to verify it is you asking for access to your info. Once you are set up though, you have easy and quick access to all of this.

Hhhhhmmm…...

Consider the cost of a financial advisor as the annual premium on a sort of "big mistake" insurance policy. Unlike other insurances though, the security that financial advice gives, pays off before a disaster happens. That's because, rather than repairing financial damage, a financial advisor works with you to prevent it. Nick Murray

Many of the major oil companies such as Chevron Corp., Exxon Mobil Corp., Royal Dutch Shell PLC and BP PLC, have yet to slash their dividends. However, these companies are borrowing to pay dividends while at the same time, cutting CAPEX (money to upgrade their equipment, buildings etc). Norm MacDonald, Trimark Investments, April 2016

Japan's Government Pension Investment Fund recorded a loss of $64 billion in the third quarter of 2015, in large part due to passive (ETF) equity investments. Advisor's Edge, February 2016

In many European countries and Japan, you are paid to take out a mortgage. Instead of the bank charging you interest they are actually paying you. This is called "negative interest rate policy" or NIRP. This can have very negative effects as it increases speculation and an inflating bubble on certain investments (ie real estate). BusinessInsider.com, Cambridge Global Asset Mgmt, ZeroHedge.com

A 2% difference in average annual returns (ie getting 6%/yr vs 8%/yr) over an extended period would mean that a 30-year-old today would have to work seven years longer. Alternatively, they would have to almost double their savings rate to live as well in retirement. McKinsey & Company, April 2016

BMW sells more M series in Canada per capita than any other country in the world. Globe & Mail, June 2016

We are seeing a re-occurrance of diseases that we thought we eradicated decades ago because of the trend of young parents not to vaccinate their children. Ivari presentation in Vancouver, April 14 2016

Marijuana users, both smokers and those who ingested it, used to be charged higher rates for life insurance because they were considered a "smoker" in the traditional sense (cigarettes and cigars). Many life insurance companies now class a marijuana smoker as "non-smoker" and because of it are charged much lower life insurance rates.

When the Cdn $ was around par vis a vis the US $, I like many other Canadians bought cars in the US because they were thousands of dollars cheaper. Now, many Americans are buying their new cars and trucks in Canada as my wife Cheryl found out in discussion with an American resident on a flight back from Maui in March 2016.

Vancouver was ranked the 3rd least affordable housing market in the world this year, after Sydney and Hong Kong, by consulting firm Demographia. The price of a typical Vancouver home rose 21% percent to C$775,300 ($584,290) in January from a year earlier and because of the affordability squeeze, young people and many who are retired are moving out. Bloomberg, March 2016 (that annual price rise is now close to 30% year over year)

National Bank of Canada economist Peter Routledge has "hypothesized" that Chinese buyers last year shelled out nearly $12 billion on real estate in Vancouver, accounting for 33 per cent of the city's sales. For Toronto, he pegged the number at $8.4 billion, representing 14% of sales. Macleans.ca, May 2016

The cash flowing out of China into assets around the world has hit tsunami proportions. Estimates have put the amount that has moved out of the country last year at nearly $1 trillion, up more than sevenfold from 2014. Macleans, May 2016

Investment firms, insurance companies, banks etc. have to find out where large deposits they are receiving from individuals, have come from. Lawyers, the conduit for many real estate transactions, don't have to. The lawyer I had this discussion with said this needs to be changed and I fully agree. June 2016

Mass amounts of housing has and continues to get built in Surrey BC. A pool was built to accommodate this growth in South Surrey yet schools continue to become more crowded every year. Surrey government points to the BC government for the problem but, shouldn't Surrey match their issued building permits, with school capacity?

We bought another high speed scanner for our office, a Fujitec ix500. Costco.ca (Canada) was $679.99. Costco.com was $429.99 or $551.38 Cdn. I asked Costco why such a price difference and they didn't provide any reason. Ironically, I noticed at time of writing that they are offering a $60 rebate for 2 weeks in Canada only.

PS. Questions, comments? I'd love to hear them. carey@careyvandenberg.com or direct phone 604 541 2690

Carey