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Carey

WWW.CAREYVANDENBERG.COM

carey@careyvandenberg.com

Local 604 541 2690
Toll Free 1 866 274 1222
Fax 1 888 551 9202

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Low Interest Rates Are An Economic Fire's Fuel

"Money is cheap". I use that term often in client discussions, referring to how little it costs to borrow money. This most often comes up in a question such as "should I paydown my mortgage or make an RRSP contribution?", or when the topic of borrowing to invest comes up. It's a really simple math really, borrow at 2% to buy an investment that is projected to earn 4, 5, 6% or more per year. Using other people's money to make money or more technically, "financial leverage".

The reason money is so cheap is because central banks around the world, are trying to boost economic growth. Encouraging people to use their cash or borrowing, whether it be for investing or simply to spend, helps with that.

This "cheap money" environment has been going on for several years now. As time goes on, people become more leveraged and with it become increasingly careless. They see an investment area that continues to go up and because of it, are willing to borrow more and more to participate so as not to miss out. Eventually, the bubble bursts and prices fall precipitously because there are way more people that need to sell and so few buyers willing to buy. We saw this in real estate in the early 80's where property prices fell by 30% because the cost of borrowing, went up dramatically. Many personal bankruptcies followed mainly due to over extended borrowing.

There are definitely pockets of speculation in specific industry sectors, however I don't see any, soon to be, large, wide spread, bubbles bursting. Two specific areas that have the biggest investment following, and are developing the highest real risk today (despite many not seeing it) are:

Any investment that pays a monthly or quarterly income distribution. Caution is needed here because you have to dig deep to really see where the risks are in this area and yes, there are many.

Residential property around the areas of Vancouver and Toronto. There is a wide, blind faith belief that all you need to do is put down your money and you are going to reap a windfall in a relatively short period of time. This is the most dangerous area because it encourages the highest degree of leverage to participate. Also, many don't realize that leverage make the investment look like it is doing better than it really is.

The lowest risk to highest reward trade off is always in areas that many people aren't readily participating in. Interestingly enough, today there are still lots of investment ideas that are being passed by (for the time being; until the price goes up dramatically and the sheep start investing).

The investment specialists I use for client portfolios (and my own family's portfolio), are finding some compelling investment buys in areas that include, foreign banks, industrial product manufacturers, a gaming company in the Far East, energy producing properties, etc. Many times, they are buying these when they fall temporarily and sometimes dramatically in price, due to a short term problem, one that can be rectified.

In the meantime, invest with prudence and beware of big hoses of water being put on this fire. Investing in areas when everything seems to be going well is more often a recipe for financial pain, than it is for profit.

START REDUCING YOUR 2017 INCOME TAX… NOW

To have the best and most complete outcome, it is always best to be proactive rather than reactive. When trying to pay as little tax as possible, you can only do this if you are proactive. Reacting means it's often too late to get the outcome you want.

Capital Gains— If you have money that earns interest outside of a "registered" plan (RRSP, RRIF, TFSA, RESP, etc) you will cut your taxes by 50% if you restructure your investments to earn capital gains.

Dividends— Same as above re: if you have money that earns interest outside of a "registered" plan (RRSP, RRIF, TFSA, RESP, etc) however, by re-allocating your portfolio to earn dividends instead of interest you will cut your taxes by 33%. The amount of tax savings does depend on your tax bracket but in every case, interest is taxed the highest.

Move Investments or Cash To TFSA— I have a number of clients who have Non-Registered investments and we simply move money to their RRSP's from there to the TFSA early in the year. That gets the money into a tax sheltered environment sooner rather than later which means, what? Correct! You reduce your income taxes.

RRSP Contributions— make them monthly. What better proactive move than to start them mid January? Start paying yourself monthly like you pay everyone else.

Charitable Donations— If you have a stock or mutual fund that has increased in value, one that if you sell, you would pay capital gains AND you make charitable donations throughout the year, you are much better off to give a specific dollar amount of your investments rather than cash. It makes no difference to the charity either way because they'll probably sell the investments when they receive them to create the cash. In the end though, you aren't triggering a capital gain and the tax associated with that. Win-Win.

DO YOU HAVE INVESTMENTS INSIDE YOUR COMPANY?

... then this is for you, assuming you make charitable donations. As I mentioned above, you can save much more in tax by giving some of your investments as a charitable donation rather than your cash. This idea gives you an added benefit of being able to take money out of your company, tax free.

If you don't investments from inside your company, the same rule applies to when you give them personally. No tax on capital gains is triggered. You also create a tax deduction for your company, for the entire amount. The tax savings up to this point are about the same as if you had donated money personally.

With a company though, you have an extra benefit of being able to pay out more money to you, from your company though the "Capital Dividend Account" or CDA. With this, the tax free portion of any capital gains triggered (50%), can be paid out to you as a "Capital Dividend". What's so special about Capital Dividends, you ask? They are completely tax free.

The summary is this. You have given money to the charity of your choice, you have reduced your income tax through the donation, you didn't have to pay any capital gains tax on the sale of your investment because it was gifted AND you get to take some money out of your company tax free.

GET UP TO $3,000 FOR YOUR 15 YEAR OLD (WHO DOESN'T HAVE AN RESP)

Paying for any kind of post secondary education, whether through university or learning a trade, can be expensive. Most kids will incur expenses in this area so the question is, A) do you and / or your children pay 100% of the costs, or B) do you get the government to pick up 20% of it? Of course you'll choose B) because you're smart ;)

Well then, if you have a child (or grandchild) has was born in 2001 and you don't have an RESP set up, you need to do that NOW. As well, you need to put at least $2,000 into it... NOW. This will trigger the government to pay 20% Canadian Education Savings Grant (CESG) into the RESP. You will also need to do this now to make this 15 year old eligible for the 2017 and 2018 CESG's, which could get you another, up to $2,000, from the government.

If someone in your family is going to have to pay for the schooling anyway, why not get this RESP set up and cut education costs by 20%? Note: To receive the maximum amount of CESG's for someone who doesn't have an RESP, you can contribute up to $5,000 in 2016, which would entitle you to $1,000 in free money right away and another $2,000 if you max out over the next 2 years.

TAKE YOUR PENSION WITH YOU WHEN YOU LEAVE YOUR JOB

If you have a "pension" plan at work, it is either a "Defined Benefit" (DB) plan or a "Defined Contribution" (DC) plan. The DB plan is based on how many years you've worked, your income and your best earning years. This is the "old school" plan that is becoming a dying breed. The DC plan is simply one that you contribute a specified percentage of your earnings and your employer matches it. This is very similar to a Group RRSP which is much like a regular RRSP.

When you leave an employer, the ability to transfer a DBP isn't as easy as it once was so in most cases, you are stuck with leaving that as it is. The DC plan however, you do have options, which are laid out when you get your "package".

1) Leave the money where it is. The problem is 2 fold on this. First is that if you have more than 1 employer over a lifetime, you will have plans in a few or several different places. Second is you have no easy way of making sure your portfolio is managed the best it can be. Generally, leaving and completely ignoring, is going to leave you with less money which means less retirement income.
2) Transfer your DC plan to a Locked In Retirement Account (LIRA). This is just like an RRSP with the restriction that it is "locked in" until you reach a certain age, which often can be as early as 55. This does depend on what province is considered to be the jurisdiction of the DC. Doing this, puts the money in your hands more directly so you can optimize it's management....with the help of a good Financial Planner, of course.

LEAVE SOME RRSP CONTRIBUTION ROOM FOR WHEN YOU TURN 72 (OR OLDER)

If you are tuned in to what the rules are on RRSP contributions you are probably saying to yourself, "you can't do that. You have to move your RRSP's into a RRIF when you are 71". Yes, that is absolutely correct, however this is a little trick to get tax deductions you may need for when you are 72.

Okay, I don't mean to string you along but I should have said that you have to have "earned income" when you were 71 to make this work. So, if you earned $100,000 of income at age 71 (yes, there are people who are still earning an income), you will create $18,000 of RRSP room for 2017.

Because you do have to convert your RRSP to a RRIF by the end of the year you turn 71, before you actually convert your RRSP to a RRIF, you make your last RRSP contribution. However, that RRSP room won't actually be available until January 1st the following year. Because of this early RRSP contribution, you will have overcontributed to your RRSP for less than a month. The downside is you will have an RRSP over-contribution penalty of 1% of the amount you contributed. In this example its $160.

When January next year rolls around, you will have all your money in a RRIF and an RRSP contribution. The nice thing with this RRSP contribution is that you can deduct against ANY source of income. It doesn't have to be earned income so, if you have rental property income, dividends, capital gains,etc., you now have a tax deduction for it, one that you wouldn't have had otherwise. This can also reduce or eliminate OAS clawbacks and save you even more money.

GETTING MONEY BACK ON INSURANCE YOU ARE PAYING FOR

There is a little known feature you can add onto many disability and critical illness insurance policies, where you get a percentage of your premiums refunded to you, if you don't claim on the insurance. This feature is called "Return Of Premium" (ROP). This feature has both fans and dissenter to it's value. As you will see I am a fan, because for disability or "income replacement" insurance I use it for, and which I own personally, it can prove to be of good value.

First, you don't get your money back for free. There is an extra cost you have to pay while your insurance is in force. How you measure that is by making a simple calculation. Take the extra amount of money, the figure you have to pay for the ROP feature, as well as the number of payments you have to make until you are entitled to receive the ROP, plug those into an online calculator such as the one you will find here. (everyone let's me do that for them but, in case you are curious, you can run your own).

On a case I ran a while back, the return was 6.95% / year on the extra money you spent of the ROP feature. On a Critical Illness insurance policy I was shown, with ROP, the annual return was 10.87%. The magical thing about this is that the return is completely tax free. The downside of course, which the dissenters place their case on, is that if you become disabled and have to collect on your policy, you have paid too much for the insurance because you won't be getting the ROP. Yes, that is true, but most people believe, and rightly so, that they, more likely, won't become disabled. In that case, this feature actually reduces the cost of the insurance in that event.

TECH GEMS—MEDIMAP.CA

Generally, the Fall and Winter is when we get sick, the flue being the most likely cause. Medimap is an absolutely amazing resource to get you in front of a doctor as quick as possible should the need arise.

Go to the Medimap.ca site and enter the city you are in, address or simply click a button for the site to find your IP address location. On 1 side of your screen you will see a map with several points showing where all the medical clinics close to you, are. On the right will be a list which show waiting times, when the info was updated and contact details for each clinic or medical office including when they are open until. You can also sort by wait time or distance from where you are. I always go to one medical clinic because I get allergy injections weekly however, for those who see a doctor less often and just need to come in for those things that come up and hit you, go to Medimap.ca.

HMMM…

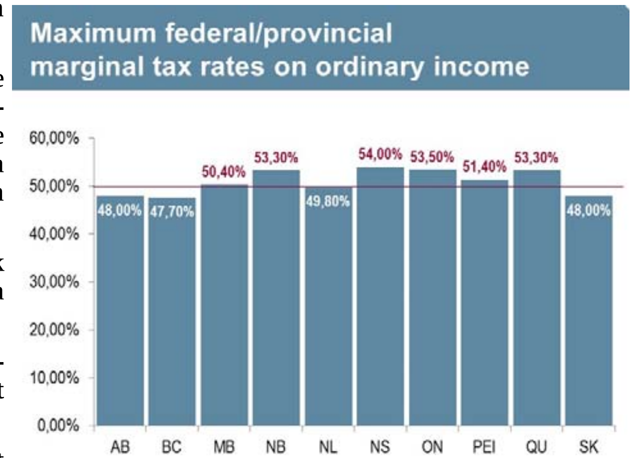
Canadian banks have had nothing but tailwinds over the past few decades which has made it easy for them to make money. That is changing. Cdn banks are the most expensive in the entire world which is why we don't own them. Stephen Groph, Cambridge Global Asset Mgt, Nov. 2016

$4,000 invested and $7,000 withdrawn and the account is still worth $13,000. Real life example of a client's account.

If you were to invest $5,000 / year ($416.66/mth) starting at age 25, you would have nearly $1.1 million at retirement. That's more than double what someone who started at age 35 would have, assuming 7% / year returns.

A portfolio that bounces up and down and produces a high return over time is considered much higher risk than a portfolio that bounces up and down 50% less but produces a return that is 90% less than the "higher risk" portfolio.

Investors expect an average annual return of 9.3% / year above inflation; advisors say 4.8% is realistic. Natixis survey as reported on Advisor.ca Oct. 2016



A CIBC Financial Advisor was contacted to get his take on some changes CIBC had made. He accepted but later had to renege because CIBC wanted to approve of what he was going to say to the media. Derek Fuller, Founder at Big Fun Play Canada Inc. via LinkedIn, Nov. 2016 (I'm sure glad I'm a Financial Advisor who can freely speak his mind).

At TD, Financial Advisors are encouraged to sign clients up for bank products such as credit cards. Same LinkedIn source, as above (a bank's salesperson masking as an advisor?)

Household with a Financial Advisor for 15 years or more accumulated 290% more assets, almost 4 times as much, than equivalent households who don't work with one. Advisor.ca, Nov. 2016

Clients who dropped their advisors between 2010 and 2014 lost 34.2% of their asset values while those who stayed with their advisors saw their assets grow by 26%. Centre for Interuniversity Research and Analysis of Organizations, Nov. 2016

"The best way to find out if you can trust somebody is to trust them" Ernest Hemingway

One of the best performing markets so far this year is Brazil, which is in a recession. The MSCI Brazil Index is up by 49% year-to-date as of Oct. 31. Morningstar, Nov. 2016 (best risk:reward in investing is when things look the bleakest)

Samsung's primary profit centre is memory chip production, not cell phones. It has a huge scale advantage in this area. Its chips are used in its own cell phones as well as Apple's and many of its competitors in that space. Jeff Feng, Head of Emerging Markets Equities, Invesco Hong Kong.

Vancouver saw the highest 12 month increase in residential real estate prices ever recorded. Teranet, Sept. 2016 (when you see an increase in anything that dramatic, when it was considered overpriced before, should you still be buying?)

Between January and October of this year a realtor found that 46% of condo sales in the Brighouse area were sold as vacant. Richmond News, Dec. 2016

At current consumption rates, China uses more concrete in 2 years than the US uses in a century. As well, China burns coal to create the electricity for powering the significantly growing demand for electric bikes, trains and cars like Teslas. Peace Arch News, Dec. 2016

Nomophobia—the fear of being separated from your cell phone.

If you don't ban all (guns) you might as well not ban any of them. Late US Sen. Howard Metzenbaum (was a strong gun control advocate). PragerU.com

If Israel's enemies disarmed, there would be immediate peace. If Israel disarmed, there would be immediate genocide. Pragerpedia

Wishing you and your family Joy, beyond human understanding.

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