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35+ Years Of Falling Interest Rates Is Ending

For over 35 years interest rates, for the most part, have been declining. Interest rates peaked while I was still a teen and have been falling ever since. It looks like we have already reached and just passed that bottoming of interest rates.

This is a significant turning point. Most anyone who is today, in the workforce, has probably only experienced lower and lower interest rates as time has gone on. We have benefitted from declining borrowing costs for virtually all of our working lives. This has effected what we could pay for a home. Our ability to pay higher and higher prices has been because interest rates have continued to fall. However, what will it look like, with borrowing costs trend, for a long period of time, the other way?

Interest rates are the fuel for large purchases like homes, cars, boats, etc. I made mention in my BloG awhile back (March 2014) about buying a condo in Richmond in 1990 for $100,000 with a mortgage rate at 11%. Mortgage payments = $962.53. Today that condo on the BC Assessment site is at $299,700. Mortgage payments to finance that today are $1,371.08, which is an amount that is well below the inflation rate at what $962.53 feels like today ($962.53 in 1990 is approximately $1,800 in 2017 dollars).

Homes aren't bought on price they are bought based on what can be paid for on a monthly basis yet, people have just as hard a time buying a home, despite that, relatively low, inflation adjusted mortgage payment. So, if interest rates didn't come down as much as they did over the past 35 years, do you really think housing prices would be as high as they are? It's obvious that they wouldn't be.

That is where we have come from and now we are here. I'm not suggesting that interest rates will move up quickly from here because there are some fundamental reasons why they shouldn't. Debt, both consumer and governmental, in the global financial system, are the weight around our financial necks. We could very well bounce around this interest rate bottom for a few years, maybe longer.

I don't want you to construe my condo vs mortgage payment example for a dire warning of a housing price crash going forward. What I do want to do however, is make you clearly aware of the power interest rates have on everything, so that you can make the best financial decisions and plans.

What Is Believed To Be Low Risk Could Be High

The concept of risk is the most important measure, when putting together an investment portfolio. Most view risk simply by how much an investment, or portfolio as a whole, fluctuates. This can lead one to believing that because an investment doesn't fluctuate as much as another it's therefore less risky. That is a dangerous premise to go by because, since 2013, for the first time in 30 years, fragile businesses (those financially weak) as a whole, have fluctuated much less than durable companies (those financially strong).

This is a particularly important thing to know (and watch) because, the longer this goes on, the more this wave of money, chasing financially weak companies, builds. The more it builds, the more you, as a member of the investing public, may be swayed to think that you could be missing out. Put another way, you could be compelled to abandon the investments you have for something that looks greener. I've watched people make this mistake many times over the past 30 years and it hasn't ended well.

The potential for permanent loss of capital is a much greater risk than simply how much an investment fluctuates. Today more and more people are believing the opposite to be true and it is to their peril. Just because one walks like a duck doesn't mean it is a duck. However if one walks, looks, smells, feels, sounds and tastes like a duck, it probably is. That is the case with many investments today. Using only 1 or 2 measures to determine risk will prove to be wrong, so don't do it.

Why Having 1 Is Better Than Having 2 (or More)

It is very common for someone to come into my office, wanting to put together a "Financial Plan" and I discover, going through the various account statements, policies etc. that there are a lot of financial people that they are dealing with. They have an RRSP at they bank where they have their chequing account. That person, employed by the bank set that up. They have a Group RRSP through their work where there is an "advisor" listed on that. They have an insurance policy or 2 that they bought through an insurance advisor who is a friend of a friend. When their first child was born, a "scholarship trust" salesperson contacted them to set up an RESP. Many pieces all over the place without any cohesive plan. This kind of adhoc financial picture is easily resolved by your Financial Planner, seeing and reviewing each piece that is currently in place and making changes if need be. If a change can't be made to a specific part, the new parts are set up to fit as best they can. This way, everything works together harmoniously.

There is another situation, which some people seek and that is purposely spreading their money out among more than 1 Financial Advisor / Planner. The argument being, "I am spreading out my money which is safer". There are significant flaws to this line of thought. First, it doesn't make things safer at all. Second, spreading your money among more than 1 Financial Advisor can actually do you more harm than good.

Why it's not safer— Financial Advisors in most instances, put your money in several different investment vehicles and through that, your money is "diversified". Digging deeper however, let's say one Advisor works at Bank A while the other works at Financial Firm B, . Very often, your money is held completely outside of that. A perfect example is with Canadian credit unions. Their investments aren't even held with them but rather through an investment "dealer". In other words, your 2 Advisors could each have your money held by the same institution and you don't even realize it. You don't actually have your money in 2 places despite your belief you do.

Why it can be damaging— Each Advisor could be giving advice without knowing your whole financial situation. One could be recommending something that fights against what another is advising you to do. It's the proverbial one foot on the gas, one on the brake. You get nowhere. Have you ever been in a group where no one takes the lead? It's chaos. Same principle applies here.

As well, It's human nature to feel the weight of responsibility based on the responsibility that has been given. If you hold your money with 2 Advisors and both of them know they aren't being completely trusted or relied on, your portfolio will probably not get the same attention the portfolio of a client who only deals with 1 Financial Advisor. I feel the weight of that every day (that isn't a complaint but rather an honour).

There is another risk, one that I believe those who use multiply advisors, try to reduce. That is the risk of fraud. This is a very simple risk to eliminate. Don't make cheques out to a Financial Advisor personally or a company that they control, no matter what they tell you.

5 Ways To Pay For Kid's Schooling

You have a young family and because you have children, chances are high that you have way more expenses than a childless couple has. Most of these costs come day by day. There is one lump of expenses that will most likely come to you, but much later in you child's developing life. Because of that "later", planning is often not done. However, whether you plan or not, someone will be paying and it very often is you, the parent. Here are your choices in how you end up paying.

Free Money— This entails applying for scholarships, bursaries or grants. Of course, your child needs to qualify for these which is a big wild card which you won't know if that is possible, until frankly, too late.

Borrowing— Most often this means a "Student Loan" as offered by the Government of Canada through a Canadian financial institution. The caveat here is not to have the student get over their head. The loan should be related to the amount they expect to earn in their chosen field so it can be paid off within 10 years. A good rule of thumb is to start with an earning base of $10,000 and then, for every $10,000 they could probably earn above that amount in their chosen field to start, they can probably get a loan of $10,000. So if is is expected they will earn $40,000 to start, the maximum student loan should be $30,000.

Sabotaging— Where parents risk their own financial well being to "help" their kids out. Frankly, this may feel good but it has 2 damaging implications. It can sabotage your rapidly shrinking timeline to save for your own retirement. Equally as critical though is that you could be taking away your child's ability to do it under their own steam. This steals from them the personal satisfaction of accomplishment, which can mold their character strongly. The real world (job market) needs this more today than ever as entitlement is making it shorter in supply.

Working— The old fashioned, yet time tested effective approach of working to earn your way; earning money to pay for costs that need to be covered as they come due. While attending post-secondary education it's spelled P-A-R-T-T-I-M-E-J-0-B. The exercise of learning to manage the fate of ones on financial well being will serve them for a life time.

Saving— This can be the most effective and surest approach for 2 reasons. One, you can estimate well in advance, approximately how much education may cost, years down the road. Two, the government helps out by giving 20 cents for every dollar saved if it's done through an RESP. In other words, you've just reduced the cost by 20%, assuming you earn 0% / year on the money contributed. If the RESP investment does well, what is needed to be saved, can be just a fraction of what the education will actually cost. Of course, this can be done with money contributed by whomever you see fit to bear that cost.

Buying The Fixer Upper

Many people seem to prefer buying a newer home, however finding something older that you can see will fit you perfectly (particularly if you like more established neighbourhoods), can actually be a better long term investment for you. The big question is though, how do you pay for the renos you will need to do?

Just over 1 year ago, Cheryl and I moved from Ocean Park in South Surrey to Rosemary Heights and there were a few things we wanted to do immediately to our "new", 16 year old home. We did sell for more than our "new" home cost us, so those renos came out of the difference we sold for. This isn't the norm, especially since so many in their 20's, 30's and 40's are still dealing with growing households and the need for more space. The solution for those people is by using a "Purchase Plus Improvements" mortgage.

Normally, you would buy a home with a mortgage and then, have to find money to pay for the renos or heaven forbid, rob other cash sources to make them happen. With a Purchase Plus Improvements mortgage, the cost of these immediate renovations is added into your mortgage. This mortgage will cover the purchase price of your home, plus any renovations that will increase the value of the property, up to $40,000. This way you can spread the cost of these improvements, to the home that makes the most sense for you. As well, you can then use any prepayment privileges to pay the renovation part off faster.

So, if you find a home that is a bit "tired" however, has great bones as in your preferred neighborhood, this kind of mortgage structure could actually work to your benefit from a lifestyle, as well as a financial perspective.

Minimizing The Tax Cost Of Your Company Car

Who wouldn't want a company car that the company pays for? I would (but I can't because, being self employed, I'd pay for it either way). The company car can be a nice benefit however, as you, being one with a company car may attest to, there are significant income tax costs to it. There are however, ways you can minimize that tax cost.

Generally, the more expensive your company car and the more you use it for personal use rather than business, the more sense it makes for you to buy or lease the car personally and have your employer give you a tax-free allowance to help cover the business use of it. The reason is, that when the car is leased or owned by your employer, you are faced with an annual "standby charge". This is a taxable benefit added to your regular income (and thus increasing your income tax) for the amount that it is used personally (or sits in your driveway at home). The income tax cost for this standby change can work out to the full value of the car, added to your income, over a 4 year period. That is significant.

Of course, the best person to do the numbers on this is your accountant. Ask them what is best for you. Your company will have to agree of course, to the way they cover your company car expenses, so ask them first if you have a choice in how this is done.

How To Reduce OAS Clawbacks With a Holdco

First, I must say that although OAS (Old Age Security) clawbacks are annoying and having them clawed back seems like the government is taking your money away from you, the fact is, unlike CPP, which you contributed to, OAS is paid out from the revenues of the government. You and I have never contributed to OAS. That being said however, the fact that someone, who has been very good with their money, gets penalized for that, is often, very aggravating. This is something that can help ease that feeling.

The thing that triggers OAS clawbacks is having too much income. "Too much" being $74,789 in 2017. You can't really reduce on your regular, retirement income such company pensions, CPP and RRIF payouts. Those are set. However, if you have investments outside your RRIF and TFSA, dividends and capital gains are the OAS clawback culprit and it is the effects of these that can be reduced by using a Holding Company or "Holdco".

Once you have a Holdco set up you can transfer your investments to it. This is done tax free and doesn't incur "selling" the investment. When investments are in the Holdco, and you decide to sell them and make different investments, the capital gains you trigger doesn't add to your personal income (unless you take it out of your Holdco) and therefore doesn't increase your OAS clawback. As well, if you have US investments, having them in a Holdco will take them out of the requirement to potentially pay US estate taxes.

The biggest downside is the extra accounting and legal costs of having setting up and maintaining your Holdco. You simply have to weigh this out against the annual savings enjoyed by not having your OAS clawbacked.

Why Everyone Needs A POA

Unlike an Executor, who handles your estate when you are gone, a Power Of Attorney (POA) gives decision making power to your affairs while you are alive. This is needed when you don't have the ability to make choices due to illness or accident or simply choose not to.

There are a few different kinds of POA however. The first is a "general POA" and it is for financial decisions while you can still make decisions for yourself. You may simply want someone to manage your affairs while you are out of the country, as an example. It is for a specific period of time.

A "continuing POA" continues (hence the name) through to and during when you can't make decisions on your own. The powers that are given under this are the same as with a general POA in that they are laid out with respect to paying bills, managing investments, buying or selling property, etc.

The POA that makes decisions about your care and life is a "personal care POA". Because there are different skill sets and personalities required for financial affairs and making decisions on how one should be cared for and live, often times 2 different people are chosen for a general and continuing POA than one for personal care. Because of that, they should also be laid out in 2 separate documents.

Tech Gems— FlightStats.com

If you have any dealings with flights, either picking some one up at an airport, or flying yourself, you'll find this app invaluable. I used FlightStats for the first time when Cheryl and I had to pick up our youngest son from the Bellingham, Washington airport, which is about a 30 minute drive from our house.

We wanted to be on time so we erred on leaving more time than not enough. As we got closer to the airport, we could see the plane's progress in real time. It continued to show a graphic with a plane, detailing how many miles away it was as well as when exactly (to the minute) it was expected to arrive. Because of this, we realized we had plenty of time to pick up a few things at Fred Meyer, which is quite close to the airport (only 1 traffic light). While we were shopping we saw that it had landed, took into account the deplaning time and got there without any of us having to wait around. They do have an app however, I've found that the website gets you to what you want to find, faster.

Hmmm...

- In 1999, there was 60% of U.S. adults who had equity market investments. That rose to 65% in 2007. Since then it has fallen to 52%. Gallup #PublicPessimismIsAGoodSign
- "You can't buy what is popular and do well." Warren Buffett (an American investor, philanthropist and one of the wealthiest people in the world) #GreatnessRequiresDifference
- Most everyone is aware when the equity markets fall however, "bull" markets (those that are on an upward trend) go hardly unnoticed. #DrivenByFear
- Amazon. The electronic commerce and cloud computing company started life as an on-line bookseller but is now the world's largest retailer with almost 50 per cent of U.S. online retail sales. Financial Post, June 2017 #IdRatherShopOnlineBut...
- Wal-Mart has an infrastructure that dwarfs Amazon. About 90% of the US population lives within 10 miles of a Wal-Mart store. The company now offers direct pick-up at stores and offers lower prices than Amazon. It is also tapping into its large employee base, allowing them to deliver packages to customers on their way home from work to earn extra money. A real game changer. Global Alpha Capital Management #CompetititionBreedsInnovation
- Someone asked Warren Buffett how to become a better investor. He pointed to a stack of annual reports. "Read 500 pages like this every day," he said. "That's how knowledge works. It builds up, like compound interest. All of you can do it, but I guarantee not many of you will do it." Fool.com #InvestingIsn'tAPartTimeEndeavour
- A Financial Advisor can add approximately 3% / year to economic returns through Financial Planning, Asset Class Selection, Investment Recommendations, Portfolio Rebalancing and Tax Management. Envestnet "Capital Sigma: The Return On Advice" #CostWorthPayingFor
- "You cannot improve one thing by 1000% but you can improve 1000 little things by 1%." Jan Carlzon (a Swedish businessman and a former CEO of SAS) #SmallImprovementsAreBetterAndEasier
- Visa Inc. is giving small merchants thousands of dollars each to upgrade their payment technology and in return the businesses must agree to stop accepting cash. Cash was the largest consumer transaction vehicle, above credit cards and debit in 2015 and Visa is by far the largest credit and debit provider at 59% of all US purchases. Wall Street Journal, July 2017 #CashIsTheCompetitor
- A reader with a 20% down payment recently complained about being offered a rate of 2.79% for a 5 year fixed rate mortgage in a city just west of Toronto, or 2.69% with a smaller down payment. The current (mortgage) system influences lenders to favour customers who lack a down payment of 20% and thus will take on the most debt. The banks are doing this because the borrower has to buy mortgage insurance that is backstopped either fully or mostly by the federal government. You could just as easily say taxpayers back these mortgages if the home owner defaults. Globe & Mail, March 2017 #SoundsLikeAmericanStyleLendingToMe
- 50% of US electricity is produced from coal. It's 70% in China. Most countries are increasing their need for coal because of the increasing electricity demand. A growing demand for electric cars means more coal burning to create electricity. This will only increase the amount of mercury, carbon dioxide and other toxins. ScientificAmerican.com #GreenIllusion
- Sun Yung Tsu (Joe Sun), a Manulife insurance sales agent in Hong Kong has just set the Guinness World Records title for "the longest career as a corporate salesperson". He says "Insurance is the childe that protects people from blows they cannot see coming". He is 91 and has no plans on retiring (is a testament to having purpose in one's life). Investment Executive, Aug. 2017
- 2,516 Syrian refugees landed in BC between Nov. 4th 2015 and Dec. 31st 2016. 1,082 (43%) of them settled in Surrey BC. (Only) 191 went to Vancouver. Peace Arch News, May 2017 #ButVancouverHasBikeLanes
- Google says I walked 87kms in June. I was in New York City for 1 week. I think that explains a good chunk of it. #IdRatherWalk
- Often we surround ourselves with the people we most want to live with, which forms a club or a clique, not a community. Anyone can form a club; it takes grace, shared vision and hard work to form a community. Henri Nouwen, Dutch Catholic Priest and Professor. #UncomfortableGrace
- In BC grocery stores you can buy BC wine as well as I noticed, the last time I was in Superstore, BC cider. Why isn't BC craft beer included? #CraftBeerDiscrimination
- The hardest thing in the world to understand is income tax. Albert Einstein #Don'tFeelStupidAboutTax
- Someone I know works at a local school board office and a woman come into the office. She was trying to enroll her child in school for September. This parent couldn't converse in English so she was told by the school board employee, "you need to speak English for me to be able to help you". The parent responded back, "You speak Mandarin!" #ImmigrantDemands

Carey