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mutual gains™

C.E. VANDENBERG & ASSOCIATES INC.

Financial Planning— Insurance— Wealth Management

Attentive - Attune - Attain™

We will listen carefully
to what you are saying
and be attentive to your desires
as well as your fears
so together we can build
and enjoy
a harmonious
and responsive relationship
in attaining your life's dreams
and through that
We will be attaining ours.

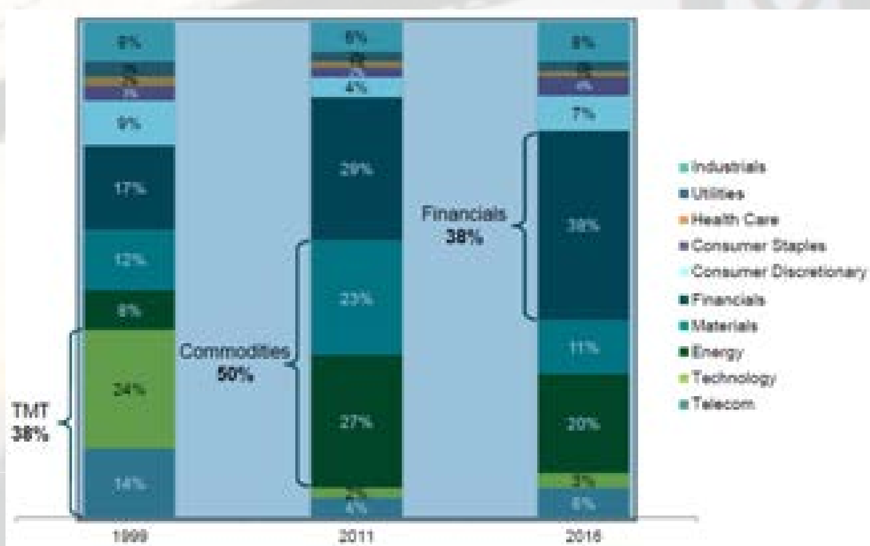
Wide Disparity Under The Hood Of "The Market"

You hear a lot about how high or expensive "the market" is. What many don't tell you is, how uneven the price appreciation has been and with that, how great a valuation disparity there is between different kinds of companies. This is very similar to what we say in the late 90's. Ironically, it's the same sector of the market that is the culprit 20 years ago… technology.

Since the beginning of the year, approximately 30% of the overall rise in equity markets has been in large, technology companies. Name a large high tech company and yes, that is the kind I'm talking about.

If ever there was an argument against index funds, or "passive" investments, then this is the classic "it". This is because, if you are taking a sum of money and investing it into such a passive investment vehicle, you are buying all of the investments in the market that have become expensive AND you are putting a larger percentage of your money into them. As well, you are buying a much smaller amount in the companies that are much more attractively priced.

To help you understand what I mean, here is a graph of the sector make up of the S&P/TSX index at 3 separate times over the past 20 years:



Investing in an index / passive portfolio in 1999 you would have been putting almost 40% of your money in tech related investments (we know the devastation that created shortly thereafter). In 2011, it would have been all in energy, mining etc. (was that a good area to invest, knowing where we are today? Definitely not). Today? The majority of the index is made up of Financials.

I did say at the outset, that the majority of the expensive companies today are tech. That is correct. The difference from 1999 is that Canada had one big tech company and that was Nortel. Canada doesn't developed any really large tech companies since then (that have prospered). Today, the majority of the expensive, big tech companies are US based so today, THAT is a good chunk of "the market" (in the US). In Canada it is Financials such as banks. If you don't own those areas, you don't own "the market" and therefore, any potential significant downdrafts will have the most effect on expensive investments. Those are the companies that are priced assuming things will continue in the same, ultra positive trajectory, as they have in the recent past.

Using Your Home Equity For Retirement Income

As you get to retirement, there are a few sources, from which you will probably derive your retirement income. These are, 1) A work based pension plan, CPP, OAS and RRSP. Those are the most common retirement income vehicles. There is however, a pool of untapped money you have that can also be utilized, your home equity. Most often, this is done by downsizing your home.

Today you may see yourself downsizing at a particular point in your life and you are fitting that into your financial plan. However, what if you want to be able to change your mind? What if you come to realize "I don't want to move… ever". If, in the past, you have assumed that some of your retirement income will come from the downsizing of your home, what if you don't actually end up doing that?

The most thought about solution is what is called a "Reverse Mortgage". I have never been a fan of these for a couple of reasons. One is that, the interest charged on these packaged programs has historically been relatively high. As well, a Reverse Mortgage isn't very flexible.

You can however, apply the same principal of using some of your home equity, while still continuing to live in your home. There is a financial institution I work with that allows you to draw on your home equity at whatever monthly dollar amount you need at a very competitive interest rates and much flexibility.

Withdrawing money from your home equity every month can also mean pulling less from your investments, investments that can potentially produce higher returns than the relatively low interest rate you will pay on borrowing from your home equity. As well, drawing from your home equity produces $0 of taxable income whereas, pulling more from your RRIF (or other investments) may trigger more tax than you need to, including the OAS clawback.

Overall, using your home equity by borrowing against it, particularly because of the low interest rates today, can make sense as a way to increase your monthly, retirement income while staying in the home you love.

RRSP Deduction When You Are 72 (Or Older)

Hold on Carey. Everyone knows you have to convert your RRSP's to a RRIF (or something similar) in the year you turn 71. How is it possible to have an RRSP deduction when you are 72?". The one line answer is "do a one time over contribution".

Here is an example in how it works:

- You have $100,000 of employment income when you are 71
- This will create $18,000 of RRSP contributions when you are 72 however, you can't make RRSP contributions past 71 so….
- Make the $18,000 in December of the year you turn 71 (before you convert your RRSP to a RRIF)
- This will trigger a 1 month "over contribution penalty" of $180 (assuming you didn't have room from past years).
- Deduct the RRSP contribution in any year going forward against any source of income (it doesn't have to be employment income)

This works perfectly for those who work well past 65 who have healthy incomes from a wide variety of sources, including investment and / or rental income.

There are rules and then there are creative ways to stay within the rules yet get an extra advantage. This is one of those.

Keeping Your Large Lot Home 100% Tax Free

Just because you have a principal residence, doesn't mean the capital gains are always 100% tax free.

Last year the Federal government required the reporting of the sale of a principal residence on your tax return. I always wondered when this was going to be done particularly since, for many years, it was often used by home builders to turn the profit of building a home, into tax free capital gains simply by living in a home they built, for a relatively short period of time. This reporting closes, or greatly restricts that ability.

There is however, another way your principal residence may not be tax free and it is something I don't think many people are aware of. The Income Tax Act restricts the amount of land that can qualify as part of your principal residence to half a hectare which is about 1.25 acres. If your property is larger than that, you may have to pay tax on any capital gains on the area of land, over the approximately 1.25 acres.

The loophole is to show that the extra land is "necessary for the use and enjoyment of the property as a residence". Putting a pool, patio, animal shelter etc. so as to spread out the use of your property, rather than putting everything close together, can in fact do just that. If your property is much larger than the 1 hectare, then you should probably think of raising cows, producing eggs or growing a commercial crop.

Life Insurance On Children? Yes, It Can Make Sense

For years I was adamant that it didn't make sense to have life insurance on a child. I must confess, I've changed my mind a bit on this one. The reason is in how it can be used to tax shelter your money for the benefit of your children (or grandchildren) and continue to have it cascade down to future generations, tax free.

Life insurance is most often a vehicle to payout a lump sum to cover debt or lost income due to someone in the family passing away before their time. Insurance for insurance sake; to cover catastrophic losses. However, there is a very powerful tool of tax free compounding that can be utilized with a "permanent" insurance policy on someone in a younger generation.

One of the best ways to do this is through a one time, or payments over a few years, into a permanent policy. The child whom you are setting this up for, can have a guaranteed, fixed amount of life insurance, for the rest of their life PLUS a pool of money that is growing tax free. This money can be used for a home purchase or for their own retirement.

This works the best when your children are very young and you have income left over after you have contributed to your RRSP, TFSA and RESP. It can make sense however in later years, particularly if the idea is to ultimately pass money on to your children's children (and maybe even further down than that).

4 Ways Donations Can Save Thousands In Tax

Normally, when people donate, they do so using money from a bank account. That is the most expensive way to donate and by far so, if you don't get a tax receipt (which is why I almost never donate in cash when there isn't a tax receipt). The biggest advantage is to make sure you get a tax receipt for your charitable donation. This can save you approximately 50% on the money you give. In other words, give $1,000 and you get close to $500 in tax savings.

There is a better way to give than simply giving cash and that is to donate investments that have gone up in value. You simply donate $X (you determine the amount) of your investment. Doing so doesn't trigger any capital gains on the investments you are giving, which have gone up in value. Alternatively, if you sold the invest to create cash and then gave that cash as a donation, you would trigger a capital gain, which adds to your personal income tax.

Another way to give is through a "Donor Advised Fund" (DAF). With a DAF you make a lump sum contribution into a DAF, one that is in your or your families name, which you set up and control. Best way is to give investments, real estate etc. because capital gains aren't triggered. The DAF will then pay out a regular amount from the dividends, capital gains and / or rental income for many years into the future, to the charities of your choice.

If you have the desire to donate to a charity but still need the income from your entire portfolio, a Charitable Remainder Trust can do the trick. You can transfer whatever assets you want (investments, rental property etc.) in the trust and you as the donor get an immediate tax receipt for the full amount. You however, will continue to receive the income from the assets while you are still living. When that ends, your assets are passed on to the charity.

Would you rather just keep you money and make donations when you pass on? The most common asset and often a large one at that, is by donating Your RRSP / RRIF. All you need to do is have a charity named as your beneficiary. When you run out of breath, the balance of your RRSP or RRIF transfers directly to the charity. Your estate receives a tax receipt for the full value which washes out the tax hit (and then some) of your RRSP or RRIF becoming deregistered. Again, savings is around 50%. You have a lot of flexibility with this because naming a beneficiary on your RRSP isn't permanent. As long as you are still around, you can who your money will eventually go to.

Tech Gems—Office Lens

So much hype always is focused on Apple products and Microsoft just quietly continues to make excellent tools for business and personal productivity. I have been a big fan of Microsoft's OneNote for years. I actually switched from OneNote to Evernote because there was so much hype about Evernote. Switching made me realize, how much better OneNote was.

Office Lens is another fantastic, Microsoft app. Using Office Lens, you take a scan using your phone or tablet's camera of a doc or maybe even a snapshot of a presentation on a big screen. Before it is saved, you can modify it and name it. It formats the "pic" to a pdf which is a much smaller file size than a picture and it produces a much crisper image. You can save it to a wide range of choices (including inserting it into OneNote, of course), or send it to someone. I've used CamScanner in the past, an app very similar to Office Lens and also very good, but sorry CamScanner, Microsoft has the upper hand, again.

Hhhmmm…

The U.S. market has risen, driven by only a handful of companies (most of the rise has been driven by 4 US gased companies). Renaissance Investments, Sept. 2017 #HistoryRepeatingItself

If your portfolio is made up by all (or mostly) Canadian companies, your average annual return for the past 10 years, ending Sept 11 2017 was 3.95%. Morningstar, Sept. 2017 #CanadaIsAGreatPlaceToLiveBut

People (mostly Canadians) are still going to Tim Hortons, but from a customer count perspective, they are not growing as much as Starbucks and McDonalds. Financial Post, Aug. 2017 #ThinkGlobal

Earnings aren't a reliable measure of a company's value because earnings can be manipulated in many ways. Cash flow on the other hand, is a hard figure that can be evidenced in 2 different financial statements. The true value of a business is the sum of its current and future cash flows. Cambridge Global Advisors, Sept. 2017 #DontBeFooled

A business that generates $1.5 billion of revenue but only needs to spend $10 to $15 million a year to keep that going is a very durable business. #FreeCashFlowKing"

The best business is a royalty on the growth of others, requiring little capital itself." Warren Buffett #CashFlowWins

Bitcoin is one of over 800 cryptocurrencies and that number keeps growing. ValueWalk, Sept. 2017 #CrytoCurrencyIsntInvesting

In 1995, 500 grams of bacon was $3. Today it is closer to $7. Financial Post, Aug. 2017 #InflationCanSqueezeLifestyle

Oil is still among the largest power sources on earth, accounting for 30% of total energy consumption followed by coal at 30% and natural gas with 24% (much of coal's use is to create electricity). Financial Post, Aug. 2017 #FossilFuelUseReality

Chinese media reported that China has begun "research on formulating a timetable to stop production and sales of traditional energy vehicles". China is already the world's largest consumer of electric and hybrid vehicles, outselling the US more than 2:1 last year (336,000 to 159,420 in 2016) and they are in a position to innovate and produce products in this area, faster than any of its international counterparts. Harbour Advisors, Sept. 2017 #TeslaCompetition

A group who started in 2010, buying up rental properties in Regina and Saskatoon, ending up with nearly 1,300 apartments (7% of all Saskatoon's apartments). They were granted creditor protection in December because they had insufficient cash flow to meeting ongoing operational requirements #InvestingInPropertyIsEasy?

Vancouver is the number one per capita luxury supercar market in North America. To service that market, a luxury car storage facility (condos for cars), is being developed in Richmond BC. 80% of the units are already pre-sold, with prices starting at $600,000 each. Western Investor, Sept. 2017 #HousingForCars

There were 25,502 unoccupied or empty housing units in the City of Vancouver in 2016, representing a 15% increase since 2011. StatsCan #GhostTownNeighbourhoods

You can invest in traditional auto makers and get paid a very healthy dividend. Tesla, by contrast, has never made an annual profit (and has to borrow money to make its Model 3) yet is priced as a $45 billion company. The Telegraph, Sept. 2017 #BuyingHope

Disney movies a generation ago were mostly about becoming a better person, by letting your conscience be your guide. In Disney movies today it is exactly the opposite. It is all about doing what you want to do; self fulfilment. One of the songs in the movie "Frozen" is a perfect example; "No right, no wrong, no rules, I'm free". Ben Shapiro, Sept. 2017 #PostModernismGoneAmok

Carey