ISSUE 182

November / December 2017

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.

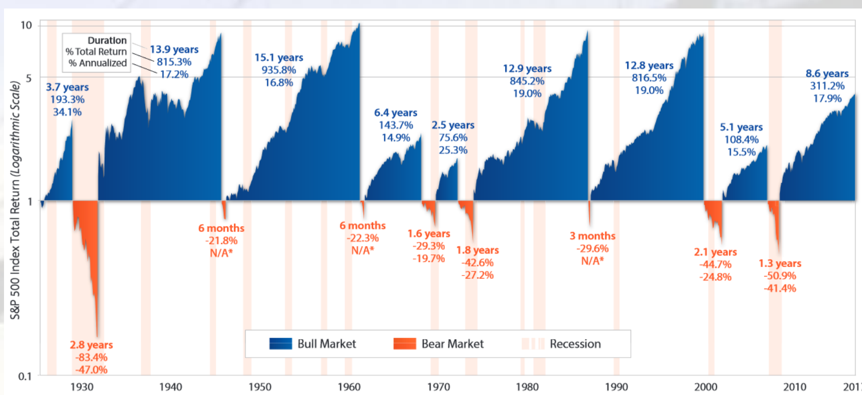
Going Up Can Last A Very Long Time (2024?)

As I laid out in an email that went out to all subscribed to the "Mutual Gains E-Loop", "we are in the most synchronized global recovery we have seen in at least 10 years". As well, it could last quite some time.

This is contrary to simple statements I read and hear often. These include, "the market is too high therefore it must drop" and "this is the 2nd longest Bull (up) Market in history therefore it will end any day now" (and end badly).

As I stated in the aforementioned email, the market isn't actually high since the level of it is based on the stellar performance of just a handful of large companies. This concentration makes the market appear high despite the fact that the vast majority of companies, aren't. To get more on that, I can send you a copy of that email, sent out on November 23rd. Let me know at carey@careyvandenberg.com.

Regarding the claim that this is "the 2nd longest Bull Market". This could actually be "fake news" (see chart below to see actual data on the S&P 500, a broad US Market index):



Also, there is an undercurrent of retail investor fears, based on 1 simplistic premise; that being, we have gone up so far therefor it must come down and will do so in a painful manner.

Based on Morningstar research, long market upward advances tend to peter out rather than crash and burn. It is in fact, the short market cycles that tend to "burn hot". It is the short ones that give back most of the positive returns that were enjoyed during the previous up cycle.

As you will see from the chart (produced by First Trust Advisors LP with data from Morningstar), the past, very long Bull Markets, have declined very little relative to the previous gains. As well, those long term upward cycles have gone on for 12 to 15 years in the past.

So, what does that tell us? Based on general historical data, the current market uptrend will transition from the short Bull Market to the long Bull Market in March 2018. This increases the odds that when the next downtrend comes, it will be relatively gentle. In the meantime though, as we have always seen, there will be short term bumps that we will inevitably go through (roughly 5%). This will most likely be triggered when 1 of 2 prominent world leaders pushes to the limit, the need to try proving his physical male attributes are bigger than the other guy's.

What Is Socially Responsible Investing (SRI)?

Socially Responsible Investing or SRI, is also known as ethical or social impact investing, however more narrowly focused, it can also be called green or clean investing.

In general, SRI lays out specifically what kind of companies or business practices will be avoided in a particular portfolio. One of the pioneers of SRI was John Wesley (1703–1791) who was amongst the founders of the Methodist Christian denomination. His sermon "The Use of Money" outlined his basic tenets of SRI. This included, not to harm your neighbor through your business practices and to avoid industries like tanning (leather) and chemical production which can harm the health of workers. Because most of the basis of SRI was originally religiously motivated, avoidance of "sinful" industries like guns, liquor and tobacco were common.

Because of a wide range of people's backgrounds, belief systems and biases, etc., there are also different views on what is wrong or harmful. As well, that list can change with the times. Some could never invest in a business that produces alcoholic beverages. For me though? I love a good craft beer or a big red wine and thus, wouldn't have any problem buying a business that produces those. How about someone who doesn't agree with the production of fossil fuels? Is driving a gas powered car yet refusing to invest in businesses that pull oil out of the ground, hypocritical? How about oil sands in Canada vs oil sourced from a country whose government may not want its industries scrutinized to the degree that we are open to? Does investing in a bank that lends a lot of money to oil companies (or arms, tobacco, "gaming" companies, etc.) socially responsible? How about a company that donates lots of money to the Republicans, which Trump benefits from? To the extreme, some may view corporations and capitalism as a whole as evil and thus, any kind of investing for profit's sake, would be immoral.

Corporate governance has come a long way over the years and thankfully, businesses don't get big investing in the broadly viewed, "evil" things. The world simply wouldn't support that. As well, we live in an era where companies are doing some admirable things in regard to how their employees are treated and the benefits offered within the workplace. Treating employees well and engaging in socially responsible business practices in the end, is good for business.

We do however, live in a world that, in my view, has objective evil strewn and imbedded throughout it. When it comes down to it, we all move to where our interests are best served, or to a position to which we are the least harmed. That is the human condition. All we can do is make sure our voices are heard. To vote with whatever means we have at our disposal, to the best of our ability.

PS. If you are interested in this topic, I'd highly recommend a book I read several years ago called "Ethical Oil". It talks about many of the dichotomies that one is faced with when trying to do SRI. As well, It gives some examples on how ethically motivated decisions, when decided on with a narrow view, can actually do more harm than good.

Book Value Isn't What You Invested

Investment statements are more confusing than they have to be. When I meet with clients for a Financial Planning review, I find that most people simply want to know the bottom line; what their portfolio is worth today. As well, as a comparative measure, what their portfolio was worth 1, 2 or more years prior. Percentage returns are of course helpful. There is 1 bit of information that confuses this though which shows on investment statements. It's called "Book Value".

Oh, how I hate this column. It just confuses what it really is. Particularly if it shows Book Value and then beside it shows a gain or loss based on that Book Value. ARGH!

Why am I so frustrated? Because Book Value is NOT the dollar amount you invested. OK, I see your facial expression has changed. You thought it was, didn't you? You are not alone. Most everyone thinks the same as you, that Book Value is what you invested, but it is not. Then why would it show dollar value gain (or loss), based on Book Value? A very good question. I've been asking this myself everyday for more years than I can count. If Book Value isn't the dollar amount I invested then, why is it listed? That is a question I can answer.

Book Value is the same as "Adjusted Cost Base", an accounting mechanism used to determine taxable capital gains (or loss) when you sell an investment. With every taxable distribution your investment pays out (dividends, interest and realized capital gains), if those distributions are reinvested (as most are), your Book Value increases. This happens every quarter or year, depending on the kind of investment you hold. I say "every taxable distribution" because you are paying tax on these in the year they are earned and thus, if you were to sell your investment, you are only paying tax on what you haven't paid tax on already with this Book Value increase. This is why the Book Value (BV) aka Adjusted Cost Base (ACB) is shown. It's a helpful, tax information piece.

However, Book Value has no relevance to an RRSP, RRIF, TFSA, RESP, etc. because there is no tax. Money compounds within these vehicles, completely tax free. The way financial institutions can make things much clearer for you, is have an additional column that shows the dollar amount you invested with a gain (or loss). That way you have a column showing your Book Value, which applies to any "non-registered" accounts and an "Amount Invested" which shows what you actually put into your investment.

If you are totally confused, no need to worry. This is the domain of Financial Planner and Accountants. The basic thing you really need to know is that Book Value isn't what you invested. Also, your Book Value could actually be higher than your "Market Value".

Disregard that last line. That may require even more explaining. Carry on.

3 Ideas On Helping Your Kids Buy A Home

First, I want to be candid with you that I am generally not an advocate for this idea as a whole (I'm sure I'll be doing a BloG on "helping" our kids). However, because I know there are many who are feeling the pain and worry that their adult children are falling behind, I thought I would give some ideas that may help in that regard.

Help, don't enable—make sure they can truly afford the property taxes, maintenance, mortgage payments and all the other costs on the place. Pay particular attention to their motivation to want the finer things in life (ie not willing to put up with a very average kitchen etc.). Helping a child buy something they can't really afford is not helping them, particularly if they haven't shown to be particularly good stewards with their finances.

An outright gift— what you want to make sure of is that you don't sabotage your own financial well being. The only way to know that is to have thorough Retirement Projections done by a Financial Planner. Are you willing to sacrifice working well past traditional retirement age? If so, how much?

A caveat to the gifting option is, should your adult child's relationship fall apart with their significant other, 50% of your gift, will be split between the 2 of them. Are you good with that? Even if that ex becomes your "not my favorite person", person?

Lend money— you are giving them a tool to become an owner however, you will have much more control when you lend money. You can own part of the property (the amount you are providing for the downpayment) as your collateral. Should there be a relationship breakdown between your child and their life partner, can get back what you lent, before the rest of the assets are split up between the 2 of them. If you want, you can then give your adult child the full amount that you had originally given the 2 of them.

The point of these few ideas is to prompt you to think creatively about how best to do this (or if not at all… yes, that is an option). As well I highly recommend reading a BloG post I wrote in January 2014 on the whole home affordability question.

How Not To Split Your Estate

You own a cottage and have so for years. The family has spent a week or two for many years, bonding and creating memories there. The reality is, life has moved on. It has become very apparent to you that only 1 of your adult children, your only daughter, has any interest in continuing to spend time there. The others? When you pass on, you're sure they would simply want their share of the cottage, in cash.

The common way to think about achieving this, is simply to put in your Will, that your 1 child will receive the cottage. The others will get the proceeds of the sale of your home, RRSP's etc. What happens with intention and reality on trying to be fair though, can be 2 totally different things. Here's why.

When your time on earth expires, the transfer of ownership of a cottage, to someone other than your spouse, is considered a "deemed disposition". This simply means, it changes ownership and thus triggers tax implications. Because you want the cottage simply transferred into the name of your 1 adult child, no cash is created to pay the tax bill for its "deemed disposition". The tax will be borne by the other, more liquid assets like RRSP's and the sale of a home. Since those are going to your other adult children, they are the ones, who in effect, end up paying all the tax on all of your estate.

The solution to leave all assets equally to all of your adult children, while at the same time giving the cottage to the one who really wants it, is for that latter to buy the other siblings share of the cottage at fair market value. This can be done with her portion of the rest of the estate, which she gets in cash. This way, the tax bill for your estate gets split evenly amongst all your beneficiaries.

Tech Gems—Google Home

I bought one of these for home a few months ago and I must say, I'm loving it more than I thought I would. Ours is on the kitchen island, serving the biggest open area in our home. If you are in the middle of doing something and think, "I need music", all you have to say is "Hey Google, play some 70's music" (I choose 70's because it is the best decade for music however, I allow you to make your own choice despite that choice being wrong). It will pick a channel for you and Voila!... Music plays. No buttons to push. Want it a bit louder, say "Hey Google, turn up the volume". Need to make a particular kind of sauce? Ask for it. In fact, if you want any information on any topic under the sun, just ask Google the question in your own words and "she" will tell you. Cheryl makes our dinners and I do the after dinner clean up. While doing that, I ask Google to play a particular podcast. It pulls it from the internet and announces what it has found for you. I've been told that, should you seriously fall and can't get up, you can ask Google to call a particular person in your Contacts and Google will do the dialing for you.

Amazon makes a similar product, "Alexa" but it can't make calls out. The world is ruled by Google so I went with the Google Home and it has been a joy to use. This is the Christmas gift I'm sure almost anyone would love to receive (now it comes in 2 sizes, both of which can be had for under $100. PS. Want to see how this thing works? Do a search on YouTube.

Hhhmmm...

Canadian banks have double the leverage than US banks have (leverage can increase returns but it also increases risk). "Why We Are Not Owners Of Canadian Banks Today" Cambridge Global Advisors, Jan. 2017 #ReducingRiskThoughtfully

Netflix spends $500 million more than it makes, every 3 months. It does so in building a content library that its annual subscription income will hopefully, far exceed the cost of. Finimize, Oct. 2017 #HopeBeyondReason?

Using 2015 statistics, those earning more than $100,000 (7.8% of taxpayers) paid 50.8% of federal and provincial personal income taxes (corporate taxes on private corporations would be on top of that). Financial Post, Sept. 2017 #Don'tKillTheGoose

Vancouver condos at $1,172 APPSF (Average Price Per Square Foot) are more expensive than New York's at $1,110.77. Despite that, price / sq. ft. of rent is much higher in New York where US$1,500 gets you a 277 sq. ft. space. In Vancouver you get 610 sq. ft. REW.ca, Nov. 2017 #VancouverRentsTooLowOrPricesTooHigh?

A Toronto couple sells a house for $1.8-million. Purchase price in 1974 was $64,500. The compounded rate of return on that is 8% per year (this doesn't subtract the cost of ownership over those 43 years which would be in the hundreds of thousands of dollars). Toronto Life, Oct. 2017 #CompoundingIsWhatIsPowerful

In movies New York is portrayed for the city it is, Vancouver is usually portrayed as Seattle. #VancouverPricedBigButIsn't

AmazonGo is Amazon's no checkout lines version of a grocery store where you are automatically billed for your products when you walk out. It also has moved deliberately with its brick-and-mortar book stores, opening 13 since launching the first one in Seattle two years ago. Financial Post, Nov. 2017 #DoingRetailBetter

Relative to building cars, manufacturing and selling tires is a much more profitable business. Finimize, Oct. 2017 #MakingMoneyQuietly

In 1990, the cost of an older condo near the centre of Richmond BC, was $100,000. The 100% interest rate of the day made the mortgage payments $963 / month. Today that same condo would sell for about $275,000 (2014 price) and payments would be $1,373. The sticker price of the condo is 275% higher than it was 24 years ago however the payments to buy it today are only 43% higher (and wages as measured by the minimum wage has gone up more than 43% since 1990). CEVA BloG, Jan. 2014 (paraphrased) #ExpensiveIsRelative

The Province of Quebec is pulling itself out of debilitating debt by running budget surpluses that are substantially bigger than initially projected. One of the costs cutting measures they implemented (and which is still in place) is the limit of 1 bath a week for residents of publicly funded, long-term care homes for seniors and the disabled. Investment Executive, Oct. 2017 #DiscountingHumanCost

"When we call the call centres of the CRA and we posed our questions (as many of the Canadian public does), about 30% of the responses we got back were not right" Michael Ferguson, Auditor General of Canada, Nov. 2017 #PaidToGiveWrongInformation

An Applewood car dealer's Thanksgiving ad in the Peace Arch News (local paper) said "give thanks and…" buy some accessories for your vehicle or buy a new vehicle. #ThanksgivingOxymoron

Mountain Wellness Centre in South Surrey ran an add saying "Look 10 Years Younger With Beauty From Within Program". This includes Facial Rejuvenation with Botox. #Botox=BeautyWithin?

Coast Capital Savings Credit Union is offering a "Youth" promotion for a Christmas event, for those between the ages of 13 and 29. According to UNESCO, "Youth" is best understood as a period of transition from the dependence of childhood to adulthood's independence and awareness of our interdependence as members of a community. #20SomethingsAreMoreThanYouth

An article for Teen Driver Safety Week stated "(In) 2015, 1 in 6 drivers between ages of 16 to 21 were in a crash. There were 230,000 active licenses for that age group.   35,000 were involved in a car accident as either a driver, passenger or cyclist." Joanna Linsangan, CIBC in the Peace Arch News, Oct 2017 #SkewingStatsToSpinMessage

There has apparently been a cultural shift against eating leftovers, even though they are cost-effective and save you the time of preparing a meal from scratch. Rob Carrick, Globe & Mail, Nov. 2017 #LeftoversAreTasty

The real trouble about the duty of forgiveness is that you do it with all your might on Monday and then find on Wednesday that it hasn't stayed put and all has to be done over again. *The Collected Letters of C. S. Lewis, Volume III*

Carey