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mutual gains™

C.E. VANDENBERG & ASSOCIATES INC.
Financial Planning— Insurance— Wealth Management
Attentive - Attune - Attain™

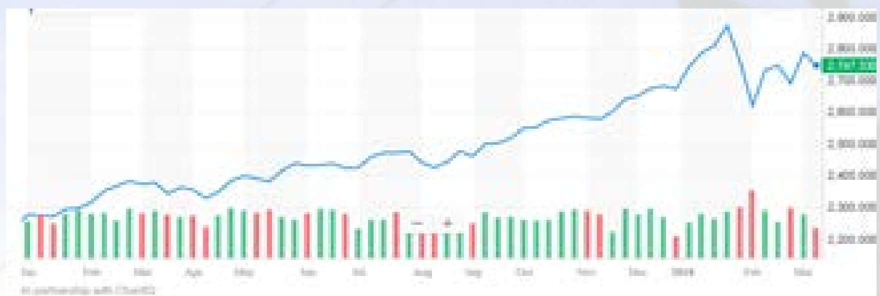
We will listen carefully
to what you are saying
and be attentive to your desires
as well as your fears
so together we can build
and enjoy
a harmonious
and responsive relationship
in attaining your life's dreams
and through that
We will be attaining ours.

Remember That 5—10% Dip I Mentioned Last Time?

About 60 days ago, in the last issue of Mutual Gains, I said...

"This kind of event would actually be quite welcome. It gives investors a reality check and curbs quick decision optimism. I want to make you fully aware that this has often come in the form of a dip of 5 to 10% and you should be prepared for and expect this to happen. That is normal so take this as a heads up on what we could very well see sooner rather than later if things continue on was they have of late."

Well, that dip happened, from about January 26th to February 8th. 10.2% based on the S&P 500, the broadest index, 7.3% on the MSCI World Index. For the Canadian, TSX 60 it was longer dropping 8.7% from January 4th to February 9th.



Did you notice? I'm guessing not. This would either be because:

1) You don't look at your portfolio much.
2) You have a well diversified portfolio, where 1 portfolio piece zigs while the other zags
3) Both of the above.

What we experienced for those few weeks was a good, healthy thing to happen, particularly after such a strong run.

More importantly to my warning about "the dip" happening is that 2017 was one of the lowest years for price variability in investment markets that we have ever seen. In other words, 2017 was a very abnormal year for investing comfort. Expect to experience more 5—10% dips. Unlike the one we experienced recently, the next ones will probably not come after a big up swing, which simply puts you back to where you were a few weeks prior.

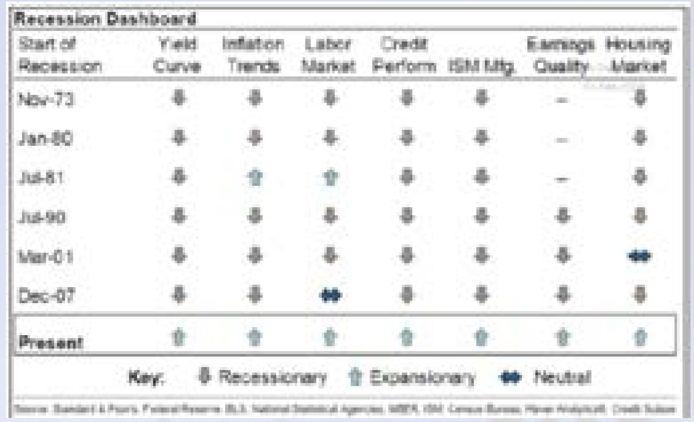
Future ones will make you feel a bit uneasy if not downright nervous however, only if you look at your portfolio online on a regular basis. Otherwise, if you do notice or hear media rumblings of a "correction", remember that these normally occur at least a few times a year, not just once every few years so, stay calm. These dips are a sign of the market acting efficiently and being healthy. It's all very good despite what your emotions may tell you. It's when you feel most comfortable that you should be concerned.

This Is What We Call A Goldilocks Economy

Despite those imminent and regular mini corrections (dips) you may see, hear about and maybe feel, from a fundamental economics standpoint, we are currently in a global synchronized growth period.

You have may heard or read commentary on how long this "bull" (up) market has been going and why you should be nervous. You can never look at one fact in isolation. If you do, no matter what you are studying, you can come to a conclusion that may be exactly the opposite of what is true.

An example of this is comparing a Materialistic worldview to a Theistic (God) worldview, something I personally love digging into. Materialism says that we are just collections of atoms bumping into each other and thus there is no real purpose to our lives and that love is only a chemical reaction. A Theistic world view says we were created for a purpose and love is much deeper than just a feeling created by chemicals and past experiences. You may subscribe to either of those views however, you need to look deeper to help determine which has the highest probability of being right. If you don't do that, you are probably relying on what you prefer to be true.



Recession Dashboard

Start of Recession	Yield Curve	Inflation Trends	Labor Market	Credit Perform	ISM Mfg.	Earnings Quality	Housing Market
Nov-73	↓	↓	↓	↓	↓	–	↓
Jan-80	↓	↓	↓	↓	↓	–	↓
Jul-81	↓	↑	↑	↓	↓	–	↓
Jul-90	↓	↓	↓	↓	↓	↓	↓
Mar-01	↓	↓	↓	↓	↓	↓	↔
Dec-07	↓	↓	↔	↓	↓	↓	↓
Present	↑	↑	↑	↑	↑	↑	↑

Key: ↓ Recessionary ↑ Expansionary ↔ Neutral

If you have an investment portfolio, you either want to have a factually based sense of what things look like now and the foreseeable future or at least, want to make sure your Financial Planner is aware of the facts and is advising you based on that.

To the right you will see a "Recession Dashboard". The anticipation of a recession is what can move investment prices down more than the usual dips. This chart lists the key financial areas that are most important in determining economic health (the horizontal axis). You will also see past dates when things still felt good but were definitely changing. As you can see the present and by extention, the foreseeable future, looks good with all arrows pointing upwards.

Quick Calculation: How Much You Will Need For Retirement

Yes, it does come down to a total dollar figure you will need to have accumulated. However, when a Financial Planner like myself does Retirement Projections for a client (and updates them every year or 2), the key foundation number from which to start is "How much monthly income do you need after income taxes, to support the lifestyle you picture?" Once you have that number nailed down, you will get the "how much will I need?" question.

The first step on the income side is to determine how much you will be getting from government sources. CPP will give you a maximum of $1,134 / month. OAS pays out $587 / month. For a couple that comes out to a maximum of $3,442 / month at age 65. Should you decide to retire later, both CPP and OAS will pay out more for each month you delay retirement.

Now add your workplace pension(s). None? That means if CPP and OAS won't give you the income you need, the rest will have to be generated from your RRSP, which will then be converted to a RRIF. So what is that difference between what you want to be receiving per month and what you will be getting from CPP, OAS and a pension? Write down that number.

To get to the final big number of "how much will I need?", there are a few simple rules that you can apply. The first of these is the "Rule of 20". This rules states that for every dollar of annual pre-retirement income you want, you will need $20 of assets to fund it for a lifetime. If your shortfall is $60,000 / year then you will need approximately $1.2 million from which to draw income from.

Do you want a bigger safety buffer? Then use the "Rule of 25". This will give you room to help offset any unexpected expenses (or a portfolio that doesn't perform as you expect). The next would be the "Rule of 30" which should leave you an even bigger margin of error, which could be used for extra health care or long term care costs.The additional safety net can come from the equity in your home. Of couse, you should be willing to move to a less expensive dwelling place at some point during your retirement.

As I always suggest, if you want the full picture of how your numbers look, so you can slide smoothly into retirement, having a Financial Planner work it all out is paramount. Of course, you can just wing it or simply cross your fingers and hope everything just happens but..... Do you want to put the last 20, 30 or 40 years or more of your life at risk by doing that?

Get Your Own Pension With A GMWB

A GMWB (Guaranteed Minimum Withdrawal Benefit) is a life insurance investment vehicle that guarantees you will receive a 3—5% annual income from your investment for life. This guarantee has no bearing on how long you live or how your investments perform.

For example, if you deposit and invest $100,000 at age 55, you will get $4,000 of income for life starting at age 65. That is the bare minimum. Some companies offer a 5% bonus to your future guaranteed income, for every year you delay taking the income. This means the $4,000 guaranteed annual income becomes $4,200 after 1 year. As well, if your investment does well, your guaranteed minimum income will be higher. Normally, gains on your investment can be locked in every 3 years. So, with a $100,000 investment that increases to $130,000 in 3 years, your new guaranteed minimum lifetime income will be $5,200 / year ($433.33 / month).

Of course, should your investments do well in the long run and the percentage you've been withdrawing hasn't drawn your principal amount down to $0, the remaining balance goes to your beneficiaries. Guaranteed income for your entire life yet still being able to benefit from a portfolio that does well over the long run. Note: The features vary widely between the few remaining insurance companies that do offer GMWBs.

3 Income Tax Tips

Deducting Vehicle Expenses—If you receive an allowance from your employer for using your car for work and that allowance is based on km's driven, that allowance will generally be tax free. If however, the business portion of your actual car expenses is higher than your allowance, you can choose to include the allowance in your income and then deduct all of your expenses. You'll pay less tax doing it this way.

Reduce Your Tax At Source— We all like getting a tax refund but, a refund is an interest free loan to the government. You can get your income tax refund, spread out over the year, by having less income tax withheld on your paycheque. You just need to complete a T1213 form and send it off to CRA.

Don't Go Crazy With Deductions— Doing so could actually make your deductions worth less than they could be if you spread them out over 2 (or more) years rather than using it all in 1 year. This could mean the difference of getting back $200 per $1,000 deduction versus $498 per $1,000 deduction.

Larger Downpayment May Not Be Good

On January 1st of 2018, changes came into effect which made it easier and cheaper for those with less of a downpayment, to buy a home versus those who have more. The end result is that, if you are able to contribute 20% or more (as a downpayment) to the purchase of a home, you are being penalized for your financial strength. This has also made the "best" 5 year mortgage rate you see all over the web, quite meaningless because now, more than ever, the interest rate you will get on your mortgage is based on your personal situation.

While counter intuitive, lenders offer the best rates to borrowers who need mortgage insurance which is those with less than 20% down. So, even if you have more than 20% down and don't need mortgage insurance, it may actually be worth putting less down and paying for the mortgage insurance. You'll get a lower interest rate on your mortgage and better renewal options. Of course, in order to find the best route to take, for your own situation, I'd recommend having a mortgage broker run the numbers and advise you.

4 Types Of Insurance For Home Owners

If you are buying a home, there are 4 kinds of insurance you will come across during the home purchase process. These are:

High-Ratio Mortgage Insurance— This is the "mortgage insurance" I talked about in the previous piece. If your down-payment is between 5% and 20%, mortgage insurance is required by law. This insurance protects the bank you are borrowing the money from. The insurance cost ("premium") is almost always added to the mortgage balance.

Title Insurance—Having "title" means you have legal ownership of the property. Title insurance protects the property owners and their lenders against impediments that could be hidden, which would stop you from having full legal, unencumbered ownership of your home. The lawyer on your side of the transaction will ask if you want this.

Home & Property Insurance— This covers your building and all its contents from destruction or loss. As well, it insures you against liability should someone become injured while on your property and choose to take legal action against you.

Mortgage Life Insurance—This is the insurance the banks love to sell you. In the event of the death of the person responsible for making the mortgage payments, this insurance would be able to pay off the mortgage debt. Because mortgage payments are generally 40% or less of a family's expenses, it is best to get 1 large life insurance for an amount above and beyond the mortgage amount, one which includes loss of income to cover your other ongoing expenses, so the rest of the family can keep on living the lifestyle they have always enjoyed. In the end, buying 1 life insurance policy will give you more and better coverage, as well as being cheaper. You also can add things like Critical Illness insurance and Disability insurance to make sure you cover all your big risks.

Tech Gems— Hotwire.com

There are a wide range of sites you can use to find accommodations, rental cars etc. however, I've found Hotwire to be an excellent tool for getting the absolute best deal on a hotel room. Like all good things there is a catch. With Hotwire, the catch is you won't know exactly what hotel you will be staying at nor rental car agency you will be using. I mention these 2 since Hotwire is what I've used as my go to for booking a hotel last minute and for all my car rentals when I'm travelling. Let me give you 1 experience I had when I booked a hotel in Seattle and you can compare that with a site you may like.

Cheryl and I were planning on heading to Seattle for a night or 2 in the summer. We woke up one morning realizing we had a window in our calendars where we could be away for a couple of days. The morning of the day we were planning on heading out, I logged into Hotwire.com and chose a 4* or better hotel that would be located right downtown. That is all I knew. The lowest price I found was for $184 Canadian. I clicked the "book now" and it turned out to be the Sheraton. When we arrived there, the front desk asked if we would be staying only the 1 night. I said, "well no, if you can get close to the price we are paying for the 1st night". She checked her computer and said that the best she could do was US$270 for the 2nd night. "No thanks" The next morning, when I woke up I went to Hotwire again on my laptop. Same parameters I chose originally, 4*'s, right downtown. Clicked on the "book now" and it turned out to be again, the Sheraton (which I suspected it might be) but this time it was $182 Canadian.

I've had similar experiences in Vancouver, Whistler and Houston, Texas. If you don't mind not being in control of everything, Hotwire can save you a lot of money although, if you've had a stellar experience on another site, please do let me know.

Hhhmmm…

The P/E ratio (measure of how expensive a company or the market is) is rapidly improving since the "P" is going down and the "E" is going up. Thus, according to Bloomberg, the forward looking S&P 500 P/E has corrected from approximately 20x to 16.5x. To us, 16.5 does not look scary considering robust, corporate outlooks. Ryan Fitzgerald, Portfolio Manager, Harbour Advisors, Feb. 2018 #UseFundamentalsNotNews

Many investments that don't appear to fluctuate in value, are giving an artificial sense of price stability because their value is fixed at cost, rather than what the market would pay for the investment on that particular day. #SafetyIllusion

The Canada Pension Plan (CPP) is the 10th largest retirement fund in the world with $317 Billion dollars in assets. As of March 31st, 2017, a relatively small, 21.5% of that, was invested in bonds and other fixed income investments. Only 16.5% of the entire CPP is invested in Canada. CPP Investment Board #HowIsYourRRSPInvested?

During the recession (2008—2009), our (Canada's) debt-to-income ratio went up from 140% to 165%. In the US it actually went in the exact opposite direction. Clearly Canadian's vulnerability to higher interest rates has risen relative to the US. Benjamin Tal, Deputy Chief Economist at CIBC. January 2018 #HighRiskCanadians

97% of Canadians surveyed say they wish they'd factored in their other financial obligations when determining the mortgage they could afford. Advisor.ca, Feb. 2018 #34WaistIn28Jeans

Many of Tesla's quality control workers are relatively inexperienced, make sloppy calculations and don't know when they're looking at flaws, according to several current and former employees. They said many quality inspectors were temp-to-hire workers with no automotive experience who Tesla hired via a staffing agency. CNBC January 2018 #SignsOfTightLabourMarket

Delta Airlines recently discontinued a program that gave NRA members a discount for airfare. Because of that, the Georgia State Legislature eliminated a $40 million jet-fuel tax break for the airline. Only 13 Delta passengers ever bought tickets using the NRA discount. USA Today, March 2018 #REALLYExpensivePolicyChange

An Uber driver with a rating lower than 4.6 (out of 5) is automatically disconnected from Uber's system. Harbour Advisors Blog, Dec. 2017 #ReliableCheapTransportation (if you ignore the driverless Uber car that killed a pedestrian in Tempe, Arizona recently)

In Delhi, India, the Air Quality Index recently hit 999, the limit of the machine's ability to measure. Breathing air at this level is the equivalent of smoking 45 cigarettes a day. Harbour Advisors Blog, Dec. 2017 #TheNewLosAngeles

Debbie Arlene of Chilliwack, who ran a business to help people illegally avoid paying taxes, was sentenced to 4 1/2 years in jail for failing to report $165,000 of income for the 2005 to 2007 tax years which shorted the government a total of $35,000 of income tax. CRA, March 2018 #GovernmentHammer

Former executives for some of Silicon Valley's top tech companies have suggested mobile devices and the applications we run on them may be no less addictive and destructive than gambling and drugs. For example, Sean Parker, former President of Facebook Inc. admitted late last year that the social network was designed to hold users' attention for as long as possible and give them occasional hits of dopamine - the reward chemical in our brains. This suggests that digital technology may carry a more nefarious health risk than we thought. Investment Executive, Feb. 2018 #DopamineAddictionEpidemic #AreYouOneOfThem?

How do you teach 'work hard, be independent, learn the meaning of money' and quote it to children, who look around themselves and realize that they never have to work hard, be independent or learning the meaning of money? Wealth contains seeds of its own destruction. Malcolm Gladwell #PlantsFlowerUnderStress #KillWithKindness

"Most of the luxuries and many of the so called comforts of life are not only not indispensable, but positive hindrances to the elevation of mankind". Henry David Thoreau, American Essayist, Poet and Philosopher #ComfortBreedsDiscontent

Our universe, the earth we live on nor any matter at all would exist if it wasn't for some extreme fine tuning, to yield a life friendly universe. Just looking at the top 6 areas of fine tuning this relates to, had to be as precise as from 1 part in 10^{34} ranging to 1 part in $10^{(10^{123})}$. In more simple terms, 1 with 34 zeros behind it ranging to 1 with 1,230 zeros behind it (and that is only the 6 main fine tuning areas that ALL had to line up <u>exactly to bring the universe into existence</u>). #ChanceOrDesign?