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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.

Near The End Or Are We Just Getting Started?

The financially traumatic time of the "Great Recession", which we all felt when seeing our portfolio statements, very much lingers still today. Since then though, portfolio values have gone up significantly in many cases; well above where they were before.

Because of the time that has past, many deduce that "something bad is going to happen again soon". Those thoughts are stoked with writings and prognostications in media warning that this stretch of increasing portfolio values is nearing its end.

The fact there is this worry around makes me feel good about the future, in the nearer term. Things don't go bad when many people are waiting for bad things to happen. However, rather than simply go by contrarian sentiments and "feelings" and hanging on with blind faith, I thought I would present this graph to you:

This lays out the longer term trends that have taken place for the past 120 years. The red shows long periods of flat investment returns. The green shows us extended times or "megatrends" of investment values increasing.

What our "feelings" try to convince us of, is completely different than what this graphic shows. It always shows a completely different reality to what we hear or read in today's media. When looking at evidence, you have to look at all evidence, not just the evidence that supports our leanings.

Having said all of that, I'm not one to put much weight in charts like this since, as the late great investor Sir John Templeton said, "the best time to invest is when you have the money".

If you focus on owing pieces of high quality businesses that are leaders in their field which have a really deep moats around them (making it very hard for a competitor to gain entry into the same business) you may be okay. I did say "may". The only other thing to add to the equation is buying pieces of those businesses at a fair or better still, cheap price. Seeing something others fail to see. This recipe gives you safety and upside, despite what the charts say.

If you want to see what I mean on this, I can send you a piece I produced for some of my clients, which shows a cursory sampling of the kind of strength and downside protection (safety) in what they own.

The Downside Of Expecting Too Much

2017 was a particularly good year of investment performance, when looking at the whole word in aggregate (MSCI World Index in USD). Total return for the calendar year was +23.07%. 2016 wasn't bad either (+8.15%) after following a flat 2015 (-0.32%). 2014 was slow and steady (+5.5%) however, the 2 years prior to that gave us big fruit (+27.37% in 2013 and +16.54% in 2012). What you can see from this is that the past 6 years overall has produced wealth for those who were invested in a well diversified, primarily equity portfolio.

Now here is the downside to a long series of positive results. Future expectations that extrapolate the recent past to the future. The longer we experience positive results, the more the feeling that, this is normal, continues. Also, the feeling changes to belief and that belief, morphs into conviction.

"Elevated optimism today leads to buoyant expectations for tomorrow". This is very evident in a survey done by UK based Schroders, a global investment manager of 22,100 investors. This survey found that investors, on average, expect an annual return of 10.2% per year on their investments over the next 5 years. 13% of those surveyed belief the number was going to be at least 20% / year for the next 5 years.

Interestingly enough (but not surprising) is that the level of optimism is highest in the age 18—35 age group and declines with age. 70 and overs though still expect a very healthy return of 8.1% per year. Would they be expecting these returns if the past several years had been disappointing? Of course not. Just think back to early 2009 and I'm sure you would agree with me that almost everyone was very pessimistic on future investment returns. I think back to the handful of clients I was dealing with at the time, who had cash to invest. Today, asking them to invest is easy. Then? The complete opposite. We base our expectations of the future on a long string of recent experiences. Throwing the dice or a string of good hands in any card game is a good example of that feeling.

This is a common framing problem called "recency bias". "Recency Bias" is one of the many psychological biases that effect our financial decision making. These biases are our biggest, worst enemy when it comes to our financial health. Today, the challenge for Financial Planners like myself is, keeping client's feet on the ground. Tomorrow, next year or a few years from now? I'm sure I'll be coaching clients to be bold.

The problem of recency bias is most dangerous for retirees or pre-retirees who base their financial projections on future returns that are too optimistic. That 8.1% / year should be closer to 6% in my opinion and that is only if your portfolio is weighted more to equities than to things like bonds and heaven forbid, bank deposits. Sure you may and could very well do better, but that is like building a bridge with less than the most stringent of engineering standards built in. Making projections that are too optimistic and not reviewing them regularly could mean a money squeeze that tightens and tightens, the longer you live. I'm sure you want your financial bridge to hold you until the end of your journey.

"Risk Free" With Upside

The financial industry is always trying to provide people with what they want. No risk with stellar returns. I want the cake to be kept whole but still eat my cake. Who wouldn't want returns better than a bank deposit without being subjected to the fear of worrying about if your investment will be worth less than what you put in, 3 to 5 years from now? Not possible however, sometimes you can get both of those, to some degree at least. Here is one of those cases.

An insurance company investment vehicle came down my wire recently (available now) that is based on a 3 to 5 year term with returns that at the worst will give you 0% / year but at the best will give you 9.16% / year. 1 will give you unlimited upside (based of course on the market it participates in). Sure, you many not get nothing but if you have a bank deposit, you are almost getting that now. On the other side of the coin however, you have the potential for very healthy returns.

The other benefit with an investment product like this is, because it is offered by an insurance company, you can name 1 or more beneficiaries on it. This can work very well for someone who is retired (up to age 95) particularly if they want to set money aside for the next generation. As the insurance company says, this investment vehicle is "predictable and risk free".

Sign Up For The "Get Rich Slow" Plan

It is human nature to try to take the shortest path to success. Weight loss gimmicks are the epitome of this desire to do little for a lot. The dream of significant wealth accumulation can make us fall into the same trap. The reality is, the chance of success following the quick route can actually give you the exact opposite result. Rather than be Healthy and Wealthy you end up Unhealthy and Struggling.

"Get Rich Slow" puts your odds of success at the exact opposite end of the spectrum because they are based on habits, and good habits get you there. That habit being the one of "paying yourself first", which has been talked about in many books. The most popular by far being "The Wealthy Barber".

Barbers make a very modest living as do many service professions. What you can put in place to make you wealthier in the longer term, more so than many high earning, high spending professionals, is setting up a set amount of money to come out of your bank account and invested for the long term. This can make any income earner, wealthier than they could ever imagine. Not a pipe dream of wealth or a "cross my fingers, hope to get there" kind of wealth but a wealth that will become your reality.

How can you most effectively do that? Set up a monthly or twice monthly, RRSP contribution NOW. The amount isn't nearly as important as actually setting it up NOW. Don't want the restrictions of a RRSP? Go with a TFSA. Again, the RRSP vs TFSA details aren't important. The action (just doing it) however, is. Do that NOW. You can read the rest of this later (I'll wait). If you are all set in this department or you are in the "retirement phase", read on but… the next time you see your kids or grandkids, encourage them to start on their own "get rich slow" plan. It may be countercultural, but I think that is probably a good thing.

How To Move Money To Your Kids And Grandkids

You have accumulated a nice nest egg. You get plenty of income from CPP, OAS, pension, RRIF etc. In fact, you don't need all of your investment portfolio to make ends meet. What I'm sure you are realizing though is, you are facing an ever increasing income tax bill as your portfolio grows.

So how can you pass this money on to your beneficiaries, yet eliminating the annual taxes that are triggered by this money while at the same time maintaining the investment in your own control? The first way is something I've mentioned before, an "Estate Bond" (see Mutual Gains #177—Jan / Feb 2017). This can be a very effective strategy to move money to the next generation, that being your own child(ren). If this is your objective, I'd suggest reading that piece again.

Another way to do this is through a "Cascading" policy. The difference between this and the "Estate Bond' is that the Cascading policy is set up so that money passes to your adult child but in the end, your money "cascades" down to your grandchildren.

The simple layout of this plan are: 1) You put money into a Universal Life (UL) policy 2) Life insurance is written on your adult child's life 3) Your grandchildren are named as beneficiaries on the life insurance policy. When you pass on, the money inside the policy goes to your adult child(ren) but still held within the "tax exempt" policy, meaning no income tax has to be paid on the investments inside the policy, as they increase in value. When your adult child passes on, what is remaining of the investment portfolio AND the life insurance proceeds, "cascade" down to your grandchild(ren). It is apropos that it is named "Cascading" because that is exactly what it does.

Did You File A T1135?

What!? You forgot?! No worries if you don't have property or other investments outside of Canada. However, if you do, you are required by CRA to file a T1135 with your tax return.

The most common reason for people to have to do this is if they own a "non-personal use" real estate investment in the US or other country where the total cost of these assets is over $100,000. Of course, if you have a bank account or investment portfolio that you put $100,000 or more into, outside of Canada, you would also have to file a T1135.

If any of these describes your situation, make sure you file this T1135 form ASAP if you haven't already. The deadline was the end of April (same as your tax return) and there is a $25 / day penalty up to a maximum of $2,500, plus interest.

5 Ways To Minimize OAS Clawbacks

OAS Clawbacks are the paying back to the government, a portion or all of the OAS payments you receive. For 2018, if your income will be over $75,910, you will have to pay back to the government, 15% of anything over that amount. Of course, like anything, planning ahead will leave you more options, however here are 5 things that can be done to reduce or eliminate OAS Clawbacks. These are:

1) Make sure you have as much of your money in vehicles that produce capital gains, rather than dividends or interest.
2) Pre-planning so you don't have to service debt in retirement. The need to make debt payments means you need more income. More income means the potential for OAS clawbacks (of course, if your income needs are under $75,910 you're fine).
3) Don't use all of your RRSP contribution room when you are working. Sure, make the contributions by age 71 but don't use the RRSP deductions until you need them to offset OAS clawbacks.
4) Take your CPP and / or OAS later so you have time to set up your other investments and income. Every month you put off receiving your CPP and / or OAS, you will get 7.2% more.
5) If you are still working and getting CPP and OAS, scale back on the amount you work. It doesn't make any sense to work only to see some of the hours you are working be "working for free" hours, because of the OAS clawbacks.

Tech Gems— Credit Karma

You may be thinking, "Carey, you've mentioned this before". Yes, I have, Mutual Gains #178, March April 2017 issue (which included Borrowell). The reason I write about it again is to point out a personal testimonial on a significant warning bell it sounds. This "alert" can save you a lot of headache should someone try to steal or identity or open an account in your name without you knowing.

I signed up for both Credit Karma and Borrowell just before I wrote about them last year. I am not one to open accounts or sign up for credit cards however, I was buying a jacket at The Bay last month and I was being offered some discounts and a future credit, should I sign up. As long as I can justify the value of what I'm getting against the time I'm spending to sign up AND the time spent cancelling the credit card, I'm in.

Long story short, the signing up for this card triggered Credit Karma to send me a notification of a "new inquiry was just added to your credit report". In this electronic age, a tool like Credit Karma is a safety mechanism before real damage can be done to your finances (come to think of it, I never did get an alert from Borrowell).

Hhhmmm…

"This is what you hire us for. To look around the world, for market leading companies, where we identify when their share prices are abnormally low, because there is some kind of short term event, which is clouding its future"….. "We are trying to know the most about a few companies rather than know something about a lot. Doing that, we can't but help to be better than average and hopefully, be much better". Meeting with Richard Jenkins, Black Creek Investment Management, Feb. 2018 #SimpleYetHard

Dubai's economy was the fastest growing in the world for 33 years in a row, from 1975 to 2008. BlueOceanStrategy.com April 2018 #ItWasntChina

Alipay and WeChat Pay are mobile payment apps that require credit cards linked to China. They are very popular in China and in Vancouver. The only limit on how much can be transacted, is the limit on the users credit card limit. Apple Pay limits Canadian users to $100 per transaction. Business In Vancouver, May 2018 #ButtKickingApple

The average BC weekly wage in the construction industry in February was $1,152. That compares with $1,074 / week in finance, insurance and real estate, $1,031 / week in education services and $901 in health care and social assistance. The overall average weekly wage was $943 /week. Business In Vancouver, April 2018 #BlueVsWhiteCollar

An estimated 47% of all existing mortgages will need to be refinanced this year, up from the 25% to 35% range in a typical year. This is an unintended consequence of many regulatory changes, aimed at reducing risk which was coupled with rising house prices that made it harder for homebuyers to qualify. CIBC Capital Markets, April 2018 #BadToWorse

Tax evasion occurs when someone willfully ignores tax laws. From April 1, 2012 to March 31, 2017, Canadian courts convicted 408 taxpayers. This involved $122 million in federal tax evaded which resulted in $44 million in court fines and 3,103 months in jail. CRA, April 2018 #StealingFromYourNeighbour

Mid March 2018, a 50 liter fill up of regular gas in South Surrey BC was $74.95. In the US, it was $55.37 in Canadian dollars, a 26% price difference. #LiveCloseToBorder

Canada has a $20 maximum limit on the value of foreign purchases you are allowed to take across the border without having to stay for a certain amount of time. This is called the "de minimis rate". Canada has one of the lowest rates in the industrialized world. This may change soon as the US wants Canada's limit to be raised to $800. Business In Vancouver, May 2018 #FreerFreeTrade

You have a 1 in 1200 chance of having a house fire, 1 in 240 chance of a catastrophic car crash, 1 in 14 chance that someone age 40 will die before age 65, 1 in 5 chance you will be disabled for 90 days and 1 in 3 chance of becoming critically ill, yet we more often buy the insurance that is the least likely to happen to us. Manulife #FeelingsBasedDecisions

1 kg of recycled plastic is worth more than 1 kg of steel. GLOBE Forum in Vancouver, Jan. 2018

Washington State's ecology department reports that rail shipments of Alberta heavy crude to its refineries have been rising since they started in 2012. They go through BC's Fraser Canyon (picture those steep banks along the fast moving river) to Bellingham, WA. PeachArchNews.com, April 2018 #PipelineOrRail?

According to a Danish government study in the Fall of 2017, 1 plastic, low density polyethylene bag shopping / grocery bag needs only be used twice to match 7,100 uses of a cotton grocery bag and 47 times for a paper bag in terms of environmental impact (based on 16 parameters). Peace Arch News, April 2018 #PlasticIsGood

A bat and a ball costs $1.10 in total. The bat costs $1.00 more than the ball. How much does the ball cost? What is your instinctive response? I'm guessing that it is, that the ball at most costs 10 cents. That can't be right, though can it? The bat is supposed to cost $1.00 MORE THAN the ball. So, if the ball costs 10 cents, the bat must costs $1.10 and we've exceeded our total." Association For Psychological Science #MoreComplexThanAppears

There is more and more concern with our "Rights" and less and less talk about our "Responsibility". #YerNotTheOcean

One of the most fascinating statements the late Stephen Hawking ever made was in his book The Grand Design where he said that, "Because there is a law such as gravity, the universe can and will create itself from nothing." #MaterialistContradiction