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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.

Are Trade Wars Worth Worrying About?

Although Trump may be the initiator of what could be, global trade impediments through the use of tariffs, he is moving in the direction of what seems to be a secular shift in sentiment by many citizens around the world; that being "protectionism".

Everything seems to go in waves, be it trade, fashion, design, health fads or societal structure. However, if you look back at history, the change in trade policy is a slow and long one. The opening up to trade first started as a fix to break down "extreme nationalism" in the run up to World War II. This freer global trade trend became front and centre here in North America with NAFTA in the early 90's. The EU's open market came in 1993.

Today, it seems the open market trend is reversing, or at least backing up, to some degree. This is most evident with Trump and his rants against China and Canada which has actualized into actual tariffs on a total of $50 billion of Chinese goods. It took effect on July 6th and was quickly followed (as I was writing this piece on July 10th) by Trump threatening another $200 billion of goods made in China, with tariffs.

The worst case of these trade wars is that it could impede global economic growth significantly, mostly by increasing the cost for businesses which would increase prices for you and me, the consumers. The end result could, "stagflation" which is very low or stagnant economic growth globally, with higher inflation. We experienced this in the 70's and equity markets, for the most part, went nowhere.

Governments however, want to be re-elected, so the escalation of tariffs while hurting consumers and investment markets, isn't in their best interests. Remember, Trump said he'd rip up NAFTA when he was campaigning to be President and shortly after being elected. It seems he has completely backed down on that threat. This is why we see short bouts of downward pressure on investment markets on any news of increased tariff threats followed by rebounds when markets realized the risks were overblown. This kind of investment market bumpiness will continue and don't be surprised (nor alarmed) should it be beyond your own comfort zone at times.

Of course, the primary thing to remember is being very cognizant of the business you own pieces of, within your portfolio. Strong businesses with excellent management teams, who also own substantial pieces of these businesses, will adapt as the various uncertainties that pertain to each of them, become clearer. Overlaying all of that needs to be a portfolio management team, that has their money invested along side yours and mine, continually scouring the globe for businesses that can adapt and thrive with the changes, whatever they may be.

Even in a worst case scenario, where we get caught in an environment of stagflation, very discerning, active management should still be able to produce very positive results as this style of investment management did in the 70's and into the early 80's, despite what "the market" did.

Does "Sell In May And Go Away" Work?

Life has a rythmn of events throughout the year, that repeat themselves annually. "Back To School" flyers coming before July has even finished, Christmas decorations and ads showing up the morning after Halloween, the Canucks and so far, the Leafs, always disappoint us in the Spring. Among these events are, a rhythm of discussions. As an example, every late Spring I read "Sell In May and Go Away" articles. The theory behind this says that, investors should completely cash out of their equity portfolios on May 1st, putting it into cash and then loading up on equities, in November.

So, how has this strategy performed historically? Manulife Investments analyzed returns for a portfolio that adhered to the "Sell in May…" and compared it to the conventional buy and hold strategy. What they found was in my opinion, obvious; that investors are much better off with a buy and hold strategy over the long run. Over the past 30 years, the compound annual growth rate (CAGR) of the S&P 500 Index (not including dividends) was 8.0% in US dollar terms ending April 2018. Whereas the Sell in May strategy on the same S&P 500 Index yielded 6% CAGR.

There aren't too many investors that are truly "buy and hold" anymore because you can get better returns with less risk, within a value oriented, active portfolio however, this evidence shows that trying to time investing based on dates on the calendar will most likely be, detrimental to your long term, financial success.

A Non-PFIC Investment For US Tax Reporting

I have a handful of clients who are either US citizens (who have to report their worldwide income to the IRS) or are Canadian's moving to or currently living in the US. In both these cases, the IRS wants to tax all the income earned. If you are a Canadian in the US, you have to be even more careful, particularly if you leave investment money in Canada and that money is in what they call a PFIC.

There is a financial product I made mention of in the last issue of Mutual Gains ("Risk Free With Upside") which can be used to completely shelter the income tax you would have to pay the IRS on.

The first key issue is that this "Market Linked Term Investment" is not considered a "Passive Foreign Investment Company" (PFIC). This is a huge advantage over any mutual fund in Canada because they are all PFIC's. With a PFIC, you are triggering capital gains annually and this, along with any dividends and interest you earn is all taxed as regular income, payable to the IRS.

On the "Market Linked Term Investment" there is no income tax reporting to be done and more importantly, no onerous income tax to pay on the money your investments are making. Again, that includes capital gains which are considered 100% ordinary income if you are a Canadian living in the US.

The other major advantage (which can be used by ANYONE) is that you won't have any interest income to report on your investments for either 3 or 5 years. By that time, you could be back in Canada. There are all kinds of ramifications this kind of investment vehicle can eliminate, one being OAS clawbacks for a Canadian tax payer that receives Old Age Security income. So, if you have cash that you want to shelter from the IRS and CRA for 3 to 5 years, with guarantees and the potential for a 12 or 55% total return during the holding period, you won't find anything better than this.

PS. If you work with an Accountant / CPA, mention this to them and if need be, they can contact Carey@careyvandenberg for details. I'm sure they will thank you for the insight and possible solution to many of their US connected, clients as well as those who live in Canada but are getting their OAS clawed back.

"Mental Accounting" vs Real Accounting

Mental accounting is one of the many symptoms that can lead us to poor financial decisions. With mental accounting, we are viewing 2 different scenarios differently and thus making a different decision on each of them, yet the financial end result is exactly the same.

You bought a pair of concert tickets in advance for $200. You arrive at a concert, you don't have the pair of tickets you bought. However, lucky you, you can buy tickets at the door for $200. Would you fork over another $200?

Compare that to a second scenario in which you are go to a concert but are buying the tickets at the door for $200. While walking from your car in the parking garage to the ticket counter, you find out you lost $200 in cash of the $400 you had in your wallet. Would you still buy the concert tickets?

A Princeton University study discovered that only 46% of the study participants in scenario one said they would spend the extra money. However, a whopping 88% (almost double) of said they would spend they money, in scenario 2. The financial outcome at the end is the same in both scenarios but, the decisions are different.

The effects of mental accounting have us treating tax refunds, bonuses and lottery winnings like they have less financial value then if it was real money. To stop the illness of mental accounting you simply have to look at your entire financial picture currently along with what you want it to look like and ask yourself, what is the best use of this cash?

2 Ways To Hold Property Jointly

There are 2 simple ways to own a property or investment, "Joint Tenancy" or "Tenants In Common", with benefits and drawbacks to each of them. Joint Tenancy is used the most. Unfortunately however, it is used even when it shouldn't be.

With Joint Tenancy (or Joint Tenants With Rights Of Survivorship), 2 people own something which, when 1 passes on, 100% ownership passes to the survivor. When there are no other people that this asset should be going to, this is a perfect set up, especially when you are talking about a couple who have had no previous marital relationships.

If however, 1 of the spouses has children from a previous relationship, these adult children, could very well, get cut out of ever receiving any benefit of cash from the asset in question. Their step parent, would now own 100%, and most likely, would eventually pass it on to their kids. This is where, holding an asset as "Tenants In Common" can be of use.

When each of the couple has a 50% interest in the property as Tenancy In Common, should one of them pass on, their portion, will then be owned by the beneficiaries of their estate. In this case, their adult children. If this is done with a principal residence, and the surviving spouse would still want to live in the property, a simple contract would need to have been drawn up where the deceased's 50% ownership transfers to a Trust, in which the children are beneficiaries. They would be required to let the their step parent live in that property until he/she dies or decides to sell.

Give A Lifetime Income To Your Kids Instead Of Cash

Have you ever thought through your own premature death and what would follow, namely all your assets getting paid in cash, out to your kids? What if that happened today? Does that make you just a bit squeamish on what your kids would do with a million (or 2 or 3 or maybe even more) in cash? If so, there is a way you can tailor your Estate Plan so they don't win the "lottery of you" and subject them to all the downsides of instant wealth, before they go through the character building that comes with earning it.

How do you feel about giving your beneficiaries, a monthly income instead? Does this sound better? If so, this is where a Trust can come in.

When a Trust is set up as directive in your Will, all of your assets will be paid into a Trust. The Trust then distributes income as you stipulate in your Will to your beneficiaries. You can layout exactly how you want to structure it. You could, when your children reach a certain age, have the remainder of the money paid out from the Trust to them. You could also give scheduled payouts over a period of time. Again, completely mix and matchable, as to your wishes.

You can also set it up as a Charitable Remainder Trust. This would be done if you have a charitable organization, of which you want receiving, the majority of your estate (ie Warren Buffett). With this, you would pay out a regular income to your children for their entire lives. When they have passed on, the "remainder" gets paid out to the charity you chose. You get a donation receipt to be used on your Estate's tax return, which could offset a lot of income tax your Estate would pay.

Those are 2 quick examples to have your estate go to your kids thoughtfully, with their individual personalities and circumstances, in mind. A Trust is the solution, one which you can customize to make it work exactly how you want it to. Of course, your Financial Planner is the one who can help you wrestle through some of the family dynamic details, before going to a lawyer and having it written in your Will.

How To Finance That "Good Bones" Home Reno

Buying a home that needs renos will give you better upside than buying a new home, provided it is in a comparable neighbourhood AND that the well aged home has good bones. This principal also often applies to the question of, "should I move or should I renovate?". The hurdle for those with not much equity in their home, or those their first home is, how to pay for the house AND the renos?

A "Purchase Plus Improvements" mortgage can make it all work. It can cover the sale price of the home, plus the cost of the renos, up to $40,000. If you have truly added some value (and then some), you will be able to get an even bigger mortgage and have extra cash and go on a trip! (I'm playing with you here. That is what mental accounting would have you do).

Do you already own that great bones home, in an attractive neighbourhood? A "Refinance Plus Improvements" mortgage allows you to finance up to 80% of the improved value of your home once the up to $40,000 in home improvement renos are complete. You only need to take this path if you have less than 20% equity. If you have 20% or more, you may be able to simply refinance your existing mortgage to do the renos.

Of course, all your mortgage financing options should be worked out in what I call a "triangle arrangement", between you, your Financial Planner and a mortgage broker that you both can work closely with, to make sure you have the right plan in place for your situation and what you are trying to achieve as a whole.

Tech Gems— YouTube Premium

A few months ago I subscribed to Google Play Music (Yes, I know this is about YouTube premium but I'm getting to that) and it's one of those things that has made music listening (to what I want to hear) so much easier. I quite like "Progressive Rock" and never had a chance to really give Genesis and Phil Collins' amazing drumming, a real listen to. So, why not search for "Genesis" and click on their highly acclaimed 1973 album, "Selling England By The Pound"? Or, after watching "Love & Mercy", the movie mostly about Brian Wilson of the Beach Boys and their making of "Pet Sounds", listen to this album from beginning to end, to understand why it was so revered? How about rediscovering some of those “one hit wonder”s from the 70’s or 80’s to see if you can find another?

Well, Google is taking it up a notch. Subscribe to YouTube Premium and you’ll get Google Play Music and be able to do all those things PLUS, you’ll be able to download any YouTube video for offline viewing. As well, you’ll get rid of all those YouTube ads.

If you have been an iTunes or Spotify advocate, I’d give YouTube Premium a free trial run. Spotify, the trend setter on the music side is very good but iTunes is being left behind in the dust by both.

Hhhmmm…

Since 1990, the S&P 500 Index’s average intra-year decline has been -13% (in other words, usually somewhere during the year we see a drop from peak to trough, of 13% on average). However, the last time the S&P 500 dropped by at least this amount intra year was in 2011. All of this enthusiasm has resulted in a lack of fear. Edgepoint Wealth, July 2018 #NoFear=Carelessness

The stock market was essentially flat during the decade from 2000 to 2010 yet the best-performing mutual fund returned 18% per year. Investors in the fund didn’t do nearly as well. In fact, on average they lost -11% a year on a money weighted basis. How do you lose -11% annually in an investment that compounds at 18% annually over 10 years? It’s easy – buy it when it’s doing well and sell it when it’s doing poorly. Joel Greenblatt, famous investor and author of The Big Secret For The Small Investor #YourActionsDetermineYourSuccess

Today's 7 Deadly Sins

1. Pride: Instagram
2. Greed: LinkedIn
3. Lust: Tinder
4. Envy: Facebook
5. Gluttony: Yelp
6. Wrath: Twitter
7. Sloth: Netflix

With renewable energy technology racing ahead and western nations focused on moving beyond fossil fuels, it’s hardly surprising that global demand for oil and gas is in decline. Except that it isn’t. In fact, aside from a brief setback during the deep 2008/09 recession, yearly consumption has risen steadily and now sits at all time highs. Dixon Mitchell Monthly Report, Summer 2018 #GasIsCheap&Easy

Most Western economies have greatly reduced their dependence on coal however, China has done the exact opposite. Today, coal accounts for the same worldwide power generation as it did in 1998, approximately 38%. One Capital Management, July 2018 #AlternativeEnergyIsntCatching

Most Metro Vancouver retailers and owners of services businesses that years ago accepted Bitcoin have either gone out of business or stopped accepting Bitcoin. Those who still accept it have not logged any transactions in more than a year. Business In Vancouver, Jan. 2018 #CashIsStillKing

Canada Mortgage and Housing Corp. (CMHC) insured rates (those with less than 25% down payment) for a 5 year term now sit at around 3%. For conventional financing (where MORE than 25% is put down as a down payment), 4 - 5 year rates are currently much higher, in the range of 4 to 4.25%. #RiskierMortgagesPayLess? #ItShouldn’tBeThisWay

Sechelt ranks 3rd highest in Canada for residents who spend more than 50% of their gross income on rent. Western Investor, July 2018 #EffectsOfNoDevelopment

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 #BlueCollarIsNewWhite

The latest census numbers say that the number of people aged 85 and older grew by 19.4 per cent from 2011 to 2016, nearly 4 times the rate for the overall Canadian population. The number of people aged 100 and older grew by 41.3 per cent, making it the fastest-growing age group during that period. Globe & Mail, May 2018 #MakeMoneyOutliveYou

The world’s population is exploding, with births double that of deaths for a net world population increase of 42 million people so far in 2018. One Capital Management, July 2018 #GrowingConsumerDemandOnEVERYTHING

Global meat consumption has increased by 30% during the past 20 years and is estimated to grow by an additional 13% in the next decade. Investment Executive, July 2018 #PlantsAreHealthierBut…

The more spent on an engagement ring and on a wedding, increases the risk of that marriage ending in an early divorce. As well, Marriage can actually increase the happiness of partners but it takes 20 years of being together to get there. Miami Herald, July 2018 #LessIsBetter #MakingItWorkTakesALittleLonger

Oxford English Dictionary, named “post-truth” their word of the year in November 2016. It means, where personal preferences and feelings carry more weight than fact and truth in shaping public opinion. #WhatWeWantVsWhatShouldBe

No matter what side of an argument you are on about what is believed to be right or wrong, when a government sets it in law, it is most often doing so not on science or reason, but on what the majority wants, thus forcing it on the others. CEV #LegalDoesnt=Right #TheyCallItDemocracy

Whenever you champion the rights of one you infringe on the rights of another. That is the way the world is. Inevitably it comes down to, are you willing to sacrifice your rights for the sake of the other? CEV #JustUsOrJustice? #LoveIsAVerb