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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.

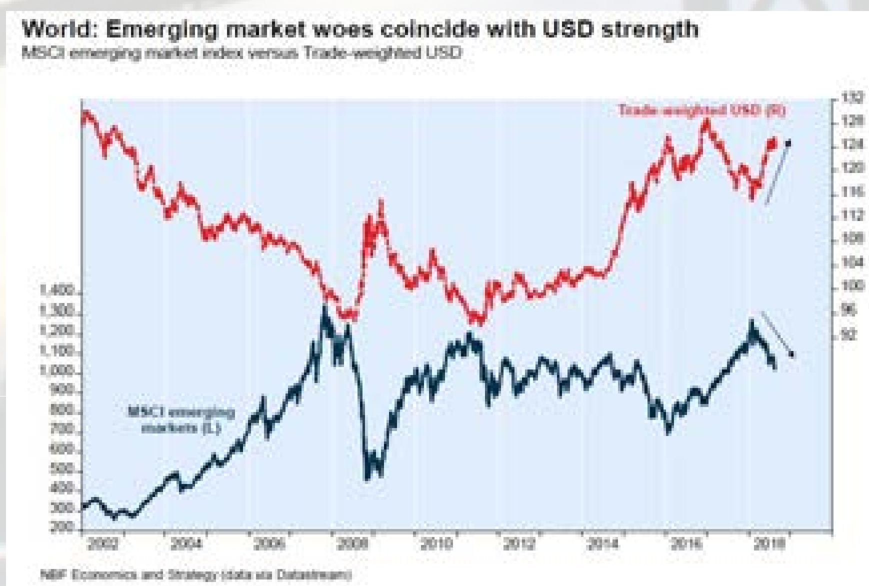
Crosby, Ovechkin & Karlsson For Diversification

2017 was the best year of performance on equities since 2013. 2018 so far as been "so so". Nothing to get excited about but that is actually good. The 30,000 foot view is that we are in a "synchronized global expansion", where today, there are fewer countries in recession at one time than there has been for several decades.

The US has been the economic growth leader. It has clawed its way out of the "Great Recession" more than 10 years ago. Today, the US economy is considered "strong", up from "solid", which are the words used by the US's central bank, to rate it. The UK's economy, with its Brexit plan still moving forward, is at "full speed". China is becoming less and less dependent on the US for its economic health. Overall, the world is chugging along nicely. This is further evidenced by the increases we are seeing in interest rates in most countries; again, with the US leading the way.

The only real potential problem area could be the "emerging" economies. Turkey is the sore thumb in that area. It is relatively small but like many small things, Turkey's problems can have a ripple effect. In this case, the first ripple goes to Spanish and French banks as they have the most exposure to Turkish debt. Further ripples would roll if investors pull money from all emerging market related investments.

Having said that though, there always has been and always will be, problem areas. When one area zigs the other zags. With emerging markets, when they are doing poorly it is because they are being hampered by a strong US dollar... and vice versa (see chart below):



It is for this reason the majority of my client portfolios (as well as my own), have 3 different portfolio management teams handling different areas. All 3 have quite broad mandates, however all 3 tend to hold completely different investments within their respective mandates. I liken it to 3 hockey players. You wouldn't want 3 Alex Ovechkins on your team. You would then have 3 people all doing and seeing things the same way. For a successful team you need a Sidney Crosby, an Erik Karlsson and an Alex Ovechkin. 3 different playing positions, doing 3 different things at any 1 time.

Applied to portfolio performance since January 1st, the "core" and broadest growth mandate, making up the majority of portfolios, is well in the "plus" column. The other 2, smaller mandates are "negative" by a bit less than the "core" is positive on a percentage basis and flat respectively. End result is, despite 1 "mandate" producing negative numbers year to date, the overall return is quite healthy. This is without taking on the risks of buying companies that so many others are investing in, companies with no or very little in the way of corporate earnings.

Of course, you want to be able to trade out one of these players should the need arise. For this reason, I am always hunting for that potential trade to make the team better. That doesn't mean it is going to happen in the foreseeable future. The 3 portfolio "players" are all doing what they were hired to do. I only add that point to show that research and prep is always being done behind the scenes. This way, we can ACT prudently rather than REACT irrationally, making success a reality rather than simply hoping for it.

(Interesting, yet not surprising note: The mandate that is in negative numbers so far this year, was the one that did the best in 2017. True diversification works. Illusory diversification and "di-worsification" don't.

Why The Crowd Is Usually Wrong (The Lemming Effect)

The "Lemming effect" is prevalent in social circles and that flows through when dealing with personal investment or financial decisions. More often than not, when the crowd is going one way, it is only because most are just following the wave based on feelings. Following is often wrong.

Here is an example of an experiment you can try. Fill a glass container with 150 jelly beans. Pass the container around and ask people to guess how many jelly beans are in it. Let them take as much time as they need to come up with a number. Have them write their guess on a piece of paper without showing anyone.

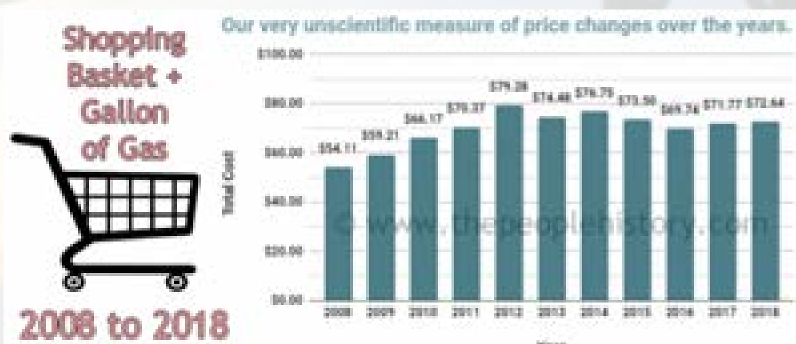
When everyone has done that, ask each person to say their number out loud, one at a time. The catch is, your accomplice goes first. This person is someone you have pre-arranged to say that their guess is 400 jelly beans.

What do you think happens? Most everyone will say a higher number out loud; a higher number than what they originally wrote down. When looking at the written down numbers, you will find that most will be within 20% of the correct number, which is 150.

To achieve the best investment outcome, you must shut out the noise and focus on the facts. It's not surprising that people make decisions based on what other people are doing. Which is why the majority are usually wrong. Success only follows a strong, long term view, based on contrarian thinking and facts. So the next time you are making a decision based on what everyone else is believing and / or doing, think of a jar of jelly beans.

Will You Be Squeezed By Increasing Living Costs?

Prices go up. Almost every day we see firsthand, that prices over time, go up. This is most felt in gas and food costs as well as property taxes for home owners and rent for others. These price increases never seem to let up. When you work, generally that is offset by increases in your pay. However, when you are retired, you have to ensure that the income coming from your own assets, can go up as well.



If prices on the things you pay for, are going up by 3% per year, the investments in your RRSP etc. need to increase by 3% just to keep pace. If they don't, prices will be going up but your income won't. The end result is a cut in income.

This means that, if the graph on the right holds true going forward, your income will decline by 34% in "real" terms over the next 10 years. Despite the dollar number you receive is still the same, the real value of your income will have dropped by 34%. What would life feel like if, from now on, your income was 34% less than it has been?

That is your reality if you don't have a well diversified portfolio of <u>ownership assets</u> from which you can derive your retirement income from. Ownership assets are anything where you aren't lending your money to a bank, and simply getting a fixed rate of interest. High quality ownership assets (pieces of high quality, world leading businesses and hard assets), bought at a good price, are the only things that will ensure your income can go up, to match your groceries bill, gas fill up costs and property taxes.

For Those Who Have Some Debt, Do A "Debt Swap!"

If we are put this title to a song it would be to, "For Those About To Rock" by ACDC. Go ahead try singing it. Our song though is based on making your interest costs tax deductible, which you can do if you structure (or re-structrure) things correctly.

If you have cash or investments sitting anywhere outside of your RRSP AND you have a mortgage on a personal use property or any consumer debt like a car loan, you should be singing and "doing" our version of the song.

"Doing" means, taking the cash or selling the investments you have and using the proceeds to pay down (or off) your non-deductible debt. The next "verse" is getting a loan to buy back the investments you sold. The end result is you still have the same amount of debt however now, your interest costs are 100% tax deductible because you have used it for purposes of earning income (which an investment is supposed to do, in time).

Same Song (As Above), Different Key

All of the above is the same with the only difference is you would need your own Corporation to do the "different key". With this "version" there are some interesting chord changes so stick with me.

You transfer your personal investments (or cash) to your Corp. Your Corp, in exchange, gives you more shares plus a Promissory Note for the same dollar value of the cash (or investments) you transferred into the Corp. You then, go to the bank and borrow that same amount of money to buy more shares of your Corp. The interest is tax deductible because you are investing in shares. Your Corp., because it has the cash you originally transferred to it, can now pay you back your cash. The final step is you pay down your non-deductible debt. You now are in the same debt position but your interest is fully tax deductible.

Make Sure You Get Your BCTESG

The BCTESG (BC Training & Education Savings Grant) is $1,200 the BC government will give to your kids education if you have an RESP set up. This is on top of the 20% (to a maximum of $500 / year) the Federal Government gives for contributions to your RESP. The difference is that with the BCTESG, all you need to do is to apply for the Grant. You don't have to contribute any money to the RESP whatsoever, to get the $1,200 per child.

We have applied for the BCTEST and have received the $1,200 for all our client's children who qualify however, if you have an RESP somewhere else, they may not have done that for you. Your child (or grandchild) must be age 6 and you have to apply before they are 9. Pass that on to someone you know who has kids in this age range, so they get their $1,200 each.

Getting Your CPP & OAS Right Away May Not Be The Best

Taking CPP and OAS as soon as you can seems to be the path most people take however, that may not be the best thing to do. There are a number of factors to consider when making your decisions on these 2, "for life" monthly incomes.

With CPP you can choose to take it as early as 60 or as late as 70. Age 65 is the base age, however if you take it sooner, you will get 0.6% less for every month before your 65th birthday. You will get 0.7% more for every month later. That works out to getting up to 36% less or 42% more.

The 4 key factors that come into play on the take it earlier or take it later decisions are:

1) Whether you need the income
2) Your current health and life expectancy
3) Whether you are going to spend or invest the cash you receive and if the latter, what rate of return do you expect
4) Your marginal tax rate (which is determined by your taxable income)

All of these 4 things mesh together in making a final decision on your CPP so it is definitely best to consult a Financial Planner on this. Having said that though, with respect to using #2 in isolation, if you expect to live beyond age 72, you're better off waiting until age 65. If you expect to live beyond age 81, you're better off waiting until age 70 to start collecting.

A similar rule of thumb applies to OAS however, you can't start collecting it earlier than age 65. OAS has clawback potential but a bit of planning in advance could reduce or eliminate that completely if you play your cards right. Again, sit down with a Financial Planner to decide what hand you should play in the CPP & OAS deck.

Tech Gems— Google Photos

If you haven't noticed, I am a Google fan; and for good reason. Google Photos is another one of those reasons. I was recently talking to a family member who was trying to manually sort their photos into folders. I starting showing them why they didn't have to do that.

Tech has come a long way and we are well into the age of artificial intelligence (AI). With Google Photos you have AI in that it can identify faces, even as they age over decades, as well as animals, places, or objects. I showed this in real time to this family member. We search for my granddaughters name. Google Photos instantaneously pulled up all the pics of her through to now, at age 7. You can also search for photos from specific dates or locations. As well, you get photo editing tools and unlimited cloud storage if you are willing to give up a bit on quality when storing your photos. If not, you can pay for additional storage and keep your pics as high quality as you want.

Google Photos can also put your old photos up so you can share them. This is done with the built in Photoscan. Or go the other way and order a custom photo book. Couple Google Photos with Google Lens and you have 2 AI tools that can do some amazing things.

Hhhmmm…

Investing in a business you don't really understand, with no intelligent way of assessing its value, is a recipe for disaster. Liam Nunn, Portfolio Manager, Old Mutual Global Investors #KnowingVsGuessing

Warren Buffet asked his 2018 AGM audience what $10,000 invested in 1942 would be worth today, assuming a market return and reinvested dividends. The answer? $51 million. #Success=IgnoringUps&Downs

The TSX and the MSCI World are down on a daily basis 46% of the time. For a typical investor (who gets updates daily), dealing with negative returns 1 day out of 2, is difficult. Jonathan Durocher, President of National Bank Investments (via LinkedIn), Sept. 2018 #Don'tWatchTooClosely

The Canada Pension Plan Fund had $366.6 Billion in it at the end of June 2018. It produced a 10.4% compounded annual return for the past 5 years and 6.4% over 10 years. It has been calculated that the CPP fund needs to average 3.9% over 75 years in order to be sustainable. Investment Executive, Aug. 2018 #OurCPPIsHealthy

In 1990 the average mortgage rate was over 12%. A $300,000 mortgage cost about $36,000 a year in interest charges. In 2015, mortgage rates were under 2.5% meaning $36,000 a year in interest charges could pay for a mortgage of about $1,440,000. If you factor in wage increases over that 25 year period, it would be possible to support a mortgage of more than $2.5 million. Hugh Woolley, CPA, Author & Lecturer, Lewis & Co. Chartered Accountants #StickerPriceUnaffordabilityIllusion

Starbucks is expanding its Chinese offering – rolling out a new store every 15 hours. Finimize, August 2018 #StarbucksIsn'tEverywhere

Trade protectionism in the U.S. may not be as severe today as it was in the era of the Smoot-Hawley Tariff Act of 1930 (which made the Depression in the US worse than it should have been), but protectionism remains very much part of that country's DNA. Investment Executive, June 2018 #Trump'sDoingWhatUSWants

Electric vehicles will make up 13% of all cars on the road worldwide by 2040. International Energy Agency #SlowTrainComing

NIO is Tesla's emerging competition from China (look up NIO EP9 to see what Tesla is up against). They also make 2 SUV's, the ES6 and ES8. The ES8 costs about 50% of what a Tesla costs in China (and Tesla is losing money selling at current prices). NIO is working to raise $1.3 billion US on the New York Stock Exchange by September 10th. Wall Street Journal, Aug. 2018 #TeslaIsntApple

The 2018 Honda Accord required repairs 67% more often than the average new car. The new Toyota Camry? Less than half as often as the average car. The fully redesigned Chevrolet Equinox and GMC Terrain have been faring as well as the redesigned Camry. TrueDelta, Sept. 2018 #WasDoesn'tMeanIs

The increase of SUV's on the road has substantially increased the level of pedestrian deaths, up 46% since 2009. People go under the car rather than over when they are hit. Detroit Free Press, July 2018 #BeCarefulOutThere

Spending more than $20,000 on a wedding and between $2,000 to $4,000 on an engagement ring increases the risk of that marriage ending in an early divorce. Marriage can increase the happiness of partners but it takes 20 years to get there. Miami Herald, July 2018 #LoveIsAVerb

If it's possible to call a bird responsible than the Canada Goose has to qualify. Not only does it mate for life but it treats its parental obligations with a very unbird like degree of maturity. Everybody's Everywhere Backyard Bird Book

For 2018, Canada is in 30th place when compared to the rest of the world's health care systems. The US is not far behind us at 37th. Spain, Malta, Oman, Portugal, Greece, UK, Columbia, Cyprus, Saudi Arabia and Morocco all had better rated health care than Canada. World Health Organization #WeCanDoBetter #IdeologicalStraightJacket

In 2015 (latest year data) Canadians collectively gave 0.56% of their total income to charity. Americans on the other hand gave almost 3 times that (1.43 per cent). The average U.S. donation in 2015 was US$6,058, more than 3 1/2 times the average Canadian donation of C$1,699. Fraser Institute #SocialSafetyNetDetriments

In BC, we are being asked to vote in a referendum on electoral reform. The alternative to what you have now sounds attractive but…. #VoteStatusQuo?

If I have a choice, I will always choose to book accommodations that are not a hotel. I've used VRBO for about 20 years and had many great experiences over the years (it is now owned by Expedia). I've tried AirBnB a few times and my experiences have been sometimes very aggravating. Cancellation of your reservation? I've never had that happen with a VRBO booking. #VRBOClassVsAirBnBCrass

The residential "Mailbox" is misnomered. It should be renamed the "FlyerBox" #HowDoIUnsubscribe? #TakeAwayMyMailboxPLEASE!