C.E. VANDENBERG & ASSOCIATES INC.

FINANCIAL PLANNING – WEALTH MANAGEMENT – INSURANCE

mutual gains

ISSUE NO. 192 July / August 2019

UPS ARE WAY BIGGER THAN DOWNS

There has been a lot of speculation lately about when the next recession will be. Why? Because we haven't had one for a while and equity markets soften before recessions (and they start to bounce back well before recessions have ended).

My take on this time consuming forecasting endeavor is to try and avoid the pain a decline in the value of one's portfolio can experience, going into a recessionary time.

Why spend inordinate amounts of time trying to determine a short term, future outcome? Will it serve you any real financial benefit in the long term? The simple answer is "no". What this exercise trys to do is have you escape the uncomfortable feeling of financial anxiety. The fact though is, the group who live their feelings when it comes to investing (and finance in general ie spending), end up on the below average side of the ledger.

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AS WELL AS YOUR FEARS
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Carey

FUND DISTRIBUTIONS 101

Mutual funds don't pay tax. If they did, they would pay tax at the absolute highest tax rate which isn't good for anybody. Instead, they pass their tax on a pro-rated basis, to those who have money invested in the fund. In other words, any capital gains, dividends or interest that is earned, is taxed in investors hands. The mechanism for passing on the tax implications of the portfolio is achieved through a "distribution."

Here is an example. You have 10,000 units at $10 / unit, making your investment worth $100,000. The fund pays a distribution of $0.25 / unit. At the same time, the unit price is cut by $0.25. So, after the distribution, you have 10,256.410 units and the unit price has been re-adjusted to $9.75. Your total investment is still $100,000.

This distribution is made up of capital gains, dividends and interest that has accumulated and been reflected in the unit price every day. The mechanism of the distribution is simply to pass on the tax implications of these to their rightful owners.

As well, this has you paying your share of the gains on the portfolio every year rather than giving you the benefit of being able to defer all of your tax to a time when you sell or "redeem" the fund. This adjusts the "Adjusted Cost

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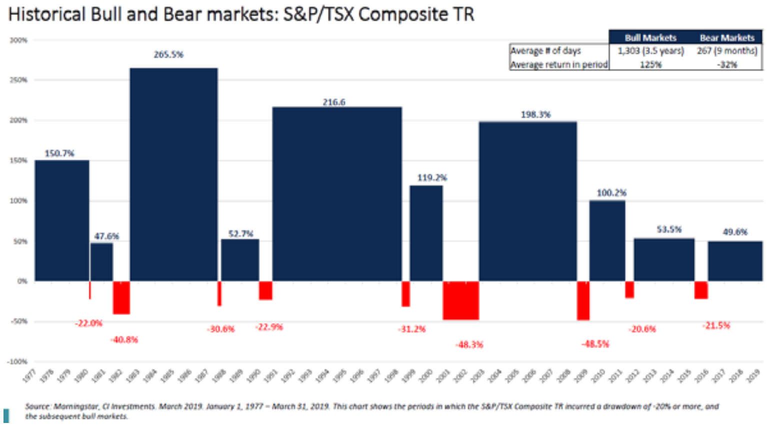
(Ups & Downs.Continued from page 1)



Why I know this is 1) through history of investment markets and 2) being involved in people's financial lives on a professional level for over 30 years.

I want to focus your attention though on #1 by looking at the graph on the left. Trying to avoid those small red bars puts you at risk of missing much of the blue bars. You not only have to get the avoidance part right but you also need to be timing perfectly on the other side. You have to make 2 bets and both have to be right. However, if you ride through the red you are guaranteed to get all of the blue. (Case in point: I know some people panicked after the last quarter of 2018 and so far in 2019 the DOW, TSX & S&P indexes are up 11.84%, 13.82 & 15.16% respectively, as of June 14th).

Now, I'm not saying to be uninformed or ignore information. Having an idea of what to expect in the future can fortify your emotional strength. I do this all the time myself, anticipating all kinds of bad scenarios in all areas of life.

Currently, it appears that there isn't much danger of a recession. In fact, growth has been higher than what was originally thought back in October 2018. As well, of all the indicators you can sift through, in aggregate, show economic health. Could there be a slowdown? Perhaps. However, the recession window seems to be in the 2nd half of 2020 at the earliest (just so you know) and what will push us there is trade wars.

The key thing to focus on is to have a highly successful (and disciplined) active management at the helm of your portfolio, one that is continually culling your portfolio of over-priced holdings, with a list of holdings they want to buy should they become underpriced. This gives your portfolio a lot of "dry powder" (cash) that can be used to buy investments at very cheap prices, when there is "blood in the streets". That will make your own blue bars, even bigger.

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Base" or "Book Value" upwards so you aren't paying tax twice (which is why Book Value is not the amount you invested and has no relevance to gains or losses, despite what a portfolio statement may say). I've written about that common and age old misconception in Mutual Gains, #182 which you can find here (go to page 2).

What T Series Funds Do

Series T funds are a distribution structure on an existing mutual fund to provide tax efficient cash flow on a monthly basis. This cash flow or "distribution" (different from the ones I mentioned in the previous piece) are for the most part, a tax free "return of capital". With these T funds, you can choose the distribution you want, often 6 or 8%. The fixed distribution you receive is simply your own money being paid back to you.

The reason T funds exist is so an investor, who is in a relatively high tax bracket, will get back their own money, instead of actually selling units of the investment, every month, to fund their monthly income needs. This can work beautifully for someone who is subject to OAS clawbacks. The downside is, at some point, you may have taken out all of the money you put in. That actually isn't bad though.

Here is an example to show what I mean. You originally invested $100,000 and took out by way of a T6 (6%) distribution, $500 / month over many years. Sometime in the 16th year (in this example) your investment hopefully has grown faster than $500 / month. At a 6% / year compounded rate of return, you would still have an investment balance of $94,000 at year 16. You've taken out $96,000 and you still have $94,000 on $100,000 initial investment (crazy, isn't it?). In the second half of year 16, your T series distributions are 100% capital gains. You have essentially deferred the triggering of capital gains until then. That is what T series are for and they can be a very effective financial planning tool. Here is a more detailed explanation of how T-Funds work and a couple of case studies.

Go-Go, Slow-Go & No-Go (3 Phases Of Retirement)

During retirement, you don't have the same needs when you first retire than when you are well into your 80's. Here is a snapshot of the 3 phases of retirement that most retired people experience:

Stage 1— This is the "time of your life" stage, age 65—75. You are feeling great. All your time is yours, and most likely, you are in a good financial position. You are travelling and engaging in all the hobbies and activities you thought about when you were working but didn't' have enough time to fully engage in them.

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Stage 2— Travel will probably slowdown from age 75 to 85. You will likely want to be in very close proximity to people who are in the same age group; those whom you've had long personal relationships with.

Stage 3— Age 85 and up. You'll probably want or need other people to do the things you could easily have done yourself, in your younger days. If you were living away from your adult children, you may be moving closer to them. As well though, that has to be balanced with maintaining key relationships you relied on in Stage 2.

Your Income Will Drop When Your Spouse Passes

The maximum base income a couple can get from CPP and OAS is just over $3,500 / month. I've checked Cheryl and my own government benefits and it looks like we'll be getting just shy of that (if we were 65 today and actually stopped working, that is).

That however, is as long as we are both alive. When one of us passes on, CPP and OAS will stop for that person. The fact that OAS stops makes sense. It is a government benefit that isn't funded by one's own contributions. It is simply a government funded benefit. However, with CPP (which most working people contribute to), unlike a company "defined benefit" plan, CPP benefits will stop completely if the other person already gets full CPP. If I passed on before Cheryl, her CPP will have another ~$50 / month added to it, giving her the maximum CPP any one person is entitled to ($1,154.58 / month). So, in simple terms, if both of you are expected to get the full CPP when you retire and one of you passes away, the CPP & OAS that you received as a couple, will be most likely, cut by as much as 50%.

The exact amount a surviving spouse will get isn't really clear as CRA can't give you those numbers. You won't really know until the event happens. For example, CRA says that you will get 60% of your deceased spouse's CPP if they were 65 or older and only 37.5% if they were under 65 but, the reality is, you may end up with less than that amount. So, when working with your Financial Planner, make sure you either underestimate what you will receive from CPP and OAS or can make up a potential shortfall through your own income producing assets. This is especially critical if the majority of your retirement income will be coming from CPP and OAS.

PS. This topic idea was suggested to me by one of my great client relationships and very good friend, Tom B. Thanks for that Tom.

How To Get An Injection Of Cash (When You Really Need It)

What I mean by "when you really need it", is when you find out you, have suffered a heart attack, stroke or find out you have cancer. Many people are covered through a Disability Insurance (DI) plan through their work however, normally, that money only starts coming in after you are "disabled" for at least 90 days. When the money does come, you get it as monthly income, to replace your existing income.

If you need a lump sum of cash immediately, to pay for time off or to allow you to search for health care outside of what our publicly funded medical system pays, then Critical Illness Insurance (CI) is the way to get it. Nothing else will do that (other than maybe a substantial gift from extended family). Life insurance helps your family survive financially, should you die prematurely, disability insurance replaces your income (normally after 90 days of not being able to work) and Critical Illness Insurance fills the hole in between. You can get as little as $25,000, to as much as $2 million of coverage, to insure that hole.

Of course, just because there is insurance available doesn't mean you should automatically buy it. You have to ask yourself, "what happens if…. (fill in the blank with a "God forbid" event)"? If you feel comfortable with the financial pictures you get, you will may be okay should a catastrophic event hit your family. If however, you are concerned about a worse case scenario, bring up this topic with your Financial Advisor, because after the fact, it's too late.

A Warning On Health Services Accounts (HSA) / Private Health Services Plans

I have a HAS (pka PHSP) set up for my own company, C.E. Vandenberg & Associates Inc. I've had it for, I'm guessing, 20 years at least. These administrative plans are a way of allowing company owners and their employees to have health expenses like dental, chiropractic, optometry etc. paid for by the company and because of that, make these expenses, 100% tax deductible.

The CRA has found though that there are a lot of Canadians who are getting these plans promoted to them and set up through an Insurance Agent or Financial Planner, without sticking to the rules that are laid out in the Income Tax Act. I've seen this myself in the past but now it seems CRA has put the notice out on this.

I have set my own plan up through Olympia Benefits originally and have been completely happy with how everything works. Sometimes it seems too strict but, it is either that or CRA coming back and auditing me. I'd much prefer the former. If you are a self-employed through your own corporation and your health benefits aren't 100% tax deductible, I'd highly recommend setting up an HSAa through Olympia Benefits to make all your dental, vision care, chiropractic, massage therapy etc. 100% tax deductible.

Tech Gems— Stocard

I'm sure you have a lot of these, as I do; loyalty or member cards for various things like Airmiles, grocery stores, hotel, even a library card. I have Save On's More Rewards, MEC, Fairmont, London Drugs, PC Optimum, my Canada Post for business account details and even Icelandair. All these can be stored on your phone inside this really handy app called Stocard. No need to keep repeating your phone number in public to someone ringing up your purchase (for all to hear I might add), I can open up my Stocard app with my fingerprint reader on the back of my phone. Stocard stores all of your "cards" for quick access with the companie's logos which makes for easy visual finding. You can also have them sorted alphabetically or my preferred way, how often I use them (putting those at the top).

HHHMMM...

Worst S&P 500 Quarters Since 1940		Ensuing Total Return		
Quarterly Performance		1-year	3-year	5-year
Q3-1974	-25.2%	38.1%	72.7%	117.5%
Q4-1987	-22.6%	16.8%	48.8%	109.0%
Q4-2008	-21.9%	26.5%	48.6%	128.2%
Q2-1962	-20.6%	31.2%	69.2%	94.8%
Q3-1946	-18.0%	6.5%	24.5%	115.4%
Q2-1970	-18.0%	41.9%	57.4%	56.3%
Q3-2002	-17.3%	0.3%	27.0%	66.3%
Averages	**-20.5%**	**23.0%**	**49.7%**	**98.2%**

•Tesla is burning through $1 billion in cash a quarter. Their latest round of raising money, to the tune of $2.7 billion, will be gone within 10 months. Fortune, May 2019

•Many compare Buffett's performance against bull market cycles and willingly leave out how Buffett performed during bear (down) markets. Buffett outperformed the S&P 500 Index in all of the last 3 bear-bull market cycles. His company's share price fell only 41% in the 2007–2009 financial crisis, while the index fell 51%. In the 2000–2002 dot-com debacle, when the S&P 500 Index collapsed 45%, Buffett pulled off a gain of 28%. Edgepoint Wealth Management, May 2019

•A couple of years ago, a consulting firm (CXO Advisory) decided to test the forecasting ability of Wall Street's best known investment gurus by collecting data on more than 6500 predictions by these financial luminaries and grading each for its accuracy. The result? Only 47% of forecasts were correct … a score that would have been beaten by a coin toss. Dixon Mitchell, January 2019

•A team of 4 Portfolio Managers, 3 Investment Analysts and an Economist, 4 of whom used to work as Portfolio Managers for the Canada Pension Plan Investment Board. All have access to a significant number of resources and contacts and work off of multi-million-dollar custom technology consoles. What hope does 1 person have of adding more value than a team like that, without taking on a lot of risk?

•A worrying number of public companies have negative free cash flow. The ratio of companies with negative free cash flow is as high as any time since the dot-com-crash implying that the market may be giving too much credit to some of these so-called early stage "disruptors". Invesco, June 2019

•In the last 2 years we've had higher cash than normal. But valuations have changed since then. Last year was the worst annual return for small-caps (smaller companies) and that's very much driven by the 4th quarter drop. I think the risk and return profiles are more attractive today than 5 months ago. We are seeing a surge in investment opportunities. Virginia Au, Portfolio Manager, Invesco, June 2019

•Equity market valuations are now below 60 year averages, even though interest rates are significantly lower now than in virtually every year of that six decade span. Dixon Mitchell, January 2019

•It took US stocks 137 trading days to recover the 10% losses they suffered in a selloff that reached its lowest ebb on February 8th last year. But the Christmas Eve drawdown – which saw US stocks fall 20%, dipping into bear market territory – was forgotten a mere 81 trading days later. That was the 4th *fastest* market recovery of the past 90 years. Finimize, May 2019

•Subaru is the only mainstream auto brand that grew during the Great Recession, putting together 10 straight years of U.S. sales records as of 2018. Autonews, June 2019

•For the first time in more than 40 years, life expectancy at birth in Canada did not rise in 2017. Although older men and women are living longer (the average 65 year old male can expect to live to age 84.3 and a female to age 87.1), there were more younger people dying prematurely due to opiods. StatsCan, May 2019

•A battery powerful enough to drive a Class 8 semi-truck (capable of hauling 18,000 kilograms, or 40 tons) over a distance of 1,000 kilometres would require a battery that weighs more than the cargo. That puts these vehicles at a distinct disadvantage compared with internal combustion engines and it will likely remain that way for years. The weight problem is one of the key factors that persuaded Toyota to develop hydrogen fuel-cell technology, rather than batteries. Globe & Mail, May 2019

•The Liberals' own Department of Finance projects that, on current plans, the federal government won't balance its budget until at least 2040, when the federal debt will approach nearly $1 trillion. Financial Post, May 2019

•People in White Rock BC (population 19,952) ordered 38 times more miso soup via Skip The Dishes than Quebec City which has a population of 542,298. Peace Arch News, June 2019

•"All of humanity's problems stem from man's inability to sit quietly in a room alone." Blaise Pascal, French Philosopher

•In many cases, confinement and constraint is actually a means to liberation. Timothy Keller, The Reason For God

•What is commonly called "sensitiveness" is the most powerful engine of domestic tyranny... A Mind Awake, C.S. Lewis #TodaysSensitivityEpidemic