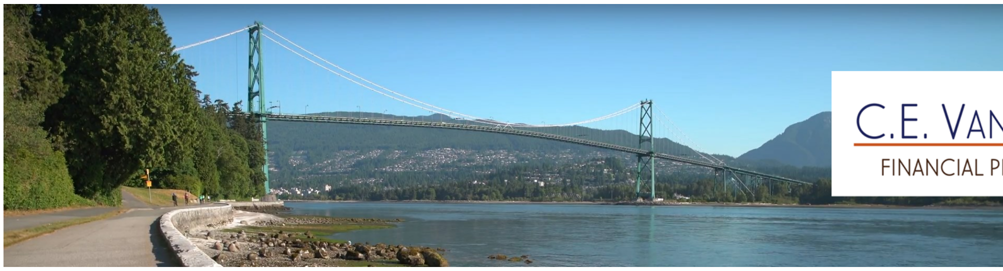

C.E. Vandenberg & Associates Inc.

FINANCIAL PLANNING – WEALTH MANAGEMENT – INSURANCE

mutual gains

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WWA&WIMTY (Where We Are & What It Means To You)

As I pointed out in the last issue, this will be the ongoing theme in the 1st topic of mutual gains, going forward. It won't however, always have the same title. I just wanted to emphasize this, in a way that would catch your attention.

Coronavirus (aka Covid-19), is probably the biggest single news item, globally. From a financial perspective, it will most likely, have no real affect on your long term, financial health, no matter the severity of it.

Certain regions and business segments are and will continue to experience short term pain from its effects. Whenever you have people staying home (and not spending money) or factories and other places where there are a large number of people, required to stop gathering for the time being, you have less productivity. Less productivity, means less money flowing. Result? Economic slowdown,

(Continued on page 2)

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.

How To Be Busy AND Get Your WIGs Done

A common quick exchange: "How are you doing?" Reply… "I've been really busy". The mutual thought is, busy is good. It can be, but most often it isn't.

Have you heard the saying, "If you want something done, ask a busy person"? The meaning is that busy people always gets things done. That may be true however, they are often sacrificing their own personal objectives and needs, on the altar of busy.

To achieve what you want in the long term (your WIG, Wildly Important Goals), what you need to do, is change how you prioritize. If one of your WIGs is to stay fit, you can't let busy steer your day, you need to schedule that exercise in and not sacrifice that time for something else. If you want to learn something new, read a certain number of books or accomplish anything, you need to schedule it in. It doesn't have to be a big daily commitment, it just needs action. Small amounts every day or week, turn into months and then years of progress and a life well lived.

On the money side of your life, Financial Planning can be started in 2 primary ways. 1st, if you are still earning an income, setting up a monthly amount going into a combination of a RRSP, TFSA, RESP etc. (this depends on your WIGs of course). 2nd, would be by having an annually scheduled meeting with a Financial Planner who can squeeze out some tax savings and other strategies that can multiply your money. All the while, this person will help steer things

(Continued on page 2)

(WWA&WIMTY Continued from page 1)

globally.

The portfolio management teams I work with are always looking at things from the angle of, "what will the impact of this be on the pieces of businesses we own on behalf of our clients?". Times like these always do present some new opportunities for investment. On January 11th, I did send out an email on that to clients and others, on the "Mutual Gains Insider" list, giving some perspective. That however was almost a month ago (by the time you read this). February 29th (time of writing these words), had the markets down in the low double digits in percentage points. This is a reaction to the short term effects this contagion will have. This "correction" or consolodation, is very normal and long overdue, with or without Covid-19, frankly.

Today, the much bigger issue for you is, what do you actually own within your own portfolio? I know I ask this a lot but, this question is even more important today. It is because, there has been an ever widening price disparity between the most expensive companies and the cheapest ones. This has trended for quite a while. Comparisons have been made to the run up to the tech bubble bursting, in March 2000 as well as the "Nifty 50" in the 60's to early 70's, when many investors ignored fundamental ways to value a business and suffered many, many years of losses.

I'm not predicting a repeat of either of these but rather, that these kind of divergences always swing back and in their wake and always leave a path of financial destruction. These are 3 primary ways your portfolio is probably constructed (if I oversee your portfolio, you have #2):

Portfolio #1— is made up mostly of holdings that are priced way too high based on the 4 key metrics of business valuation (Price to Earnings, Price to Book, Price to Cash Flow and Price to Sales) putting you at significant risk of permanent loss of capital. Do you have confidence and evidence to the contrary? Feeling good and knowing are 2 different things. Permanent loss only comes from paying way to much for something than what it is worth. Actual worth and what many people are willing to pay for something are also 2, very different things.

Portfolio #2— you have an initially selected and continually researched mix of high quality holdings that many others may see as boring (or hated) companies and because of that, are among the cheapest investments you can buy today. It might sometimes be frustrating holding these companies while you hear stories of big money being made by others. Ultimately, the good value, high quality, well run businesses, will prove to be the safest and most profitable places to be, should a systemic shift, occur. Your portfolio will have pleasing long term returns, whether this event happens or not.

"Portfolio" #3 —I use "portfolio" in quotations because, this would just be 1 big savings account, really. You primarily hold cash like investments (bonds, GIC's, money in savings accounts etc.).

The fact is, risk is always there, whether you see it or not. It's just you don't realize it is there until you feel it. Then the risk (that is now mostly down considerably) is acted upon, after the fact. That will be too late if you have #1. Again, the Coronavirus isn't of concern. Your concern should be on what you can control. That being, what you actually own in your portfolio. More so than ever in many years, a more stringent adherence to the discipline of ensuring you don't get caught up in trying to be on the boat that the majority are on, no matter how

(How To Be Busy….Continued from page 1)

and keep you on track. For many of my clients, we meet about the same week of each year, year in and year out. Starting with those 2 small disciplines, your financial WIG's will happen.

The #1 Thing For Maximizing Retirement Income Is...

Retirement is all about giving you the free time you lack from having to work. For most, free time means more travel, meals out with other retired friends, sporting activities, to more casual endeavours. All these require the need for income.

So how do you get that income? For some, the wise move is to buy a rental property, with the idea that this will create the retirement income they will need. The fact though is, the net rental income you would get from a property in the more expensive areas of Canada, is very low in relation to the invested capital. Over time, yes you can build wealth however, for maximizing retirement income, this isn't the best tool. Unless of course, you sell it. However, you would be triggering a capital gain, and have to send a good chunk of your gain, to the government, in taxes. You would then need to invest the proceeds (after paying tax) in something that will produce a higher cash flow.

So what would that be? My experience has shown time and time again, that a "global equity balanced" portfolio will produce the highest, retirement income, one that can last a lifetime; highest possible income and lifetime income.

Using an example of a conservative long term return of 6% / year on a $1,000,000 portfolio, you should get $40,000 per year of income, adjusted for inflation. Adjusted for inflation meaning, that next year you would get $40,800, the year after $41,616, then 42,448 and so on. Because you are taking out less than your portfolio is growing, you have maximum income and over time, a growing portfolio. During your whole retired life, you can make adjustments to your living needs and life expectancy.

How would a rental property fair in the retirement income producing department? Assuming you spend that million dollars and have 2 rentable units, you will probably realize an annual gross rental income of approximately $43,000. That is gross (before costs). Net being,

(Continued on page 3)

after property taxes, current and deferred maintenance, insurance etc. As well, you want it to be a hands off investment. With all that, you should come out with approximately $28,000 / year. Of course, you could run the property yourself and perhaps do some of the maintenance, bumping that net income up a bit however, in effect you are just getting paid to do another job.

In the end, a global equity balanced portfolio should produce the most retirement income (and again, in my experience it has), so you can live the retirement life fully, the way you want. Which is why that is how the Canada Pension Plan and all other pension plans around the world, are invested. Do you want real life evidence? I'd be happy to go through that with you, in person.

Using A Trust or An Annuity For Estate Planning

As soon as you pass on, your beneficiaries could have hundreds of thousands (or millions) of dollars dropped in their lap. Picture that with your heirs. What do you think they would do? My guess, you are either thinking, "if they blow it, that is there responsibility" or, "I can't let this happen without some controls in place". If you are in the control camp, you might want to consider having a Trust set up upon your death.

A Trust is a separate legal entity that can hold assets and pay money out over a period of time. Your Will would outline how this would look. If you have an adult child who burns money, have their portion of your estate, be paid into a trust and pay them a monthly income for the rest of their lives.

A Trust isn't the only way to accomplish this, though. I was involved with a case about 18 months ago where an elderly mother of 2 "50 something", passed on. 1 of her sons lived on the Eastside of Vancouver and hadn't had any meaningful employment for most of his life. Her other son, the Executor of her estate, lived in Toronto. Instead of simply dumping a pile of money on the Vancouver domiciled son, she had it written in her Will to set up an annuity, one that would pay out a monthly income to a specified age. I did a search for a life insurance company that would payout the most amount of income for the number of years she specified in her Will. The Executor made a cheque payable to the insurance company and her son has a guaranteed monthly income until he is 75.

First Time Home Buyers Can Have Energy Saving Renovations Paid For 100%

If you are buying a home for the first time, or moving up to something more expensive, you may not have the 20% downpayment / equity required. If not, you will be paying a one-time mortgage default insurance fee (CMHC, Genworth etc.). On a $750,000 home with a $37,500 down payment, that insurance cost comes out to $28,500 (this gets added to the mortgage). You can now get some to all of that money, back.

A homeowner, building or buying a qualified energy efficient home, is eligible to get a 15 or 25% refund on what they have or will pay for mortgage default insurance. This depends on the level of energy efficiency achieved with the renos. Even if you are an existing home homeowner, who purchased their home less than 2 years ago, you can apply to get a refund. You will need to complete an NRCan (Natural Resources Canada) energy assessment valuation before and after your reno. They'll then determine how much energy saving improvement you have made. If you improve efficiency by the required amount, you can get back (based on the example I gave) $4,275 or $7,125. You can click here for more details.

How To Reduce Tax For Passing Down the "Cottage"

You have owned a home away from home for many years. You paid much less than it is worth today and you realize it's time to pass it down to your adult children (and / or grandchildren). No matter how you do it though, there is going to be a significant tax cost. It really comes down to, do your heirs pay the tax from other money they will receive from your estate or, is there a better way?

Let's first look at the "pass it on at death" scenario. The example being a property that was bought for $20,000 and is now worth $500,000. $480,000 of potential capital gains of which, 50% is taxable. For someone who has a retirement income of $95,000, that could mean a tax bill to the estate of roughly, $110,000, based on today's numbers. A substantial sum that will only get bigger, lost to taxes.

The alterative is giving it now, using the Capital Gains Reserve (CGR). This can save you tens of thousands in tax; the lower your retirement income, the more will be saved. Using the CGR will have you spreading the tax over 5 years maximum. In essence, you are "selling" the property in 20% increments with a series of Promissory Notes (P-Note), over 5 years. No money needs to change hands since you can forgive the P-Notes. If you are earning a more modest retirement income (ie $50,000), the total tax to be paid would be closer to $74,000, spread out over 5 years.

Tech Gems— Music Speed Changer

I play drums and have played with various groups of people over the years. With that, there are some songs I either want or need to play close to what was originally recorded. Trying to figure out what is being played on a recording at full tempo, can be difficult. Music Speed Changer slows a song (or any audio recording) down to exactly the speed you need it. If you are trying to learn a particular part of a song, you can have that part played over and over again, in a loop. Not an app for the masses however, I have found it so helpful as a musician. You don't play an instrument? Maybe this is a tool to help you get started. Playing an instrument is an especially great retirement activity for keeping your brain healthily wired, as well as connecting and socializing with other people who you can play with regularly.

PS. If you have a tech related app, website, item etc. that is invaluable to you, I and I'm sure others, would love to hear about it, I'm sure.

HHHmmm...

A person who invested $100 into Berkshire Hathaway 55 years ago finds themselves with an investment worth about $2.7 million today.

However, the path to this fortune wasn't smooth. There were 3 periods of time where your investment would have fallen by 50% or more. Furthermore, there were 18 years where Berkshire underperformed the returns on the S&P 500 Index; 11 of those 18 years, it underperformed the S&P 500 Index by more than 10%. Bloomberg LP, as of Dec. 31 2019 #Quality+Patience

A common cognitive bias that influences investor behaviour is the belief that an extended period of growth is most likely to be followed by reciprocal weakness. Dixon Mitchell, Jan. 2020 #10MoreGoodYears?

Despite concerns about the contagion (coronavirus), there is a recognition that this is likely to be a very short-term problem – which is what differentiates it from the U.S.-China tariff war, where there was really no end in sight for a long time. Kristina Hooper, Chief Global Market Strategist, Invesco, Feb. 2020 #ThisTooWillEnd

2 observations by Peter Lynch, one of the best US investment managers of the 20th century: As an investor, the most important organ is the stomach, not the brain. The amount of bad news could be infinite, but the investors who are able to handle the news and stay invested are the ones that do well in the market. As well…. the public will be careful when buying a house, or they will work hours to save $100 on a roundtrip plane ticket, but they'll put $5,000 or $10,000 in some zany idea that they heard on the bus. That's gambling. That's not investing. That's not research. #DisciplinedThinking

The world's largest brewer, is classified as a Belgian company. Yet, only an extremely small percentage of the company's current revenues come from Belgium – about 57% are generated in emerging markets, with a significant portion coming from the U.S. and Brazil. Invesco, Jan. 2020 #HeadOfficeLocationIsIrrelevant

In the past, the strong inflationary shocks that preceded a recession were commodity driven. For example, when oil prices rose dramatically in the early 1970s and again in the 1990s. There are no signs this is happening now. Advisor Focus, Manulife Investments, Dec. 2019 #LowInterestRatesLongTerm

In 1995 you could get a 7% return with the safest bonds (investment grade). In 2005 you only could have 50% in bonds with the other 50% in other investment assets. Today you can't hold any investment grade bonds, if you want to get a 7% return. Drummond Brodeur, Signature Global Asset Mgt (during a dinner meeting), Jan. 2020 #TodayIsHistoricallyNormal #GetUsedToIt

I heard the host of a non-finance podcast I listen to regularly mention that his "portfolio" has been in cash for 10 years. Even really smart people can let their emotions take over. With inflation @ 2.6% you need 2.6% AFTER TAX just to stay even. #CashIsntSafety

Re: negative interest rates… "We are living in an upside down world where people are willing to lend their money out and have to pay to do it." Black Creek Investment Management conference call, Jan. 2020 #CashIsLosingMoney

Top 500 global tech companies: 219 in China, 116 in US, 29 in Japan, 19 in France, 18 in UK, 14 in Germany, Netherlands & Ireland have 13 each, Canada has 8. A mix of other countries make up the other 51. Signature Global Asset Mgt, Jan. 2020 #SeismicShift

We block new rental housing because we don't have enough rental housing. This doesn't just defy basic economics, it defies basic common sense. Seattle got 17,450 new purpose-built rental units in 2018. Vancouver got 1,364 new units. Western Investor, Jan. 2020 #GovernmentIsMakingRentExpensive

"It appears rent control has actually contributed to the gentrification of San Francisco, the exact opposite of the policy's intended goal." Western Investor, Jan. 2020 #WhatSoundsLogicalOftenIsnt

City of Vancouver statistics show that the city in mid-2018 had 13,925 hotel rooms, or 1,105 fewer units than it did a decade ago. Western Investor, Jan. 2020 #LessSupplyHigherPrices

There hasn't been a new amusement park built in the United States in about 50 years. Globe & Mail, Jan. 2020 #More$ForDisney

Nutella is much like spreading chocolate icing on your toast as it has more sugar than icing and only 2 1/2 hazelnuts per serving. CBC Marketplace #SugarForBreakfast

Warren Buffett, a longtime Democrat and one who has said he should be required to pay more taxes, has said he would choose Michael Bloomberg over Bernie Sanders. EconomicTimes.com, Feb. 2020 #WarrenThinksLikeMe #MeToo

"Headlines, in a way, are what mislead you, because bad news is a headline and gradual improvement (and good news) are not. " Bill Gates #ILikeBill

The effects of Covid-19 could in fact continue the economic expansion by delaying a natural economic recession. What we could actually see is a rapid economic slowdown and then a sharp, V shaped resumption of economic growth once the virus slows. #CEVThought

Carey