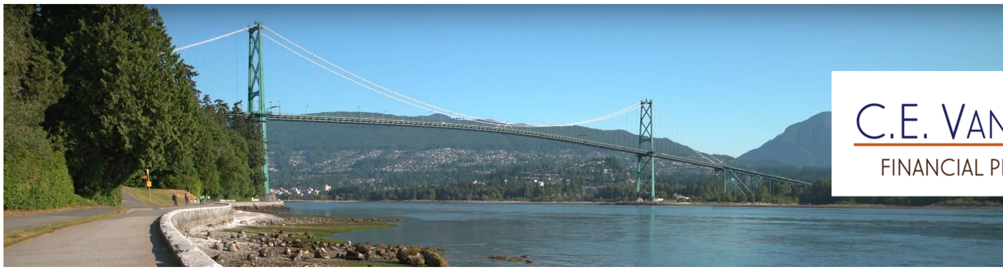

C.E. Vandenberg & Associates Inc.

Financial Planning – Wealth Management – Insurance

mutual gains

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Are 20 Yr Returns Of 11—15% Coming?

I must confess. When the lockdowns were initiated, I thought that it would be just few weeks and the Covid-19 infection rate would be almost nil. Considering the global scope and degree to which personal contact was limited, to me that seemed logical.

Where we are today shows exactly how little I know about disease, cultural differences on how people respond to being told what to do, governmental policy, the need to provide an income for oneself without interruption and personal freedom. There have and continue to be an infinite amount of factors that come into play in regard to the path we move forward on and the divergences that may occur.

Now that the curve has been flattened it seems the infection numbers are going up again in certain pockets around the globe. Every morning I refresh the 3 browser tabs I leave open, which show Covid data; BC, WHO and Washing-

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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.

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Why Volatility Means Opportunity

When investment prices are swinging wildly (volatility), there is something obvious going on; most likely there is way more selling being done than buying. Below is a chart of the VIX index, which is a measurement of volatility.

Heightened "VIX" means people along with institutions (ETF's and Hedge Funds primarily) using algorithmic triggers, are selling. When there is an inordinate amount of selling being done, the selling creates more selling. Without any fundamental thought being put into why, selling begets more selling. Nervousness turns to panic.

The over-weighted selling eventually ends. The reversal often comes in the form of some big up days. As time passes the "VIX" slowly comes down. Panic has been subsiding. People are becoming more comfortable again. They are actually thinking now, rather than reacting. However, by that time, investment prices have gone up significantly.

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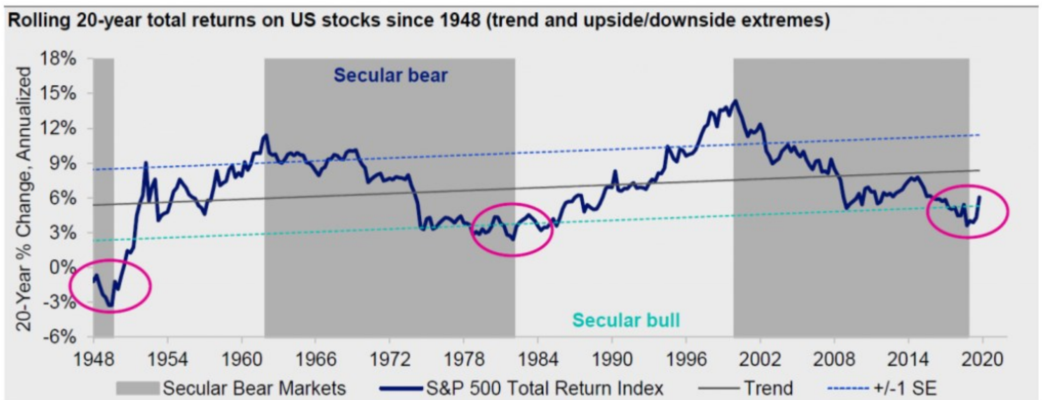
(Ups & Downs.Continued from page 1)

ton State (I very much miss the freedom of going across the border, especially since I live a 5 minute drive from there).

Despite the negative implications of infection flare ups in small geographic regions and the curve trending up again in the US (their daily confirmed case numbers are higher than they were at the end of April) many economic measurements are showing continued improvement. These include unemployment numbers decreasing significantly in May in the US along with a strong rebound in US car sales, something that was not expected. The car sales have been so strong that US automakers have been talking about keeping their factories running through the summer, which they normally don't do. European and Asian economic recovery signs are a few weeks ahead of the US. All of these "green shoots" are giving the investment market's their reason to at least stay at current levels.

As one who focuses on long term thinking and habits that lead to positive outcomes (since that is what produces success in anything), I want to give you a bit of where we could be going over the next several years. If you look at The chart below you will see that the average annual return, as we have moved through the last 20 years, has been declining. In 1999, 20 year returns on equities were in the mid-teens. That is really healthy compounding; $100,000 during those 20 years would be worth between $800,000 and over $1,630,000. Today, 20 year returns are in the mid-single digits. As I said, over the past 20 years, long term returns have been declining. That trend may have recently reversed.



This long term down trend in returns is called a secular bear market. As the chart shows, we could very well be at the opposite of that, a new secular bull market.

That doesn't mean that we won't see serious historic events and sharp downward moves during that time. We saw several of those from 1981 to 1999. We went through several terrorist attacks, the stock market crash of '87, Gulf War, an Asian currency crisis with a market rout in reaction, to name just a few. History is full of stresses. That will continue. A secular bull market simply means that, as we move

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Despite a calmer climate, there still remains a lot of cash sitting on the sidelines. There is still a reluctance to buy because there is still lots of bad news out there. This sideline money will often sit until its holders can only see blue skies. This can often be a few years before they end up investing again. This is of course when the VIX is low. What they often fail to see is how stealthily investment prices have moved up while the volatility has been coming down.

As Roman Philosopher Seneca said, "Luck is what happens when preparation meets opportunity." Preparation is anticipating those times when fear will reign among so many. We have recently seen that and we will see that again. I'm blessed to have so many clients who have and will continue to experience "luck" in the Senecian sense. A number of them invested cash while so many were selling.

Structuring A Portfolio To Give You Lifetime Income

In client review meetings (referred to as RUPA; Review, Update, Plan, Attain), I often get the question on when to make a portfolio more conservative, as one's retirement date gets closer. You may have heard the rule of thumb idea that the amount of fixed income (bonds) in your portfolio should equal your age. This means at age 50 you should have 50% in bonds. My view is that, being invested in bonds for what could be 40—50 years (and increasing that bond percentage every year), is ludicrous.

200 years of history has shown that owning equities in a portfolio is the only long term way to have your portfolio grow to provide the maximum amount of income. There is a catch though. The catch is the uneasiness that one can feel, doing so. When you know how much your portfolio needs to be worth, to provide a retirement income for you, it can be a bit unsettling to see a 10, 20 or even 30% decline of your money.

To reduce this potential "loss" many people make their portfolio way too conservative. They only earn 1—3%, but with returns like that, you can't create much income. For a $1 million portfolio earning 2%, that is only $20,000 / year of income. A well balanced portfolio should produce returns, with the majority of it made up of equity investments, you should be able to produce a long term return that are 6% per year or more. I have clients who have been pulling between 4—6% per year out of their portfolios for several years yet, having the same amount of investment dollars they had 5 and 10 years ago.

Of course, we all know that equity investments can fluctuate a lot while producing healthy long term returns. A tool to alleviate the with-

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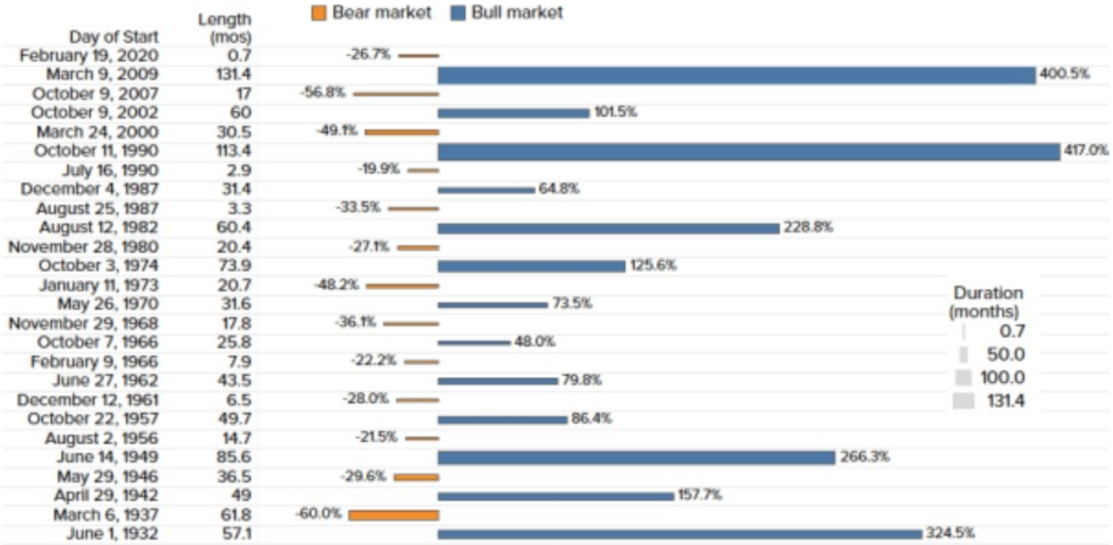
drawal of money from a portfolio while it is down so to speak, is to divide a portfolio into 2 silos. One which is geared for long term growth, while the other is invested more conservatively. The latter is where your monthly retirement income is paid out from. If you have a portfolio of $1 million and your portfolio is set up to give you $48,000 per year of income ($4,000 / month) then at least $150,000 should be in the income producing silo. This portion will provide you 3 years of income. Should a general market decline happen, the growth silo has the opportunity to bounce back and a few years to do so. This long term growth silo is allowed to grow to eventually replenish the more conservative, income producing silo.



SOURCE:S&P Dow Jones Indicies

This is just 1 of the strategies to have your portfolio provide the maximum amount of lifetime income for you. Let's face it. Investment markets go up much longer and higher than they go down. The graph above shows almost 100 years of evidence for that which is why any money you don't need for the next few years can be allocated to investments that will grow and by their very nature, fluctuate more. It should be that way, no matter what your age is.

What To Plan For In A 2nd Marriage

Sometimes a marriage just doesn't go the distance that was intended. This is the reality of relationships. If that has been part of your life, here are a few areas that should be worked through.

Marriage Contract—first, I want to say that for me, philosophically marriage contracts run contrary to my thinking. Despite my leanings, here is a summary on them.

Most of the time, a "pre-nup" is written when 1 or 2 of the people entering a relationship has significant wealth and or a business. The contract layouts the agreement the ongoing support that will be provided and how the assets will be divided should the marriage dissolve or 1 predecease the other. What eventually happens to the family home will also be part of the discussion. Every province has their own family law so those various laws may come into play. The whole idea behind writing out such an agreement is to ensure potential scenarios are talked about and happen. If there is no agreement in place; everything goes as per how the province' family law is written, along with a negotiation between the 2 party's lawyers.

Wills & Power Of Attorney (POA)— A Will is of utmost importance and even more so when a blended family is the reality. Again, provinces and territories each have their own laws on how assets are split upon death. You'll want to make sure there are no lingering documents where an ex-spouse is named to receive assets that are yours. This could be by way of a previous Will, POA or beneficiary designation on a particular plan such as a RRSP, RRIF, TFSA, investment with an insurance company or an insurance contract.

Spousal Trust— This is a legal entity where all your assets can be held and used by your spouse should you pre-decease them. This can often involve a home and assets that investment assets that provided income to the married couple but were only in 1 spouse's name. If the home is yours and you have provided a part of the household income, the surviving spouse can have that continue while they are alive. They are assets for the spouse's lifetime use only and now owned by the Spousal Trust. Once they pass on, the assets can pass on to whomever you wish. Without a Spousal Trust, all the assets would pass to your spouse upon your death and then, when they pass on, to their heirs, instead of yours.

Life Insurance— This can provide the money needed to cover the cost of taxes that may be triggered on death. This is particularly important when 1 beneficiary is being given a non-taxable asset and the others is taxable. As well, if there is a recreational property that has been held for many years that has significant capital gain. Upon death that tax is payable and there may not be enough money in the estate to cover that.

Looking at the various scenarios without these in place will help you make the right decisions and implement them. That way things happen as you want (as much as you control that). There is a lyric in the song "Free Will" by RUSH (written by the late Neil Peart) which says, "if you choose not to decide you still have made a choice". I'd suggest, choosing to take action is the best choice. Of course, for any legal documents that are very case specific, you'll want to make sure you talk all this through with a lawyer; one who specializes in family law. Of course, a Financial Planner can help you sort through and narrow down the best options for you, before that.

3 Questions You May Have About Your Mortgage

Do I have to wait until the end of my mortgage term? Simple answer? No. It definitely can make sense to go with another bank before your current mortgage matures. Often there is a cost to break an existing mortgage however, you have to weigh out the potential one time cost against the ongoing savings you'll enjoy on the new mortgage. We have a mortgage broker on our team who can do the assessment. It never hurts to get an evaluation done by a professional, who will run the numbers on both.

<u>Can I amalgamate all my debt into 1?</u> 'Yes' (with caveats). You have to be cautious here. I'd strongly suggest talking to a Financial Advisor on the merits and downside of this. Sure, you may be paying less interest but I'd ask, how did you accumulate your other debt? Like anything in Financial Planning, success is determined by long term habits more than any other factor. Seek the counsel of a Financial Advisor who won't be afraid to look you in the eye and tell you what you don't want to hear. This kind of person is hard to find within a bank branch because their primary job, as dictated by banking culture, is to sell you something.

<u>Rates are so low right now. Should I lock in my variable rate mortgage in case interest rates go up?</u> Historically, variable rates are almost always lower than longer term, fixed rates. Currently a 5 year variable rate mortgage is 1.98%. A 5 year fixed is 2.29%. In this decision I'd suggest to you that your comfort can play a huge part. On a $500,000 mortgage you could save ~$1,500 / year going variable. I don't believe interest rates are going up and if they do it will most likely be very little. However, if you think you'll feel uneasy any time there is talk of rising interest rates, go with a fixed rate, particularly if you are already on a fairly tight budget.

Tech Gems— Your Phone (App)

I so often see people at a Starbucks, while working on their laptop, pick up their phone to type out texts. Why do that? You can have your texts typed out and sent for your laptop (or desktop) and have everything synced in real time. I've used MySMS for several years to do this however there is also Your Phone (by Microsoft). With Your Phone however you can also make calls from either your phone or laptop/ desktop AND you will be able to see up to 2000 of the pictures that are on your phone. Unlike from what I understand with an Apple device (which you have to manually choose which pics to sync), Your Phone syncs your phone's pics continuously. I'll continue to use my regular texting app MySMS since Your Phone isn't set up to do texting from my cellphone; it runs in the background doing its syncing magic.

HHHmmm...

• $42.7 Billion went into savings and chequing accounts for the first 3 months of 2020. For the 3 years prior that number was just $3 Billion. Globe & Mail, June 2020 #SellingLow #PermanentLoss #PoorInvestmentBehaviour

• The S&P 500 is currently trading at a gaudy 20.4 times forward earnings, the richest level in 18 years. Investment Planning Counsel, May 2020 #Don'tOwnTheMarket

• The biggest part of having a successful investment track record is avoiding what not to invest in. It sounds perceptively simply but in practice it isn't because we are wired to get excited about a good story. #LookForYourBlindspots

• If you make an investment in an individual company without doing any real research and the share price goes up a lot shortly thereafter that doesn't mean you are a great investor. That was just luck (again, using that term loosely). Seeing it as anything else is being intellectually dishonest. Without an investment decision framework in place, repeating that outcome is highly unlikely. #LuckIsLikeLightning

• The Canada Pension Plan, as of the end of March 2020, had only 16% of its investments in Canada, 12% in Real Estate and 10% in Government Bonds & Cash. CPP Annual Report 2019 #EquitiesAreBest

• Over the past 90 years, the average annual fluctuation for the S&P 500 Index is 16%. This means in a "normal" year you shouldn't be surprised to see the market decline 16% from the highest point to the lowest point. #FluctuationsAreNormalAsRain

• Without volatility, there would be few opportunities to buy outstanding businesses at attractive prices. #WeWantVolatility!

• In March 2019, Fitch (a credit rating agency) warned about Canada's high government debt levels and said it was incompatible with preserving a top-notch rating. Canada has now been downgraded with its debt to GDP going up from 88.3% to 115.1%. Investment Planning Counsel, June 2020 #CovidWillBeTheExcuse #SystemicSpendingProblem

• The Federal Government is planning on spending $200 million on a gun buyback program. The CBC Reports that up to 99% of guns used in crimes come from the U.S. illegally yet there is no program to stem that. Cdn Tax Payors Federation, May 2020 #CriminalsWillKeepGuns

• The best choices are the ones that have more pros than cons, not those that don't have any cons at all. Ray Dalio, Co-CIO & Co-Chairman of Bridgewater Associates #Wealthy&Wise #ConfirmationBiasKills

• The U.S. has 4% of the world's population and currently 24% of the world's Covid-19 infections. USA Today, June 2020. #Don'tBlameChina

• Washington State has a population that is ~50% higher than BC yet they have well over 10 times the amount of daily Covid-19 cases (as of May 26th 2020). #BorderOpenMarch2021?

• While Canada currently sits at 16.27 deaths per 100,000 of population, countries that didn't follow the WHO's protocols fared much better. According to Johns Hopkins University, Taiwan has just 0.03 deaths per 100,000; Australia, 0.40; New Zealand, 0.43; and Japan 0.61. Toronto Sun, May 2020 #SomeoneIsAlwaysDoingBetter

• Cancer, the leading cause of death, was responsible for 71,125 deaths in 2009, accounting for 30% of all deaths in Canada. Heart disease ranked 2nd with 21% of all deaths. Stroke was 3rd with 6%. Accidents was the leading cause of death for males aged 1 to 44 and the 3rd leading cause for males aged 45 to 64. Statscan #CostOfFreedom?

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