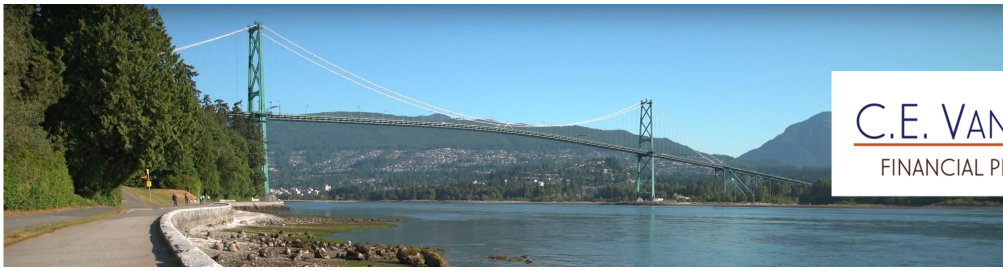

C.E. VANDENBERG & ASSOCIATES INC.
FINANCIAL PLANNING – WEALTH MANAGEMENT – INSURANCE

mutual gains

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The Effect Of Ultra-Low Rates

The last 12 months have been surreal, erratic, stifling, isolating, speculative, fear-filled, cash-strapped, cash-infused, opinion filled, conspiratorial, emotional, depressing, hopeful, and anticipatory all at the same time. While some will come out of this Covid experience living their life in much greater fear, others will feel stronger and more resilient.

To soften the pain (add 'pain' to that list, above) governments around the world have dumped unprecedented amounts of money off their central bank dump trucks. This, along with us having less outlets (I don't mean Outlet Malls) to spend money (other than Amazon orders and home improvement projects), bank account balances have been boosted for so many, because of government handouts.

With that, interest rates have been lowered to near 0%. This has created an opportunity for those with healthy personal balance sheets to borrow against what they own for very little interest cost and buy more assets that will appreciate in value over the years ahead. All you need to do is earn more than ie 2% / year and you make money on other people's money. The short term result of this has been too many buyers for too few sellers in residential and recreational property right around the world to a strong demand for a very small list of what are now mega-sized publicly traded companies (by market capitalization). People just want and <u>they will pay anything to not miss out</u>.

If you are one of those who are scrambling to buy something because the prices are going up so fast, I'd say you are setting yourself up to pay way too much. This isn't so bad if you must make a transaction however, if you are doing it primarily because you are feeling like you could be missing out I'd suggest you need to really examine your emotional triggers.

Despite the buying frenzy created by all this money floating around, there are still significant pockets of very under-valued assets to invest in; ones that have a very long runway of price appreciation and other financial benefits. The best returns with the least amount of risk are those that will benefit from increasing interest rates.

Much like in times past, the greatest wealth is created and the least risk is taken, where the masses aren't looking. Emotion is the devil when trying to make financial decisions.

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.

The Next 40 Years Will Be Different Than The Last 40

In September 1981 interest rates hit a historic high, with mortgage rates peak-

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ing at 21.46%. For every $100,000 of mortgage amortized over 25 years, you were paying $1,723.80 / month. Again, that is per $100,000. Since then, interest rates across the board have fallen to the lowest rates in history. Right now you only pay $411 for each $100,000 of mortgage financing. Monthly mortgage payments are less than 25% of what they were so it's not surprising that property prices have risen by at least 4 times or 400% since then.

Bond prices benefited the same way. If you bought a 30 year bond paying 10% / year, and today's rates fall to 1%, the price of the bond rises. Why? Because anybody would rather have something that pays them 10% instead of 1% thus the price rises on the 10% bond.

So what if you own property and / or bonds that have been priced based on today's ultra-low interest rates? What could a very long term trend of rising interest rates do to those assets? Frankly, the future for long duration government issued bonds in particular will have a very strong headwind to face. That traditional balanced portfolio, made up of 60% equities and 40% government bonds? It will probably not serve you very well going forward. If you don't deal with us as your Financial Planner / Advisor, a 2nd opinion is offered to you.

Property prices, because of their inflation hedging nature, can appreciate as long as wages do but there is a ceiling on what people can pay on a monthly basis. The wrench in the wheel is if high mortgage balances are in place. This could be an inevitable affordability squeeze, capping the appreciation potential or more so, putting downward pressure on asking prices.

With interest rates at their lowest levels in history, there is only one way for rates to go and that is up. As well, to get rid of the massive debt that governments around the world have amassed, inflation is the easiest way to reduce it. With rising inflation you get rising interest rates. As interest rates rise, the gas that has fueled property and more so, bond returns for the last 40 years could in fact be a reverse image. For bonds, all you had to do was look at the 60's and 70's when bonds were called "certificates of confiscation".

Is Mortgage Paydown The Best Thing To Do?

The common question over the years has consistently been, "What is better, mortgage paydown or RRSP?". You might think I'm a little late on this idea, seeing that the RRSP contribution deadline for 2020 passed on March 1st. However, the question isn't more relevant in February than it is at any other time of the year. It is a question that always has to be asked and revisited.

Whenever you have money to allocate somewhere, you have to determine, where you will get the highest return from? "Can I earn more than 1.75% / year putting money somewhere else?". Does it make sense to pay off something to save 1.75% of interest (the current 5 year fixed mortgage rate) or can I likely earn a higher return putting these dollars somewhere else? Yes, it is that simple. Until mortgage rates get to the mid-single digits at least, for most situations the decision is virtually a slam dunk.

Of course, financial decisions are not just based on numbers. If there is an emotional reason attached to this, I definitely wouldn't take that out of the decision making process. However, when reasoning against something, you have to be intellectually honest in how and why you are making a decision, no matter what that decision may be.

Not convinced by this very simple reasoning? I invite you to plunk your own numbers into this "RRSP vs Mortgage" calculator. The science of Math doesn't lie and it isn't subjective (even though you can't physically see and touch Math).

Save Thousands In Tax $'s With Tax Bracket Management For RRSP

Since much of this has to do with making RRSP contributions you again may think my timing is off with this piece. Just like I said before, getting the most tax bang for each $1 you have to work with requires ongoing calculations. I touched on Tax Bracket Management (TBM) in the last issue of Mutual Gains however here is an example of TBM using RRSP contributions as an example of how it can help you get higher tax refunds:

A client couple of ours wanted to automatically have $1,500 / month go into each of their RRSP's; that is $36,000 / year. From a 30,000 foot view, this is a very good thing. Using TBM though, the tax savings can be better. They both had plenty of RRSP contribution room and they updated me on their current incomes; $152,000 and $49,000.

Simply contributing $1,500 / month to each of their RRSP's ($3,000 / month) would save them $11,117 annually. Rather than splitting the contributions 50/50 it would create a much bigger tax savings if 100% of the money went into the higher spouse's RRSP (or in a Spousal RRSP in the name of the lower earning spouse). Total tax savings doing it this way is $14,614; almost $3,500 more. This is uncovering money that would have otherwise been lost, all thanks to TBM.

Of course, this couple isn't expected to know this or any of the many other intricacies of Financial Planning. That is what I'm here for. Also, TBM can't be done when you are filing your tax return. By then it's too late. It has to be planned for and put in place, well before that.

Stamps & Property In 1981 Versus 2020

Virtually everything we pay for costs more today. It's called inflation. Our incomes, whether they come from work or from company pensions and / or CPP, OAS etc. increases a bit every year because things we need increase in price. Unlike income though, we need our money to grow faster than inflation if we want to increase our assets so they can provide us our income.

There are so many examples of what the price of this or the price of that was 30, 40 or 50 years ago versus what it costs today. This simple comparison between then and now however overstates the price increase because inflation naturally makes everything's sticker price go up. It is the after inflation or "real return" where you get ahead.

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To show you what I mean, let's use a postage stamp to mail a letter as a benchmark. We'll use this because the price of mailing a letter is mostly made up of labour and the end result, getting a letter in the mail to someone, provides the exact same basic value today as it did way back in 1981. The cost to mail a letter in 1981 was 17 cents. In 2020 it was $1.07. This equates to a 529% increase or in compounded returns, a smidgen over 5% / year.

To make an apples to apples comparison, you have to measure percent increases not sticker price changes. In other words, buy 1.059 million stamps in 1981 and that equals $180,000. Today that same 1.059 million stamps costs $1,239,000. The dollar figures are higher but the true increase, the percentage increase, is the same, 5% / year. I point this out (multiplying stamps to $180,000) to put property price and any other thing that appreciates in value, or costs more over time, in true perspective.

Median sticker price of single family home in 1981 in Vancouver was, you guessed it, $180,000. At the end of 2020 the median price of a (2 story detached house) according to Royal Lepage Market was $2,114,000. This works out to a 1,174% increase. Compounded annually makes that just over 6.5% / year increases. Change the $2.1 million to $2.5 million and you get 7% / year. Compare that to an equity portfolio running since 1981, with $180,000 invested? It is worth $12 million today. How did it get there? An 11% compounded annual rate of return.

It's the "real" cost, the AFTER INFLATION cost that determines how much a price has really increased. Everything of any value goes up in price over time. Sticker prices don't mean anything. They are emotional numbers that make great stories. Compounding rate is the compelling story, not any one type of asset. #JustTheFacts

How Paying More Can Be Cheaper (Cost Per Use)

I'm sure you are like me on this: we both like to get something for the cheapest price possible. Filling that desire is how Walmart has become such a global success. When buying lower priced items the thing I try to see is, "Will this break soon after I start using it?". 2 frustrating items for me in this area are garden hose nozzles and Christmas light strings. I'm convinced that for these 2 things, there is no distinction between the price and how long it lasts. They all last about the same amount of time before the don't work anymore.

Despite these 2 pet peeves of mine, when comparing a few items that do the same thing, we are generally only looking at price. We often don't always think in terms of the value we are getting. That value is roughly measured on a "cost per use" basis. A pair of headphones I bought when I was 18 years old is a good personal example. They were Sennheiser HD400's and they had these cool looking, bright yellow foam ear cushions. I paid $90 for them at A&B Sound on Seymour Street in Vancouver. I noticed them not too long ago in a Def Leppard music video. Today they still seem so nostalgically cool. I had those headphones up until a few years back. Over 30 years of use for headphones whose price tag in 1981 is equal to about $250 today (all I did was replace the yellow foam a few times, which I found on Ebay).

If I had bought a much cheaper set of headphones I probably would have spent way more than $250 over the years. The cost per use was probably less than if I had bought a cheaper pair at the outset and had to replace them several times. Plus, less junk created. I got much better value despite paying a higher initial price. This of course only works if you don't get caught up in buying stuff and simply will want the newest, most cutting edge, brand names all the time and hate having things that are deemed "old". If you fall into that trap, that is a much bigger, wealth sucking habit to deal with (wealth destroying habits of others makes shareholders who own these companies rich).

Change Your Home Based On Today's Covid Environment?

The move to "social distance" has forced many people to work from home. What I've seen since Covid's tsunami rolled in is a mass reevaluation on one's residence in comparison to where work is. The thought is, "Since I can work from home, why do I need to be as close as I am, to the office?". I've had a handful of discussions and emails with clients and others; from ones looking to increase the size of their homes to much more dramatic changes, such as living on an island off of BC's coast.

There should be caution in making a drastic change in one's living arrangements when the future is still so unclear. Sure, you are working from home now however, who says your employer will want it that way when things are more normalized? How about if you want or are forced to look for another job? Will a new employer choose someone else over you because you simply can't come into work due to you living so far from the office? Is long term isolation and not being able to interact directly with other people at your work, good for you and your mental health? Is it good for your employer? Could you go into work 2 or 3 days a week without any problem at your potential new home location? Just because you can lower or get rid of your mortgage, is that a good enough reason? If so, why?

Overall, there are a lot of moving parts and still very much uncertainty to how the future will unfold in the remote work environment. I'd say, stay put. Feel it out. Get to know yourself better. Picture, live and try to really feel your envisioned new life based on 5 and 10 years from now, or longer. Your vision and that of your work situation will become clearer in time, so give it time.

Tech Gems—My Enduring Favorites

Below are 4 things I've touted in past Tech Gems. I wanted to put my "enduring favorites" in front of you again because frankly, to me they are still stellar and my most used:

OneNote—I've described this to some of the "Head Office" staff we are associates with in TO as "my desert island" pick (of course I'd need power). Various lists, including ideas for things to write about, trip planning, notes for projects which can include spreadsheets, Word docs, pdfs, pics etc. I just search with a word or 2 and it is right there.

LastPass— I know there are a lot of you out there who still have passwords written down or only use a handful of password variations. In time you will get severely bit by this 90's way of password management. I have over 700 different sites I have passwords on (although some are very old and I never use but at least I know what sites I have passwords on). Each one I have is truly a one of a kind, 12—18 character password that look something like this... Ic&L}(.Yi#6^M% and I'm never stuck for remembering because I don't have to. I do see Microsoft Edge now has a similar password manager. Change browsers and use their password but please, for your own safety… use something.

Adobe Scan—This is what you should use if you ever have to take a picture of a piece of paper or even a picture of a screen and file it or send it to someone. Adobe Scan will save your snapshot into a much clearer pdf. Also, you won't mix up real pictures with docs.

Ebay– In the world of online purchasing, don't forget about Ebay. Cheryl needed a case (not just a sleeve) for her new Surface Book 3 and we got this hard to find item for just over $50. The exact same thing on Amazon was $93.

HHHmmm…

• If you had bought gold at its peak price in 1980 you would have paid just under $600 / ounce. After that your investment would have bounced around $300 - $400 / ounce for over 26 years when it finally got over $600 in 2006. Morningstar, Dec. 2020 #LowROR

• Spotify is by far the top online music service in the world. Paid subscribers have increased by 24% for the last 3 months of 2020. Despite that, the Swedish based company was still in the red, losing $150.6 million during those same 3 months. CNET, Feb. 2021 #TopInItsFieldBut

• GameStop, AMC, Blackberry and the other targets of these retail traders are now trading very far from fundamentals. Currently GameStop is as valuable as Iceland's entire economy. This activity reminds me of 1999 when at the height of the tech bubble, FOMO fever was at its peak. Corrado Tiralongo, Chief Investment Office, Counsel Portfolio Services & IPC Private Wealth, Feb. 2021 #WhatAFoolBelieves

• In the last 12 month, stocks with negative earnings have outpaced the average stock by 40%, a 97th percentile ranking. Goldman also said the trading volumes of these negative earnings stocks is at a historical extreme. IPC Daily Update, Jan. 2021 #ChasingAStory

• Tesla's meteoric rise in 2020 (nearly 750% in USD terms) has pushed its market cap (total value of shares) above the next 6 largest automakers combined, despite Tesla having less than 1% market share in global auto sales. Forstrong Jan. 2021 #I'llBetOnThe6

• Risk is what you can't see, think only happens to other people, aren't paying attention to, are willfully ignoring, and isn't in the news. A little surprise usually does more damage than something big that's been in the news for months. Collaborative Fund, Dec. 2020 #SeeWhatYouDon't

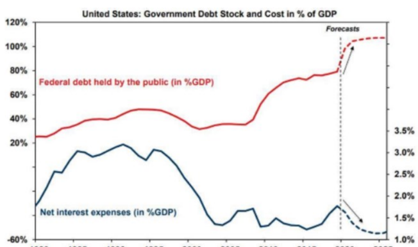
Inflation (YoY change in CPI) vs. S&P 500 YoY Price Returns, 1928–2013

Inflation Range	S&P 500 Average Return	S&P 500 Median Return	Probability of Negative Returns
-11% to 1%	3.7%	6.5%	45%
1% to 2%	13.1%	13.6%	22%
2% to 3%	10.9%	10.3%	18%
3% to 5%	8.4%	8.4%	26%
5% to 20%	1.5%	-1.0%	51%

• Investors may be underestimating the extent to which the new administration harks from an antibusiness camp (Re: Biden Presidency) Eric Bushell, CI Global Asset Management, 2021 Global Macro Outlook, Jan. 2021 #BusinessCanMoveAnywhere

• Hong Leong Oei bought the Plaza Of Nations land on Pacific Blvd in Vancouver back in 1989 for $40 million. Today it is worth upwards of $600,000 million. That is a 9.3% / year return not factoring all the taxes he's paid over the years, making it well under 9% / yr on the most prized land in all of BC. CBC, Feb. 2021 #RORMattersNotWhatAsset

• For the first time, Canadians improved their balance sheets during a recession. Despite dealing with closed businesses and other restrictions, the rebound in financial markets and ongoing strength in real estate suggest a positive wealth effect of 9.6% for a representative Canadian household. Advisors Edge, Jan. 2021 #TooMuchGovtMoney?



• Despite a ~20% jump in the U.S. Federal Government's debt level as a percentage of GDP in 2020, the cost associated with the total public debt is expected to be lower than it was in 2019 (this also holds true in Canada). In other words, the public debt issue may not be as heavy as one might think at first glance, as long as a rapid rise in inflation does not compel central banks to substantially raise interest rates which is the real risk here.. National Bank Investments, Jan. 2021 #TheGovernmentsMortgage

• If you have taxable income of less than $75,000 in 2020 and have received a COVID benefit of any kind (ie CERB, EI etc.), you will be required to file your income tax return like everyone else however, if you owe money to CRA for your 2020 income taxes you will have until April 30th 2022 (over 12 months from now) to pay the tax owing. Life In The Tax Lane, Feb. 2021 #DeferredDebt

• Employees who worked from home more than 50% of the time over a period of a least 4 consecutive weeks in 2020 due to COVID-19 will now be eligible to claim the home office expenses deduction for 2020 which is $2 / day to a maximum of $400. CRA, Dec. 2020 #WriteOffs

• In July of 1989, a couple of years after Cheryl and I were married, we drove down to California and took in Disneyland. A 1 day pass was $23.50 / person. Today, that same pass costs $154. This is a 6.25% / year increase (over 2x inflation). #OwnBusinessesWithPricingPower

• 91% of tax returns received by CRA were done electronically. Refunds can get processed in as little as 8 business days. If you still file a paper income tax return, the processing could take longer than in previous years. CRA, Dec. 2020 #PaperIsDying

• "The more the Internet exposes people to new points of view, the angrier people get that different views exist." Benedict Evans, Jan. 2016 via Twitter #CancelCulture

P.S. If you have a financial question or situation you want me to look at or give an opinion on, please let me know