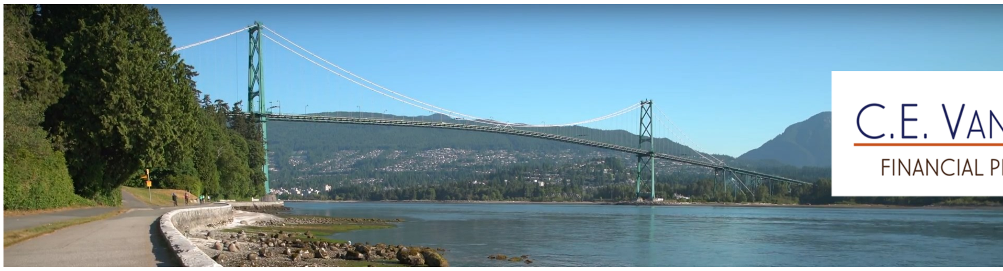


C.E. Vandenberg & Associates Inc.

FINANCIAL PLANNING – WEALTH MANAGEMENT – INSURANCE

mutual gains

ISSUE NO. 203 May / June 2021

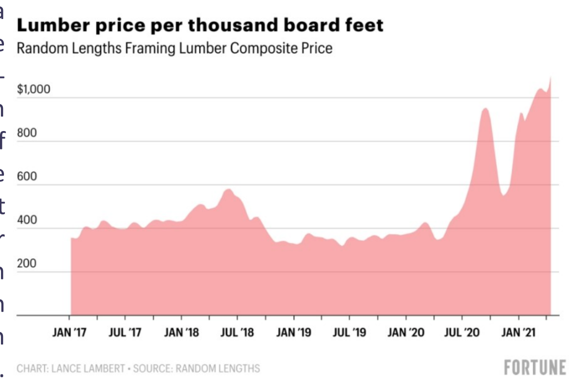
Covid Fears Gone. Now It's Inflation

With the vaccine rollout well underway, the investment markets have stopped worrying much about Covid's impact on the economy. However, as long as there are people living and money is flowing, there is always the next thing to be concerned about. That next thing is inflation.

I'm not at all surprised. I have been doing a few major construction projects at home over the past year and my latest is a complete reconstruction of the deck in our backyard. I had been reading about lumber prices going up and wanted to see 1st hand how real that was. I pulled out some of my Home Depot bills from last summer's backyard landscaping and new fencing. Wow! Yes, it's gone up. When was the last time lumber has gone up by about 50% in 12 months? I'm guessing 1979 –80.

Unlike that high inflation era of my late teens, this is simply the effect of Covid lockdowns and the restricted production of goods, coupled with increasing demand from people having extra time on their hands and being at home. The spin off has been, "Let's replace the deck" or, "We need a swimming pool". The pouring out of government money into the hands of it's citizens, many of which don't really need the cash, has been adding to the upward price pressure (you'll see a graph on that in the "Hhhmmm…" section showing historic and current consumer spending).

With lumber, there is a larger underlying natural upward pressure on this commodity's price. It's due to a demographic bubble. The largest 5 years for millennial births occurred between 1989 and 1993 (both of Cheryl and my offspring are in that band). We are at the beginning of a 5 year window when this "pig in the python" moves through the age of 30; an age when many buy their 1st home. This along with Covid has created the perfect storm.



However, lumber is one of those anomaly areas, where a specific commodity or item we purchase, sees abnormally rising prices. Don't be surprised by or

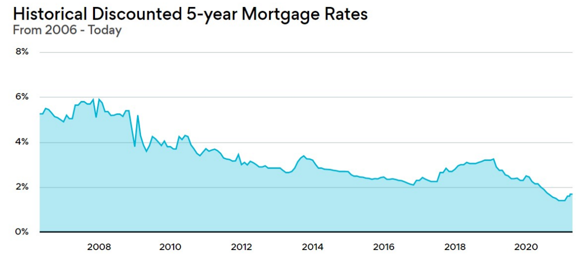
(Continued on page 2)

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.

Carey

www.careyvandenberg.com

(Continued from page 1)



alarmed by this. The last 12 months have created many (some very big) anomalies. The 30% jump in residential property prices is one of those which was primarily fueled by a 57% drop in mortgage rates over the past 2 years (from 3.24% down to 1.39%). Monthly cost per $100,000 of debt drops significantly so what happens to real estate prices? They go up. This isn't rocket science, it's simply cause and effect.

Overall, inflation isn't a bad thing. Inflation (measured over a broad basket of goods), particularly within a band that the government has targeted as ideal, is healthy. However, when we get too much money chasing too few goods, we have inflationary pressures. That is what the market is going to keep it's eye on. Ongoing or rising inflation will mean increasing interest rates. We have seen a steep jump in long term bond yields (which directly affects mortgage and other borrowing rates). This has given the bond market it's worst quarterly performance (-4%) since 1980. Why? Because inflation is bad for many kinds of bonds. On the other hand, owners of shares in companies that are leaders in their field, who have strong competitive moats around their businesses, actually benefit from modest (1—3%/yr) inflation because they can easily pass it the rising costs on to their customers.

So, as the global economy transitions out of various degrees of lockdown to a more open "business as usual' environment, there will be more inflation concerns raised and maybe a brief panic or two. However, as I heard first hand from ex-Fed Chairman, Dr Ben Bernanke in a presentation he did on April 22nd for Financial Advisors (he's associated with one of the Investment Management firms I use for building client portfolios), this too is expected to be short lived, with inflation returning to more normalized levels. In the meantime, I'll suck it up and pay the elevated price for the lumber I need for the back deck since we're probably not flying anywhere anytime soon (however, when many of us do, we shouldn't be shocked by the increased cost of flying… and accommodations… and car rentals).

Should You Invest In Gold?

The whole premise of holding gold in a portfolio is to act as a diversifier. When there is a lot of economic uncertainty or an economic crisis and most everything else drops in price, gold goes up. The same thing happens with most other investments that are related to gold such as gold mining companies. When most of your portfolio is sliding, your gold investments are rising. When all else zigs, Gold zags. The problem though is the long term return of gold. It's not very good. A study done looking at data from 1802 to 2012 showed that gold had produced a "real return" (after inflation) of 0.7% / year. US stocks on the other hand produced a real return of 6.6% / year after inflation (if inflation averaged 3% that would mean a total return of 9.6% / year).

In the long run, gold gives you protection against a bout of high inflation and short term economic uncertainty but really nothing else. I used the word "bout" because high inflation has always been a short lived phenomenon. Holding gold then is simply trying to offset a short term risk, a risk that doesn't last long. It's much like trying to avoid market downside volatility. All you have to do is look back at the biggest spike of inflation we have had in the past 100 years; 1979 and 1980. The price of gold ran up significantly only to slowly drift down for 20 years, until after 2000. Gold as a long term investment? I'll pass, even with all this money being pumped into the system.

PS. One of the portfolio management teams we use did invest in gold and gold related investments quite significantly over the past couple of years but it has since sold all of the gold it held in the investment pools they manage, for our mutual clients.

Crypto 101—Ideology Vs Practicality

There has been a rage building for several years and this rage is slowly going mainstream. The rage I'm referring to are crypto (digital) currencies. Bitcoin is the largest and most popular, although Ethereum is catching up quickly. Along with those 2 are over 4,000 others and the number of them has been growing by the day. A couple of months ago Canada cleared the launch of the world's first pooled crypto currency investment that virtually anyone can invest in. Frankly, I don't see crypto as an investment but more so a speculative instrument (making a bet on something hoping for a quick win) but that is another topic.

The whole ideology behind crypto is decentralizing the world's finances; taking the control of money out of the government's hands. In theory this sounds utopian. However, virtually every person on the planet is under a government through which it receives services and thus pays taxes. Governments have a big moat that crypto will have to compete with and compete they will, because countries (China, Singapore, Equador etc.) are starting their own "block chain" structured currencies. (Here is a simple video explanation of what block chain is which is the whole system digital currencies are build on.)

The other thing is the so called, limited supply of crypto. This is a huge reason behind its allure. Limited supply means it can't be devalued by simply printing more into infinitum. As an example, with Bitcoin there can only ever be 21 million ever produced. However, because there is no limit on the amount of crypto currencies that can be produced, there really is no limit to the supply of crypto. It's like several new countries popping up with their own currency every single day.

A big weakness of regular, government issued currency is also it's strength; that being the ability to manipulate the money supply so as to get us through things like a global pandemic or, as was the case in 2008/09, a debt crisis. This helps smooth out and limit the pain of such events and frankly, although I am not a fan of how much money the Canadian government has been pushing out the door, having government take a stance on the other end of the spectrum could have sent us into a 30's like Depression, or worse.

Turn $90.25 / Month Into $1,768 / Month

When I started in the investment business in the late 80's, I remember seeing an ad that said "Get Rich Slow". I know what you are think-

(Continued on page 3)

ing. Who wants to get rich slow? Faster is better. Intuitively however, we know that trying to get rich quick will most likely end with the opposite. The wording of the Get Rich Slow ad was actually quite clever. It says that you WILL get rich. It will just be slower than you want.

To get there, all you need to do is change a small spending habit (daily or maybe monthly) and re-direct those dollars to something that will give you a much bigger benefit. It's called delayed gratification. This will mean forgoing the daily drive through coffee or take out lunch. It may instead be cutting one of your ever expanding subscription services (TV, music, magazines, news etc.). Simply look at the list of things you spend (or are signed up for) on a monthly basis and drop one. When was the last time you looked at all of those monthly costs, one by one? Time for some spring cleaning.

The basic math on this says $3 / day in savings equals, $91.25 / month and $1,095 / year. The younger you are the larger the wealth you will create for yourself. How large? In 40 years, assuming a very achievable long term return of 7% / year, this will mean $328,000. That $328,000 will now give you an income for 40 years of $1,768 / month. What you are doing is making a trade off of forgoing the spending of $90.25 / month and in turn you will get $1,768 / month. Getting rich slow isn't such a bad thing now, is it?

Get A 2nd Opinion On Your Group RRSP

If you work for an employer (not yourself) you very likely have some kind of RRSP plan through work. This is where you, as an employee, can have a part of your pay cheque redirected to a Group RRSP or "defined contribution pension" plan. Most often these plans get signed up for and then put on auto-pilot for years. Sure you are putting money into it but is it invested as best as it can given your circumstances?

Many of our clients send their Group RRSP statements for us to review. Others choose to transfer out the proceeds to their own RRSP where we act as the Financial Advisor on how it should be invested along with ongoing advice, management and financial planning Doing so can mean getting hundreds or maybe $1,000 or more per month in retirement income, when that times comes for you.

Compound Money Tax Free With PAR

Most people buy term life insurance because it is cheap. You get the most amount of life insurance for the lowest monthly cost. This makes a lot of sense. You only pay for what you need. However, if you need life insurance and will most likely be able to invest additional cash, because you max out on your RRSP and TFSA contributions, investing in a Participating or "PAR" life insurance policy could be a better.

A PAR policy is basically a life insurance policy that gives you an additional benefit of being able to profit from how well the life insurance company does. Some PAR policies have shown long histories of producing long term returns of 9—10% / year for their PAR insurance holders. Because it is tied to a life insurance contract, you can compound these returns tax free, much like a TFSA.

Of course, you must have a need for life insurance to be able to take advantage of this. In a lot of cases, when you are older and financially set with no dependents, you don't need life insurance for replacing your income. However, because of the wealth you have accumulated in RRSPs, RRIFs, maybe a cottage and any other investments, when you pass on, your estate will have a lot of tax to pay. The only way to offset that inevitable outcome is to have life insurance proceeds to pay it. In that case, buying a PAR life insurance policy can take care of the inevitable tax bill while allowing you to compounding more of your money tax free for the rest of your life.

Don't Get Life Insurance On Your Mortgage (Don't Tick "Yes")

With rising property prices come larger mortgages. With interest rates dropping to the lowest level in 100 years, interest rates can only go up. Larger mortgages with increasing interest rates means higher mortgage payments, eventually. The last thing you want to do is increase your costs unnecessarily by simply ticking a "yes" box on your mortgage application (or renewal) to sign up for life insurance. That could be a big mistake. You will (yes, will) be paying a higher price for your insurance than with life insurance that isn't tied to your mortgage. As well, you are simply addressing the mortgage and the costs of that. You still have other living expensess that you will need to cover.

Getting what you pay for: Life insurance is often stated in a price per thousand dollars of coverage. That determines how competitive it is vis a vis what other life insurance companies are offering. Life insurance sold by the banks that is tied to your mortgage, is more expensive. Also, as you pay down your mortgage the life insurance you would receive, drops. The faster you paydown your mortgage the less potential payout you get. This means you are paying even more than you should for coverage. Also, what about if you have a line of credit, car loan etc? The life insurance attached to your mortgage will only pay off the mortgage.

Debt isn't your only expense: Let's face it, life's expensive. Your mortgage is only a fraction of your monthly living expenses. Therefore, should a person in your family, whose income you rely on, die prematurely, your monthly expenses won't drop much. This means you may need additional life insurance. Getting coverage that you buy separate from your mortgage could have you paying the same for life insurance but you'll have more coverage (or you could simply be paying less).

Action Points: If you are getting a new mortgage or renewing an existing one, don't tick the "yes" box. Get a "life insurance needs analysis" done by your Financial Advisor. Also, If you haven't reviewed your life insurance lately, get that done by the Financial Planner you work with. That person knows your situation best and can give you a fair assessment of what you need, at the best price possible.

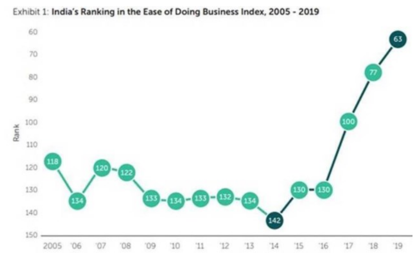
Tech Gems—Rick Beato

My coming of age years happened mostly through the 70's as it was with Rick Beato (Bee-AH-toe). Who is this Rick guy? A personality on YouTube who talks about everything related to music. He teaches and talks in depth about it, a few times a week. My favorite videos he does are called "What Makes This Song Great". He has over 100 now. Unfortunately, a handful of them have been taken down by YouTube. In those cases he will rant about the lack of common sense by YouTube's action. Despite those interruptions though, his breakdown of any song he features, is absolutely fantastic. He has you listening to small parts in isolation that will give you amazing new discoveries. He has covered songs from the 60's through some of today's (in doing so, it becomes very obvious how simple and formulaic mainstream music is today). You will never listen to a song so superficially again. Although, you still can if you want to.

HHHmmm...

• With the vaccination success, economic reopening, a higher inflation target and immense stimulus embedded in the economy, the next business cycle (usually ~10 years) is shaping up to be a lot like the "roaring 20's" of the last century. IPC Daily Update, April 2021 #Don'tMO

• Through a combination of clever marketing and the willingness of shareholders to look the other way, many of these companies have inflated expectations (perhaps a company that straps an iPad to a stationary exercise bike should not have a market cap of over $60 billion dollars?). Forstrong.com Dec. 2020 #Don'tBuyAStory



Source: Tradingeconomics.com, World Bank, 2020.

• 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 #HeadOverHeart

• Macy's gained 7 million new customers in the last 3 months of 2020. Demand for swimsuits is stronger than any other category and luggage sales are also strong. Business Insider, March 2021 #WeCan'tWait

•During the pandemic, rental car companies were forced to sell vehicles and thin out their fleets when a lack of visitors left them with nowhere to park all of the unused cars. Now that visitors have returned (and done so quite quickly) rental car companies have been left with a much smaller inventory than usual, facing car rental prices up to $1,000 / day. TravelandLeisure.com, March 2021 #PricePressure

• Canadians aren't willing to do physical work on farms, even when they're unemployed and jobs are available. "We have received 80 names…. 25 showed up and stayed for more than 24 hours. All of the others basically did not want to work more than 19 hours (so that they could keep their CERB). They did not want to work early in the morning or late at night, and they did not want to work on weekends." Canadian Agricultural Human Resource Council (CAHRC), March 2021. #PaidNotToWork

• Canada incurred the largest deficit among major economies in 2020 at almost 20% of gross domestic product (GDP), according to the International Monetary Fund. CPAC, April 2021 #WhoWillPay? #AllThoseWastedYears (RUSH song lyrics)

• With residential rental rates going down and property prices up significantly, the net rental return on real property is 1-2%. Dividend rates on many highly profitable large businesses still remain in the mid to high single digits. #ROR #FollowTheMoney

• In major US centres residential rent declines have been steep. Boston -8.9%, New York -15.5%, and San Francisco -21.5%. Dixon Mitchell Investment Counsel, March 2021 #FallingPrices #RentGetsCheaper

• Rental prices in Toronto and Vancouver as of March 2021 have hit 4 lows. Vancouver's 1 bedroom rent was at $1,900, down 13.6% year over year, a low it hasn't been at since March 2017, while Toronto's 1 bedroom rent was at $1,750, falling 21.5%, a low it hasn't touched since February 2017. National Post, March 2021 #ThingsEvenOut

• BC was top Canadian U-Haul destination. Alberta was #3. North Vancouver was the #2 Canadian city, behind North Bay, Ontario. Western Investor #NoKelowna

• There have been a drop in people discovering they have cancer because of the restrictions that have been put in place since March 2020. Doctors in Canada fear an impending wave of cancer patients after Covid-19 delays. Canadian Press, Feb. 2021 #CovidFocusRamifications

• 51% of Canadians retire on less than $15k per year. Only 3% retire on $60k or more. Statistics Canada #BeInThe3%

• Warren Buffett and Charlie Munger are the worlds most successful investing duo. 40 years ago there was a 3rd member, Rick Guerin. The 3 made investments together. What happened to Rick G? He tried to make money fast by using margin (borrowing) during the 70's bear market and he was forced to pay back his loans at depressed prices. Buffett said recently "Charlie and I always knew that we would become incredibly wealthy. We were not in a hurry to get wealthy; we knew it would happen. Rick was just as smart as us, but he was in a hurry." #Slow&SteadyWins #GetRichSlow

• Speculation begins with a premise that others will pay more for it in the future, with no regard for intrinsic value... if Dogecoin has no intended use as a medium of exchange then this is simply a classic case of the greater fool theory. Dogecoin investors are buying, not because they think it has any intrinsic value, but with the hope that others will pile in, push the price up and then they can sell to make a quick profit. We all know what this is called: a Ponzi scheme and it is impossible to know when it implodes. Forstrong, April 2021 #GetRichSlow

P.S. I'd love to make your financial life simpler and help put you on a course of, "I'm not concerned about money at all". Let me know your situation and you'll be well on your way to getting there: carey@careyvandenberg.com

Carey