C.E. VANDENBERG & ASSOCIATES INC.
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mutual gains

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Balancing The Recovery Out Of Covid

Inflation could be a thing again. But then again, maybe it won't. Some are convinced we are at the beginning of a long term trend of higher inflation. Governments on the other hand believe that upward price pressures are simply the ramifications of Covid related supply issues from labour disruptions. Many agree with that but they'd do what the government won't do: they would point the finger at government for filling people's pockets with cash as an additional culprit.

The heat waves in the North American west have been a significant contributor for pushing up food prices. A recent video I watched on chip shortages shows the many factors that have created this sector's own perfect storm.

If you don't hold the view that inflation is transitory but rather will be moving up materially for the long term then there are a couple of things you need to do:

1) Lock in your debt for as long as you can. If inflation pushes up over the Government of Canada's band of 2 to 3% per year, then mortgage and line of credit interest rates will be much higher than they are today. The higher the proportion that your current debt payments are to your income, the more crucial it is to lock in current low borrowing rates. This will ensure your financial survival in an inflationary world.

2) Move any cash holdings you won't need for the foreseeable future to investments that will appreciate with inflation. Virtually any ownership assets will thrive in varying degrees, with stronger inflation. Not so when lending your money to the bank. Even today, with bank deposits paying 0.5% / year and inflation currently running at 4.1%, you are losing over 0.3% for every month you hold cash. For every $100,000 you hold in bank deposits that is a loss of $341 each and every month.

My belief is that we will slowly go back to more of what we have seen over the past several years, that being subdued inflation. Assuming we don't get any more significantly unusual events, it may take over a year to get there.

We do have to look at debt from a government perspective though, because as government debt increases, the simplest way to reduce or get rid of it is inflation. Inflation makes debt relatively smaller, over time. Why? Because $1 of debt (at 3% inflation) will only be worth 97 cents the next year, 94 the year following and so on. Inflation reduces government debt automatically. It also reduces the true value of bank deposits. Inflation is a great debt burner but it is also a ruthless destroyer of the value of cash.

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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.

Carey

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The portfolio management firms we as a Financial Planning team use within our client's portfolios, are very cognizant of inflation. It is one of the many variables they factor in when doing research and making assessments on what specific investments should be held in our client's portfolios (as well as my own).

This is what makes owning a piece of many businesses within a portfolio profitable. When you are a part owner of businesses which are global leaders in their field, pricing increases can easily be passed on to their customers and their customers will pay it. They can only do this if their business product or service is highly relied upon and hard to replace with a competitor's. Because the customer has very little alternative to what the business is providing, their only choice is to pay the higher price.

No matter which way inflation goes, I think it is clear that over time, we will transition out of Pandemic Covid" to "living with Covid in the world" and hopefully, like so many other global health issues of the past, it will become a miniscule issue that we won't really think about much. Every human event in history, over time, has less and less impact on people and society as a whole. Yes, always be aware of risks instead of always thinking, "beware of risks". Life is full of so many other great things amongst the risks. You can't have one without the other, so get out there and live fully.

Is Your Cash A Frog In A Pot of Water?

Bank deposits are paying 0.5% or less and current inflation is running at 4.1%. As I said before, I believe this increasing inflation rate is a Covid inflation hump that we will get over. The messaging from government is that interest rates will stay low for the foreseeable future.

Assuming you sit on cash for the next 10 years and we see negative real returns on bank deposits of 2% per year, the value of $100,000 in cash will be actually be worth $82,000. Yes, your $100,000 in the bank says it is worth $105,000 10 years from now with the interest tacked on; however, what you could buy for $100,000 (e.g. an expensive car) would be well over $130,000. That is the reality of earning a negative return for a long period of time. It eats away at your savings without you realizing it. It's like the proverbial frog in a slowly heating pot of water.

Governments around the world are pumping money into the system because they are more worried about deflation than inflation. Deflation is harder to get out of. Japan's experience for the past 20 years is a perfect example. Every government looks at that and says "we don't want to go there". Their tool to try to keep us out of that is to keep interest rates lower than inflation.

I attended a virtual live talk by one of the team leaders of an investment group we use for clients that manages over $100 billion in assets. Their belief, taking into account all of the evidence they are seeing, is that the next 10 years could very well be deflationary or disinflationary. This is exactly the opposite to what we saw over the past 40 years.

There is really no stated time for when this ultra low interest rate environment will end. Governments in general suggest a time in the future but it seems to be very vague and the date continues to be pushed further into the future. No matter what happens with interest rates and inflation, for the foreseeable future, the money you have in bank deposits declines each and every day you hold it. Don't let your money be the frog in a heating pot of water.

4 Ways KISS Is So Much Better For You

Among the most common investment principles out there, balance and diversification is the most important. Despite that significance of it and any other timeless wisdom is often dismissed because it seems so simple: "There must be a better way." However, the most direct and surest route to success is K.I.S.S. (Keep it Simple, Stupid). Here are 4 of the most common mistakes I see when reviewing the portfolios of new clients:

Over-Diversification - The thought is, "The more I spread my money out the better". This is true to a point. Most people however keep diversifying. More is better, right? Wrong. Have you heard the word "di-worsification"? Holding 20 to 100 different companies, bonds, etc. has been shown to give you sufficient diversification. Adding to your current holdings is actually better than trying to increase the number of holdings.

Buying The "Conversation Pieces" - There always seems to be a boom happening somewhere in the investment world and those booms are always followed by busts. Chasing what is going up faster than something else is self-defeating. Eventually that hot item will falter or bust well before you should have done something about it. Then, you have to find the next thing and because you will feel like you have lost time, you'll try to make it up more quickly, and doing so will have you ignoring long standing investment wisdom. Earning a very pleasing return on your investments means simply tapping into the growth that takes place naturally, over time with perfectly solid investments. To try and get in on a boom, you need in most cases to give up security and take on extra risk. Do that often enough and it's bound to backfire on you, setting you back many months, if not years.

Focusing On A Trend While Ignoring Financials - When you have heard about a trend, for virtually everyone who hears it, it is probably already old news. As time goes on, the trend will attract more and more flighty investment money that is looking for the next hot thing. Throughout this trend, many newer businesses will clamor for this loose, hardly-thinking money. Virtually all will fail or barely get by.

Being Stuck On Security - Many investment products lure you in with promises of security and guarantees against loss. During my almost 35 years in finance, these kind of financial products always seem to appear <u>after</u> people most need them. In investing, as in all areas of life, it's impossible to hedge yourself against every possibility, to insure against every risk. If you try to do that, it will most likely cost you more than it could possible save you. Own quality investments that you bought for a good price and as headline risks come and then fade into the dis-

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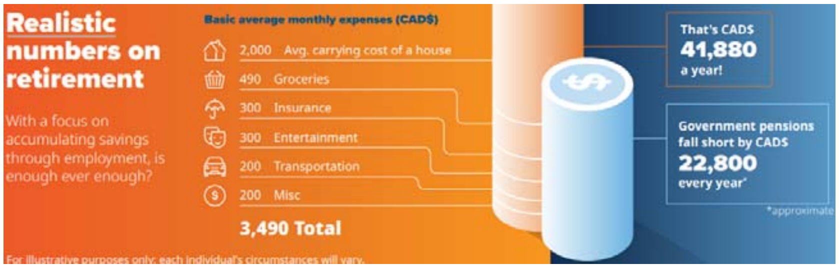

tance of time, you'll already be on the road again to building sustainable wealth.

Will CPP & OAS Be Enough For You?

If you have lived in Canada for 10 years at least, you will get OAS (Old Age Security) from the Government of Canada. This can be applied for as soon as you reach age 65. You can also choose to take it later and if you do, you get an additional .6% for each month you delay receiving it.

The amount you get in CPP (Canada Pension Plan) is very different than OAS, in the amounts paid to you and in where this money comes from. CPP benefits are completely tied to your earning history because a portion of your earnings are invested in a "fund" from which your CPP benefits are drawn. Just like any pension plan, what you get per month is determined by what your employer and / or you contributed to the fund. (I say "and / or" because self employed people who take salary instead of dividends from their corporation pay both.) Because of that you could get barely anything to a current maximum of $1,203.75 / month. To receive the maximum, today you would need to be earning at least $61,600 annually. In 2010 the maximum was $47,200. You would need to have earned the stated maximum in past years for 83% of the time — that is, 39 years (age 18 to 65 x 83%). Only 6% of people get maximum CPP benefits.

You can choose to take CPP as early as age 60; however, 65 is the baseline number. For every month you take your CPP early or later, you will get either get 0.6% less or 0.6% more per month. (I'm starting mine at age 70 and would take it later if I could.)

Take a look at the graphic in the top left corner. Assuming you fully retire at age 65, even the combination of OAS and maximum CPP will probably not be enough to fund a comfortable retirement income. Maybe I'm wrong. Do you think you can live on that?

Of course, if you are a couple, the maximum you can get is twice this amount. That does narrow the gap since 2 living together is not twice as expensive as someone living on their own. Cheryl and I are just shy of the maximum (so far). You can find your own CPP contribution history by logging into your personal CRA info. site. That is where you can see your all your past tax info, RRSP and TFSA contribution room, etc.

Of course, having a pension plan will add to your retirement income. Despite that, you still need to estimate (or better still, calculate), "how much monthly income do I need to live?". Take into account all of the things that can come up. Look back many years at expenses you have faced. They will probably continue. New cars, home maintenance, travel, increasing food prices. As well, you'll have the added items that extra time and aging bring, more travelling, more leisure expenses, possible care for yourself in later years, etc.

If CPP, OAS (and pension) won't cover what you need, you'll need to build your own assets to draw from. A rule of thumb I use is that for every $400 / month of retirement income needed, you'll have to have $100,000 of additional investment assets in a balanced portfolio. Should you need an additional $4,000 / month of retirement income, you'll need to accumulate $1 million. So, where are you at?

BC Court Can (And Will) Override Your Will

Your Will can be changed by the government if you live in BC. They can do this under the "Wills Variation Act." Through this Act, the courts can alter your Will if it deems the Will not to be fair to those to whom you have a moral obligation. Cases brought to the court are usually from adult offspring who believe they have been shafted by their parent(s); that they have a right to more than what was left to them.

An example from a 2020 case (Scurek vs Scurek) saw Joseph (the deceased) divide his estate between his son Peter, age 60, and his daughter Lydia, age 58, as well as Lydia's 2 sons. Peter was to receive 50% of the estate, and Lydia was to split her 50% between Lydia and her 2 sons. To make a long story short, the court ruled that "Joseph's primary moral duty was to his children" and that he couldn't give money to his 2 grandsons at Lydia's expense. The bottom line is that Peter ended up with less than what his father wanted him to receive.

Yes, there are a lot of details that I have left out. However, the fact is if you live in BC and want to pass money to whomever and in whatever proportions you choose, the courts could very well overturn it. (Many may agree with the power the courts have in this regard. Philosophically I don't. I'll talk about ways around the Act in the next issue.)

Deferring Property Taxes In BC (Not Just For 55+)

Many of you already know that in BC, you can choose to defer your property taxes if you are age 55 or older. What I found out recently (thanks to an inquiry by Paul S.) is that this program can also be used if you are a parent, stepparent or financially supporting a child who is deemed to have disability. As well, it can be used by a homeowner of any age who has a disability or is a surviving spouse of any age.

The basic idea of this program is to allow a homeowner to not pay their property taxes until they sell their home. Paying property taxes is one expense that continues on as long as you are a home owner. Using BC's property tax deferral program allows you to pay all of your property tax when you sell your home. In essence, it gives you the ability to defer property taxes to a time when you will free up some of your home's equity.

The BC government doesn't allow you to do this for free, though. They do charge interest on this loan. For those age 55 and older the interest rate is currently .45%. For all of the other groups I mentioned, the interest rate is 2.45%. The idea is either to allow you to have one less annual or monthly expense or, when used as a wealth building strategy, to take that money and invest it in something that will potentially earn you more than the interest rate being charged on the loan. It's not rocket science. Pay 2.45%, earn 5%. Make 2.55% per year on money that would have otherwise been in the government's hand.

Although I am a strong proponent of taking advantage of this program, for those younger than age 55, I do recommend exercising significant caution. You will most likely need every bit of the money from the sale of your home should you move, which could very well be to a more expensive home. Those 55 and older probably won't need all of the home sale proceeds since you could very well be downsizing. As well, although it isn't hard to beat 2.45% / year, it is much easier to make this work with a 55 year old who only has to pay .45%.

Of course, this should only be done with the guidance of a Financial Planner, putting a strategy in place (or maybe giving you reasons why you shouldn't use it).

Tech Gems—Palette (app)

Palette extracts colours from any photo and creates a palette of those colours. If you are into art, design or simply want to pick a great paint colour for a room or the exterior of your house, this app can probably give you a lot of inspiration. It gives you the HEX (hexadecimal) number for the colours from a picture. Some paint stores can take that number and get a colour close to that or even mix it for you. You can also go to www.encycolorpedia.com and get different variations, closely related colours to that number.

HHHmmm...

• 5 stocks returned 56% versus only 11% for the remaining 495 companies, and these 5 companies now make up 25% of the S&P 500 index. #Barrons, July 2021 #BewareOfNarrowMarkets #RepeatOfHistory?

• Investors earned about 7.7% / year on the average dollar they invested in mutual funds and EFTs over the 10 years ended Dec. 31st 2020 according to a Morningstar report. That was about 1.7 percentage points less than the total return generated by the funds themselves. The return gap stems from "inopportunely timed purchases and sales of fund shares (buy high and selling low) which cost investors nearly 1/6th the return they would have earned if they had simply bought and held". Advisor.ca, Sept. 2021 #Buy&HoldWorks

• September is traditionally the worst month for equities. Normally there are 2 corrections of 5 to 10% in any given year, and we haven't seen any "correction" since October 2020. #GuessOrHold?

• With the Pfizer vaccine gaining full approval in the U.S. and cases falling in many of the original delta variant hot spots, optimism is growing about the momentum of the global economic recovery, especially after strong corporate earnings. IPC Daily Update, Aug. 2021 #Upwards&Onwards!

• "Our expectation is that we will see a full labor market recovery before the end of 2022—3 years faster than the Great Financial Crisis (2008-09). Manulife Investment Management, Aug. 2021 #BackToBefore

• The Canadian dollar is undervalued. Our fair value model would suggest the Canadian dollar should trade near US$0.87. Our 6—12 month target is $0.83 to $0.85. Manulife Investment Management, Aug. 2021

• China and India together are home to nearly 1/3rd of the global Millennial generation, which we consider the most powerful consumer force in the world today. Goldman Sachs Asset Management, May 2021 #TheNewBoomers

• Canada borrowed more money last year (relative to GDP) than any G20 country. The size of Canada's debt is now closer to that of Japan's than it is to the US. Fidelity Asset Allocation Update, Aug. 2021 #NewGovernmentNeeded?

• We have government spending and debt in the billions and trillions. The next number after that is quadrillion. #InMyLifetime?

• The best cure for high prices is high prices. In other words, producers will respond to such signals by boosting output, while customers will delay purchases or switch to substitutes until pricing is rationalized. This phenomenon was on vivid display in the lumber market in the second quarter, with the price per thousand board feet plunging by more than 50% from its May high after tracking a near vertical ascent over the previous year. Dixon Mitchell Investment Counsel, Sept. 2021 #MarketForcesWork

• Former governor general Julie Payette will receive $4.8 million if she receives her pension to age 90, even though she only served for a little more than 3 years. This is because former GG's get $150,000 as a pension regardless of how long they serve in the role and start collecting it immediately upon leaving the position. As well they can also expense taxpayers for more than $200,000 every year for the rest of their life. Canadian Taxpayers Federation, July 2021 #NoMoreTrough

• The Trudeau government has a firearm ban in place, one which is ballooning in its projected costs. The RCMP doesn't support the ban. BC Tax Payers Federation, July 2021 #IdeologyOverExperience #NotListening

• Controlling hospitalization levels has always been the key motivation for imposing a lockdown, not new (Covid) cases. Nicola Wealth, July 2021 #WeStillCountCases

• "A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty," Winston Churchill #WhoAreYou?

• The term "My truth" seems in many ways (to me at least) a way to layout a thought or belief to something that can't be challenged, questioned or discussed, no matter what that subjective "truth" may be since that may offend the "my truth" claim maker. #One+One=What? #TellMeI'mWrong

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:

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