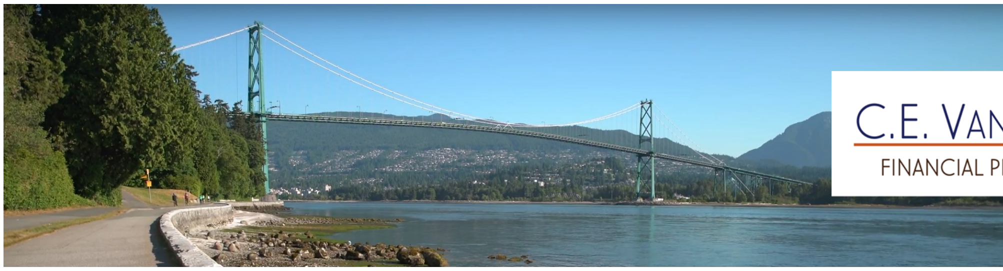

C.E. VANDENBERG & ASSOCIATES INC.
FINANCIAL PLANNING – WEALTH MANAGEMENT – INSURANCE

mutual gains

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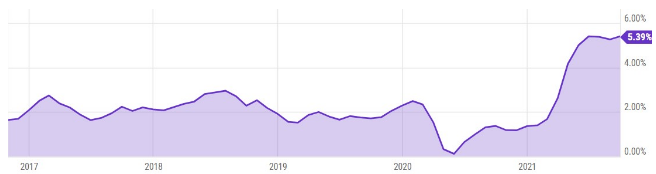
Capitalism Tames Inflation

This is a point that was made in a recent portfolio management "Summit" that I attended virtually. It included the insights from author Malcolm Gladwell and Dr. Ben Bernanke among a few others.

One of the big topics of discussion at this meeting, as has been for the broader population over the past few months, has been inflation. I talked about this in the last issue, although I don't want to leave it at that. Inflation persists and more and more people are convinced inflation could be a potential problem for the long term. Some are even concerned about the possibility of extreme inflation. To assess the most likely outcome, we need to see the full picture, rather than getting caught up in a tunnel vision narrative which may lead us to a highly unlikely conclusion.



To gain that panoramic view all we need to do is go back to where we were just prior to Covid. It doesn't take too much to see that inflation was virtually flat until we got into the early part of 2021, which was when things started opening up (the graph above is US inflation). A perfect storm has been created, through supply cuts and increasing demand on so many products. Government stimulus and cash paid to the general public exacerbated the demand. With all of that you get an acute scenario of decreased supply + increased demand = increasing prices.

One of the points made during the "Summit" I attended was that capitalism is the cure for inflation pressure; capitalism keeps prices in check. It does so through market-driven forces. When a product or service is easy to sell because of the high demand, then existing and new companies work like crazy to fill the void because there is easy money to be made. As more supply comes on stream, prices naturally moderate.

The biggest wildcard in the whole equation is, how will the labour demand be filled? It seems there just aren't enough people to fill the jobs. Why is that? Much of this is also a Covid by-product. People being paid to stay home is one factor. Another is that many people have looked more closely at their current employment to see if they might fit better elsewhere: a place that fits better with their skill set, what they want out of life, commute time, etc. Furthermore, there is a much higher demand in some sectors (e.g. delivery drivers) with lower demand in others (hospitality, tourism etc.). It takes time for peo-

(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.

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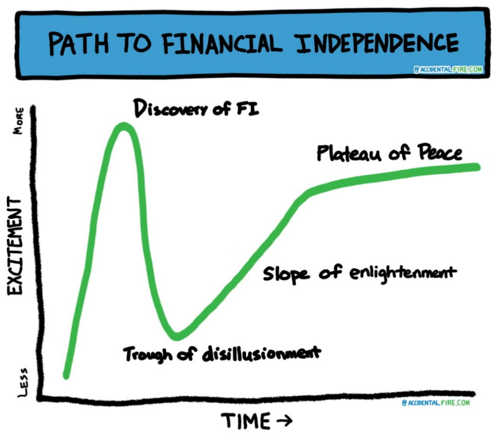
ple to move from a lower demand (higher unemployment) part of the economy to one that is in higher demand (particularly when the government is paying them to stay at home). As with any job switch, there needs to be retraining for those people to make the switch. All you have to do is look at Canada's current unemployment rate which is 8.1%; not a very low number. To make matters even more severe, immigration has gone down significantly due to border crossing restrictions. In the end, this should all be self-correcting.

Despite capitalism having the natural mechanisms and incentives built in to slow the rate of inflation, inflation is almost always with us. Inflation is necessary because the alternative is deflation, which is a much bigger concern. The best way to offset and beat the long-term effects of inflation is by owning shares of companies, real estate and any other ownership assets since the higher inflation is, the faster these assets increase. Sitting on cash (lending your money to a bank) is a guaranteed way to lose money, particularly when interest rates are well below inflation.

The Guaranteed Way To Achieve Financial Independence

I recently watched a story on YouTube about a young lawyer who found herself in a tough financial situation early on in life. Rather than blame others she decided she had to do something about it. She set out to pay off her $100K+ debt and felt her 1st big relief when she reached a $0 networth (Networth = All your assets— your debts). She now considers herself "Financially Independent", which is to have a networth of 25 times her annual expenses (the financial advice profession would say it is the ability to meet one's living expenses with the income produced from your investments). What she accomplished was all based on laying out a plan and having the discipline to stick to it.



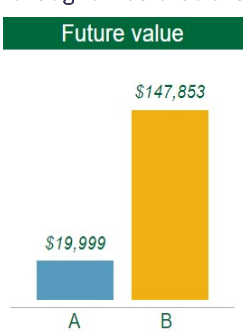
She bought and moved into a condo in Seattle that nobody else seemed to want; it was only 400 sq ft. She set herself a monthly amount for discretionary spending. This was a very modest $250 / month on top of her groceries, gas, insurances etc. She diverted the remainder elsewhere in a very balanced fashion, paying down debt while at the same time contributing to retirement savings, etc. What she did was simply "automate and forget about it" as she put it.

The key thing she did after this was not increase her spending when her income increased. She kept the same car, furniture etc. – however, she did increase her discretionary spending by $50 / month. Then, rather than focusing on how to cut expenses through housing, car, and food choices, she focused on cutting one of her biggest expenses: income tax. Smart woman. She sees something I find so many don't.

The key wisdom in all of this is to automate your savings and not let your lifestyle expenses creep up at the same rate as your income does. I've referred to this in the past as "Lifestyle Creep", where you don't save more – you simply spend more. Learn to live on a certain income, and when your income or assets increase, only spend a small portion of that increase. Discipline is what makes this work. It is the one thing that is miles more important than anything else you can do in moving toward, becoming financially independent.

Why Selling An Investment For An Expense Is A Bad Move

A client called recently to sell some of his portfolio to do renovations on his house. It was a relatively small amount of money so the cursory thought was that the downside of doing this was relatively small. However, I quickly came to my senses and thought, is it really? Doing some projections shows that how you pay for even a relatively small expense, can have dramatic repercussions. Of course, the larger the expense, the larger the inevitable impact.

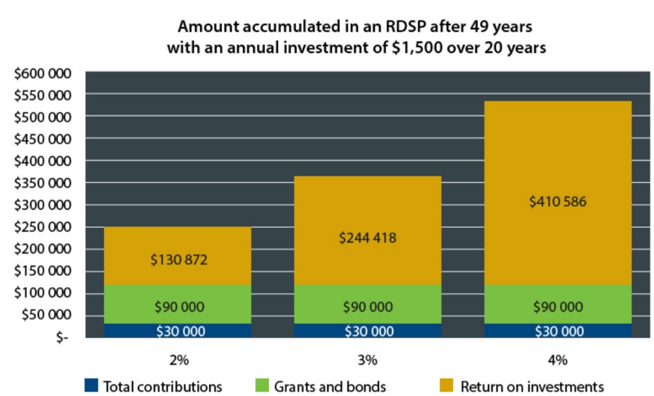


"How do I pay for it then?", you ask? By borrowing rather than using cash. Yes, that may sound sacrilegious. "If I have the money, why should I borrow for it?" Because borrowing costs are ridiculously low". Ask yourself: "Should I sell an investment that earns 5, 6, 7, 8%/year to save the 2% per year I would pay in interest to borrow the money?"

We are in a very unique time, where borrowing costs are far below what you could earn in almost any kind of investment out there. This is why today, that question and the course of action isn't sacrilegious at all. It's just simple math and compounding. The graph to the right shows a $10,000 expense choosing to borrow at 2% ('A'; and not making any payments on it) versus what that $10,000 would be worth if left to grow by 8% per year for 30 years ('B'). The difference is having over $127,000 more (or $127,000 less). Of course comfort has to come into the equation, but as you can see comfort can cost a lot. PS. A 30 year time frame is very applicable to anyone under 60 years old.

Saving For A "Disabled" Person

We have set up a number of Registered Disability Savings Plans (RDSP) for clients since the RDSP program was put in place by the Conservative government in December 2008. The RDSP allows parents of children, both minor and adult, to stash away money for the future needs of a child who has an impairment in physical or mention functions.



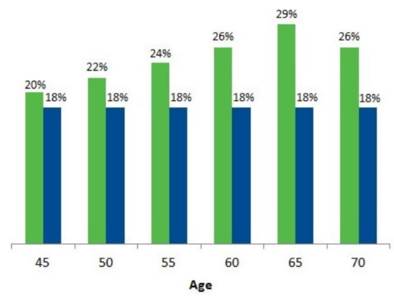
Along with the power of being able to grow money tax-free within the RDSP, the government kicks in up to $3 for every $1 you put in (for family incomes below $98,040). If a family's income is below $32,028 the government will put in

$1,000 / year and you don’t have to contribute anything. You can get a portion of this if your family income is between $32,028 and $49,020. All you need to do is set up a RDSP. That’s a very generous program.

There is another, longer term angle to the RDSP that isn’t well known. It involves the ability to roll over RRSP assets to an RDSP tax-free. Normally, an RRSP (or RRIF) can be rolled over tax-free only upon your death, to a surviving spouse. Of course, if you don’t have a spouse the plan is “deregistered” on the date of your death and is added to your income and taxed fully. The ability to roll over all or part of your RRSP or RRIF to a RDSP (maximum $200,000) for a disabled child lessens the potential tax hit that comes to your assets when you die. It also provides your disabled child with a future income source to draw from, that being their RDSP. This fits with the purpose of an RDSP which is to provide your disabled child an income for the rest of their lives, should they need it.

IPP Vs RRSP For Self Employed Business Owners Over 40

An IPP or “Individual Pension Plan” is a “defined benefit pension plan” or DB pension plan. The~~–~~“defined benefit” is that it will pay out a fixed amount of income for the rest of your life. DB plans are the traditional form of pension plan that many government employees, teachers, etc. receive. The ideal candidate for an IPP is a 40 year old plus business owner who earns $75,000 / year or more. The main benefit to an IPP is that the annual contributions you can make to an IPP can be much higher than an RRSP (20-29% in an IPP vs only 18% in an RRSP).



There are several advantages along with a few disadvantages; however, as any Ben Franklin exercise of listing the pros and cons, the pros far outweigh the cons. I am looking at the viability of this for myself – and like many things I recommend for my clients, if it is applicable to me I implement the idea for myself, first.

How To Freeze The Tax On Your Estate

I know many people who live a comfortable life and they achieve it with much less than they need from their portfolios. In other words, they have more money than they will ever need for themselves. An example would be someone in their 50’s or 60’s who has $2 million or more in assets outside of their home, yet those investment assets will probably grow for many more years without them needing to draw on them. As the investments increase in value, the potential tax hit that would be triggered when they die keeps going up. So how do you solve that?

One commonly used tactic is doing an “estate freeze”. This means transferring your investment assets to a holding company; “Holdco” for short. The transfer takes place under Section 85 of Canada’s Income Tax Act which allows you to transfer your assets without triggering any tax on the sale (rather than have a “deemed disposition”). In exchange for the value of the assets now in the Holdco, you get “preferred shares” that have a frozen value based on today’s value. “Common shares” of the Holdco are issued to your beneficiaries (e.g. your adult children). As the portfolio of investments held in the Holdco grows, the common shares go up in value, They do so in direct relation to the assets held in the Holdco, which your kids can hold for their lifetime (odds are they will live longer than you). If your beneficiaries are below the age of majority, you would want to go one step further and have a Trust hold the shares, since kids can’t own company shares. Overall, you, the owner of the preferred shares of the Holdco, still maintain full control of all of the assets yet that tax is deferred until much later.

Giving Money Outside Of Your Will

With most roadblocks, there are usually ways to bypass or go around them. The same is true of the Wills Variation Act, which I talked about in the last issue. You can go outside the power of this Act and give money to who you want and make it happen, with much less uncertainty. If you don’t know why I say that, I’d suggest reading the previous edition #205. The simplest and most fool proof means is by putting money into things where you can name a beneficiary.

With all “registered” plans (e.g. RRSP, RRIF, TFSA, etc.) you can name a beneficiary. You may have money outside of these for which you don’t have a beneficiary named. If so, you can steer those dollars to a variety of investments and / or guaranteed deposits through a life insurance company. These are deemed to be “life insurance contracts” and thus by their nature, you can name a beneficiary on those assets. Whenever money passes from an account that has a beneficiary named on it, the money passes outside of the Will. This allows you to give money to specific people before the rest of your estate is divided through the terms of the Will, taking away court intervention.

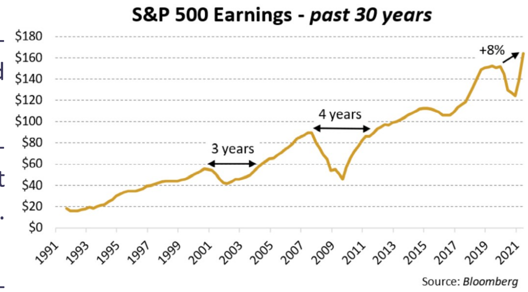
Despite that, there is really nothing to stop someone from initiating legal proceedings under the Wills Variation Act. I’m not aware of anything outside of what could be an ultra-complex strategy, that will absolutely guarantee your estate is divided as you so choose. However, using a beneficiary designation immensely increase your chances. Wills, once granted probate, are public information for anyone to see (and contest). Beneficiary designations are not. They are completely private.

Tech Gem—John Stossel

You may recognize the name John Stossel. He appeared for years on the weekly ABC TV news program 20/20. At that time he did consumer reporting; he loves to bring to light common senseless or simply stupid policy or ideas. He currently has a channel on YouTube which is both entertaining and insightful. I love the way he presents ideas or situations and challenges them. Most recently, he has gone head to head with the so-called fact-checkers at YouTube and is taking Facebook to court for unjustifiably limiting the views his reporting videos get. He will either affirm or solidify your thinking on things you agree with him on or challenge your own thinking about solutions to many of society’s problems. As well, it will show you how the new media gatekeepers are quashing debate on hot topics ~~all~~ in a very entertaining format.

HHHMMM...

• September is historically the weakest month in terms of performance for the S&P 500 and S&P/TSX Indices (benchmarks). However, the October to January period is historically a very strong period. #SeasonsCome&Go



• Over time, company earnings have gone up continually, and their share prices have followed. The only short term interruptions to this continual climb of company earnings and share prices, in over 200 years of corporate history, are recessions. #IgnoreTheDips

• One of our portfolio managers has 99.3% active share. This means 99.3% of their investment holdings are not included in the indexes. This is why, when people are concerned that "the market" is high, or gone up a lot, I say, "You don't own the market". #BeDifferentToExcel

• Despite a sharp increase in unemployment, U.S. household incomes rose during the pandemic, due to vast government support. Households also built up vast excess savings during the pandemic. Fidelity, Sept 2021 Month In Review #SocialismGoneAmok? #SoundsLikeGreece

• The annual pace of inflation picked up in September to reach its highest level since February 2003, hitting 4.4% compared to a year ago. Driving most of the increase were prices at the pumps as consumers paid 32.8% more last month for gasoline than in September 2020. The inflation rate would have been 3.5% had it excluded gasoline prices from its calculation. StatsCan, Sept. 2021 #MoreToCome

• Most of the shortages are pandemic-driven. The mismatch of supply and demand dynamics are not difficult to see: the world has just witnessed the largest demand surge since World War II, caused by post-Covid reopening, and the largest supply collapse the world has ever seen, caused by Covid lockdowns. Add in other obvious factors: billions in cheques to cabin-fevered consumers (that have radically shifted their spending patterns), asynchronous openings across countries and, for good measure, some $11 trillion in government stimulus. Forstrong Global, Oct. 2021 #TemporaryInflationBurst #CovidIsTheCulprit

• Shortages are being resolved, albeit at different speeds. Witness the roller coaster ride in lumber prices, which have now collapsed. Used car prices are moderating. Semiconductors, ostensibly the new "oil" of the global economy, and their associated crunch has prompted a wave of investment; China is now throwing a stunning sum of capital and people at the problem. Rather than scarcity, overcapacity likely lies ahead in the coming years. Forstrong Global, Oct. 2021 #ExcessesComing? #I'llBuyMyVanThen

• Russia has one of the world's most elderly populations, along with low immigration numbers. Russia's population drops by over 500,000 each year, and its birth rate is among the world's lowest. At the same time, Russia's abortion rate is one of the world's highest. Health care costs are too high for many to afford, and few have access to it. Russia has Europe's highest and fastest-rising rate of HIV/AIDS, which affects young people more than others. Operation World, Oct. 2021 #FreedomsGrowingPains #LookingForSomething

• Accounting and consulting firm PwC has said it will allow all its 40,000 U.S. client services employees to work virtually and live anywhere they want in perpetuity, making it one of the biggest employers to embrace permanent remote work. PwC's research suggests that 30% to 35% of its eligible workers will take the firm up on the offer. Reuters, Sept. 30th 2021 #WhereDoYouWantToLive?

• Despite all the negative press about Calgary's office market, Alberta's biggest city has more downtown office space fully leased than in Vancouver's core, and more downtown offices leased than in all other major Western Canadian cities, combined. In downtown office leasing, Calgary is in 3rd place, behind Toronto and Montreal. Western Investor, Oct. 2021 #CalgaryIsn'tDead #Resiliency

• In #GermanyElection2021, the winning party (the Social Democrats) in their country's Federal election got 25.9% of the vote, ahead of 24.1% for the ruling Union bloc. USA Today, Sept. 2021 #FragmentedVote #PowerReduced

• When people say they've learned their lesson, they underestimate the extent to which their previous mistakes were caused by emotions that will return when faced with similar circumstances. #EmotionalRescue #WeAllDoIt

• If there are so many more genders than 2 and gender is fluid as some would argue, how can there be gender discrimination? Just like a vaccine – can't you just then choose what gives you the best advantage? #I'mConfused

• "Things that have never happened before happen all the time." Scott Sagan, Stanford University Professor

• Past performance increases confidence more than ability. The line between bold and reckless is thin, and often only visible with hindsight. Price drives narrative and narrative drives price, so crazy things can last a long time. If you don't know why an asset has gone up you'll probably be quick to bail when it goes down. The only reason the world seemed like a better place during your childhood is because you were a child. It's easiest to convince people that you're special if they don't know you well enough to see all the ways you're not. Collaborative Fund, Sept. 2021

PS. We currently have capacity to add 11 new client families to the ones we already work with on their financial planning, retirement projections and portfolio construction. My experience has found that those 35—50 as well as those nearing retirement are the ones who see the biggest improvement (and calm) in their financial lives when we're working together. Could that be you?
Send an email to me directly: carey@careyvandenberg.com