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mutual gains

TODAY'S INFLATION STARTED WITH "STUFF"

Inflation continues to be a hot topic. Because it hasn't dropped off as quickly as the government's "transitory" narrative proclaimed, that adjective has been dropped.

Here is a revisit in simple terms of what transpired, creating the inflation of today:

- 1) Covid hit, shutdowns occurred and government threw money at people and business indiscriminately, in the beginning.
- 2) Job losses were relatively narrow, affecting only certain industries, many of which are generally lower paying.
- 3) We all had more money to spend, time on our hands or both.
- 4) We couldn't spend on services as much (travel, accommodations, theatre, concerts etc.) so we simply redirected our spending to "stuff".

**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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Home Depot normally sees their sales increase 4—6% a year. 6% would be a very good year. In 2021 their sales jumped 25% which is unheard of for a business that large. This number hasn't dropped. The demand for goods at Home Depot flows to the companies that make the goods. The demand simply flows down the line. What if most everyone was asked to produce 25% more? It's impossible to do, therefore prices go up. Supply and Demand, Economics 101.

How about trying to ship 25% more goods? Shipping and trucking can't keep up either. They don't have 25% more ships, trucks and port capacity. If they did, they wouldn't have the people to hire to operate them. People simply are willing to pay more to get the goods they want or need.

This demand bubble is a pig in the python. As we transition to a more open

Category	% of CPI	Pre-Pandemic			Pandemic Disruption			Supply Chain Normalization		
		Dec-19	Jan-20	Oct-21	Nov-21	Dec-21	Jan-22	Jul-22	Aug-22	Sep-22
Food at Home	15%	0.8%	0.8%	5.4%	6.4%	6.5%	6.8%	7.9%	7.5%	6.0%
Food Away	7%	3.1%	3.1%	5.3%	5.8%	6.0%	6.0%	5.4%	5.2%	5.2%
Energy	7%	3.4%	6.2%	30.0%	33.5%	29.6%	25.3%	11.5%	9.4%	8.0%
Used cars & trucks	8%	-0.7%	-1.1%	16.3%	18.4%	21.0%	16.9%	-7.7%	-5.9%	-4.0%
Motor Fuel	3%	7.6%	12.6%	49.6%	58.0%	49.5%	39.2%	16.5%	13.4%	12.0%
Medical care services	8%	5.1%	5.1%	1.7%	2.1%	2.5%	2.4%	4.5%	4.3%	4.4%
Shelter	33%	3.2%	3.3%	3.5%	3.9%	4.2%	4.4%	3.2%	3.2%	2.9%
Housing Fuels & Utes	4%	-0.4%	0.4%	10.5%	10.0%	9.5%	9.5%	4.5%	3.6%	3.4%
Household furnishings	5%	1.0%	0.7%	6.2%	6.5%	7.4%	7.7%	6.8%	6.5%	5.4%
Educ & Comm	8%	2.0%	2.2%	1.7%	1.7%	1.7%	2.0%	2.8%	2.7%	2.4%
CPI Index		2.3%	2.5%	6.2%	6.9%	7.1%	6.5%	3.4%	3.2%	2.9%

Source: MCM estimates, US Bureau of Labor Statistics

*red denotes MCM estimates
(Continued on page 2)

global economy, the pressure for goods should decline with time. The demand decline in stuff however will simply transition to the services that are now opening up again - those things we enjoyed pre-Covid. Anything travel related is going to have significant upward pricing pressure because of the Supply:Demand imbalance. If you thought concert tickets were high before 2020, just wait as we move through 2022.

The redirection to buying stuff versus spending on travel etc. is much like 2 choices of road to drive down when there is traffic. One road is called "Stuff Street" the other, "Experience Expressway". When Experience is closed to traffic everyone is forced to go down Stuff. As Experience slowly opens again, a lot of the traffic switches direction, from Stuff to Experience. In time, Traffic returns to normal (or close to normal). That is what will eventually happen.

Interestingly enough though, governments (Bank of Canada and US Federal Reserve) sound like they don't see that. This year the Canadian and US governments will be increasing interest rates to cool inflation. Increasing interest rates is the normal way to cool inflation. There are a lot of smart people looking at this but I'd say that interest rate increases will have a very limited impact in this unprecedented circumstance. Trying to cool inflation with interest rate increases will have a negligible affect since the inflation problem is clearly heavily related to supply chain. Increasing interest rates could mean a misdirected slowdown of economic activity rather than curbing inflation. I believe they'll simply be bringing rates back down again (late this year or early next year) or not increasing rates as much or as fast as they planned.

WHAT TO DO WITH YOUR MORTGAGE

The 1st interest increase in a long time has been implemented and several more are expected this year. Those with variable rate mortgages will experience the increase right away—you may still be making the same payments but less is going to your principal. That doesn't mean you should quickly convert to a fixed rate mortgage, however. Fixed rates are still quite a bit higher than variable rates so it will take several months or more than a year before you will actually be paying more interest in a variable rate mortgage.

What you might want to do: 1) Increase your mortgage payment to what you would pay if you did convert to a fixed rate mortgage. Your amount owing will be decreasing faster and you'll still be paying the lower, variable rate. 2) Rather than wait until your current mortgage comes up for renewal, I'd suggest having a mortgage broker do an analysis on replacing your current mortgage with a new one.

Thinking about buying a home or rental property? Get a mortgage pre-approval. This can lock in an interest rate for up to 120 days and protect you from future interest rate increases. Not doing this could actually decrease the amount of mortgage that you can get.

Peggy, the mortgage broker on our team, can determine what is best for you, on anything mortgage related. Tell [Peggy](#) that Carey sent you.

CRYPTO'S NEW "PROOF OF STAKE"

The philosophical appeal of crypto currency is its decentralization. It gives more power to the holder of the currency. With conventional banking you need a bank or credit card company as the middle man to be a verifier that the money is real. This usually takes a day or 2 (local bank), or up to a week if currency crosses international boundaries and banking systems. With crypto currency you have block chain which in simple terms can validate legitimate transactions through "consensus" which is basically a ledger that everyone can see. This makes fraud almost impossible.

The common way to gain consensus now is through "Proof of Work" (PoW). This is done through mining. The process of mining validates the transaction and the miner earns a "gas fee" which is paid in crypto currency. With the growing number of transactions and miners comes a growing cost of electricity to power the computers to do all of this work.

This year Ethereum (Ether/ETH) will adopt a mechanism called Proof of Stake. That could cut the blockchain's energy consumption by up to 99%. Under this system, validators of transactions will need a minimum of 32 Ether (~\$120K). As validators they have the potential to earn Ether for their work as validators. This will reduce the number of people validating the transactions, thus making transactions even faster with way less energy consumption.

The investment opportunity with validation: it can make crypto currency a form of income producing investment. Rather than have it sit in a portfolio, it can earn staking rewards that generate passive income, similar to dividends on a company's shares. This is a new, emerging idea and you heard it here first (unless you are my friend Josh L. who is in the crypto industry).

"ROUTINIZE" TO REDUCE THE NUMBER OF DECISIONS YOU HAVE TO MAKE

We make thousands of decisions a day. Some of the simpler ones are things like: what to eat for each meal, what to wear etc. I remember reading of Barack Obama's habit regarding what he was going to wear for the day. To reduce that rather basic daily decision he simply had 2 colours of suit: blue and grey.

Take something as simple as brushing our teeth. We make a decision to do it but the decision is easy as it is imbedded in habit. We know we should and the social downside is unpleasant so we do it, without thought. That is 1 thing we have routinized.

Reducing the decisions you have to make each day gives you more energy and time to make other decisions effectively. Interestingly enough, when I'm at home in the morning, there are no decisions to make: it is coffee and 2 toasts, 1 peanut butter and 1 jam.

This may seem like a frivolous idea but it really isn't. Take investment decisions. If everyday you wake up and are thinking about if you should invest some cash or not, or what you should buy or sell, you significantly handcuff your mind from thinking more freely about so many other things. If this sounds a bit like you, I'd suggest that you are burning precious mental energy and taking it away from more im-

portant things, those that actually will make a much larger difference to your life in the long run. Every day you wake up and these thoughts cross your mind. Sporadically throughout the day you think, “what should I do about _____?”.

Consider your financial decisions, particularly about the “when” to invest money. It has been shown historically to make absolutely no material difference on the timing of when you invest money. The real power is in the habit, and actually getting that money invested. The most basic form of way to routinize your investment decisions is to have it happen automatically, without thinking about it and without any obstacles or friction to preventing it from making it happen. The difference between the one who complicates things by adding to their decisions versus the one who has simplified the process is not only more money, but also a freer mind that makes better decisions and enjoys a fuller and much less stressful life.

As Obama said in an interview with Vanity Fair, “You need to focus your decision-making energy. You need to routinize yourself. You can't be going through the day distracted by trivia.” Yes, the happenings of the day locally and around the world will do that to you.

BEFORE APPLYING FOR CPP & OAS CHECK THESE...

Virtually everyone I know, at a stated age (e.g. 65) has simply applied for CPP or OAS at that age. Whether that be age 60, 65 or simply when you retire, don't automatically think that applying for CPP & OAS at that time is the best thing to do. Why not? Here are 2 Reasons:

Income Tax—Generally taking CPP while you are working is not a good idea. You may be earning more now than when you are retired – therefore your CPP is simply making you pay more tax. Take it later, and you pay less tax AND you get a higher amount of income (.6% more for every month you wait). This isn't always the case, which is why you should check with your Financial Advisor first.

OAS Clawbacks—This only affects those who earn \$80,000+ of retirement income. There are ways to mitigate or eliminate OAS clawbacks which is really a form of income tax. The only way to make sure you are not paying more than you have to (and keeping more for yourself) is to check with your Financial Advisor before you apply for OAS.

It can even make sense to take one and delay the other until you are older. You may want to delay taking OAS until as late as age 70. This will allow you take larger amounts out of your RRSP so as to give yourself time to not trigger OAS clawbacks. Take OAS at age 65 and CPP at 70? That will allow you to do the same thing.

For each month you delay taking CPP or OAS, you will increase your income by .6% / month (30% increase if you wait 5 years/60 months; you can delay even longer for a larger increase). Family history of life expectancy and your own health comes into play as well in the decision making which is why... check with your Financial Advisor before signing up for either of these monthly government benefits.

WHEN A SPOUSE IS LOST, INCOME DROPS & TAX RATE INCREASES

There are 3 main sources of retirement income: 1) Pension income from a job, 2) government benefits which include CPP & OAS (plus GIS for very low income households), and 3) personal portfolio which would be made up of a RRSP, RRIF, TFSA etc.

When a spouse passes on, the pension from the deceased spouse will drop, as will government benefits (CPP & OAS). The most common continued payout for the surviving spouse of an employer's pension plan is 60%. This “survivors benefit” is originally chosen when the pension member retires. There are options for having 100% of the pension paid out for a set amount of time (e.g. 5 or 10 years); however the monthly amount would be less because of the guarantee. Many people don't choose this option because most want the highest monthly pension from the get go.

Monthly CPP is also reduced. It is based on a complex formula; however, if both spouses are receiving the maximum amount of CPP, the monthly household CPP could drop by 50%, from \$2,407.50 down to \$1,203.75. OAS stops completely when the one receiving it dies. This means that the household OAS will drop from \$1,270.52 down to \$635.26.

That is the government income side of the ledger. Tax is the other side. The percentage of tax or “tax rate” actually goes up when 1 spouse predeceases the other. With 2 spouses you can split income which helps reduce tax. In other words, 2 people with \$50,000 of retirement income each (\$100K total) has a lower combined tax rate than 1 person with \$80,000 of retirement income. As well, with all income being paid to the surviving spouse, OAS clawbacks start (@ ~\$79K).

To get a more comprehensive look at this, I recommend reading the 2 page fictional case study, [“A Survivor's Story”](#).

TECH GEMS—VPN

Do you ever find yourself connecting to a public Wi-Fi hotspot? If you do, you should definitely be using a VPN, short for “virtual private network”. What a VPN does is ensure your internet privacy. It does this by hiding your IP address (your location) and encrypting your connection which helps keep you safe while accessing anything on the internet. I have unlimited data on my phone in both the USA and Canada (a fantastic plan I signed up for a long time ago) so I don't use Wi-Fi on my phone. However, a few times a week I am on my Microsoft Surface, working outside the office. This is when my VPN is on, securing everything I'm doing. It can slow your internet a bit but that is the downside of security. I have tried a couple VPN's and have found NordVPN to be 1 of the 2 best ones out there. It works seamlessly in the background which is way more than I can say for the previous VPN I used (it cut out all the time and I had to constantly re-connect). I'd highly recommend you [try NordVPN for 30 days for free](#). Again, if you use public Wi-Fi at anytime, you'll definitely need a VPN.

HHHMMM...

• “We see as much pessimism (today) as we saw in 2008 and in March 2020 which is a huge head scratcher to me. Many people are increasing their conservative (investment) allocations, increasing their cash. We are moving in the opposite direction.” Tyler Mordy, CEO &

- Do you have cash you are sitting on, waiting for more certainty to invest? 2 different portfolio managers (managing over \$50 billion) who have very strong long term track records give exactly the opposite messaging: that future returns from this point look strong and many investments are very cheap: 1) "...our core portfolios have rarely looked as attractive from an expected return perspective as they do now." 2) Cash position is down to ~5% (I most often see it in the high single digits to low teens). #EmotionVsEvidence

- Looking back at the past 22 material geopolitical events, the S&P 500 sold off approximately 5% on average; however, the average time to recover that drop was approximately 40 days. Manulife Investment Management, Feb. 2022. (Mind you, that was from before the 5% drop....) #BuyTheDips

- Warren Buffet attributes some of his success to being a contrarian investor. He famously said, "we simply attempt to be fearful when others are greedy and to be greedy only when others are fearful." Investors know this investment truism to be accurate but it's often hard to execute. The VIX Index is a great measure of the amount of "fear" in the markets. When the VIX index is high, there is more fear amongst investors. Since 1990, the VIX has averaged approximately 19, and a measure above 30 signifies extreme aversion to equities. That 30 level was breached last week but has since fallen. Historically, when the VIX has breached 30, the S&P 500 Price Index return has been positive more than 80 percent of the time one year later. Manulife Investment Management, Feb. 2022 #ShortTermPain #BuyWhenScared

- The more a company earns, the more valuable the company is. However, a company can manipulate its reported earnings through accounting changes. An example is slowing the depreciation rate on assets at an opportune moment, thereby boosting reported earnings to meet investment analyst expectations. Advisor's Edge, Feb. 2022 #JuicingNumbers #InvestmentResearch

- Supply chain disruptions have driven cost of durables like used car prices higher. In many cases, used car prices are even higher than the manufacturer's suggested retail price of new cars as dealerships struggled to build inventory. CI Multi-Asset Management, Feb. 2022 #Anomaly

- The Vancouver area continues to have the highest average rent in Canada, where last year the cost to rent an average purpose-built, two-bedroom unit hit \$1,824. In the condominium rental market, a two-bedroom rental averaged \$2,498. A 2 bedroom in Montreal is \$932 / month. Western Investor, Feb. 2022 #WorkRemotely? #PriceOfParadise #TowersInParadise

- In Canada there are about one million job vacancies and slightly more than one million people unemployed. In the U.S. there is almost 11 million open jobs, whereas the number of people counted as officially unemployed is less than 7 million. Western Investor, Feb. 2022 #WageInflation

- Every recognized religious group in Austria can collect church tax at a rate of 1.1%, though currently only the Catholic and Protestant Church do this. Church tax is compulsory for Catholics in Austria. This tax was introduced by Adolf Hitler in 1939. Denmark, Finland, Germany, Iceland, Italy, Sweden and parts of Switzerland all have a church tax. Wikipedia, Feb. 2022 #Church&State #CheerfulGiver?

- Imagine a concert ticket in the form of an NFT (Non-Fungible Token; a digit proof of ownership) that comes with an original piece of art and an entry code for your backstage pass. Plus, it automatically pays the artist, the venue and the crew without the need for middlemen. Or, NFTs tied to physical assets such as a rare wine or an exotic car where you don't have to ship or store the physical asset. CI Global Asset Management, Feb. 2022 #VirtualOwnership #ILikeRealBetter

- Central banks will take their time to hike (interest rates). Given the large size of debt, the impact of each 25 basis points (.25%) hike will be more pain than normal. In Canada, a mortgage payment is a significant portion of every household's expenditure. The first few hikes will be more acceptable/tolerable. This means the pace will be quicker initially and then fade. All in all, it may take 2 to 3 years to get to 2% (Bank of Canada Rate; currently .25%). Alfred Lam, CIO CI Multi-Asset Management, Feb. 2022 #DamnedIfYouDo&Don't

- If a family member is considered "disabled", a \$500 / year deposit into a RDSP (Registered Disability Savings Plans) will get for you an additional \$1,500 / year deposited into the RDSP by the Cdn government. On the next \$1,000 / year you'll get \$2,000 / year from the government. This is for families whose income is \$98,040 or less. Higher income families get a \$1 for \$1 match up to \$1,000 / year. If you are a low income family, you could get \$1,000 / year paid into the RDSP by the government (up to \$20K maximum) without even making a contributions. Canada.ca #FreeGovernmentMoney #JustSignUp

- To a large degree people are relatively unfazed by price increases we are seeing. We are simply paying them. Why? Because the majority of people didn't actually suffer a negative financial hit during the lockdowns. Most of us are actually better off. #LifeGoesOn

- The CRA is targeting BC residences whose owners look like they may have filed for the Principal Residence Exemption (PRE) when they shouldn't have. An "education" letter is targeting those who sold their home and are also reporting a significant decline in rental income. The other is those who sold a principal residence more than once in the 2018 and 2019 tax years. Life In The Tax Lane, March 2022 #PRE #CRAAudit?

- A proposed CRA admin change (draft legislation): If you have to make a payment to CRA that is \$10,000+ you can't send them a cheque. It must be sent electronically, "unless it is unreasonable for you to send it electronically", whatever that means. They will charge you \$100 to process the cheque. Life In The Tax Lane, March 2022 #What'sACheque?

Bloomberg basket of 37 'meme' stocks

