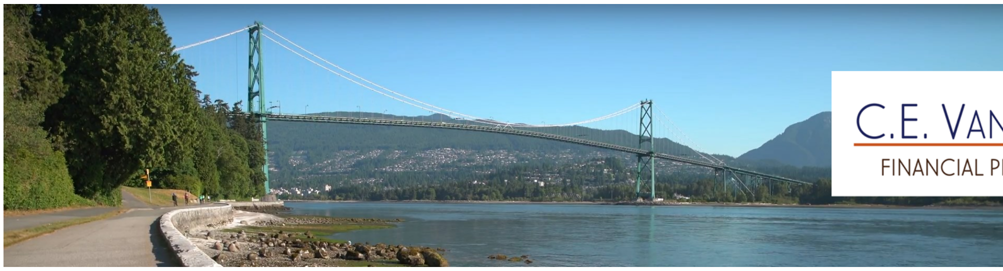

C.E. Vandenberg & Associates Inc.

FINANCIAL PLANNING – WEALTH MANAGEMENT – INSURANCE

mutual gains

ISSUE NO. 209 May / June 2022

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

The Most Uncertainty In Over 2 Years

I was a little reluctant to put that as a title. It could put or keep you in a cautious investment state of mind. That is the mindset that can and has historically proven, time and time again, to work against you in a significant way. However, "the most uncertainty in over 2 years" is definitely where we are today.

For those with cash on hand to invest, it is times like these that make for the most opportune window to plant your cash seeds. Uncertainty means depressed prices. As well, the uncertainty is priced in. This means that as each uncertainty lessens (or disappears) investment prices go up and usually quite quickly.

Each item of uncertainty has a level of probability to the outcome. If there is a 95% chance that the best outcome will be in the future, then that is priced in. If there is an 80% chance of a bad outcome then that has also been priced in. The collection of uncertainties and probabilities and the likelihood of each of those happening is collectively added up and priced in. It's called the "weight of evidence".

This is where the irony is and the reason why investing now is really the only logical thing to do, if you are investing for the next several years. As the uncertainty disappears, that means even when the 80% chance of a bad outcome becomes reality, prices go up. Why? Because the bad outcomes were already priced in. Now that the outcome has been confirmed, the market's view is that

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there is a very high probability that things will be improving.

The uncertainty today is coming at us from two fronts; a geo-political situation we haven't seen in 80 years, and the highest inflation we have experienced in 40 years. On top of that, we are still coming out of Covid. If ever there was uncertainty it is now. We have it in spades.

Inflation has gone up swiftly and headline numbers are making comparisons to the 80's. However, a deeper read shows that central banks and governments are reacting as they normally would during an inflation spike. This is despite the fact that this inflation has its origins from factors that could prove to be temporary and in time naturally correct themselves. Interest rates will probably be pushed up too quickly and too much, bringing down the pricing pressures.

Interest rate increases will probably affect Canada significantly. Real estate overall represents a very large and growing part of Canada's economy. This is seen as Canada's Achilles Heel since it is an internally serving sector, where by contrast, tech services can be sold world-wide. When the Canadian consumer has way less money to spend, it could take down one of Canada's biggest economic engines, real estate.

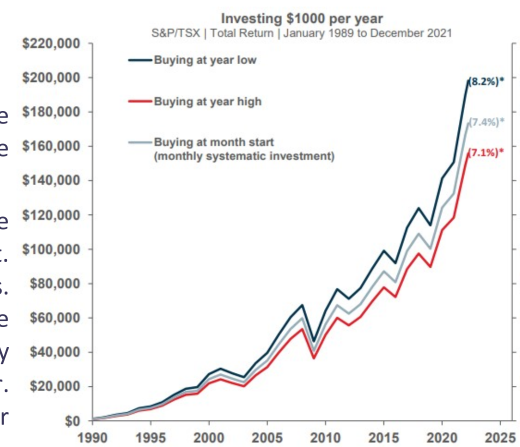
Which brings me to why this is so precarious. We are also the most highly leveraged country in the world. Canadians spend more of their income on debt payments than any other country's population. We spend 65% more on debt payments than Americans do. Canadians with debt will get squeezed quickly and significantly as interest rates rise and mortgages come due.

This is where there is a night and day contrast. Rising interest rates could have a negative effect on property values; however, that isn't reflected in the current price of those assets. Interestingly enough, property values are a lagging indicator. People push prices up well after the negative facts of the future are clear; prices go up despite the "weight of evidence". Prices decline as the economic effects take hold.

That isn't the case with more liquid investments - ones that can be bought and sold on a whim. These are reacting immediately (and emotionally) to usually the worst case scenario (or the best case if the world is rosy). This can push prices to levels well below (or well above) what the most probable outcomes will be. Yes, prices may go lower in the short term as uncertainty continues, but long term, prices will be higher because uncertainty is very temporary. You plant seeds and don't sit and watch them. You plant them, give them time and let nature take over.

Just look back at March 2020 (and further back) and see how far we have come. Which is why, putting cash to work is the most logical thing to do, today. The 2 biggest uncertainties are already priced in. We are just waiting for their outcomes to be confirmed and you want to have your cash planted when that happens.

Does Trying To Time Your Investing Work?

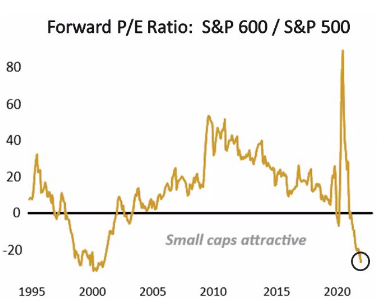


So many people are concerned with investing at the wrong time. Yet, the difference between absolute perfect timing and being one who always invests at the wrong time isn't as wide as you may think.

Case in point: consider an investor blessed with perfect market timing, the dark blue line investor. They seem to be able to pick the 1 perfect day out of 365 day to invest. They don't do it once but 32 times, picking the lowest day each year for 32 years. Thereby they get the cheapest price of the year each year for 32 years. The red line investor is exactly the opposite. Nobody can have worse luck than him. It's like every time he crosses the street at a crosswalk with the "walk" sign lit, he gets hit by a car. The difference between these 2 investors is a compounded rate of return of 1.1% per year .

I think you and I would both agree, both of these are impossible outcomes, yet some try despite the odds being 99.99% against them. The realistic example is one who invests automatically, the light blue line. What matters is the frequency of investing and the passage of time. Together, they are the perfect recipe to investing.

Small Companies Are Cheaper Than They Have Been In Years (& Less Risk?)



When uncertainty is rampant, money flows to the perceptions of safety; those being the biggest of the biggest companies, bonds and cash. That is to the detriment of smaller companies. When I say smaller, the term is relative. These are generally companies priced at $500 million to $3 billion, if you had the money to buy the whole company (called "Market Capitalization).

So, how attractive are smaller companies now? Based on the basic measurement of "Price to Earnings" (percentage of a company's earnings per cost of 1 share) they haven't been this cheap since the tech bubble (left hand graphic, 2000). Now look at the graphic on the right from a portfolio I recently examined. The PE ratio is at about the same level as it was in March 2020,

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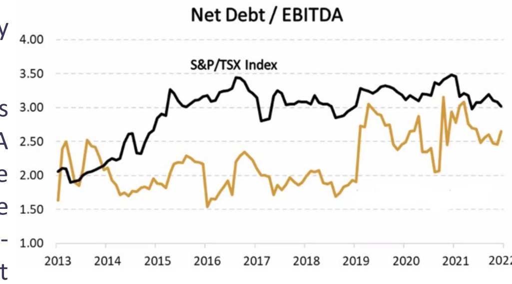
when Covid slammed the world. In other words, the market is pricing these companies today at Covid onset prices.



Those 2 are only comparing average prices. Let's look at the amount of debt larger companies have in aggregate versus a smaller companies portfolio. This is done using Net Debt to EBITDA (Earnings Before Interest Taxes Depreciation and Amortization). EBITDA is basically a measure of a company's overall financial performance. The 3rd chart shows that debt is lower on the smaller companies portfolio versus a group of the largest companies in Canada (as represented by the S&P/TSX Index). Less debt means less risk which is particularly important as interest rates rise.

Just from these 3 charts we can see that smaller companies are cheaper and have less debt, which means less financial risk. This is another anomaly (one worth taking advantage of) in the current environment of uncertainty.

Fact: Women Are Better Investors

Dozens of academic studies have proven this. For example, late last year, Fidelity indicated that its accounts owned by women outperformed men by 0.4 percentage points over a 10 year period. That may not sound like a whole lot, but over time, and with compounding, it can mean the difference between hundreds to thousands of dollars more per month of retirement income. What would you do with an extra $1,000 / month?

Here are some reasons why this could be the case. Women don't feel the need to 'prove' something; this allows them to admit their mistakes more easily. Women tend to stay the course and trust their advisor during times of turmoil more so than men. They also don't suffer from the overconfidence that dooms so many male investors.

So, for the men out there who say to their spouse, "I've got this", maybe let your wife be more involved with your investments. It should be a partnership effort anyway, don't you think?

Thinking Of Co-Signing On A Loan (Mortgage)?

Co-signing a loan can help someone access credit that they might not be able to get. A typical situation would be a parent co-signing on a mortgage for an adult child to buy a home. Doing so can help - however, you must recognize the risks.

First, is the obvious—the financial risk to you. This occurs when the person borrowing is not able to make the payments. If that happens, you as the co-signer are legally on the hook for the loan. As well, should the borrower simply miss or be late on a payment or two, that will be reflected on your credit rating as well as the borrower's.

The secondary risk has to do with the reduction in your own borrowing power. Co-signing reduces the amount of money you can borrow. When contemplating being a co-signer, you should consider the potential possibility that you may want to borrow money for either a more expensive home or borrow to invest.

There is also the potential relationship risk which could actually be the most painful and long lasting. Should things go sideways, you will have to negotiate with your family member on how the situation is going to be rectified.

To help you think very clearly on deciding whether co-signing is a good idea, you should assume that it is your loan and that you are completely relying on your adult offspring to make every payment for the entire term of the loan. Even if the mortgage renews with the same lender (e.g, 5 years from now) you will continue to be registered as the co-signer. This will keep all of these risks in place for many years.

The RRSP Home Buyers Plan (HBP) Vs The Tax-Free First Home Savings Account (FHSA)

The Home Buyers Plan (tax free RRSP withdrawal) started 30 years ago. Now, potential 1st time home buyers have 2 choices. Frankly though, the Home Buyers Plan isn't even worth looking at, unless you have made RRSP contributions to that end and are planning to buy soon. If not, the FHSA is what you want to take advantage of. You can even move money from your RRSP to the FHSA.

Contributions to a FHSA will have the government giving you tax deductions. The tax savings from those deductions are yours to keep. With the HBP, you have to pay back the money you withdrew from your RRSP. If you don't, you pay the RRSP tax savings back. With a FHSA you can contribute $40K over 5 years and get up to $21,600 in tax savings. You can only go up to $35K with a HBP. Use both? No can do. You can only use one or the other. Although this is only scratching the surface, the FHSA is by far the winner. It will become available sometime in 2023.

Don't Pay Your Property Tax. Defer It.

Every May, home owners in BC, 55 years and older, are given the opportunity to delay paying the property tax on their home until they sell it. In doing so, you are keeping the money in your hands and either, 1) putting it in your TFSA and investing it or, 2) giving yourself more money for your living expenses.

There is a cost to this because you in fact owe this money to the government and they will charge you interest. The current rate is an ultra low 0.45%. I'm sure this will go up. However, with the TFSA investing idea, you are paying a very low interest cost for the luxury of paying your property tax down the road. If you choose to invest that money, you simply need to earn more than 0.45% to make it worthwhile. As well, it's tax free if it is inside your TFSA. Do that year after year and in time you'll be thousands, if not tens of thousands of dollars ahead.

Assumption: $4,000 / year of property taxes. At a 1% / year interest cost, you would owe $42,267.34 in 10 years. Yet, at 5% return, you would have $52,827.15 invested. Do it for 20 years and it's $89K owing, yet you have $138K. Or you simply have more money to live on and pay the property tax when you downsize. In any event, paying your property tax later is very worthwhile. I do it, as do many of my clients. I only wish I could do this with all of my bills.

Tech Gems—Transit

With travel opening up (or people travelling more often to a work location), the "Transit: Subway & Bus Times" app can help immensely. It works in over 300 cities worldwide giving you real time transit data. Just type in where you want to go. It will tell you when to leave, where to walk to, which bus, train, subway etc. to catch along with other connections along the way.

This app amazes me. On Tuesday May 3rd, I had to go to a series of meetings in downtown Vancouver and as usual, I took the bus, which took me to Canada Line. Normally I would use BC Transit's "Trip Planner" tool on the web. The Transit app is so much better; faster with instant updates in real time. If it works this seamlessly in other cities around the world, it is a must have travel app. I'm sure I'll be trying it in Toronto this month. Download it and give it a go in the next city you plan on visiting and let me know how it works. It may even be so easy that you'll do fewer car rentals when you travel abroad. Faster, greener, cheaper, calmer. I like all of those.

HHHmmm…

If you love the HHHmmm… section I highly recommend connecting with me through Facebook, LinkedIn and / or Twitter. The ones with URL links below are only a sampling of the many that have been posted via those social media channels. Connecting through any of these 3 social media platforms will keep us in touch.

- In residential real estate, just because "the market" pays this price doesn't mean it is worth it. True worth closer to $100K; build new 1,600 sq ft ~$200K. A scenario like this has played out many times over history and usually it doesn't end well https://buff.ly/35IOYez #BuyValue
- We are business owners buying businesses and thus we think and act like rational business owners. When we can buy shares in a business below what they are worth, we buy. There is nothing else to determine. We don't worry about whether the price could go lower due to world events or emotional selling. If the price does go down, we buy more. We don't pay attention to short-term numbers because that means making decisions for emotional reasons. #BusinessBuyers
- If you want to find out if the markets are near the top or the bottom, check how the layperson feels about the markets. General optimism means things are nearer the top. When there is caution or fear, we're near or at the bottom. #NoPerfectTime #BadFeelings=GoodTime
- Consumer sentiment is well below where it was in April 2020 and close to the lows during the financial crisis. The Fear & Greed Index is at 27, which is on the edge of Extreme Fear https://buff.ly/3kDSv1j . Both of these are contrarian indicators which rarely last for long periods.
- We are drawn to extremes. It's not that things are actually worse, it is the way news and information is being fed and consumed that makes us believe things are worse. https://buff.ly/3K1asSE #Recency Bias #JustTheFacts
- A typical condo in Vancouver: #305—2588 Alder Street was sold this past February for $718K. It sold for $402K in 2011, $217K in 2003, $177.5K in 2001 and $187K 25 years ago. The compounded ROR for the owners of this condo range from -.3% to 10% /yr. The ROR or price appreciation of that condo for the past 25 years is 5.53% / year. Big numbers make for impressive conversation but 5.53% / year is only ~3% / year above the rate of inflation. https://buff.ly/3jqp9mu #BorrowingAmplifiesReturns
- Garibaldi Village shopping complex in Squamish was bought by an investor in 2005 for $9.2 million from the developer. It was sold this past February for $22.15 million to Manulife Investment Management. That works out to a compounded annual appreciation of 5.44% / year. #ROROverTales #ApplesToApples
- At the start of the 10 year bout of inflation in Argentina, 40K Argentine pesos could buy a house. 10 years later the 40K could only buy a man's neck tie. During inflation you need to hold ownership assets. Cash and bonds are the riskiest. #PermanentLoss #SafetyIsDangerous
- Nuclear energy produces reliable, carbon-free power more than 92% of the time—twice as reliable as coal (40%) or natural-gas (56%) plants and almost three times more than wind (35%) and solar (25%) plants. https://buff.ly/37gTMbl #EnergyPragmatism
- The likelihood of needing to claim on your home's fire insurance is 1 in 1,165. The chance of being seriously injured in a car accident is 1 in 3,668. You have a 1 in 12 chance as a 40 year old of dying before age 65. #LifeInsurance #LotteryOdds
- Of the US's 10 largest cities in 1950, only New York City and Los Angeles had larger populations in 2020. The other eight — Chicago, Philadelphia, Detroit, Baltimore, Cleveland, St Louis, D.C., and Boston — all saw their populations fall. #UrbanSprall
- Retirees can increase their CPP income by as much as 64% per cent and their OAS by as much as 55% by waiting from age 65 until age 70 to begin these pensions (assuming a 2% annual inflation rate). #I'llWait #DelayedGratification
- Free speech has been stifled by social media gatekeepers. Elon Musk buying Twitter could be a huge catalyst to opening up dialogue and helping people think through contentious issues rather than be manipulated on what to think. #SocialEngineering

P.S. Did you connect yet through Facebook (CE Vandenberg & Associates Inc), LinkedIn or Twitter (CareyVandenberg)?

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