CEVA WEALTH
FINANCIAL PLANNING • WEALTH MANAGEMENT • INSURANCE

mutual gains

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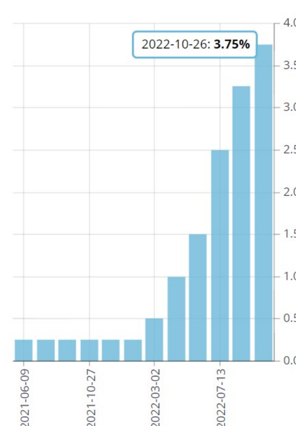
We will listen carefully
to what you are saying
and be attentive to your desires
as well as your fears
so together we can build
and enjoy
a harmonious
and responsive relationship
in attaining your life's dreams
and through that
We will be attaining ours.

2022: The Year Before 2023's Recession

Interest rates have increased significantly since their lows in January this year. Since then, the Bank of Canada's overnight rate has gone from .25% to 3.75%, a 1400% increase. Inflation in most major economies is trending well above each respective central bank's inflation target range, (central banks being the financial arm of every country around the world) and it looks like interest rates won't be changing direction anytime soon. Also, in the US, "the Fed" has signaled that it expects rates to remain higher for longer.

The reason for this continued upward direction is that they don't want to make the same mistake they made in the late 70's. Back then, inflation was increasing at 1.5% per month. In response, the central bank quickly raised rates to 17%. However, interest rates were swiftly cut as soon as inflation slowed down. They discovered though that Inflation wasn't tamed fully so they had to raise rates again. This expensive mistake was repeated a couple of times, and it took 3 to 4 years to rein inflation in. The Fed (and the Bank of Canada) do not want to fall into the same trap by relaxing monetary policy too early.

What many financial minds and business leaders are saying (those outside of interest rate lever pullers), is that this time is very different. Today's inflation was caused by government; it isn't a structural issue like it was in the 70's. Product inflation (goods and energy) will turn down quickly and continue to fall. They cite very high inventories of goods. The price of products will come down quickly as people spend less. They will be forced to since the interest costs on any floating rate personal debt has increased 1400% (lines of credit, mortgages, car loans etc.). For energy (the mother of all inflation), the decline will happen once the Putin war ends.



That is on the goods and energy front. The stickiest inflation though is in wages. That too should ease somewhat as layoffs happen; however, there is definitely a global shortage of labour.

Central governments are hoping for an economic "soft landing" but their actions will probably push us into a recession. The investment markets see it

(Continued on page 2)

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(Continued from page 1)

> Markets tend to bottom well before the economy does, and we anticipate as inflation data significantly improves, expectations for the Fed hiking path will ease and equities will start to grind higher. This is likely to unfold at the tail-end of this year.
> CI Global Asset Management, Oct. 2022

coming and have priced that in.

So what does all that mean for you and me? There have been 11 recessions since 1953. Over that 69 years of history, investment markets did much worse in the year before a recession than during the recession itself. 2022 will prove to be that year before the 2023 recession. Of course, those of us who have a very well selected portfolio of high quality businesses that are leaders in their field, bought and held at prices well below what the businesses will most likely be worth 1, 3 and 5 years from now, and despite an imminent recessionary environment, will do very well. In fact, the best businesses gain ground at the expense of weaker businesses.

Ensuring You'll Have A Healthy Income For Life

The foundation of Financial Planning is through making long term projections on one's financial situation and updating those periodically. This can mean calculating what your kid's post secondary education will cost in 5, 10 or 18 years from now and determining what needs to be done to fill the gap that shows. Most often it means determining how much money a client (you?) needs and by what age to provide specific lifestyle income at that time. I've done thousands of retirement projections over the years. These take into account inflation, historic market bumps, historic returns using specific assets (e.g., equities, bonds etc.). It may also include a planned downsizing. We input at what age we estimate that to happen, how much cash that will free up in e.g. 20 years, etc. etc. Lots of data, reviewed usually once a year.

This year in particular, we've seen more changes in some of those variables. Inflation is up so how much do we change the number we assume for future inflation? At the same time, portfolios are down. What effect does that have? What is a Sustainable Withdrawal Rate? Will withdrawing the same amount of income from a portfolio still provide the income needed, for the remainder of your life?

Those are just a handful of the plethora of variables that go into doing financial projections. I'm always curious and a little stunned (particularly for those in their 50's) who have really no idea what their own financial future is projected to look like. There are so many who just wing it. They work until an age at which they want to retire and then hope it all falls into place. Seems crazy to leave 10, 20 or 30 years plus of retirement income to chance. Personally, I like higher probabilities. You?

Get An FHSA If You Don't Own A Home

Starting in 2023, the FHSA (First Home Savings Account) will be the absolute best savings vehicle for getting a down payment together for a 1st home purchase; better than saving money inside a TFSA and using the long-running Home Buyers Plan, tax free RRSP withdrawal.

You will be able to contribute $8,000 annually (if you are serious about your goal, I recommend contributing up to $666.66 / month to a FHSA) and get a tax deduction. The tax deduction will work just like getting a tax deduction on a RRSP. For every $1 you contribute, you'll get up to 52% in tax savings. With the FHSA you will have a "no strings attached", tax free withdrawal if the money is used for buying your 1st home. This is a "too good to be true" that isn't too good to be true. It's coming and it's legit.

The government of Canada hasn't yet announced the launch date for FHSA's - however, if you want us to let you know when that happens, make sure you are on our "E-Loop" and / or are connected through LinkedIn, Facebook or Twitter. Or, you may want to partner with us as your Financial Planning office (setting up your FHSA will be just 1 of the tools used within your Financial Plan).

Do You Have A Trigger Rate On Your Variable Rate Mortgage?

Rising interest rates impact almost everyone who has a mortgage. However, when you actually feel the impact of an interest rate increase depends on the kind of mortgage you have. We only really talk about variable versus fixed; however, there are actually 2 types of variable rate mortgages: adjustable payment and fixed payment. These 2 are quite different and only 1 has a trigger rate.

Variable-rate with adjustable payment: If you have seen your payments increase over the past several months, you probably have this kind of mortgage. The good news (yes, there's good news to paying more) is that you are continuing to pay down your mortgage at the same pace you were before rates increased.

Variable-rate with fixed payment: The interest rate fluctuates as the name "variable" implies, but the payment doesn't. Yes, it can make life easier, but there is a future cost and potential risk to that: less money is going to principal and more to interest. If interest rates go up enough, you may eventually hit what's called the "trigger rate."

The trigger rate is the interest rate at which your payments are going 100% to interest and 0% to principal. At this point, your lender may suggest increasing your payments, or converting to a fixed rate mortgage. Generally you don't have to take immediate action; however, if your mortgage balance goes back up to the amount on which you originally signed up for, you hit a trigger point. This is when you will have no option but to make a lump sum payment, convert to a fixed rate mortgage, or increase your monthly payment so that you are actually paying down the principal. In any event, you should talk to a mortgage broker to get independent advice before doing anything.

You Probably Have A Bare Trust And Don't Even Know It

Do you have an "In Trust" account? That would be when you have an investment or bank account that is earmarked for your kids (or grandkids). How about a home you bought for an adult offspring of yours because they couldn't qualify for a mortgage? Or… have you added

(Continued on page 3)

someone else's name as a joint owner on a property? These are 3 examples considered to be "Bare Trust" arrangements.

Why do you need to be aware of that? Because the government has expanded the definition of "Trusts." It looks like the Bare Trusts I mentioned, and which are in place as of December 31st 2022, will probably need to be reported to the government. As well, you could be required to file a separate tax return for these. I say "could" because these proposed new reporting requirements have yet to finalized. However, it looks like it will be. This means a separate tax return will need to be filed for any Bare Trust you have. If you don't, you could be faced with a penalty of $25 / day (min. $100 to max. $2,500 in total).

How Much Would You Be Willing To Pay The Government?

OK, this is a really loaded question. Most people would say $0 without knowing what they are getting for it. I would have to put that in context for you to give a real answer. So here it is:

If you have an estate (your total net worth) of $1 million, would you be willing to pay $150,000 of income tax? How about $600,000 of tax on $4 million? I'm guessing as the number goes up, the willingness to pay (or the amount) goes down. Other than trying to walk the fine edges of the Income Tax Act to get around paying taxes there is only one way to cover that bill and that is through life insurance.

With this you aren't actually getting around paying the tax. You are simply buying life insurance to cover what you expect that tax bill to be. $600K of life insurance would cost a healthy 65 year old male approximately $19,200 / year. That may sound expensive - however, assuming someone passes on at age 85, that would have been $384,000 in premiums paid. Subtract that from the $600,000 of the tax free life insurance proceeds and the net benefit to your estate is $216,000.

As you can see the longer your life, the less advantageous this idea becomes. As well, we haven't factored in the lost opportunity cost of that $19,200 expense. Forgoing the life insurance and re-directing $19,200 / year into a diversified investment portfolio compounding at 6% / year would equal $748,660. There would have been lots of tax to pay on that over the 20 years so the net benefit is much less—guesstimate being $680,00.

A hybrid way to do this is through a "Universal Life Insurance" policy; it hedges your bets. With this you combine life insurance with an investment portfolio that compounds tax-free. It can do so because the investment is held within the life insurance contract. Coming at it from this angle is more advantageous for a longer life expectancy. Of course, for the shorter life expectancy, simply buying the life insurance could most likely be best. Despite all of that, if you want your heirs to get the full value of your estate, life insurance, in whatever its form, is the only real way to offset the inevitable tax cost.

Use Investments For Donating Instead Of Cash

Donating money costs us Canadians much less than we realize. In Canada, giving $200 will cost $160 (80% of your donation). If you give $2,000 however, you'll only be out of pocket about $1,170 (~59%). The normal course of action for most people is simply to donate money in cash. If however, giving $1,000 or more to charitable organizations is part of your Financial Plan, you should probably consider giving part of your investments instead of giving cash. It will cost you even less.

Over your lifetime, you will probably be using your investment portfolio to give you the cash you need to meet all of your lifestyle expenses. In other words, you can't take it with you; thus you'll have to sell your investments at some point. Normally, selling even a small part of an investment that has grown in value would trigger a capital gain, of which you would have to pay income tax on that gain. So, rather than tap into your income to donate, you can (and possibly should) simply give part of your investments instead of using your cash.

Let's use that $2,000 donation figure for this illustration. Let's assume you have at least that $2K in investments of which you only paid $1,000 for them. Eventually, you'll sell that investment and you will have to pay tax on that gain. However, using it as a donation saves you approximately $250 in capital gains tax. Why? Because CRA allows you to donate the investment without triggering the capital gain (the explanation on that is more complicated but, at the end of the day, that is what is happening). Making a donation of $2,000 of cash will save about $830 on your income tax return. Donating investments increases the tax savings by another $250, making your donation cost you approximately 46% of what you actually donated vs 59% if you are giving cash.

Cheryl and I have done this many times before. We now have investments that we can donate for many years into the future. Making this simple change in how we make donations has increased our tax savings (reduced our tax payments to CRA) for the next several years.

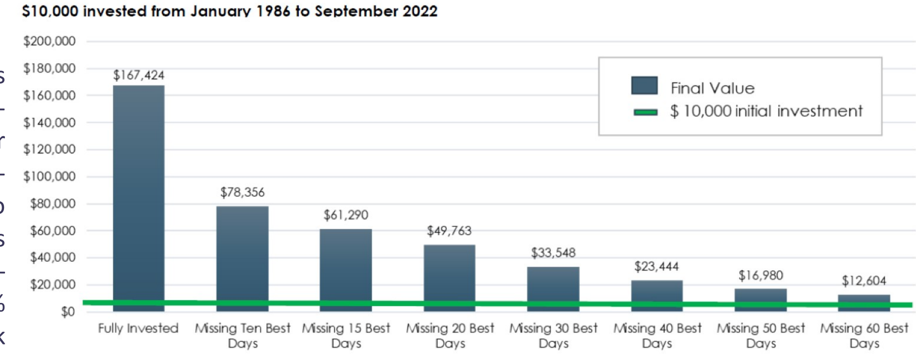
Tech Gems— GlocalMe (Cheap Data When You Travel)

I paid more than I expected for data on my cell phone while travelling recently in Portugal. Buying your cell provider's travel data is relatively expensive. So, when I got back, I starting looking for other options. I did this in anticipation of further travel outside of North America (my long time running, current data package includes all of the US with unlimited talk, text and data so I'm covered for that).

There are 2 options you can go with and it really will depend on how old your phone is. If you have a phone older than 1 year, you will probably have to buy a MIFI device (under $200). This acts like a portable WIFI hotspot that you carry around with you, in which you can have several devices connected. If your phone is newer then you won't that. Your phone will probably have an eSIM instead of a physical SIM card. In both of those cases, you simply sign up for a service (e.g. GlocalMe) and buy the data you'll need online, for the time you need it, while travelling. My phone is not very old but it doesn't have an eSIM, so I bought a GlocalMe MIFI device. This seems to be by far the best way to get the cheap data you need while travelling. Also, having an eSIM means you don't have to shop for a SIM card when you get to your destination.

HHHMMM…

• The title ‘Mega Caps’, refers to the biggest companies in the world; Apple, Microsoft, Amazon, Google, Facebook, and Johnson & Johnson are some of these. Their current price-to-earnings (P/E) ratio is very high in comparison to the other stocks in the S&P 500. The P/E ratio is commonly used for valuing a company. It measures the company’s current share price relative to its per-share earnings. The Mega Caps’ P/E ratio is at a 118% premium compared to the average. Connor Clark &Lunn, Sept. 2022 #PriceDeterminesFutureReturns



Source: Refinitiv. Index total returns from January 1,1986 to September 30, 2022.

• Since 1950, after significant declines in the market, we have seen the market as a whole increase by approximately 90%, 5 years following those declines. #BuyDon’tSell

• We’re trying to own companies that can double their earnings, double them again and even double them again… we are looking for companies at a minimum than can double in size in 5 years. Our companies are market leaders. They’re typically asset light, with strong balance sheets, really high margin businesses with pricing power, and we found that over time they are the beneficiaries of uncertainty. Linda Lasater, Wasatch Global Advisors, Oct. 2022 #BuyBusinessesNotTheMarket

• JP Morgan predicted that the market would decline 5% if CPI came in above 8.3%. The CPI came in at 8.2% and the US and Canadian equity markets all finished over 2.5% higher for the day. Oct. 2022 BusinessInsider.com #ShotInTheDark

• The EU has reduced Russia’s share of gas imports from 40% to 9% and gas storage is over 90% full. National Bank Investments, Nov. 2022

• Foreign homebuyers are nearly non-existent in B.C., despite a falling loonie. A ban on foreign buyers comes into force January 2023. This means that for 2 years, many foreign investors will be unable to purchase residential real estate in Canada (there will be exceptions for permanent residents, foreign workers and foreign students, as well as foreigners buying their primary residence in Canada). Western investor, Oct. 2022 #FewerBuyers #1LessSourceOfFuel

• Canadians are the 2nd largest buyers of U.S. residential real estate, right behind residents of China. National Association of Realtors, Oct. 2022 #CdnSnowbirds

• The average Canadian family paid $35,000 in taxes in 2020. That’s more than the average family spends “on basic necessities such as food, shelter and clothing combined,” according to the Fraser Institute. That tax bill has more than doubled since 1961, even after accounting for inflation. Canadian Taxpayers Federation, Sept. 2022

• Governor General Mary Simon and her entourage spent $99,000 on in-flight catering during a week-long trip to the Middle East. Each passenger expensed $2,160 on average. That’s just for airplane food. BC Tax Payers Federation, Sept. 2022 #TheTrough #We’reInItTogether?

• In “Lessons From a Historic Decline In Child Poverty”, it shows that child poverty from 1967—1993 moved up and down, between 20 and 30%. From 1993 through 2019, it fell precipitously to 11.4%. During that time, deep poverty (households with income less than half the poverty line) fell from 7.3% to 3.2%. ChildTrends.org (non-partisan research organization). #JustTheFacts

• The market movements in the 18 months after 9/11 were far smaller than the ones we faced 18 months prior—but somehow, in the mind of investors, they were more volatile. The media’s constant talk of “terrorist threats” magnified the effect of these market movements in people’s heads. This is one of the reasons that journalism may be the greatest plague we face today. Fooled By Randomness (book), Nassim Nicholas Taleb #FearSells

• If I give you a coin to flip and I say, “If it lands on heads I’ll give you $10, but if it lands on tails you have to pay $10, would you take the offer? Studies show that most wouldn’t. Even though there’s a 50/50 chance you’ll win, fear of losing is greater than the joy of winning. How about $15 to you for winning vs $10 to me if you lose? Behavioral experiments show most people still wouldn’t say yes. Most people need to be able to win twice the amount that they could potentially lose. This is irrationality. #EmotionalDecisionMaking.

• When shopping on Amazon (as well as many other non-Canadian retailers) from vendors selling their products in US dollars, Euro etc., they often give you the option to charge your purchase in Canadian funds. Virtually always, you’ll get a much better exchange rate if you make the payment in their currency and use your credit card’s exchange rate rather than the retailers. #RetailersOtherProfitSource

• The more you see a behavior (greed and fear) throughout history, the more you realize how ingrained it is in human behavior, which makes you more confident that it’ll be part of our future. It’s the only way to forecast with accuracy. Morgan Housel, Oct. 2022 #HumanityDoesn’tChange

• Economic history shows that the past was worse than you remember, the present isn’t as bad as you think, and the future will be better than you expect. #RationalOptimist