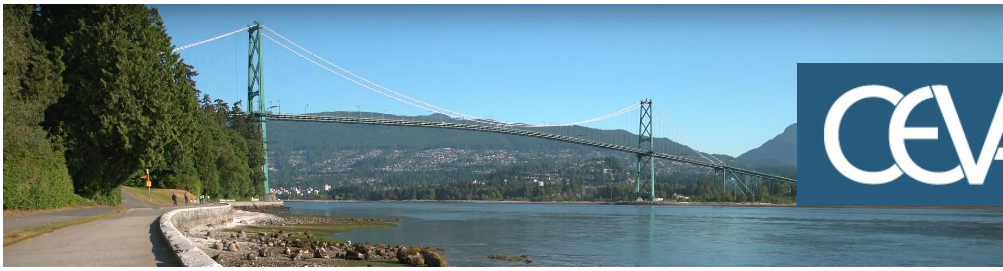


CEVA WEALTH

FINANCIAL PLANNING • WEALTH MANAGEMENT • INSURANCE

mutual gains

ISSUE NO. 213 January / February 2023

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.

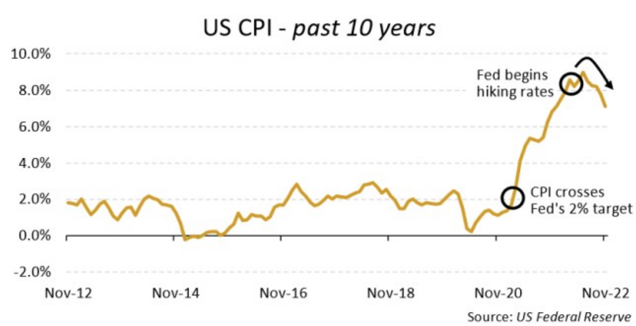
Higher Interest Rates Will Cause Pain

The Bank Of Canada interest rate has gone from .25% to 4.50%, a 1,790% increase and they aren't stopping there. I generally see the glass half full; however the magnitude and speed at which interest rates have risen is concerning. Concerning since it means the longer it stays at these levels, the more people it will affect with significant increases in mortgage payments.

Interest rates are a government's primary tool for keeping inflation within a band that they have established as being optimum. The current 6.8% inflation is more than double the 3.14% long term average and well above their goal of 2%. Governments don't want to see inflation getting out of control.

Inflation simply means rising prices. If food prices, travel, a new car etc. increase by 10% in a year, you need 10% more money to pay for them. At the same time, your current savings are worth 10% less since you need 10% more money to buy the same amount of goods. You can probably gather that this kind of inflation isn't good. This is why interest rates have gone up so much; government wants to nip inflation in the bud.

Part of the inflation problem had to do with government policies and actions as we dealt with Covid (by lowering interest rates, handing out money everywhere etc.). Everyone sees that food has gone up; however, the biggest ramification for the middle class is the increased mortgage payments many will have to pay.



Because government was slow to respond to curbing inflation (see graph), they have compensated by moving rates up very steeply. I believe that in North America, governments will over shoot on increasing interest rates. Because Canadians among the most highly indebted in the world, I believe there will be a lot of pain felt and it won't be for just a short time. As mortgages are renewed, many won't have much choice but to commit to much higher mortgage payments, which could be fixed for another 3, 4 or 5 years. Significantly higher payments on such a big

(Continued on page 2)

www.careyvandenberg.com

(Continued from page 1)

household expense means cutting back on so many other things.

A lot of parallels have been made to the early 80's, where 1, 3 & 5 year rates were all in the 18 to 19% range. However, people were used to 10-12% (my 1st mortgage was at 11%), which was less than a 50% increase in rates. Just a year ago mortgage rates were around 2% and people were financing to the hilt based on that rate. Today, according to the mortgage broker on our team, a variable rate is now 5.5%. The best rate on a 5 year term is 4.79%. Looking at it from another angle, rates today have gone up by much more than 50%.

PS. The 5 year rate has actually come down from a few months ago. The debt market is seeing a peaking of interest rates shortly. However, the speed at which they will come down, we are yet to see. Many are calling for "higher for longer" because of the persistent inflation that is showing for services and wages. As well, the Bank of Canada is expected to further increase interest rates. Confused on what this all means for you? I'd be happy to discuss your situation. Just send an email to me personally.

Do You Want A 4% GIC Or A 5% Dividend?

I've heard some conversations (either personally or through other people) about how much sense it makes to lock money up into these new, much higher, interest rates with a GIC. The ability to lock in today for 3—5 years and get 4% / year is tempting. Lock it and forget it.

You have to ask yourself though, if I do that, what will things look like 3, 4 or 5 years out? Will my 4% be able to beat inflation? Maybe, but with inflation at 6.8% you are guaranteed to lose money as long as inflation is anything over 3% (you need 1% to pay an assumed tax rate of 25%). Also, when your GIC matures, if other investments have shown superior returns when interest rates have come down, will you be moving that money to an investment that is set to take a dip and you'll simply be discouraged and kicking yourself?

Having ownership in dividend from ownership in companies wins in so many ways over a GIC. First, dividend rates are generally higher than GIC rates. Second, tax rates are lower on dividends. Third, the interest rate on your GIC will stay the same for the next 3, 4 or 5 years. Dividends? They generally go up with each passing year. Because of a rising dividend, the share price will move up as well; you'll have won on 2 fronts. Fourth, you can sell your dividend paying investments anytime to make a different investment should your needs (or the environment) change. Your hands are tied with a GIC.

The biggest challenge I have heard is, "At least I know that my money won't drop in value". Drops in the short term are the price you pay for being better off in the long term. Owning high quality assets for the long term will produce wealth multiple times more than being a lender of money, and the best time to buy high quality assets is when there are fewer people buying them.

Of course, you'll be given the warm and fuzzy illusion that the 4% you'll be getting for the next 5 years is a wise move. I'd say, don't be fooled (and don't go with your feelings as they are often wrong).

How To Cover Your Rising Mortgage Payments

Our monthly income is eaten away significantly by what seems to be a never ending list of monthly expense. This is most felt by a family with 2 parents who have to head off to a job; working to get their kids through elementary, high school and university. I've been there.

If that describes you, my guess is that your biggest monthly outflow list probably looks like this (from highest cost category, down): 1) Mortgage payments 2) Food 3) Car 4) Utilities 5) Travel. So, it makes sense that the things to address 1st are those that have the biggest impact on your finances (a 10% decrease in a $2,000 / month budget category is much bigger than a 10% decrease in a $200/month one).

So what can you do? First, get in touch with the institution where your mortgage is held. Ask them what options they have in reducing your monthly payments. Extend the amortization? Change to monthly payments? Blend and extend? If you are seeing your mortgage payments rise because you are in a variable rate and are wondering if it makes sense to switch to a locked in rate, I would say first that variable rate mortgages are cheaper in the long run. Your variable rate will come down again as soon as the Government of Canada starts reducing rates. However, if you desperately need to reduce your payments, you could go with a 4 or 5 year fixed rate but that will only save you ~0.6% / year.

Other options? Look at the list of expenses you have and consider every single one. Do you have ever expanding entertainment subscriptions like Netflix, Prime, Disney etc.? Do you drink more wine (and more expensive wine) than you used to? A 2nd car that, with a bit of planning, you can probably let go of? Maybe get rid of your cable or satellite service? Yes, these are hard choices but this kind of purging can make a big difference. Hard things generally do that. If you need help, your Financial Advisor should be able coach you through this.

PS. Technically income tax is one's highest single expense (if you don't have a mortgage or just a small one, tax may be your biggest expense) - however, for most people, you often have to use cash to reduce your income tax.

When You Should Top Up Your TFSA

If your RRSP is topped up (or you can't make RRSP contributions because you turned 71 last year) and you have cash or investments that are not in a tax sheltered environment, you absolutely should top up your TFSA. The current total amount you can contribute to your TFSA is $88,000. This is $88,000 that can earn interest, dividends and capital gains completely tax free. We have clients who have thousands upon

(Continued on page 3)

thousands of dollars they have made inside their TFSA's. Thousands of tax free dollars they will never have to pay tax on.

Every year we go through our client's "Cash Accounts". This is cash and investments that is outside of RRSPs, TFSAs, RESP's, RDSP's etc. We simply move the appropriate amount over to their TFSA so as to keep their TFSA's maximized. You shouldn't have to be thinking about all the things you need to do with your money. That is what a Financial Planner should proactively be doing for you. We're currently working on this task again for the 2023 calendar year.

Guaranteed Income For Life (Set It And Forget It)

When you have any significant shift in an investment, you need to re-look at how that can be capitalized on. With interest rates moving up so much, one of the areas that has for many years not been very attractive, are life annuities. These are vehicles that pay out a guaranteed monthly income for life.

The appeal to these is that you can, in very simple terms, buy yourself a monthly pension that will last for as long as you shall live. I believe (and have seen) that you probably can produce a higher income using a balanced portfolio. However, I also recognize that some people just want a "Set It And Forget It" kind of investment. If that is you, and you are nearing (or in) retirement, then a life annuity should at least be looked at closely. It could be 1 strong leg on your retirement income stool.

Currently, for a $100,000 investment at age 65, you'll be guaranteed an annual income between $5,975 and $6,676 (it can be set to pay out monthly), no matter how long you live. On top of a relatively high amount being paid to you, the tax is significantly lower than it is for any kind of pension income. The taxable portion of a life annuity is between $1,745 and $2,155. Are you older than 65? The annual amounts get higher the older you are and the taxable amounts are less as well.

Minimizing OAS Clawbacks (Is Clawback A Tax?)

The majority of Canadians will never have to deal with an OAS clawback since it only comes into play if you, as an individual, will earn $87,000 or more in 2023. So what is an OAS clawback, you ask? It's when the government deems that you earn plenty and thus start paying less OAS to you. If you earn over $142,000, you won't get OAS anymore.

This can make one angry. Many feel like OAS is something they are owed. OAS isn't like CPP, however. The money you (and your employer) paid into CPP is a funded pension plan. In other words, money we all put in is set accumulated and invested. OAS on the other hand is like child benefits and the Guaranteed Income Supplement, which are paid based on your income. The more you earn, the less you'll get.

Those who earn close to this amount may see a temporary OAS clawback. Often this is from triggering capital gains in a year, which puts one into OAS clawback territory. Although this may cause concern, it shouldn't. The big picture, minimizing tax over a long period of time, should be the focus. Short term tax bumps are inevitable.

One way to minimize OAS clawback in the long term is to take OAS later. Rather than start it at the traditional age of 65, defer it until as late as 70. You can then accelerate the amount you take from your RRSP (or RRIF) and have less OAS clawbacks over your lifetime. Plus, you'll have up to 36% more monthly OAS in the future.

Another way to reduce OAS clawbacks are, rather than trying to get your income from dividends or interest, you may want to focus on a portfolio that pays out a "return of capital" instead. You would still be getting the same amount of retirement income, it would just be coming to you in a different form. All of this requires advanced retirement planning, which is why you should be working with and asking your Financial Planner to lay out a retirement income plan before you start CPP and OAS at the traditional starting dates (normally age 65).

When You Can't Make Your Own Decisions Anymore

You may have heard about a Power Of Attorney (POA). An "enduring" kind of POA is a legal document that comes into play when you no longer have the ability to make decisions; it gives someone else the ability to act on your behalf for financial matters when you are still living but can't make those decisions for yourself. Generally, a POA deals only with financial and legal matters.

As you age and your decision making becomes less than optimum, money isn't the only thing you'll have to make decisions on. Direction relating to various healthcare, be it medications or even an operation, may need to be made by someone close to you. In BC, the legal document for this purpose is called a "Representation Agreement", of which there are 2 kinds, "Standard" and "Enhanced". A Standard Rep Agreement allows someone else who you have named to assist you or to act on your behalf for health and personal care matters. It can also cover dealing with routine financial affairs and legal matters. An Enhanced Rep Agreement gives broader powers, including the making of end-of-life decisions.

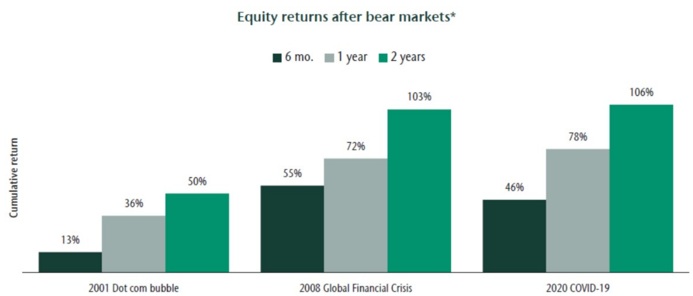
Representation Agreements are one of many legal documents that one should have in place (Will, POA, Advance Directive etc.). A lawyer or notary should be the one to advise on and draft these kind of documents, so they fit your particular situation.

Life Gems— ToursByLocals.com

If you are planning a trip (or currently on a trip), Tours By Locals is where you want to go. What you are doing here is hiring a local person to guide you and give you various bits of history in an area you are visiting. The 1st time we TBL was in New Orleans, on the occasion of my mother in law's 75th birthday. A couple of days before we had a day to fill, we went on their website and booked Nita. She showed up at our VRBO at an agreed time. I drove our rental car while she rode shotgun. She just told us where to drive to next. We went all over the city and surrounding areas, into historic restaurants when they weren't even open to the public, had a break for lunch at a unique market style lunch spot, etc. What a fun day it was (I generally don't appreciate tours). Or course, your experience depends on the personality and connection you have with your tour guide since it's just you and them. For us (on the 2 occasions we've done this) it was so well worth the money spent and of course, the larger the group you are travelling with (there were 5 of us in New Orleans), the cheaper it is per person.

HHHMMM...

- Historically, for every bear (declining trend) market that has preceded a recession, the S&P500 has rebounded an average of 19% prior to the US economy bottoming out. The average number of days between market bottom and the economy bottoming has been around 116 days. What is more interesting to note is that by the time GDP (economy) starts rising again, the S&P500 has on average returned 32%. CC&L Private Capital Weekly Markets Roundup, Nov. 2022 #Don'tWaitForBlueSkies #InvestWhenRaining
- It's rare for stock prices to decline in consecutive calendar years. In the S&P index's case (US equity market), this has happened just twice since the end of WWII so history is on the side of a positive 2023. Dixon Mitchell, January 2023 #HoldOn
- US inflation reports released in October, November, and December all came in lower than expected, and interest rates fell markedly, with the US 10-year Treasury yield dropping from a summer high of 4.2% to as low as 3.4% in Q4. #InflationPeaking?
- A December 23rd article by Bloomberg stated 2022 as the worst year for global equities since 2008. Many of the largest companies in the world saw their share prices decline by over 50%, something we haven't seen since 2000. The primary allocation (50-60%) we use for almost all our client portfolios was down only 3.75% in 2022. #ManagingRisk
- New research from the Ontario Securities Commission shows that about 40% of investors who bought a crypto currency through a trading platform have experienced issues such as not being able to access their investment, losing their holdings, or being hacked and having their identity stolen. As well, more than 50% of investors are using borrowed money to buy it. Investment Executive, Nov. 2022 #AlwaysMeasureRisk
- In BC, when you pass on, if your estate is valued at over $50,000, you'll pay the BC government 1.4% as a probate "fee". Saskatchewan is 1/2 that. In Alberta it is a fixed dollar figure to a maximum of $525. As of 2020, Manitoba has no probate fee. #FeeOrTax?
- The Student Loan Forgiveness program the US government is trying to push through is simply another way of printing (devaluing) money and is ultimately, inflationary. #OwnWorstEnemy
- In the last 3 months of 2022 OpenAI invited the public to experiment with its ChatGPT artificial intelligence interface. (I did and it's crazy how it works). Microsoft was the largest initial investor in OpenAI. They plan to incorporate it into its Bing search engine, giving users direct answers rather than having to scroll through and click on a long list of links. #SomethingVeryBig



- OAS clawbacks now start when your income is over $86,912. In 2022 it was $81,761. #WhenInflationIsGood
- Real estate prices and Beatles first concert at Shea stadium in NYC for $5 . Today, a big name concert would cost you $300. That is a 60 times increase and that is what inflation does. A house in Richmond, BC was ~14,000. Same house today is worth $1.6. That is a 120 times increase. House prices have simply gone up about twice as fast as inflation which investments should do. The numbers are simply larger with houses so it seems like a much higher rate of return. #FooledByNumbers
- The majority of Canadians (52%) remain completely pro-choice and believe abortion is acceptable at any time in a pregnancy and for any reason. Angus Reid, Nov. 2022 #9MonthsLessADay? #MajorityMeansGood? #SoundsAngry
- The most automobile crashes on a highway are at on and off ramps. If they just made these much longer we'd have fewer crashes and fewer bottlenecks. #ObviousFixes
- BC Hydro, in its mailings, often offers an incentive to reduce your electricity consumption. The last one was $3 for reducing your electricity by 20% in a 3 hour window; 4—7pm. Since our home is electrically heated and that is the biggest single item of our electricity consumption, I just turned off the electrical heat and put on our natural gas fireplace for those 3 hours. Gas is cheaper than electricity, anyway. #MeetingTheChallenge #CostSteersBehaviour
- The "proof of work" mechanism needed for Bitcoin, the world's largest cryptocurrency, currently uses an estimated 150 terawatt-hours of electricity per year. This is more than what the entire country of Argentina uses with its 450 million population. Also, the majority of this activity takes place in China and Russia which produces much of their electricity by burning coal. #RamificationsToEverything
- In "Your Money and Your Brain", journalist Jason Zweig reports that in a survey of 800 people with a net worth of $500,000 or higher, on average, 19% agreed with the statement "having enough money is a constant worry". Interestingly, for those with more than $10 million, 33% agreed with this statement. The greater the wealth, the greater the worry. "Wealth is like seawater, the more you drink, the thirstier you become." #LevelOfSatisfication #WealthJoyTippingPoint
- All utopian ideals turn out to be cruel in the end because they can never be fulfilled. Francis Schaeffer #RoseColouredGlasses

Questions? Send an email to me directly: carey@careyvandenberg.com

Meeting request? Send an email to cheryl@careyvandenberg.com