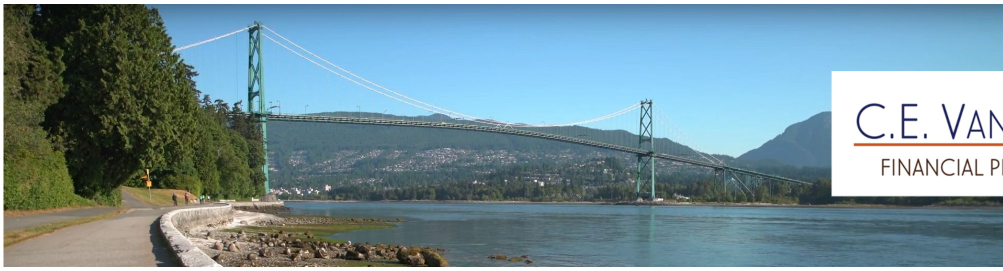

C.E. Vandenberg & Associates Inc.
FINANCIAL PLANNING – WEALTH MANAGEMENT – INSURANCE

mutual gains

ISSUE NO. 210 July / August 2022

When There Is Fear It's A Good Sign

Feelings aren't a good thing to go by when making investment decisions. When you feel cautious or even fearful, doing exactly the opposite to what your feelings are telling you to do is more often than not, the right thing to do (see below for a specific example in, "Why I Don't Worry..").

Currently, the VIX index (which is a fear measurement) is around the same level as it was when Covid hit us from out of nowhere, and during the Great Financial Crisis of late 2007 to early 2008. Does that make any sense? I'd say, 'no'. If you look at the underlying economic fundamentals, I'd say, 'absolutely, not'. Human emotion will always be there and thus, significant investment price declines (and meteoric ups when everything appears rosy), will always happen.

Historic data shows there is a strong correlation between how people are feeling and how investments markets perform. When we feel good, investment prices are higher. However, history demonstrates that when you are investing at those higher prices, your future returns 3—5 years out are generally much lower than average.

Years when US Stocks down > 15% through first 6 months		
Year	First Half Return	Second Half Return
1932	-45.4%	+56.2%
1939	-17.4%	+14.7%
1940	-19.9%	+6.0%
1962	-23.5%	+15.3%
1970	-21.0%	+25.5%
2022	-19.3%	??
Average		+23.5%

The other side of that coin is when there is a strong undercurrent of fear. That is today. In these times, when investment prices are lower, the returns that follow, 3 to 5 years out, are much higher than average. Yet, many will sit on cash, waiting for things to look (and feel) better, sabotaging what they are trying to achieve, higher (yet lower risk) returns. We are often our own worst enemies.

Why I Don't Worry When Investment Prices Decline

I'm going to give you an example (and there are so many more I could show you) of why I don't get concerned when good quality investments decline in price. This example is the kind of thing that happens every time we see fear in the market. The more fear or uncertainty, the lower prices fall. This creates an excellent buying opportunity, one which some fail to take advantage of.

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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.

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Here is why I say that.

When Covid hit in early 2020, the share prices of many companies fell in value. They did so very quickly and very deeply. Thousands upon thousand of business' share prices dropped by 50%. A very large, highly profitable, household name of a company (the example I'm going to use) saw its share price drop by over 50% from its peak. The shares were trading at around $20 in mid-January of 2020. Within 2 months the shares were down to $10. This was caused strictly by irrational behavior. Why I say this is because this company, in hindsight (and even if you had a relatively clear head at the time), would see their revenues hardly affected.

This company has a long history of paying dividends which, like all financially healthy companies, pays those dividends from the money the company makes (its revenues). It was paying out a dividend of $0.80 / share per year. At a share price of $20 that works out to a 4% dividend yield. Even at a much lower share price of $10, the same $0.80 dividend was being paid out. Of course it was. Revenues for the business were still chugging along. Now the dividend yield was 8%.

As I said, the reason share prices decline like this is because of fear – specifically, fear that revenues will fall, and the dividend may not be able to be paid out at the same rate. The kicker is that the company's revenues are approximately twice as much as the dividend that was being paid out. In other words, this company's revenues would have to decline substantially before the dividend ever got cut— a highly unlikely outcome. (And again, there were thousands upon thousands of companies just like it.)

So what should you be thinking and doing when you see share price declines of any magnitude? If it concerns highly profitable companies that are leaders in their field, whose products and / or services we can't do without, and thus their revenues will continue as they were (with very high probability), you don't wait to see if the prices go lower. You buy at what seems to be an excellent price.

PS. Currently, the share price of that company isn't as high as it was pre-covid however its dividends have increased 32% since then.

There Are Some Amazing Buys In Bonds

After over 40 years of falling interest rates, we could very well be in the beginning stages of a multi-decade trend of increasing interest rates. Though interest rates came down over the past 40 years, they didn't do so in an uninterrupted fashion. The same will probably be the case over the next few decades.

The recent interest rate increases have been swift, creating a significant buying opportunity in the corporate bond space. One of our portfolio management teams, who have in the past discouraged me from forwarding them more money to invest when they are having a hard time finding value, have said that NOW is the time to give them money as they are finding so many compelling investment opportunities in corporate bonds.

Currently their portfolio of bonds is yielding ~4.5%. However, because of the significant discount many bonds are selling for, the yield to maturities are much higher than that. If you have a bond that has a coupon (interest) rate of 4.5%, maturing in 3 years yet can be bought at a discount (e.g. $90), you will be paid $100 when it matures, plus the 4.5% until that time. The combined return of the interest rate you are collecting plus the 10% ($10) gain on the price of the bond is the yield to maturity – your total compounded annual return. In this example it works out to approximately 8.8% / year.

Of course, the price of the bonds may still decline. This can happen because interest rates could go higher still. As well, the sentiment around the businesses could deteriorate further. Despite those 2 uncertainties and the market's feelings, corporate bonds with strong covenants (safety) currently appear to be a very compelling investment opportunity at today's prices.

5 Things That Make Us Think We're Smart

Behavioural economics is the overall study of how we are blinded by psychological factors. These lead us to believe (and often be utterly convinced) that we are making very wise financial decisions. Here are 5 of the most dangerous (and most pervasive).

Illusion Of Control—Most of us believe to some degree that we control our own destinies. However, outcomes are in the end, uncontrollable. Nobody knows the future, and believing you do makes you lose sight of risk. What you need to do is make decisions based on probabilities – likely, long term outcomes - and let time (and probabilities) work their magic.

Over-confidence—Believing your ability to achieve success is better than it actually is. Just like virtually everyone believes they are a better driver than most everyone else, only 50% can actually be so. Believing you can beat most others is actually your Achilles heel to doing so.

Self Attribution—Was it luck, or skill? It is human tendency ~~is~~ to say, "it was skill" when things went well. Yet, when things go wrong or not as we expected, we make excuses. This is the gateway to Overconfidence. Only acknowledging half the truth is a dangerous thing.

Recency Bias—Believing we are in an age of enlightenment; that we humans are far superior now than ever before. Also, that the amount we can learn will be much less (and be much slower) going forward. This is what many believe today in broader society and is a perfect example of recency bias. With investing it shows up in the phrases, "this time is different", "price doesn't matter anymore" and many others. Do you believe a trend can't end? You'll most likely be wrong if you are not looking beyond that 1 thing. It's prudent to ignore the recent past. Do so by ignoring the news of today, which is really a form of information that is simply marketing to boost readership numbers (ad revenue, subscriptions etc.). Look underneath, and your recency bias will disappear.

Herd Mentality—This gives you the strong and often unshakable belief that if the herd is doing it (or believes it to

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be right), it must be right. Most often, the herd is wrong. This applies to finance as much as it does to societal beliefs of what is truth, fact or right. Take out feelings, digging down to simple, common sense, rational thought, and you'll come to what really is true. This includes blowing up the very subjective, "My truth" (which seems to me to be an attempt to stop discourse and rational thought in its tracks).

6 Things Your RRSP Can Do (For You)

Ask any Financial Advisor or go into any bank and I'm sure they will bring up the recommendation of making RRSP contributions. There are several reasons for this. Here are the main ones:

1) **GIVES YOU A TAX DEDUCTION** (and immediate tax savings) - What's not to like about a contribution of $10K saving you $2,200 - $5,300 in tax? This is probably the biggest motivator in making a RRSP contribution. A guaranteed instant return of 22-53% from tax savings alone.

2) **BUILDS YOUR OWN, PERSONAL PENSION PLAN** - We all know we can't (or won't feel like) working forever. Your RRSP is a tool you can use to put away (and grow) a relatively small part of today's income to get a lifetime monthly income. So when that "can't" or "don't feel like" time comes, you can create a monthly income for yourself.

3) **DELAYS PAYING INCOME TAXES TO A LATER DATE** - It is always better to put off paying something for as long as possible rather than pay it right away (assuming that deferring it doesn't cost anything, or costs very little). The longer the money you owe is in your hands, the longer you can make money on it. Better in your hands than the government's right? Delaying also allows you to save tax at a higher rate (when your income is higher - the highest being 53% in BC) and pay it back at a much lower rate (22 - 42%).

4) **COMPOUNDS YOUR MONEY TAX FREE** - There are really only 3 places you can do this; RRSP, TFSA, and an Exempt Life Insurance policy. If you hold money outside of these vehicles, you are paying more and more tax every year. Tax free compounding in any of these 3 allows you to not pay tax for many years (or decades). Note: TFSA allows you to not pay on the money you earn on your investments EVER - however… this article isn't about the exceptional wealth compounding of a TFSA.

5) **SAVES MONEY FOR A DOWN PAYMENT ON A HOME** - The only way to do this currently is through the Home Buyer's Program (HBP) which has been around since 1992. Along with getting you into your 1st home, it can be an excellent way to save tax upfront and pay it back slowly over the next 15 years (or not pay it at all if you payback your RRSP over 15 years). However, the soon to be available (Jan. 2023) First-Time Homebuyers Savings Account (FHSA) will actually be a better vehicle for that purpose. Stay tuned for a write up on that.

6) **SAVES FOR UPGRADING YOUR OWN EDUCATION** - The Lifelong Learning Program (LLP) allows you to withdraw up to $20,000 from your RRSP without taxes. The money can be used for advancing your own education. Like the HBP, you do need to slowly pay back your RRSP if you don't want to pay back the tax you saved. Otherwise, you'll simply be paying back a bit of tax every year for the next 10 years.

Rental Property Tax Deductions (Current Vs Capital Expenses)

Tax deductions that you can use on a rental property are broken into 2 categories, "current" expenses, and "capital" expenses. The difference ultimately comes down to how much you can deduct in any one year. The amount, or how fast you can deduct an expense, is primarily determined by 1) if it brings the property back to its original state, or 2) if it makes the property even better than it originally was.

Current expenses, which includes things like painting (both interior and exterior), landscaping, repaving the driveway, etc. can be 100% deducted in the year the expense occurred. So if you have $10,000 of rental income and an equal amount of current expenses (like painting), you'll have $0 taxable rental income. The expenses wash out the taxable income.

Capital expenses don't have the same immediate tax benefit. Depending on the category of the expense, these are deducted over a period of several to many years. These expenses provide a lasting benefit. Replacing wood stairs with new steel stairs is most likely a capital expense because it makes it better than it originally was. Simply replacing old wood stairs with new wood stairs would be a current expense since it brings it back to the way it used to be. Putting on an addition? Definitely a capital expense.

These tax deductions aren't the end of the story however. When you sell the property, the tax deductions you claimed reduce your "adjusted cost base" or ACB. If you spent $500,000 on a property, deducted $50,000 of expenses while you owned it and eventually sold for $600,000, your capital gain is actually $150,000. In other words, you are paying back some of the money you deducted. I say some because currently only 50% of capital gains are taxable. In the end, your tax deductions gave you more savings than the tax you have to pay on the capital gains.

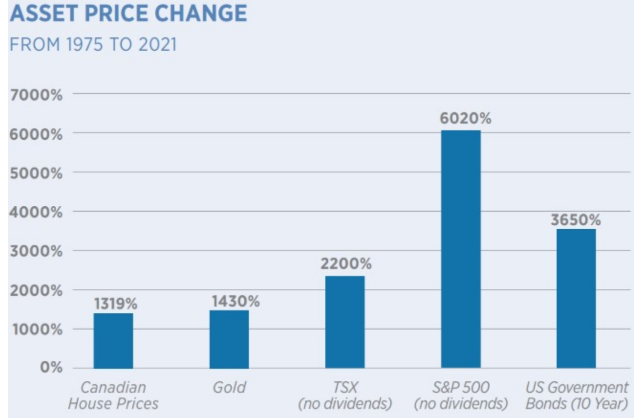
This is a very short, summarized version of this topic. There are all sorts of nuances that more fully determine what are current expenses and capital expenses; I'd thus highly recommend having an accountant sort through those. Make sure you keep every receipt, noting what each expense is specifically for.

Tech Gems—Harvest Hosts

If you travel using an RV or trailer, Harvest Hosts is definitely something you could use. Along with being a free place to stop for the night, it will get you to see and experience different areas, towns and people, much more so than you normally would.

Harvest hosts connects RV'ers with wineries, farms, breweries, etc., giving the RV'er the ability to have a place to park overnight for free. There is a hitch though. These businesses are trying to increase traffic to their location (although non-business entities like churches are listed on Harvest Hosts, as well as other "Attractions"). What is asked in return is that you buy something from the host, whose property you are staying on. This is frankly not an issue for Cheryl and me, particularly when staying at a winery. Although the purchases that we make aren't really costing us anything extra since we would "need" to drink wine with our dinner anyway, right ;) ? On a recent trip to the Yakima valley and back through Seattle we stayed at our first 4 Harvest Hosts locations. Harvest Hosts is $84 USD for your 1st year (when using that link), for which Cheryl and I have already received full value, in 1 short road trip.

HHHMMM...



• The portfolio management teams I follow with very successful long term track records, have a relatively low level of cash in their portfolios, yet Canadians as a whole have a relatively high level of cash in their bank accounts. #ProsVsAmateurs

• Famed investor Ed Yardeni says the worst is passed for this bear market. The Yardeni Research president (who has a long history of making successful predictions) says the June 13th low likely marked the trough of the 2022 market decline. Yardeni however appears to be in the minority. #MarketPrediction

• Canadian defined-benefit (DB) pension plans experienced a double-digit negative return (-14.5%) during the 1st 6 months of 2022 (these are those guaranteed plans everyone trusts implicitly). Northern Trust Corp., July 2022

• Stocks are on pace for their best month since last July 2021, extending a rally that began with signs that inflation may have peaked and the economy can avoid a deep recession. IPC Daily Market Update, July 2022

RANKING NORTH AMERICAN METROS BY HOUSING AFFORDABILITY

MOST AFFORDABLE		LEAST AFFORDABLE	
City	HAI (Q2 2021)	City	HAI (Q2 2021)
Chicago	**0.62**	**Vancouver**	**1.71**
Quebec City	0.65	Boise	1.61
Columbus	0.66	Toronto	1.56
Edmonton	0.67	Portland, OR	1.54
Atlanta	0.68	Hamilton	1.51
Winnipeg	0.69	Las Vegas	1.47
Raleigh	0.70	San Jose	1.45
Dallas	0.71	Los Angeles	1.45
Calgary	0.76	Ottawa	1.39
Nashville	0.80	Tampa	1.27

• Revenues on all successful businesses increase over time. Some companies pay out a portion of these revenues in the form of dividends. You can lend your money to banks, insurance companies, etc. by getting GIC's and letting money pile up in savings accounts, or you can own a diversified portfolio of company shares, and benefit from the growth of the businesses. The latter's most likely outcome will see ever increasing revenues (and maybe some dividends) and the long term climb of their share prices. #OwnDon'tLend

• If you are choosing investments based on their short(er) term returns (1, 3 & 5yr returns) you are chasing performance and will actually do poorly because what has done well in the shorter term most often underperforms in the longer term. #Buy&Hold

• If you had invested $100,000 in the S&P Index (500 US companies) in 1991 and held on, with the dividends reinvested, you'd have more than $2,100,000 by the end of 2020. Fool.com, Jan 2022 #PowerOfCompounding

• If your portfolio's overall PE ratio is at 22 to 26 times earnings, history has shown (using 1999 to 2022 data) that your 5-year compounded annual rate of return will be 0% per year or less. The lower the price of your portfolio, the higher the 3-year return. A portfolio with a PE of 12 has produced on average, 11% per year for 5 years. FactSet Research, July 2022 #PriceDictatesReturns #PriceMatters

• The average investor earns much less on their investment than the underlying investment actually returns, and it's all due to making emotional investment decisions. Dalbar, Dec. 2022 #BadBehaviour

• Housing prices in the US are 816% higher than in Q1 1975. Housing prices in Canada are 1,319% higher than in Q1 1975. The Economist, Nov. 2021 #ContinuingTrend?

• Inflation numbers are always backward looking. Further accelerations in the cost of living measure should be increasingly hard to come by. Global supply chains appear to be easing, which will help to alleviate some price pressures. In addition, commodity prices have been declining and should be better captured in July's CPI report. Also, several retailers are reporting too much inventory. CC&L Private Capital, July 2022 #NewsLooksBack

• Are 5-year mortgage rates (which have recently moved lower) anticipating an economic slowdown already due to increased interest rates? #LeadingIndicators

• Which would you choose: a $100K job with $0 if you can't work, OR $96K while working and $62K if you can't work? #DisabilityInsurance

• If you pay your ICBC car insurance on a monthly basis, you are paying 5% interest for that. #PayAnnually

• In doing a personal tax return on #Turbotax it asks if you sold any investments within a RRSP or TFSA. Why does CRA want to know this? This seems like a fishing expedition to me. #IndicatorOfTheFuture?

• Spending money to show people how much money you have is the fastest way to have less money. #InsecuritySignal

• The more opportunity you allow your body to be exposed to things in the air, potentially getting a virus, cold, etc., the stronger your body gets and the better it becomes at fighting disease. #Science #NaturalImmunity

• Once-in-a-lifetime events seem to happen regularly. However, there are about 8 billion people on the planet. So, if an event has a 1-in-a-million chance of occurring every day, it should happen to 8,000 people a day, or 2.9 million times a year. Morgan Housel, June 2022 #UnusualIsn't