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mutual gains

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The Rubber Band Is Snapping Back

Over 2 years of government handouts and ultra low interest rates. In economic speak that means lots of money supply. Excess money means inflation. The end result is obvious: skyrocketing housing prices and cost increases for many other consumer goods (e.g. used cars and home improvement supplies). Of course, supply chain bottlenecks and to a lesser degree an extremely tight labour market added to that. Now the government is trying to turn that around and they're slamming on the economic brakes with their pedal of higher interest rates.

For the last couple of months the inflation problem has been slowly reversing, but the catalysts to do it were long in the works. Retail behemoths like Walmart have reported a flood of product and it for one, is dealing with excessive inventory issues. Used cars, bought at highly inflated prices, are now being subject to increasing repossessions by the banks and accumulating in massive storage lots. These are 2 examples of the rubber band snapping back.

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

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Of course, as usual, the Bank Of Canada and the Federal Reserve in the US are probably going to over-play their problem solving as they did with the stimulus during the pandemic. The highly regarded Jeremy Siegel, who talks extensively about the economy and financial markets, has stated these very points. I have been of the same opinion; all the money being pumped out made inflation the biggest talking point in financial news and again, they could be over-reacting.

In Canada, housing is one of the biggest sectors in the economy, and cheap money (low interest rates) are the key driver of buying (ask any realtor today how sales have been). When you raise interest rates so much and so quickly (neither Canada nor the US is finished raising interest rates), consumers get squeezed substantially with higher debt costs. Take Walmart's et al bulging inventories, used cars piling up in repo lots, supply chains opening up with every passing day (supply coming in when it isn't needed), and a consumer whose debt costs are going up quickly to name only a few key points,

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and now the rubber band we have seen stretch so far during Covid is snapping back quickly.

Job losses are already starting. The 1st of the Covid beneficiaries, the tech sector, is the 1st out of the gate to see relatively large layoffs. It's unlikely that the job market tightness will resolve itself during the next several months but at least there is evidence of it easing.

So what does this mean from an investment perspective? The market usually prices in what it expects approximately 6 months in the future (although it often overreacts on the downside when it sees a problem). This means that we could have already seen the lowest in the equity prices in aggregate. I've said to a handful of people that I believe that June 13th could prove to be the market low. Interestingly enough, I've heard Professor Siegel say the same thing.

Whether a low for investment prices was in fact June (which could coincide with what could prove to be the peak of inflation in June) or if it is September (or October), the historically softest months of the year, ensuring your cash is planted now rather than waiting for confirmation that the weather is in fact getting better, will simply mean more growth in your money crop, 6 months to several years into the future. Too bad virtually every retail investor makes the mistake of waiting; for their feelings to confirm the obvious. Be an excellent money gardener and if you haven't already planted all your money seeds, do so now.

Don't Wait For A Loss To Get To Break-Even

"I don't want to sell my investment because it is down. I'll wait until it recovers and then sell." This is a "plan" I've heard so many times in over 35 years of being a Financial Advisor. On the surface it sounds reasonable - however, it only sounds so.

This idea of selling only when you don't lose is based solely on emotion. Everyone hates losing money, so why do it? Why intentionally sell something that is down? That doesn't make sense, right? Wrong. The heart of the decision not to sell is driven by not wanting to make a mistake. Saying you will sell only after it gets back into the black indicates acknowledgement that this wasn't the place to invest your money. Selling at a loss states unequivocally that "I have made a mistake and am going to pay for it".

You also could be hanging on to the belief that "maybe it was a good investment" (just maybe). This is belief without any reason other than the belief itself. Can you state all the reasons why it could be a bad investment as unemotionally as you can for what it could be a good investment? Emotional decision-making when investing is the worst kind. And we think we can be unemotional with our own money. But we can't.

This is why it is so important to have a team of professional investment specialists to make decisions on your entire portfolio. 3 primary firms that I use for this purpose want every member of their respective teams to challenge the "thesis" on why a particular investment should fit into the portfolio. They aren't looking for confirmation on why it is a good investment, but rather why it could be a bad investment. When we make decisions in isolation, our human nature leans heavily on confirmation bias. This puts us in a high risk position. Yes, you may guess right once - maybe twice—but you're basically rolling the dice which is a 50 /50 guess at best.

Note: Our clients (and I) have the largest portion of our personal investment assets with a firm that has a "batting average" of 84% since their inception (almost 14 years ago). This is due to their thorough investment analysis, their strict discipline of not paying too much, and the willingness to quickly recognize when their thesis is wrong, even if it means selling for less than they paid.

Spousal RRSP's—Still A Tax Saving Tool

A Spousal RRSP was a staple financial planning tool for significant lifetime income tax reduction during retirement in my earlier years as a Financial Advisor. We have many clients who have Spousal RRSP's. You may have one in place. Today, I hardly use them - however, they still can serve to split income and save thousands of dollars on income tax.

Spousal RRSP's became much less relevant when retirement income splitting was introduced by the Canadian government in 2007. This allowed a family who had an income earner which earned significantly more than the other, to allocate up to 50% of their "pension" income (income from RRIF's included) to the other spouse. So rather than, e.g., 1 person reporting $120,000 of retirement income on their tax return and the other $30,000, the spouses could split their taxable income so as to report to CRA $75,000 each. Doing so meant a significant reduction in total income tax payable.

You couldn't do that as easily prior to 2007. The strategy to solve that was for the highest income earner to put money into their spouse's "Spousal RRSP" yet give the highest income earner the tax deduction. However, when the Spousal RRSP eventually becomes a Spousal RRIF, the lower income spouse now had their own "pension" income. So what would have been the higher income earner's "pension" income was now the lower income spouse's income.

Spousal RRSP can still be set up today and can give a high percentage tax deduction (and big tax savings) to the high income earning spouse. The tax reduction strategy can still play out; however, now you would use it for a shorter term purpose. All you have to do is allow for the "3 year attribution rule" to pass. This simple rule says that if you make a Spousal RRSP contribution and withdraw the cash before 3 full calendar years have passed, the Spousal RRSP withdrawal is added back to the contributor's (the highest earning spouse's) income. However, if you wait, you could make a Spousal RRSP, save as much as 54 cents per $1 contributed of income tax and after 3 full calendar years. That is, assuming your spouse has $0 taxable income; you'll pay $0 in tax back when the Spousal RRSP is withdrawn.

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There are a few situations where this strategy can be used. Of course, it doesn't always make sense which is why I highly recommend we as your Financial Planning team advise on that. Or, if you are working with someone else in that regard, perhaps ask them? However, they didn't bring it to your attention so maybe it's time to change Financial Advisors? Just a thought.

How To Make Your Life Easier (In Your Ever Increasing Complexity)

Life by its very nature gets more complicated as time goes on. That is just the way it works. I know my life has. However, there are ways you can rein that in. Doing 1 or more of these things will make your life, particularly as you age, much easier to deal with:

Choose 1 email address to use—I actually have 3 and I'm working to bringing that down to two: 1 personal, 1 business. If you don't have an email for business you probably need only 1 email address.

Close all but 1 bank account— Again, if you have a business you probably need at least 2. For most people, 1 bank account is all you need. Why create the environment where you have to move money from 1 account to another? Do you have a Chequing AND a Savings account? Your "Savings" probably won't be needed on a daily or monthly basis, so talk to your Financial Advisor on where best to hold those "Savings".

Fewer cars, etc.—OK, I must confess, this one I've let run away on me over the past few years. Cheryl and I, for much of our married life, had only 1 vehicle. We engineered our life that way. Now we have our regular driver, a camperized van, a motorcycle and a Zodiac-like boat. I'd like a much bigger boat but then does the motorcycle go? How much will I really use any one of these anyway, particularly since the motorcycle, boat and RV are really only used from May through September? OK, this is more of a lifestyle decision. The camper van is definitely staying.

One Place To Live—Almost any client or friend I've talked to either has or would love to have a 2nd home. You know, summer at regular home and the winter months at a home where it is warm and sunny in the winter? (I'd choose San Diego for the latter.) That however means 2 complete households to maintain, not to mention tying up a whole bunch of money that could be used to give you an income. If you want to increase complexity and house work in particular (and reduce your monthly cash flow), having 2 homes will do all of those.

Reduce Your Portfolio Holdings— Yes, some diversification is good but holding too many investments creates "di-worsification". As well, there is the illusion of diversification by working with more than 1 Financial Advisor and through it having more investments— another potential case of "di-worsification".

Work with 1 Financial Advisor who quarterbacks all of your financial matters.— Do you have RRSP, TFSA's etc. in more than 1 place? Put them under one umbrella. Have life insurance with 1 person, and investments with the Financial Advisor you deal with the most? Your Financial Advisor (or someone on his/her team) probably can handle everything and simplify the number of "financial products" you own. As well, they can probably get them at a lower cost.

Have Fewer Kids—This actually means having less family and extended members as a whole (however, I trust you'll see the humor in this!) Everyone knows that 2's company, 3's a crowd, right? The point is that the more people you have to deal with in a close knit group, the more potential for complexity; the end result being chaos. Of course, life becomes richer with every relationship (almost every) so less doesn't always mean better. In fact, the opposite can be true. This frankly is a very personal decision and you can technically strike this one off the list. I simply thought of it when brainstorming life simplification steps and wrote my thoughts down, if but just for a smile.

Retirement Income "Ordering"

Your Financial Planner can project where your retirement income will be coming from and how much you'll be getting from each source. This is part of the exercise of ensuring that 1) you pay as little tax as possible, 2) you get as much retirement income as possible, and 3) that income lasts a lifetime.

So what is "ordering"? It is planning on what income sources to draw from 1st, which to delay etc. The advice on what that ordering should look like can depend on the Financial Planner. Very often the advice would be to first draw income from your RRSP (converting it to a RRIF asap), then your Non-Registered investments (we call them a "Cash Acct"), then your TFSA. A somewhat similar suggestion would be to take money from the accounts that have the highest tax liability at the lowest possible rate. Others may suggest you keep your RRSP intact for as long as possible, giving you the ability to compound money in a tax free state for as long as possible and deferring the tax liability for as long as possible. Virtually all would agree to use the TFSA up last—however, that may not be the best thing in order to allow you the income you need while trying to avoid OAS clawbacks etc.

The key point here is: unlike today's common and seemingly free advice (watching a few YouTube videos or reading a bunch of articles and "Boom!" you'll have your answer), no 2 situations are exactly the same and often it's a combination which can change as your situation changes.

Replacement Cost For Your Home Insurance

As a disclaimer, I don't advise or help people with home insurance. What I do know, however, is approximately what a new home costs to build. With the way inflation is today and how it has increased prices over the years, the price to build the actual structure is not what it used to be.

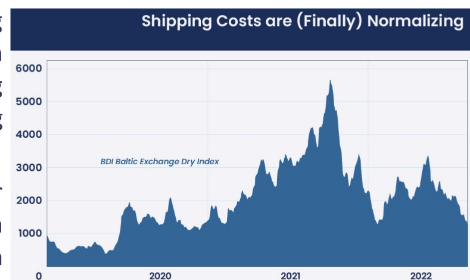
Many years ago, when reviewing my own home insurance, I noticed that the insured price of our home (the cost to rebuild it should it burn down) was to me very low. I remember in the 80's, that the cost to build a home was about $70 / foot. Today it is closer to $300 / foot. That is what time and inflation do. The insurance company however wasn't factoring in the current cost of rebuilding. This may work for them since the premiums they charge you are in fact artificially low. I went back to the insurance agency selling the coverage, and asked

that they increase that number, closer to what the actual cost would be. I highly recommend you look to see how much your home (the structure) is insured for and make the necessary adjustments.

Tech Gems— STEP.org

At some point in time, you or someone in your family will pass on. Transferring assets and various heirlooms and sentimental assets to the beneficiaries or "next of kin" is a given. The modern era has us now holding digital assets. These are most commonly postings and pictures on various social media channels. STEP.org helps you wade through the potential struggle of dealing with that part of a person's estate. Simply put, you'll have to change some settings on the social media accounts you have. If not, those pictures, videos etc. could potentially disappear, forever. STEP.org has laid out the process for using the "legacy tools" for Facebook, Google, Apple, LinkedIn, Twitter and Instagram. Most of these tools should only take a few minutes to implement the necessary changes, ensuring that along with investment and various tangible assets, your digitally saved assets and memories will be passed on as well. (more info. on this is here as well)

HHHmmm...



- Many investment classes that had struggled with chronically weak demand and dismal pricing power in the era of low inflation are primed for outperformance: international value stocks which trade on far lower multiples and far higher dividend yields, select resource-exporting emerging market equities and global sectors with pricing power (banks, industrials, healthcare). Forstrong Global, Sept. 2022 #BuyTheBargain

- 1 of the 3 primary portfolio management firms that manage a part of our client's portfolios, for the longest time didn't allow investors to add money for them to manage. They were having a harder time finding investments to buy for a very good price. I just received an email from them saying they are now allowing investors to add money because, " the current market environment may present attractive opportunities for long term investors". Sept. 2022 #Don'tSitOnCash

- Companies who have very loyal customers can do very well during inflation since they have "pricing power". This means they can raise their prices to offset the businesses' increasing costs; their customers will simply pay them. An active portfolio of select companies with the strongest pricing power can help investors thrive in the years ahead. #InflationIsGood

- The cheapest variable-rate mortgages may soon be 4.35% and the lowest 5 year fixed mortgage rate will top 5% (about double of what they were). That means that borrowers will have to prove they can cover their payments with an interest rate at 6.35 — 7%, respectively. Today's interest rate increase is not the last. Because of this, home prices have dropped the most since the global financial crisis in 2009. Globe & Mail, Sept. 2022 #WaterOnTheFire

- In late 1923, the German government decided to stop spending more than their tax collections. They thought that this would end the hyperinflation and it did. It came to a halt almost literally overnight. Prices became stable. And that would not have been predicted by the "quantity theory of money" because the money supply (e.g. low interest rates) continued to expand. Morningstar, Aug. 2022 #InflationSolution=ReduceGovernmentSpending?

- The process of making a long-range EV actually produces 68% more greenhouse gas emissions than manufacturing a similar gas-powered car. EV batteries are sophisticated, high-tech products that require materials that have to be mined from the earth, transported, and processed - all of which releases a lot of carbon dioxide into the atmosphere. But the good news is that those manufacturing emissions are offset after driving a long-range EV just 19,000 miles. Collaborative Fund, Sept. 2022 #WhatAboutFullLifeCycle?

- In BC under the Wills, Estates and Succession Act, a couple are spouses if they're married or lived with each other in a "marriage-like relationship" for at least 2 years. Spouses are not considered to have separated if, within one year after separation, they begin to live together again and the primary purpose for doing so is to reconcile, and they continue to live together for 1 or more periods, totaling at least 90 days. Investment Executive, Sept. 2022

- The new Surrey Police Department (replacing the RCMP) will have recruits receiving a starting salary of $70,000, climbing to $89,000 in the 1st year. At 3 years, an SPS Constable will be eligible for a salary of nearly $122,000. Global News, August 2022

- A friend I see weekly is a teacher. He started a new position teaching grade 12's. He asked all of them their names and to tell him a bit about them. They were flabbergasted. They said no teacher had ever asked their names before or wanted to know them. #ICareAboutYou

- Calm plants the seeds of crazy. If markets never crashed they wouldn't be risky. If they weren't risky they would get expensive. When they're expensive they crash. Same for recessions. When the economy is stable people become optimistic. When they get optimistic they go into debt. When they go into debt the economy becomes unstable. Crazy times aren't an accident – they're an inevitability.
The same cycle works in reverse, as depressed times create opportunities that plant the seeds of the next boom. One way to summarize it: Nothing too good or too bad lasts indefinitely. Collaborative Fund, Sept. 2022

- "What is likely is that the market will move higher, perhaps substantially so well before either sentiment or the economy turns up. So, if you wait for the robins, spring will be over." Warren Buffett. Said another way, it's impossible to know when the perfect time is to start investing into a downturn, so now is as good a time as ever to start planting those first seeds.

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