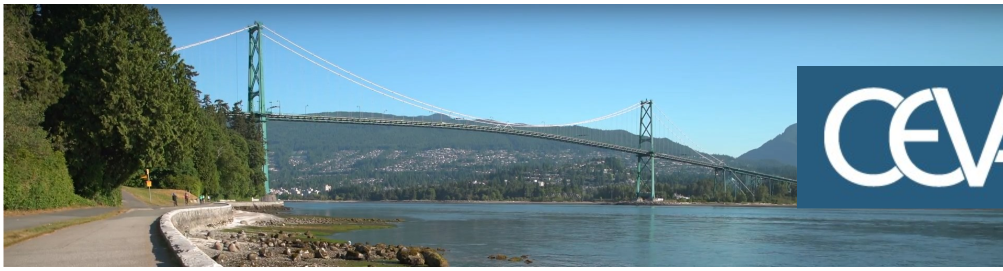

# CEVA WEALTH

FINANCIAL PLANNING • WEALTH MANAGEMENT • INSURANCE

# mutual gains

ISSUE NO. 214 March / April 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.

Carey

## Last Year's Losers Could Be This Year's

"A very good friend of mine told me something the other day" (yes, that's the 1st line of a song). Unlike the song though, I'm passing it on to you because I believe what he said is not true. In fact, it is a very risky approach to investing.

He said that he had bought shares in "A…" because it was down so much from its peak share price. Also, since he bought the shares (which was after only a few weeks of holding it), his investment had increased significantly. Those 2 facts made him believe he had made a good investment decision.

The first mistake is, just because a share price has sold for a certain price in the past doesn't mean it was ever really worth that. A past price has no bearing on what a company's shares are actually worth. Share prices increase (and also decline) way past their true value. There are countless examples I could show of companies whose share prices have declined significantly below their peak price, only to languish well below that peak for years or decades.

Last year, the share prices of many well known companies fell by 50—95%. For the past few months, many people have been buying these fallen angels, believing that the share price will return to the previously reached, high price. My friend's rational for buying is very wide spread.

There are many excellent companies whose share prices held up very well last year and still remain very well priced. They may not have fallen as far; however, they are actually a better value and offer stronger upside. These are businesses that are expected to continue to grow, even if inflation and interest rates are "higher for longer".

That environment, however, will not be good for "A…" and many companies like it. The losers (significant price declines) of 2022 could be losers in 2023, and for those who thought they are buying at a low price, will eventually see (2, 5 or 10 years from now) the costly mistake they made.

## A Steady Or Fixed Price Can Hide Risk

I have seen this play out many, many times. People lose money permanently despite a belief that their investment was safer than something else. Many financial "professionals" (who frankly, should know better) also follow the same faith. If the price of something doesn't fluctuate, or fluctuates very little,

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it is by default considered to be less risky than an investment whose price fluctuates a lot.

The reason the price of an investment can fluctuate so much has way more to do with how easily it can be bought and sold than it does with the actual value of the investment. If you have an asset that can only be sold at certain times each year (quarterly) or one that takes several weeks or months to sell, OR where the price of the asset isn't reflected in a central place, you will have something that appears safe. I say "appears" because there is an intrinsic value to every investment. If you put your money into something and are given an investment statement saying it is worth $X, your mind convinces you that it is worth $X, even though what you own may not be worth $X at all.

A perfect (and very big) example of this is the US mortgage pools that were sold to investors prior to the financial crisis of 2007. In the end, the mortgages were worth a very small percentage of what the investment statements said. I would much rather invest in something that is transparent – something for which its value can be calculated with a great amount of certainty. If those assets fluctuate in price a lot, one can take advantage of buying it when it is well below what it is truly worth. If the value of the investment is truly there, it will get back to that price. If the hard work is done on determining what an asset is actually worth, you will have much more safety than you do by investing in something because it simply appears to be safer.

## Trying To Speed Up Wealth Creation

The urge to try and "get ahead" faster seems to be more common among younger people than it is for those older. I see this a lot in social media, particularly YouTube. This isn't surprising since generally younger people have less money. The less money you have, the more you feel like you are falling behind. A case in point is a PBS video I watched on YouTube. They interviewed a few people in their early 30's and it gave the impression that they were so doomed financially. The didn't see how there was any way possible to get from their point A to point B. I looked at the stories of these few people and thought to myself, they will be just fine if they work with someone on a plan.

Wealth creation shouldn't be sped up based on an emotional desire or impatience. The best plan is to get rich slowly. Notice the words here: by "get" we mean that you will gain wealth, it just won't be fast. Trying to do things quickly increases the risk of ending at the exact opposite place. To create wealth you need to be methodical and be aware of risk. This means not just looking at what can go right, but also what can go wrong. Just because you look back and it appears that what has transpired was a slam dunk, according to the book "Fooled By Randomness" (which I just finished reading), things could have just as easily gone in the opposite direction. Our minds almost always make us believe that favorable past events were obvious outcomes, and anything else is just bad luck (not our fault).

The best way to build wealth? Buy a home. Maybe have a suite in it to increase the amount of leverage you have, but do it with a lot of downside protection. Borrowing for any kind of investment can be powerful, and the risk lowered if done prudently. Continue to increase the value of the work you do so as to increase your income. Cut your expenses (yes, I'm sure there are some that will not really make any difference in your lifestyle). Contribute to a RRSP, RESP (if you have kids) on a monthly basis, and then a TFSA. You'll get so much free money (income tax savings and government grants) that the government has its hands out to give to you.

## Creating Wealth Through Home Ownership

One of the biggest wealth creators most people experience is through the ownership of their home. This is done primarily with leverage on such a high figure asset. Leverage being, borrowing a small amount of money and using a very large amount of OPM (other people's money). I've heard many people ask me about the idea of either renting a relatively small home for their own use (or buying it) and using the majority of their money (and borrowing power) to buy a much more expensive property entirely for rental income purposes.

No matter how you slice it, all of these have leverage associated with them. What many fail to realize is how much value is in a gain that will have no tax attributed to it. To gain the maximum advantage on that, what you want to do is have as much leverage applied to your principal residence. The greatest way to take advantage of that is to buy the highest priced home you can, with a "mortgage helper".

CRA allows you to rent out a relatively small part of your home (there is no official CRA percentage on that part) and still be able to claim that the house was your principal residence. If you use most of your money and leverage to buy a property that you will be renting out, and the property increases in value over time, then you will have a large tax bill to pay when you eventually want to sell it. It is the tax bill that will set you back much further than what you would have gained had you tried to make all of your gains, tax free.

Note: The government is looking much more closely at principal residences to ensure they are not missing out on any tax revenue. You'll want to make sure you look carefully at how to stay on side with CRA, to ensure you can claim the Principal Residence Exemption (PRE) on your own home. Making structure changes in order to make your "suite" rentable can actually exempt you from the tax-free capital gains you are trying to achieve.

## Offset Income Taxes With Government Handouts

The highest marginal income tax rate in BC is 53.50%. After hitting a low in 2004, income tax rates as a percentage of income have gone up steadily. Annoying, right? Yes, but the government has given us all kinds of ways to shelter income from tax and / or get money from them. Is there anything here you could take advantage of (but currently are not) from the list below?:

RRSP Contributions—For every $1,000 you contribute you can get up to $530.50 paid back to you. That is an instant 53% return.

RESP Contributions—For every $1 you put in, the government will add 20 cents. You can get up to $500/ child, every year until they turn 17.

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BCTESG— Open an RESP and you can get $1,200 paid into it from the BC Government for each child aged between 6 and 9 years old.

RDSP—We have opened a lot of these for clients. If you or a child is deemed to have a disability, you can receive up to $3,500/yr (grant) plus up to another $1,000/year (bond).

TFSA—Any money held in a TFSA earns interest, dividends, capital gains etc. completely tax-free. I have clients who have earned $40,000—$50,000 inside a TFSA thus far and will never have to pay tax on this, even when they take it out. Maximum contributions through 2023 is $88,000.

FHSA—This is for those who don't own a home, and it should be available April 1st. FHSA contributions can save you up to $4,280/yr in income taxes for a maximum $8,000/yr contribution. I wrote an "all you need to know" blog about it, here.

HBTC—There is a tax credit of up to $1,500 for new home buyers (used to be $750). This is simply an item you fill in on your tax return.

## How Much Do You Need?

In a lot of the "financial advice" articles and videos I absorb, I believe the wrong impression is being given on how much you need to live on when you are retired. The reason being is the assumption is made that you will only live on the "earnings" (e.g. interest, dividends, etc.). However, the end goal for most is to draw down, over many years of retirement, what was accumulated during wage-earning years.

This is very different trying to just live on the dividends, interest or rent. The text book timing would be, the day you pass on is the day you completely run out of money.

About 30 years ago a Financial Planner did a lot of research using data going back to 1926 to determine what amount is safe to draw from a portfolio so as to provide an income that would last for the rest of one's life. The base "sustainable withdrawal rate" he came up with was 4%. In other words, if you needed $30,000 more income per year (after receiving your CPP, OAS and monthly work pension), you would need to build a portfolio worth $750,000 to create that income.

The sustainable withdrawal rate (SWR) specific to your case is determined by: 1) How your money is invested. If it is mostly in bonds and GICs, the rate for you would be much lower. 2) The age you start withdrawing. The older you are, the higher the amount you can pull out. 3) If you won't be increasing the monthly amount every year (to offset rising living costs), then the SWR rate can be higher still.

Over the years I have done countless projections on sustainable withdrawal rates for many clients. These have been done well before retirement and most commonly, annually when they are retired and drawing a monthly amount from their portfolio. I love getting clients to their goal over a process of many years and then seeing them live very comfortably by paying out the maximum amount from their portfolios, all the while remaining very confident that the monthly income will last a lifetime. Fulfilling work I must say and something that I don't get tired of doing and seeing the results.

## 6 "Good To Know"s About Life Insurance

Most often life insurance is to provide a lump sum payment, something than can be turned into a monthly income to replace the income of a household income earner should they pass away. Just ask yourself, if my spouse passed away, how much of their monthly income would I need? If that number makes you nervous, read these and then have your life insurance coverage reviewed (we can do that for you).

In any event, here are those key points about life insurance:

1) Don't smoke... anything. Life insurers are trying to reduce the premiums they have to charge for life insurance and they charge heavily for risks such as smoking. Being considered a "smoker" (yes, even once a month) can double the cost of your life insurance.

2) Getting a 5-year fixed rate (term) coverage is cheaper than 10; 10 is cheaper than 20; and 20 is cheaper than for life. However, the costs of your coverage will jump quite a bit after your term ends, so get coverage for close to how long you think you'll need it for. In my experience, people need it longer than they expect.

3) Paying your premiums once a year is cheaper than paying it monthly. However, the important thing is what works best for making your cashflow work and keeping your insurance paid for. You don't want to have your life insurance lapse because you couldn't pay.

4) It's cheaper to get 1 larger policy than to have a few life insurance policies by different insurers. Get your Financial Advisor to review all the insurances you have, including your benefit package through your work.

5) Buying your own life insurance is completely different than what you may have through work. If your health changes and you have purchased your own coverage, it can't be cancelled. Not so with group coverage. With "group" the policy is owned by your employer and thus you have no say on its continuance. If they cancel and you become uninsurable, you may no longer have coverage.

6) Life insurance can act as an excellent way to create tax-free income for you or pass on tax-free wealth to your heirs. This can either be done through the payout of the death benefit, or by accumulating money inside the policy, allowing it to compound for many years, tax-free.

## What Happens To Your Online Data When You Die?

I searched up a person who I hadn't heard from in a long time. This is someone who I had dealings with and was in the past, a shareholder of a business he had steered. To my surprise (and sadness) he had passed away in December 2019. What struck me though was that his social media profiles were still up and active. There was no mention of his passing. Could it be that neither his wife of many years, nor any of his family, can access them to make the necessary changes and to eventually take them down?

I don't know about you but, assuming I go before Cheryl, neither she nor I would want these to be inaccessible for eternity (and ultimately be the property of the social media channel where the data is posted).

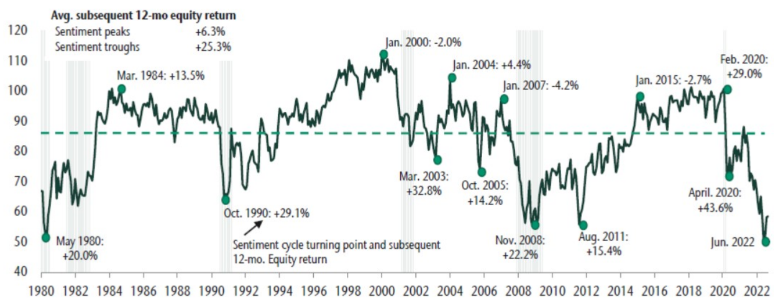
We have solved this by each having our own password manager login (LastPass, 1Password, Dashlane etc.) and both of us having the same master password. This enables either of us to access the other's passwords for all the sites they have passwords for. The other benefit is, should one of us forget our master password, the other would remember it. This is especially important as we both age.

## Life Gems— AllTrails

Just back from a week in Belize and I'm writing this on a 12C, "do a run in shorts", day. March means Spring is nearing and it sure is evident right now. Therefore it is apropos that I encourage you to get into a regular walk, hike or bike. The potential way to get you going and for it to become a habit is with the AllTrails app. I'd suggest starting by filtering routes that are closest to your home. You'll be amazed at what you find right out your door that you didn't know about. Cheryl and I go to Bellingham WA at least once a month and have discovered some really nice scenic routes, some right in the city.

## HHHmmm...

12 mo. equity returns post consumer sentiment troughs since 1980




- How the majority feels about the current investing environment is almost always the worst guide for determining the best course of action for you. You want to do exactly the opposite to how everyone else may "feel" (see 1980—2022 chart) #Don'tFollowLemmings
- Natural gas prices are lower in Europe, and significantly lower in the US, than they were just before Russia invaded Ukraine. The US wholesale price of gasoline has dropped by ~40% since its peak price in June 2022. Dixon Mitchell, Feb. 2023 #WhenWarIsOver?
- Which companies are having the biggest impact on the reduction of fossil fuels? It isn't alternative energy companies but rather, oil companies – because they are the biggest developers of alternative energy sources. If you want to have the largest impact on reducing fossil fuels, the best way is by investing in fossil fuel companies. #IsntItIronic
- Manufacturing labour costs on a per hour basis are much lower in Mexico than they are in China, and Mexico is right next door to the US.
- Nominal wages are growing at the fastest pace in 26 years and the ratio of new full-time job openings to applicants is at its highest since the early 70's. Forstrong, March 2023 #JobsArePlentiful
- Walt Disney was a visionary – however, he needed his brother Roy to tame Walt's wild ambition to a viable business. Disney wouldn't have gotten off the ground had it not been for Roy. #BehindEveryGreatPerson
- From September low point of the S&P (US) and TSX (Cdn) market indexes through to mid-February 2023, those 2 indexes have a total return of 14.5 and 12.5% respectively. Ironically, the largest amount of money in many years came out of investments by people who held them at Canadian banks. #ValueOfAdvice
- In about half of the hypothetical scenarios we tested, a growth portfolio (70% stocks, 25% bonds, and 5% cash) would have allowed you to withdraw more than 7% each year over 25 years of retirement, giving you 25% more retirement income than a conservative portfolio (20% stocks, 50% bonds, and 30% cash). Fidelity, Jan. 2023 #RiskOfConservatism
- Outside of the Great Flood of 1993 and drought of 2012, the ability of farmers to produce corn on a fixed plot of land has increased by about 50% over the past 30 years. #HumanIngenuity
- Copper has a hardness on the 1-10 Mohs scale of 3 which is quite soft. Tin has a hardness of 1.5; very soft. Mix them together and you have bronze with a hardness of 6. This is much harder than the 2 metals that bronze is made of. #WeaknessesProducesStrength
- The amount of oil needed to produce a set level of economic capacity (GDP) has decreased steadily over the past 40 years. #Efficiencies
- Psychologist Jonathan Haidt says people don't communicate on social media; they perform for one another. Spending money is like that, too. Morgan Housel, Jan. 2023 #SelfWorthInStuff
- The unhappiest people of the world are those in the international watering places like the South Coast of France, and Newport, and Palm Springs, and Palm Beach. Going to parties every night. Playing golf every afternoon. Drinking too much. Talking too much. Thinking too little. Retired. No purpose. So while there are those that would disagree with this and say "Gee, if I could just be a millionaire! That would be the most wonderful thing." If I could just not have to work every day, if I could just be out fishing or hunting or playing golf or traveling, that would be the most wonderful life in the world – they don't know life. Because what makes life mean something is purpose. A goal. The battle. The struggle – even if you don't win it. Richard Nixon #FindYourPurpose
- "I'm not just a whimsical figure who wears a charming suit and affects a jolly demeanor. I'm a symbol. A symbol of the human ability to suppress the selfish and hateful tendencies that rule the major part of our lives….. If you cannot accept anything on faith then you are doomed for a life dominated by doubt." Kris Kringle (character) on Miracle On 34th Street (1994) #MovieScriptWisdom