CEV 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.

We've Seen Something Like This Before

The S&P 500 is up more than 11% for the year, but, if you take out the 7 highest-performing stocks, it's not up at all; it's flat. The sentiment around the 7 highest priced companies is that these companies won't simply survive but they'll substantially beat and destroy a whole bunch of other companies.

Yes, these mega companies could still all be dominant businesses 5 and 10 years from now. The question though is, what are these business worth today, using a variety of scenarios? I'm not talking about what the share price is trading at but rather, what is 1 share actually worth from a prudent business valuators calculation? That is what the likes of people like Warren Buffett are always trying to determine.

We have seen this before. Many have dismissed the risks of paying too much for a business and it has never ended well. The risk is permanent loss of capital and this can happen even if the business continues to thrive.

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Like many times in the past, there is always a justification, simply said as, "This time is different", followed by all kinds of reasons why that is the case, today. Yet, no matter how great the business, 1 business never leads to the extent where you can simply buy shares in that business, pay whatever the market price is for the shares of that business and assume you'll be OK. If you do that, history has shown your investment could be worth less than you paid for it, even as long as 20 years into the future. I've seen it and can give you specific examples showing how it has happened in the past. "This time is different?". I'm not betting on that because I don't make bets with my investment assets nor with my client's.

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Is ESG A 4 Letter Word?

I know, ESG isn't a word. However, the point here is that some see the pushing of ESG (Environmental, Social and Governance) as a sinister plot for social engineering. Yes, it can be used as such since the issues which fall under these 3 topics, are very subjective. Because of that, ESG can be used to push a political or social agenda and in fervently trying to do so, create more problems than it is trying to solve. Therefore ESG has the propensity to create great tension and distrust in its application.

The desire for investing being ESG driven is making it a fast growing investing philosophy that could account for more than 1/3rd of all globally managed assets by 2025. However, ESG investing is not delivering on its promise of doing well and doing good at the same time. Multiple studies find ESG strategies have lower returns and little impact on the causes they support. This has mostly to do with ESG principles being applied that give the appearance to the public that good is being done without looking at the negative effects of the decisions that have been made. The common term for this is called "Greenwashing".

The ESG areas of business aren't new. I remember in 1989 when the first "SRI" (Social Responsible Investing) investment vehicle was being promoted. Today there are many variations of this "movement" including SI (Social Impact investing), PRI (Principles for Responsible Investment) and the more broadly used label, "Responsible Investing" (RI). I find this last one silly. It is a bit self righteous almost cancel culture like. If you aren't investing responsibly you must be investing irresponsibly?

The 3 portfolio manager firms we use the most for the in depth research and implementation on what our client's portfolios are invested in, are thoughtfully engaged in having our collective investment dollars (mine, our mutual clients and theirs) used in the best way possible. This doesn't mean simply blacklisting a company because of the industry they are in. It is about teaming up with businesses to work collaboratively on ensuring that our money is being invested in the most efficient manner possible; that what is done inside the business benefits the bottom line, in the long run. They do all of this without marketing themselves as "ESG" warriors. They work quietly to make sure the businesses we own are well run in every respect and not simply following a societal narrative. This is very important because there are many out there trying to look good rather than actually be better. (Here is a very insightful and frank article on this topic)

The RESP Withdrawal Chess Game

RESP's are a fantastic way to build a financial war chest for paying for post secondary education. Of course, when the time comes, you'll need to withdraw the money that has been accumulated. If your job has been done well, through many years of contributing to the RESP (usually on a monthly basis), you may find that there is some tax to pay.

The tax implications of RESP withdrawals lies in where the money you have inside the RESP, came from. 1st there is the money you put in which is called PSE. The other money is EAP which is a combination of CESG (the 20% you got from the government) and the earnings or gains you made on your contributions and the money made on the CESGs.

Generally you'll want to withdraw EAP 1st because, if you amassed more money than may be needed for education, this could get trapped inside of the RESP which could potentially incur a 20% withdrawal penalty (on top of paying tax on it) to get it out. The other side of the coin though is that EAP withdrawals are taxed in the hand of the student. If a student is in a program where they will be working and earning an income during their education, this can add to there income tax payable.

There is never a problem getting money out of a RESP. It all comes down to the cost to do it which makes it a bit of a chess game that you are playing throughout the life of the RESP. The game gets more involved as you get closer to withdrawing money. Withdrawing money from the PSE and EAP each carry their own potential financial cost. It's trying to limit the overall cost by sacrificing a pawn or 2 and maybe even a knight or bishop, in doing so.

Make Retirement Easier By Easing Into It

It used to be that the best birthday one could have was in fact their 65th because it was the last day of having to go to work. That is still the case for many today, however that date is much more fluid than it was and not nearly as cleanly cut, which can be a much better way to retirement mentally as well as financially. We'll just talk about the financial side of the equation in this piece.

When a Financial Planner like me does retirement planning projections, we get to a number that needs to be accumulated to payout a monthly income that will last for the life of the client. Let's say that final number needed at age 65 is $1.5 million which should be able to payout $60,000 / year. How about if the projections come it at only $1.25 million accumulated? That would mean a retirement income of $48,000, a $12,000 shortfall. How do we make up for that?

1 way to bridge the gap is to look at retirement in 2 stages, the 1st being a part time work scenario. A $12,000 part time income from age 65 through to age 70 would do that. In this kind of scenario, the monthly amount withdrawn from the portfolio can actually be increased, making the retirement projections work because there are fewer years of retirement that the portfolio has to provide income, for.

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Covering Your Biggest Risks (And Their Financial Implications)

Risk at its core simply means permanent loss. The way to cover financial risk in our lives is through insurance. Because there are so many of these risks, there are all kind of insurance to cover them. Here are some of the more common financial risk areas:

Paying a debt—The biggest debt you will probably ever have in your life is your mortgage. If you can't work or if one of the income earners in your family dies, how will that debt be repaid? Through Life and Disability insurance. If you don't these, you are fully at risk for this loss.

Losing your earning power— The younger you are the bigger the number this financial risk, is. If you are starting out in the work force and you lose your ability to earn an income for the rest of your life, the multiplied effect of that in dollar terms could be in the millions. However, in your 40's is usually when you have the highest amount of personal debt and have become accustomed to a certain lifestyle. What if you can't earn an income then? Disability insurance is the way to reduce or completely eliminate that risk.

Insurability—When you apply for insurance on your health, the risk is that you may not qualify for insurance or be deemed as higher risk because of your current or past health history. You may hear an insurance agent use this argument to buy life or critical insurance as early as possible. For the most part I don't agree with this reason since you are buying insurance when you may actually not need it (don't pay for something you don't need). As well, if you buy a relatively small amount and need much more down the road when lets say, you have cancer, you won't be able to get more. You will be insured for the amount you bought when you were healthy.

The cost of insurance is directly related to the level of risk you face in that area. As an example, a 28 year old female can get $1 million of life insurance coverage for $20 / month and have that cost fixed for 10 years. Disability insurance on the other hand would cost much more. That same 28 year old, working as a CPA earning $80,000 / year, could get a maximum $4,300 / month of disability coverage for about $200 / month. Critical Illness insurance comes in between those 2 in terms of price because it is inbetween them in terms of the risk of needing it. $100K for her would cost approximately $20 / month.

Keeping Your Principal Residence Gains Tax Free

The capital gains on your principal residence are tax free, making them a great tax free compounder of wealth. However, when you make part or all of your home a rental you have potential "change of use". When you do that, you are deemed to have disposed of your home for fair market value and reacquired it for the same amount. This sets the "cost base" by which your now "rental property" is set at. When you sell it in the future, any gains from the time the use was changed, is taxable.

The change of use does not apply if you rent out a relatively small part of your home and continue to live in the rest. That is, if you didn't make any structural changes in your house to accommodate the rental suite and if you didn't claim tax deductions (Capital Cost Allowance / CCA) on the rental portion. If you meet those 2 tests, all the gains on your home should be tax free.

If however one of these conditions isn't met, then a partial change of use will apply to the rented portion of your home. The part of your home that was changed to a rental unit will not be considered as your principal residence and thus any future gains on it will not be tax free.

How Much Extra Income Can Downsizing (Or Inheritance) Give You?

For many Canadians, the biggest asset they have is their house, which is why so many people look at this as a source of retirement income. Although, you should never consider your home as your primary "retirement plan", it can help in providing a monthly income for you.

How much so? Ultimately, it really depends on how you invest the freed up equity, the projections done by your Financial Planner and how long you want this monthly income coming to you. Generally, when I do projections, I plan for a lifetime of income, projecting out to age 100. I don't want my clients to run out of money. The range we have for our clients runs from about 2 to over 7% per year. Every situation is different, hence the wide range.

Here is an example of how that works. A client couple of ours, both age 75, have decided they are moving from their single family home to a townhome. You might think "I'm never doing that" because I'd have to pay a monthly strata "fee". That cost should not be considered anything negative. What is called a "fee" is not an accurate term. It is simply a payment mechanism to cover upkeep and maintenance that has or will have to be done on the townhouse complex (if you are thinking of making a move such as this, relax about the monthly strata expense. I just paid over $14K to paint my house in June and ~$3K for new gutters. Maintenance on any home has a cost). But I digress...

With the move, this couple has freed up $600,000. With this money invested in a balanced fashion, we should be able to provide a monthly payout to them of $5,000 / year or $416 / month for every $100,000 invested. This would mean a total of $2,500 / month coming to because of their downsizing. This monthly income can be increased each year at a 3% inflation rate as well. We factor this in because living expenses will rise over time and this allows their income to rise along with their living expenses.

Life Gems— Allergy Card

If you have any kind of allergy or food sensitivity, this idea may be of help to you. A few years ago, soon after eating prawns in Hawaii, my wife Cheryl discovered she had severe (anaphylactic) allergy to shellfish. This has made going out for dinner (at a restaurant or friend's house) a bit calculating. To reduce the risk of her having an allergic reaction because of her food, we had cards printed out listing what she is allergic too. This way, rather than give some long explanation to our server, who then in turn has to relay that info accurately to the kitchen, the cards says everything. We used VistaPrint to design and get the printed cards delivered. If you want a copy of a shellfish allergy card, email Cheryl@careyvandenberg.com

HHHmmm...

- Even if the US doesn't cut rates this year, you're still getting about 6.57% on (investment name redacted). Add in cap gains and you could easily get a return on your money in the double digits over the next 12-18 months. Yet the majority of retail cash is going into bank deposits and HISA's (high interest savings accounts). #LeadOrFollow

- Canadians invested $7 billion in mutual funds from January through May of 2022 (when the market had been going up). But, over the same period in 2023 (after months of declining investment prices), they sold $9 billion worth of mutual funds. IFIC, June 2023 #DoTheOpposite

- You make most of your money in a bear (down) market, you just don't realize it at the time. Shelby Cullom Davis

- The NASDAQ index (a list of primarily info-tech companies) had the strongest 1st half year upside performance in 40 years. IPC Daily Update, July 2023 #GoodOrRedFlag?

- Vanguard is forecasting that over the next 10 years, US growth stocks are the least attractive (are overprices) and will return 1.4—3.4% / year while global equities (excluding US companies) are expected to return 6.4—8.4% / year. #LookForwardNotBack

- I read this testimonial in an ad for reverse mortgages in my local newspaper: "After saving for 40 years, we thought we had enough for a comfortable retirement. To our surprise, we learned that we only had enough to last us 4 years". When they sell their home they may have used up more than 1/2 of their home's equity and have no other cash. #FailedToPlan #Don'tBeThem

- It's common for households to accrue debt for December spending. Usually debt is reduced in the 1st 3 months of the year as consumers pay off balances. This is the first time in 20 years that debt levels didn't get reduced in the 1st part of the year #ConsumerSpending #DebtLevels IPC Daily Update, May 2023

- The online gaming industry is multiple times bigger than the movie industry. Microsoft, Sony and Nintendo have the biggest share of the online gaming market.

- Lululemon reported solid growth in North America (+17%), but its biggest gains were in China. Sales there were up 79% over 2022. With inventory levels and costs dropping, and more than 30 stores scheduled to open outside the U.S. this year — primarily in China. Fortune, June 2023 #SkinTightGoneGlobal #TheNewJean?

- The introduction of artificial intelligence (AI) into the public consciousness in Q1, first via Microsoft's collaboration with OpenAI to create ChatGPT and then with the release of Alphabet's (Google) Bard chatbot, led to talk of potential productivity gains similar to or in excess of those that followed the adoption of the mainframe computer, the desktop PC, the internet, and mobile telephony. Dixon Mitchell, July 2023

- Tim Hortons has over 600 stores in China. They expect to have 2,700 stores there by 2026. Reuters

- China currently controls about 40% of the world's mining capacity, 75% of the mineral-processing industry for EV batteries, and about half of the actual battery manufacturing. If China retains control of the EV-battery market until, say, 2050, it could essentially price out the market by making batteries extremely expensive for everyone else. The government could even tell Chinese companies not to do business with certain countries. Abhishek Murali, Rystad Energy EV Analyst

- India now has more people than China. India is therefore the world's largest democracy (and growing rapidly). Yet India's government has an aggressive stance to defend Hinduism and persecute other faiths. Operation World, June 2023

- The monthly lifetime payout a 65-year-old man could secure for buying a $100,000 annuity increased by 20.5% to $572.57 in February 2023 (it was $475 in January 2022). Cannex, May 2023

- Richard Caplan, a professor at Oxford University who has done extensive research on how wars end and the conditions that sustain peace, said about a quarter of wars since 1946 have ended in less than a month, and another quarter in less than a year. The rest have on average extended over a decade. Armed conflict in Eastern Ukraine technically 1st erupted in 2014 following Russia's annexation of Crimea. However, Russia did not launch its full scale invasion of Ukraine until February 24, 2022 (8 years later). USA Today, July 2023

- Patience and confidence. They both sound great, but mixed together they often form stubbornness, which is a disaster. Confidence that you're right gives you permission to ignore signs that you're wrong, and patience gives you permission to extend that denial indefinitely. In general: People who are panicking know they're panicking. People who are being dishonest know they're being dishonest. But those in a patience-confidence trap have no idea, because both traits on their own seem so positive. Morgan Housel, May 2023

- A Financial Planner is...

Advocate
Planner
Researcher
Messenger
Therapist
Mediator
Strategist
Organizer
Connector
Teacher
Coach
Economist
Risk manager
Broker
Scheduler
Confidant
Hand-holder
Accountant
Communicator
Ghostwriter
Permission-giver
Marketer
Bookkeeper
Investor
Analyst
Truth-teller
Networker
Number-cruncher
Allocator
Skeptic
Guide
Administrator
Forecaster
Connector

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