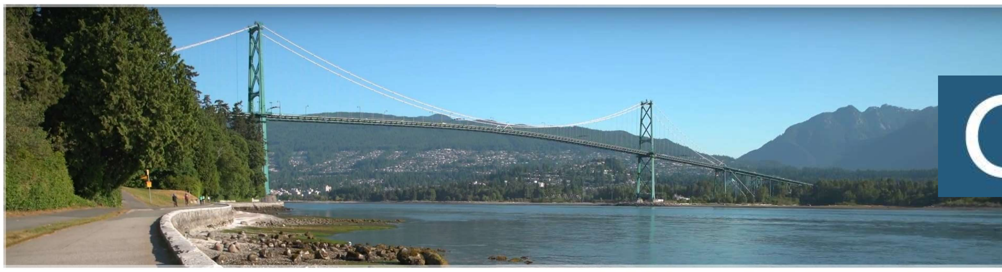

CEV WEALTH

FINANCIAL PLANNING • WEALTH MANAGEMENT • INSURANCE

mutual gains

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Interest Rates Look To Be Cresting

Anyone that has debt is going to be glad to hear this; particularly those who have floating rate debt or have a mortgage renewal coming up. On the other hand, if you've been lending your money to your bank via a GIC, you'll find that the rates which seem so attractive now, in time, won't be.

The ebb and flow of interest rates generally coincide with inflation, which is tied to how active or subdued is economic activity. When inflation is trending higher it means the economy is heating up. Rising interest rates are the "go to" economic tool~~,~~ for cooling the economic temperature. [delete comma after *tool*]

This is where we are now, the cooling faze (in Canada anyway). Interest rates will come down, but with all the money pumped into the system since 2008 – and more so, since early 2020 – interest rates may not fall as fast as was originally thought. The next several months (and longer) will be the most painful for those who have very tight budgets already, primarily for those with large mortgage debt.

It's not just the higher debt servicing costs but also the ceiling on how much wages can go up. Our economic productivity has been falling vis a vis the rest of the world for many years. If you're not productive it's hard to justify pay increases to offset rising household costs. A very big reason for this is that Canada's economy has been fuelled heavily by the real estate sector. Money has been created by leveraging on top of leveraging (borrowing with more borrowing). This has no productive quality, and in the long term is not good for an economy.

Canadians are among the most indebted consumers in the world and our collective debt has more than tripled vs our incomes, since the mid 80's. It did so primarily because borrow-

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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.

Carey

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ing became increasingly cheaper. In 1990 (my 1st home purchase), a 5 year mortgage was 11% (in 1981 it was 21.75%). Interest rates got down to 2.65% for a 5 year mortgage. You can take on way more debt at 2.65% than you can at 11% (and even more than at 21.75%), hence the continual and what would seem never ending, guaranteed rise in property prices since then (far above the rate of inflation and effects of population growth; there are more factors at play including supply issues; money laundering didn't help either. For more on that last issue, read the book, Wilful Blindness).

Today, interest rates are ~3 times higher than they have been for the past 10 years, and more than half of all 5 year mortgages in existence today will face sticker shock when they come up for renewal in 2024 through 2026. As more and more mortgages come due, there will be less and less to spend on other things. The Bank of Canada, who sets interest rates, recognizes the precarious position that Canadians are in today, which is why their most recent decision regarding interest rates was to leave it at 5% rather than push them higher, despite very stubborn inflation (almost double what they want to see, long term).

On the investment portfolio front, economies around the world are slowing down as well. When a slowdown or recession comes, an economic recovery always follows. Well-run companies, however, start long price rises well before the economic recovery, so the best way to capitalize on that recovery (and the overall economic growth that has happened since the beginning of time), is to have your money invested globally through all economic weather. Allowing a team of professionals, whose only job is to turn over investment rocks, find the companies who are most likely to excel over the next 3—5 years, and buying pieces of 25—50 of those businesses at prices where you aren't paying for that growth (which gives a margin of safety), is the best hands off, non-leveraged, lowest risk way to create wealth.

PS. Currently, small and middle sized companies (those valued between $300 million and $10 billion) are ~25% cheaper than large companies PLUS these smaller businesses tend to grow faster than larger companies. (Also, they do especially well coming out of a recession.) Our client's portfolios very much reflect that better value proposition and opportunity.

Why Bonds Are Much Better Than GIC's Today

I don't talk much about bonds; however bonds are in virtually every client portfolio we oversee (making up at least 20% of a portfolio). Corporate bonds usually pay higher interest rates than GIC's no matter what the environment. However, with interest rates at levels we have not seen in years, bonds today look highly attractive.

Bond prices are not fixed. They can rise and fall with interest rates. When interest rates rise, bond prices fall. Since rates have risen so quickly and steeply since March 2022, bond prices have declined. In fact, they haven't declined like this since the early 80's. Remember the early 80's? I do.

This is what gives us the opportunity. Today, there are a plethora of bonds that can be bought for well below "par value". In other words, you can buy a bond at e.g. $90 and when it matures, you will get $100. On top of that, you get an interest or "coupon" rate that is higher than a GIC. Capital gains from getting more back than you paid from the bond PLUS higher interest than a GIC.

With interest rates that seem to be cresting, the price of bonds as a whole should increase in value. Sure, a GIC paying ~5% for 1 to 5 years seems like an attractive option for your cash. However, there are drawbacks to a GIC. First you are locking your money in. Should inflation continue to increase or stay elevated, your net return (after inflation and tax) on your GIC will be negative (unless you hold it inside a TFSA, RRSP etc.). Secondly, when your GIC matures, the most likely outcome is that you'll have to make a choice between going with another GIC (e.g. 3%) or look at corporate bonds and equities at that point. But those will command a much higher price than today, so buying them before that happens makes the most amount of sense. The universal and timeless wisdom here is: look where the puck is most likely to go and act on that basis. Any good hockey player (and investor) does that.

Open A "First Home Savings Account" Before December 31st 2023

This deadline is for those who plan to buy their own home within the next 5 years. The government is giving potential 1st time home buyers up to $21,400 (maximum tax savings that you keep) by opening and contributing to the new FHSA. The only way to get the most out of it is to open a FHSA before December 31st. I'm not going to go into all the details here. I wrote a blog earlier this year that goes through all of that. The point is that opening an FHSA is the most important action to take. This is an urgent reminder to do so.

The FHSA is the most generous government program for 1st time home buyers. If buying a home is a thought you have (and have had it more than once) then opening a FHSA puts that thought into action by December 31st (no need to put a whole bunch of money into it now).

How Much Of A Retirement Income Shortfall Will You Have?

For our clients, we do retirement projections that give a very holistic and long term view on retirement income. We take into account potentially easing into retirement rather than stopping cold turkey, downsizing, potential care needed, etc. We annually review and update these projections for many of our clients. However, for you to get a quick snapshot, you need to determine 1) if you will be OK, or 2) if there is a gap to bridge. For that, you 1st need to see how much money will be coming to you from guaranteed sources.

If you have lived in Canada for at least 10 years you will get OAS (Old Age Security) from the Government of Canada. You can start receiving OAS as soon as you reach age 65. Everyone, no matter their earning history, gets the same amount of OAS, which today is $778.45/month

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at age 65. However, you can choose to take it later. If you do, you get an additional .6% for each month you delay receiving it.

The amount you get in CPP (Canada Pension Plan) is completely tied to your earning history. If your historic earnings have been over the maximum CPP limit (currently at $66,600 of employment earnings; it was $33,400 /year when my business was incorporated in 1993 and both Cheryl and I were contributing) and you were 65 today, you would get $1,306/mth. You can choose to take it as early as age 60; however that amount will be reduced by 0.6% for each month you do. Like OAS you can delay it as well and receive 0.6% more for each month you do so. (At this point, Cheryl and I expect to delay both our CPP & OAS until age 70.)

Do you have a pension through work? Add that. Now you have to realistically (and with a buffer) determine how much income you will need to give you the retirement you want. Don't scrimp on that number. Is there a shortfall? If so, how much is it?

RRSPs, TFSA's etc. are another income source, one which you fund on your own. As a rule of thumb, for each $100,000 you have in a good quality global balanced portfolio (whether it be in a RRSP, TFSA or outside of those 2 tax shelters), you should be able to derive ~$450/mth for life from that, with inflation increases each year. Add up what you have in all those accounts. What's your number? Is there a still a shortfall?

Working to create the highest retirement income for our clients is some of our most important work. That work can have a profound effect on one's quality of life, for up to 45 years. Life can be hard enough. Don't make it harder by not planning. Take control now.

Giving Lifetime Income To Your Heirs Instead of Cash

Many of our clients have more (or significantly more) money than needed to provide the retirement lifestyle they want. Based on the relatively small sample size, I can only guess there are a whole lot more people out there with such resources. If you are one of those, let me ask you: *How do you think your potential heirs handle money?* Imagine they were to receive the value of all you own today – do you believe they would handle well that new found wealth?

The answers to these questions have a lot to do with how old you, are and in turn how old your adult heirs are, and the strength of their financial discipline and maturity. This is something Cheryl and I thoughtfully assessed last year, before a trip to Portugal. If something happened to both of us then, where would we want all of our assets to go? I am prompting you to think through your own situation.

Some people are simply not very good with money, and a lump sum payout could be quickly disappear. Even someone who seems to get by OK can be ruined by a sudden large amount of cash. There are many stories of people who have won the lottery, only to burn through it and potentially mess up other parts of there lives in many cases, making them worse off than before their winnings.

In my long Financial Advisor career, on several occasions I've set up a monthly income for what the deceased (or entire family) deemed a spendthrift. This was done by buying an annuity with the spendthrift's share of the estate. In essence, they were given a guaranteed monthly income for the rest of their life (or a set period of time). This is just 1 of many ways an estate can be passed on.

Are You In A Financial Straight Jacket?

The rate of personal bankruptcies and consumer proposals is going up quickly. In the 2nd quarter of 2023, these increased by over 23% from the same period the previous year. Based on interest rate increases and the amount of debt Canadians have, I think that number will keep increasing.

If you are feeling that squeeze (and only making minimum payments on a credit card is a significant signal that you are), the best thing you can do is get advice. I would suggest speaking to a Licensed Insolvency Trustee (LIT). They will talk to you about your situation and determine the best course of action, handling everything for you. The direction you go will probably be one of these:

Consumer Proposal: Your debts are consolidated and you pay no more interest. Your LIT negotiates how much you will pay per month so you can eventually pay off that debt. This has a relatively mild effect on your credit score. Best to do this before the next stage, which is….

Personal Bankruptcy: All your debts go away; you have the ability to have a completely fresh financial start. Along with that, in BC you get to keep all of your RRSP's, your personal belongings, up to $12,000 of your home's equity, and car up to a $5,000 value.

Not there yet, but want to keep as much possible, should things not turn around for you? Make sure that where you have your bank accounts is not the same bank you have your debts with, nor your credit card. Your bank can and will simply start pulling money from your bank account to pay what you owe them. Many people seem to get loans and credit cards all through their own bank a good idea.

Life Gems— Freedom Mobile

Cheryl and I have used the same cell phone provider, which is Freedom (pka Wind). When we signed up in 2008, I believe we had 5GB's of data anywhere in Canada and 1GB in the US (they say unlimited but speeds are throttled to dead slow if you go over the 5GB's). This was all for $39 / month (15 years ago our 5GB's was massive). Coverage in Canada was only good around major cities which was good enough for us; anything outside of that we were paying extra for. The feature that kept us there so long was not having to worry about cell service in the US, a place we go to almost weekly, even if just for an hour for coffee. There we were always connected, anywhere we went, including Hawaii. Once you have that kind of "don't have to think about it" coverage, you never can go back.

Over the years, Freedom's coverage got better and better. This past April, Shaw (which bought Wind in 2016 and renamed it Freedom) sold it to Quebecor. A few months ago, we both were in need of new phones. We definitely didn't want to give up our seamless Canada to US cell service and we didn't with our new plan; $45/month x 2 with 50GB's of data each. As well, within Canada, Freedom now piggybacks (with no roaming charges anymore) on other carriers' networks to provide nationwide coverage (something that they've always done in the US). The cheapest plan like it with 1 of the big 3 carrier starts at $95 / month (you can easily port/move your phone number to Freedom).

HHHMMM...

• Since 1970, 49% of the time the S&P 500 index (a major stock market proxy) will have a +15% return in a given calendar year, yet –15% calendar year returns have been experienced only 10% of the time. Manulife Investment Management, Oct. 2023 #StayInvested #You'llBeFine

• September statistically is the only month of the year that has a negative median monthly return. The best performing months of the year since 1950? November (1st) followed by December & January. Manulife Investment Management, Oct. 2023 #FallMeansUp

• David VanBenschoten, who was head of the General Mills pension fund said that in his 14 years in the job, the fund's equity return had never ranked in the top 27% of all pension funds nor below 47th%. Where did this solidly 2nd quartile annual return ranking pension fund place in terms of performance? In the top 4% of all pension plans long term. Investors aiming to beat everyone else in the short term will most likely be worse than average in the long term. Oaktree Capital Group, Sept. 2023 #ConsistencyWins

• Apple has steadily raised the price of an iPhone, pushing the cost of a base model to 3x of what it used to cost (that is on top of inflation price increases). Dixon Mitchell, May 2023 (Your loyalty to Apple costs you more… We do the opposite for our clients…) however they have had several successive quarters of revenue decline recently so maybe the prices they are charging are reaching a peak? #RewardLoyalty

• The Bank Of Canada has added 1.3% to the rate of inflation through their recent policy actions. Simon Bowers, IPC Private Wealth

• Canadians who have money sitting in chequing and savings accounts are letting the big banks pay them virtually 0% on this money, yet the banks are lending money out at close to 8% (you make 0% they make 8%). This won't change unless the money in those bank accounts moves to where they are getting treated better (many of our clients are getting ~5% without locking it in). #BanksDoItBecauseYouLetThem

• Canadian Household Debt To Income Ratio is over double of the average US resident. Manulife Investment Management, Oct. 2023.

• The US debt ceiling has been increased 78 times since 1971; 29 times by Republicans and 49 times by Democrats. IPC Private Wealth #MoreToComeI'mSure

• Toronto's average per square metre price for a detached house is US$10,947; Chicago's is US$1,950. In Vancouver, it's US$7,848 yet a condo apartment is US$9,221 (which owns proportionately much less land). Western Investor, Sept. 2023 #CompetitiveAdvantage

• Alberta is raising its tax savings on donations under $200 total in a tax year to 60%. Most other provinces for a relatively small annual amount, only give a credit based on the lowest tax rate, which is ~5% tax savings in BC. #DonationEncouragement

• B.C. construction employers will get $5,000 for each 1st year apprentice they register in any eligible Red Seal trade. However, if an applicant self-identifies as a woman, a person with disabilities, Indigenous, racialized Canadian or from the 2SLGBTQI+ community, the incentive doubles to $10,000. Western Investor, Oct. 2023 #ReverseDiscrimination

• International students who attend a BC school only pay $75 / month for medical insurance coverage. Government Of BC #WhySoCheap?

• It is easier to spot other people's mistakes than your own, because we judge others based solely on their actions, but when judging ourselves we have an internal dialogue that justifies our mistakes and bad decisions. Morgan Housel #We'reWorseThanWeThink

• My youngest granddaughter noticed she uses a lot less of our toilet paper than she does when at her home. How a 9 year old can see the obvious wisdom in not buying single ply toilet paper. She should run a restaurant chain or maybe be CEO of Starbucks? #FalseEconomy

• "What is moral is what you feel good after and what is immoral is what you feel bad after." Ernest Hemingway So then…. what any 1 individual subjectively believes to be moral (or not wrong), or 1 group is adamant what they are fighting for is moral, then it is moral because they feel good about it? #PeopleSayStupidThings #FeelingsAreFickle

• 70 countries currently have Daylight Savings Time in at least a part of the country. Japan, China & India are the only major industrialized countries that don't have DST. #IWant365DST

• You only know someone well if you can correctly predict how they will react in stressful situations. (That is why it is so important to have a Financial Advisor that really knows you) #PowerOfRelationship

• If there is someone whose views you agree with on every topic, be careful. If there is someone whose views you disagree with on every topic, be even more careful. Morgan Housel #DiscernVsAccept

• Bram Vandenberg is the drummer for U2 while they play in Las Vegas. He is subbing for Larry Mullen Jr. who is out of commission. Bram is no relation to me although I too play drums and I have a cousin named Bram (in Dutch it's pronounced Brum with a rolled r) #LotsOfVandenbergs #HireMe

Casey