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mutual gains™

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WWW.CAREYVANDENBERG.COM
CAREY@CAREYVANDENBERG.COM
604 541 2690 1 866 274 1222

SOUTH SURREY / WHITE ROCK OFFICE
13230—16TH AVENUE
SOUTH SURREY, B.C. V4A 1P3

BURNABY / VANCOUVER OFFICE
4400 DOMINION STREET, SUITE 410
BURNABY, B.C. V5G 4G3

WE LIKE "SURVIVAL OF THE FITTEST" COMPANIES

Despite continued uneasiness economically around the world, corporate profit growth is exceeding expectations. Major global companies that have both cash and have a strong competitive advantage in their business field are well placed to excel. Owning small pieces of a wide range of these companies is the foundation of a solid portfolio for providing retirement income that will last a lifetime, so you can do what YOU want to do.

The companies that are most evident in my client's portfolios are "best of breed companies." These companies have been fortifying their financial positions since the recession of 2008—2009. They have also been successfully taking market share from their weaker competitors. Despite being financially stronger than in the 50 years past, their shares can be purchased at very reasonable prices.

Many of the investment managers I use for various parts of client portfolios believe we are in a secular bull market which started in 2009. The market is successfully dealing with and overcoming the raft of concerns about the sovereign debt of some European countries, political uncertainty in the Middle East and Japan's post-earthquake woes.

The principal reason for the underlying financial strength is robust corporate profit growth. However, like all bull markets, there will be corrections and consolidations throughout the long term climb. We are seeing a bit of that now.

Despite that, quality companies which don't have much competition because it is tough for a new company to break into their market are the kind of companies that make the best investments. The protective "moat" is one of the keys to the business' long term success. These are the companies that we like but that can't be the only criteria. Paying too much for anything is not the way for a portfolio to enjoy long term success.

Everyone recognizes that the emerging markets in South America, the Far East and Eastern Europe are key investment areas. Taking advantage of those is best done through global companies domiciled in developed nations but with a big foot in these developing markets. Here are a couple of examples of strong, growing and highly profitable companies that are imbedded in our lives through the things we need or want:

Mastercard— it has 25% of it's business in emerging economies and credit card penetration in these less developed countries is low in comparison to the rest of the world. Mastercard has few competitors.

GlaxoSmithKline— a global pharmaceutical company with drugs across a wide spectrum including prescription medicines, vaccines and consumer health products you can by off the shelf. It has very good exposure in the emerging market countries that is higher than most of it's competitors.

Taiwan Semiconductor Manufacturing— not a household name because it sells it's wares to the largest brand name tech companies in the world. TSM is on the cutting edge of technology and is one of the lowest cost manufacturers in its field.

Source: Stephen Jenkins, Harbour Advisors ($17.5 billion under management)

Is The Price of Gold Being Pushed By Followers?

What's going on with gold is the concept of social proof, which says if everybody believes it, it must be valid.

A perfect example of what's happening with gold happened in Toronto once during Nuit Blanche, a major arts festival. There was an exhibit on Yonge Street set in a little alcove between two buildings. It was curtained off, and the title of the exhibit was, "You've Got to See This." There was a massive line up and they were only allowing one person behind the curtain every 3 to 5 minutes. All that would happen once you got behind the curtain is someone would usher you out the other end. That was it. There was nothing to see.

It was an experiment to see if people would wait around for an hour for absolutely nothing, based on the perception there was something worth seeing. People who went through the curtain and out the other end would come back around to the line and warn everyone the whole thing was a scam. But most of the people in line believed the warnings and complaints were part of the performance, so they kept waiting.

This experiment showed perception wins over reality almost every time.

A Spousal RRSP Can Still Be A Useful Tool To Reduce Taxes

24 years ago (1987), when I first started taking on financial planning clients, I would use a spousal RRSP as a way to even out retirement income between spouses and thus reduce income tax during retirement. This was particularly needed if one of the spouses earned significantly more than the other spouse.

That fell by the wayside in the 2007 federal budget when the government gave Canadian retiree tax payers the ability, to split 50% of their pension income on their tax return, with their spouse. However, that didn't end the effective use of spousal RRSP's.

A spousal RRSP can be used very effectively to fund a few years off to raise children or other non-incoming producing personal endeavours. This is done by the higher income spouse contributing to a Spousal RRSP in the lower income earning spouse's name. "Higher" gets the tax deduction and in B.C. can up to $437 per thousand dollars of Spousal RRSP contribution. When "lower" won't be earning income you can withdraw the spousal RRSP and pay much less tax. If "lower" is pulling out $10,566 or less, there will be $0 in tax to pay yet you saved $437 by making the contribution. In the income band of $10,567 to $36,146 you will only pay $201 of income tax per thousand dollars withdrawn. The more you take out the less advantageous it gets but it still can work in your favour.

There is a big catch though as well as a small one. The last spousal RRSP contribution must have been in the spousal RRSP for 3 full calendar years. If not, the spousal RRSP withdrawal will be taxed in higher's name. The small catch is that you will be using up RRSP contribution room which you can never get back.

A Parent Returning To Work Needs a Form 1213

You're well into enjoying the new addition to the family but you hear your employment duties calling, either in a small voice at the back of your conscience or from a phone call or email asking "when are you coming back?". However, for many the real call is coming directly from the red ink dripping from their family's finances.

There are a number of costs related to re-joining the daily roll into town and just wanting and needing to pay for the things of life.

Daycare is in the neighbourhood of $10,000 a year for the first few years. The almost inevitable post secondary education of some form, will come quickly. To alleviate that future bill, $2,500 / year can be set aside for that purpose. Your retirement is inevitable at some point in time. Because of this, RRSP contributions need to be made. You don't want to be living in your kid's basement when you have quit working in your hair's sand and snow coloured years. Maximizing that means 18% of your income going into your RRSP.

Now how is it possible to do all or even part of that and not face a squeezed cash flow situation? File a form T1213 with the Canada Revenue Agency (CRA). By doing so, you can reduce the amount of income tax that gets

(Continued from page 2)

deducted from each paycheque.

You can complete the "Child care expenses" section of the form for the $10,000 you are spending on child care expenses. You can also claim the RRSP contributions you are starting. The tax department will authorize your employer to reduce the amount of income tax deducted from each paycheque. That is, instead of getting a tax refund in the spring of each year, you will get part of these refunds back on every paycheque throughout the year.

The deductions and non-refundable tax credits you're entitled to claim on form T1213 include RRSP contributions, child care expenses, support payments, employment expenses, carrying charges and interest expenses on investment loans and various other deductions for such things as charitable donations or rental losses from real estate.

Don't feel like completing the form T1213? Well then, the extra taxes you pay are essentially an interest-free loan to the government. You only collect on this loan when the government sends you a tax refund. Fill in form T1213, however, and you'll cut your interest-free loans to a minimum. This, in turn, will raise your cash flow, every month. You can find the T1213 form right at the bottom of this webpage http://careyvandenberg.com/paperwork.php

Note: The T1213 isn't just for a parent returning to work. If you find you get tax refunds every year you should be submitting this form so you too can increase your monthly cash flow and end the interest free loan to the government.

Preferred Shares For High, Increasing, Tax Effective, Dividend Income

At some point, rather than your work providing you an income you will be relying on the assets you have accumulated to provide your income. The base of your income when you decide not to work for a living anymore (or at least, cut back on work) will come from CPP and when you are 65 OAS. That can add up to a maximum of $1,486.85 per month. On top of that you may have a company pension however if you don't, or that won't add up to enough you'll need income from your portfolio.

If you have non-registered assets (non RRSP, RRIF, LIF, TFSA), you will want this income to be very tax effective and you will want this income to grow. Underneath all of that I know you want it to be stable. One ideal way to do that is with a preferred share portfolio.

Most preferred shares pay a fixed rate dividend and have no set term. In other words, your income won't really increase. These are known as "perpetual" preferreds.

Fixed reset preferred shares however also pay a fixed dividend but for a period of 5 years. At the end of that time the dividend gets "reset" to a new rate. The rate is commonly set as a spread over the prevailing yield on a Government of Canada 5 year bond. Because of this, these offer the potential for higher income in the event of rising interest rates.

Interest rates, for the foreseeable future, don't seem to be going anywhere so you should at least look at having a portion of your portfolio invested in preferred shares to replace some of your low interest paying, highly taxed Canada Savings Bonds, Government of Canada Bonds, GIC's, Savings Accounts etc.

Web Gems

Microsoft Answers— I am a Microsoft user for a lot of my technology needs. Tech stuff in general can be finicky and need a lot of fine tuning. Overall, I've been quite happy with the availability of Microsoft tech support in getting significant issues resolved. When it is a smaller but no less frustrating issue the resources on www.answers.microsoft.com/en-us can be really helpful. Generally, I'll post my problem and its details and within 24 hours I have someone asking questions of me so they can get a better understanding of the issue. A few posts back and forth and I often have the solution.

Voyage.gc.ca— This is Canada's Foreign Affairs site which will provide you with information on the stability of a particular country you are looking at and will indicate any travel warnings. A must go to site for the traveller.

Hhhhhmmmmm......

"Stocks (equities) have just come off their worst 10 year compound return in the last 170 years…. Commodities have just had their best price performance in the past 200 years". Brandon Snow, Cambridge Advisors (Boston) June 2011

Microsoft's share price hasn't gone anywhere for a long time yet it's sales and profits have doubled in the past 8 years (eventually the share price of a high quality company will come in line with profits). Globe & Mail, May 2011

The productivity of real estate agents in Canada is considerably higher than in the U.S. The average agent in Canada does 14 transactions a year, in the U.S. it's closer to 8. Globe & Mail, May 2011

In Toronto between April, 1989, and February, 1996 the average resale home price in the city fell to $192,406 from $280,121 (31%). Someone who bought an average-priced house in Toronto around the '89 market peak and still owned it would be looking at modest annualized gains in the 2-per-cent range. Globe & Mail, April 2011

The iPhone is made up of an A4 processor made by Samsung (South Korea) with the architecture made by ARM (Britain), an accelerometer by STMicroelectronics (Switzerland), a transceiver by Infineon (Germany), the touch screen by TPK (Taiwan), touch screen control by Texas Instruments (USA) and a compass by AKM (Japan).

If it turns out to be a new super bull market, it means the primary trend will remain up for many years. The market will make new highs despite occasional sell-offs. Investors will make money with a buy-and-hold strategy. (There have been just 4 secular bull markets in the past 110 years, lasting 6 to 24 years) USA Today, Feb 2011

Between 1997 and 2002, over 80% of the increase in annual U.S. energy consumption was food related. A more effective means of lowering an average household's food related climate footprint is not "buying local" but rather changing our eating habits. USA Today, May 2011

It takes 6 to 8 times more energy to produce crops year-round in greenhouses in New York state than to truck them in from California. USA Today, May 2011

A 35 year old is 6—8 times more likely to get cancer, a heart attack or stroke than they are to die before age 65 which is why Critical Illness Insurance can be more important to buy than life insurance. Investment Executive, April 2011

The combined sales of Ford Mustang, Dodge Challenger and Chevrolet Camaro, all "American muscle" cars topped the total of environment loving hybrids. Americans bought 19,476 of these gas gulpers compared with 17,852 hybrids despite global warming concerns, the green movement and high gas prices. Edmunds.com, June 2011

The average Canadian family had a debt to income ratio of 150%. That has increased 73% since 1990. Canadian's debt to income ratio is now higher than Americans' for the first time in 12 years. Advisor.ca, June 2011

American's have slashed mortgage debt from nearly $11 trillion at the mid 2008 peak to $10.3 million in the first 3 months of 2011 (USA Today, May 2011)

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