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# mutual gains<sup>tm</sup>

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## MARKETS ARE DOWN BUT MANY PORTFOLIOS ARE UP

When equity markets are jittery, it is more often than not, an Autumn condition. This Fall is no different, with a range of 4—20% declines on average thus far, when you look at all the markets around the world. As of October 9th, Canada’s TSX index is down over 5% and the DOW, representative of the U.S. equity markets is down over 4% (they were down twice that a week prior).

Despite that, if you held an actively managed, globally invested, growth oriented portfolio, you are probably well ahead from where you were at the beginning of the year (double digit increases since January 1st 2015 isn’t unusual). A decline by over 10% of the Canadian dollar against the U.S. dollar has been part of the help in these very healthy returns. However, if you held a portfolio that is too spread out (when diversified becomes “deworsified”), or mostly in Canadian investments, your portfolio is probably “underwater” so far in 2015. Why the difference?

A report I received from 1 of the investment managers I use for client portfolios and the reasons I summarized out of that, will help explain why.

- 1) Many holdings were sold over the past several months, as they reached what were considered expensive valuations. Because of that, portfolios had accumulated cash positions as high as 15—30% through the summer.
- 2) Just because “the market” is down, doesn’t mean all businesses have seen their share prices decline. “Stock picking” has been the difference.
- 3) Whenever you get unusual and widespread reactions of people selling investments ad hoc, investment opportunities present themselves to those who have cash on the sidelines. Over the past several weeks, cash positions of actively managed portfolios have been substantially reduced as good bargains have presented themselves during this time.
- 4) Many of the businesses that are being held or have been recently added to the portfolio are giving a 10% free cash flow yield PLUS they are expected to grow over the long term. Free cash flow is the money a business is generating after its expenses. This money is eventually used to pay out dividends, buy back shares or buy smaller companies, including competitors. Any of those will push up your business’s share price over the long term.
- 5) The share prices of excellent businesses like those in #4 usually bounce back quickly because, when the dust settles, people realize that these investments are ones that are fundamentally, very strong.

## TAKING ADVANTAGE OF THE MISTAKES MACHINES MAKE

On any given day when markets around the world are open for trading, we see some extremely wild price swings. Any whiff of negative news and you get the market falling very quickly. An hour later, some news comes out with mildly positive overtones and we’re whipping back in exactly the opposite direction. The manic depressiveness of Mr. Market is very evident this Fall.

The overwhelming reason behind these roller coaster like twists and turns, is computers run by investment trading programs. The SEC in the U.S. (Securities

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and Exchange Commission) estimates that 50% of investment buys and sells are done by computers, run by programs. These programs are all “looking” for the same things, and thus a herding effect takes place. Through this, an excellent business may get indiscriminately sold, despite the news that triggered the computer to sell, having absolutely no bearing on this highly profitable business. Smart money (active, human investment managers) can take advantage of the herding. They can do so because they possess a valuable trait that robots don’t have. It’s called common sense.

## 5 PORTFOLIO REVIEW BAD HABITS

Our own psychology and feelings can have a detrimental effect on our finances. Here are a 5 of them:

- 1) **Feeling Too Good About Your Wealth**— Over the past 4 years, things have gone up almost in a straight, uninterrupted march (until the interruption in the last few months). The same has been happening for several years, especially in the Greater Vancouver area, where we’ve seen never-ending home price increases. All of this gives a bloated sense of financial well being. Human tendency of this wealth effect is to spend more or to ease up on saving, through RRSP contributions and the like. As well, if you are using your portfolio to provide income, you may be inclined to withdraw more from it. Go ahead and feel good, applying prudence to your actions, being full aware, things can stumble significantly and violently when you least expect it (not when you most do).
- 2) **Getting Frustrated With Portfolio Parts That Are Underachieving**— A well structured portfolio is made up of pieces where when one part of the portfolio zigs, the other zags. It’s easy to forget about when times were painful or when times were euphoric. Just because a holding in your portfolio doesn’t seem to be doing as well as other parts, doesn’t mean it needs replacing. Revisit why you put that holding in your portfolio in the first place.
- 3) **Digging Through Reams Of Data**— The internet age gives us more data than we need and with all that data, a difficulty in discerning what is the important data. The role of an Investment Advisor and / or Financial Planner is to sort through all of that however, ask questions when you have them. Annual reviews condense that data into the only data that really matters which is answered in the question, are you on track?
- 4) **Too Much Monitoring**—With 24/7 access to our portfolios online, we can get caught up in checking our portfolio too often, even every day. Ironically enough though, benign neglect of your portfolio actually beats too much monitoring (see Hhhmmm section, page 4, point 2 on how too much intervention hinder our success).

## FAMILY FINANCES—SEPARATE OR ALL TOGETHER?

It has been sighted that money is probably the biggest issue that will take down a marriage. How you handle your family finances can be the make or break of this immensely valuable relationship.

Many couples I work with earn and do what they want with their own money, but contribute to the household financial account and work together on any other joint ventures, like a home purchase or holiday excursions. This way they don’t have to answer to the other for what they are spending their money on, which can alleviate a lot of fights, particularly if the 2 have completely different spending habits or upbringing on how to handle finances.

The other way to handle finances is like a family corporation. All the money earned goes into the corporate coffers and you have a family CFO (Chief Financial Officer) or Comptroller that handles all bill paying and to a large degree, directs the family’s finances. You sit down and agree to the responsibilities each has and recognize each others tendencies to either be “spendy” or tightfisted. Both of these personality traits can be far leaning, so a bit of introspection is vital. This simply means, acknowledging that you might be a bit too much one way when often the tendency is to think the other is wrong in their approach. Willingness to lean a bit more in the other’s direction, will help make things work cohesively and your marriage will be stronger and more fulfilling because of it.

## DO YOU INSURE YOUR HOUSE FOR LESS THAN IT IS WORTH?

For many of us, our homes are one of our biggest financial assets. Because of that, we insure it for its full replacement value against anything bad happening to it, like a fire. We do the same with our car because, should it be written off due to something beyond our control, it could be painful to shell out money to replace it.

The irony is, I often see people not insuring their own earning power. If something happens to you that stops your ability to earn an income (ie death or disability), how will your family’s lifestyle keep afloat? If your family relies on 2 incomes to pay for all the things you all enjoys every day, and either of you dies prematurely, or can’t work either temporarily or for the rest of their life, what happens when 1 income stops because of it?

The amount of life insurance you may need is directly related to the amount of income your family would lose should you pass on today. Just paying off your mortgage balance usually won’t do much. With disability or “income replacement” insurance, you would normally need to insure 2/3rds of your monthly income. If you don’t have coverage

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through your employer, it is vital that you get your own coverage. I can give you direction on all of those areas.

### 3 COMPLETELY DIFFERENT DEFINITIONS OF "SAVING"

#1 Not Spending— You may heard friends or family talk about how they saved money by quitting their latte habit. They have cut an expense by cutting out something that they can do regularly and can stop with a minor habitual adjustment. If however, the "saving" isn't re-directed to accumulate in an account, everything that you saved by quitting your latte habit can start to leak out through spending elsewhere. One habit is now simply getting more.

#2 Putting Money In an Excellent Place— You look back at how much you were able to save in your RRSP through monthly contributions, or you have accumulated a home buying fund. You intentionally and continually took the money you didn't spend and put it away somewhere to be used at a later date. There are wide range of "good" places to put that money, however some are simply better than others. With the help of an Advisor, find that Excellent place.

#3 Getting a "Deal" - Spending money on a product or service that you weren't planning on purchasing previously, but the deal is so good and you are "saving" so much money, that you just have to pull the trigger. Groupon, Canadian Tire flyer and other advertising are there to separate you from your money. The net result is you are actually increasing your spending rather than saving.

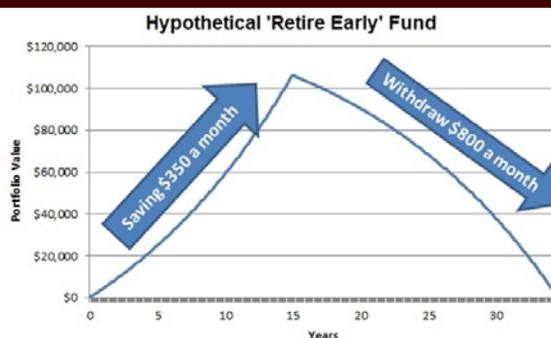
### HOW SAVING \$350 / MONTH CAN GIVE YOU \$800 / MONTH

If you want your money to work for you instead of you going out and working for your money, you have to start with this 1 foundation action item: be intentional about setting up an automatic, monthly investment into an RRSP, TFSA or other investment plan.

\$350 / month over 15 years is a total of \$63,000 redirected from money that you normally would have spent on things that will probably be long gone (in a landfill somewhere) to a portfolio that can give you back \$192,000\*. This is postponing some of today's spending pleasure to get even more spending pleasure in the future.

To make your financial future better, all you have to do is set up a monthly investment plan. It doesn't matter the amount as this powerful habit alone will improve your future financial position and make you feel much more relaxed today.

\*Assumes a return of 6.5% compounded annually



### IF YOUR JOINT BANK ACCOUNT IS "AND" YOU MIGHT WANT TO CHANGE IT

You have a joint bank account with your spouse. All your income is directed into it and all your expenses and savings are paid out of it. It is the foundation you use in managing all of your family's finances.

Not all joint accounts are set up the same however. Most accounts are set up where either person can make any transactions on the account without the signature of the other. If the account has both names on it (ie Carey Vandenberg Cheryl Vandenberg), then your account is set up this way. If however, you have both your names with an "and" or "&" in between them, you probably have an account that could put your family's finances in a precarious position should something happen to either of you. In some cases, with an account set up with an "and" or "&" between the account holders names, you may need your spouses signature as well as your own.

I have come across this a few times in reviewing client's financial situations and because of it, I'd suggest checking your own bank account to see how it is set up.

### TECH GEMS— ANTIVIRUS SOFTWARE (WHY YOU SHOULD CHANGE WHAT YOU USE)

I received an email from our office's tech guy, saying he had been getting emails from me that looked like someone was "spoofing" my email. This happens when malware gets into your computer and makes it do things you may not want it to. In this case, sending emails from my account to people in my address book (my apologies if you got one).

I quite enjoy keeping informed about technology and on occasion have changed what programs our office uses based on the ever changing ratings of all the available programs out there. I have used various antivirus software programs in the past. AVG and Avast are 2 that I had used previous, and for extended period of times because of their very good ratings.... At that time.

Needless to say, we've changed what we use in our office.... again. I suggest you revisit what you use for antivirus. Check out PCMag.com for the latest reviews and make the necessary changes to protect yourself.

## Hhhhhmmm.....

Over the last 115 years, there have been, on average, three 5% corrections and one 10% correction every year. The average recovery time for these corrections is only 107 days. Market volatility is simply a part of normal investment cycles. One Capital Management, Aug. 2015

The U.S. S&P 500 index returned an average of 9.85% / year from 1994 to 2014, but the average investor in U.S. equity mutual funds realized an average annual return of only 5.19% / year. Investors significantly underperformed their own investments due to poor investor behavior. Dalbar, 2015

"I check stock quotes once a week. If another portfolio manager checks stocks 30 minutes each day (10 minutes, 3 times / day), that's 104 hours / year they spend watching blinking lights. I'd rather spend that time researching companies (to invest in). Assuming I read an annual report in 3 hours, I can look at 35 more companies each year simply by not obsessing over stock quotes." Jason Whiting, Invesco, Dec. 2014

Average life span of a company in 1958 was 61 years. Today it is 18 years. Standard & Poors

Disinflation (low inflation) is as good as deflation is bad. Low inflation can keep an economy moving forward with less big bumps much longer, albeit moderately. Deflation is what Japan has been in for over 20 years. Japanese house prices fell every year from 1992 to 2005 and are up only slightly since then.

Despite the decline of the Cdn dollar, the price of gas in Blaine, Washington USA is still 19.4% cheaper than South Surrey BC (\$1.02 versus \$1.27 / litre). Aug. 24, 2015

At today's ultra low mortgage rates, more than half of your first mortgage payment is going toward principal. In virtually all of the other times in history most of your payment went to interest costs. Globe & Mail, Sept. 2015

Interest rates have remained the same since December 16, 2008. As the U.S. economy continues to show signs of improved stability and growth, it appears inevitable that a cycle of tighter monetary policy will eventually begin. The last tightening cycle (June 29, 2004 to June 30, 2006) saw 17 interest rate hikes of 0.25 basis points for a total increase of 4.25%. CI Investments, Sept. 2015

People aged 50 and older carry the highest overall debt and they also had the highest credit card and payday loan debts. This age group made up 30% of all personal bankruptcy filings. Advisor.ca, June 2015

From 1961 through 2014, all taxes a Canadian pays has gone up by 1,886% while inflation has only increased by 697%. Fraser Institute, Aug. 2015

The cornerstone of every longevity diet in the world is beans; about 1 cup of beans a day. It is the best longevity supplement in the world. Ounce for ounce, it has more protein than beef at 1/5th the cost. Splendidtable.org

It takes 15.1 litres of water to produce 1 almond. This equates to 22,680 litres / lb. Water Footprint Network

When Walt Disney World opened in an Orlando swamp in 1971, admission for an adult was \$3.50, about as much then as 3 gallons of milk. Today it costs over \$100 (about the cost of 35 gallons of milk). Washington Post, June 2015

There are 4 different phone numbers to call for Microsoft business support, one for each of the US, UK, Australia and Canada. With the Canadian support number you get transferred to someone in India. I wonder where the other countries calls get routed to and if it really matters what county support line I call?

Owning and operating a vehicle is the 2nd largest household expense. It breaks down to \$725 a month and 58 cents, on average, for each mile driven. Money.com

Based on national average monthly rent vs mortgage payments for a 2 bedroom apartment, the cost of owning is \$1,525 / month more than renting. Globe & Mail, Aug. 2015

9 cities in the U.S. are running low on water due to consecutive years of drought. All 5 of them are in California. 24/7 Wall Street, June 2015



"You may call me an agnostic, but I do not share the crusading spirit of the professional atheist... I prefer an attitude of humility corresponding to the weakness of our intellectual understanding..." Albert Einstein

Accrington Crematorium in England had a cross as a permanent fixture since 1956 until recently. It is now been taken down so as not to offend followers of different religions. BritainFirst.org