

## Issue 178– March / April

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### DON'T OWN THE MARKET? "NO WORRIES"

With the equity markets as a whole, continuing their upward advance, there is the unspoken concern of, "what are the bad things that tomorrow can bring"? "If things have gone up so much, they are bound to go down". These thoughts, more technically stated, come down to "the market looks expensive".

Yes, that statement is true today, as a whole. The markets have recently been in a blaze of optimism since Trump's election (this is ironic because mid last year the exact opposite was true.) That rise has been based on the things Trump says he will do. Many aren't thinking about "what if he doesn't do them?"

If you "own the market", that means that you have, as an example, 100 of the most commonly held investments. In Canada that can be all the banks, some big oil companies, mining companies some large retailers. Those most widely held investments are "the market".

Simply put, the market is expensive and because you own the same holdings as the market, your portfolio is expensive. If Trump starts altering his promises, North American companies that would have benefited from his promised path, will be at the mercy of sellers reacting to that news. Conclusion, owning the market is something to be concerned about.

If you don't own the market you should have "no worries" and here is why:

1. If your investments are being selectively chosen and continually culled based on price, your portfolio will always be less expensive than the market. A portfolio manager who is disciplined on selling holdings when they get overpriced and taking advantage of investments that are underpriced reduces your risk. If there aren't attractive investments that can be found, cash sits on the sidelines (a couple of the portfolio management teams I use for client portfolios have cash positions of 16–20% simply because of their strict selling parameters and being sticklers for not paying too much).
2. Not owning investments that are the most widely held by individual (retail) investors keeps you away from the fickleness of the masses reacting emotionally to unusual economic events.

Having said all of that, I don't want you to have you believe, price fluctuations in and of themselves, are something to be concerned about. Risk isn't about price fluctuations because, if you hold high quality investments that aren't overpriced, their prices will correct themselves over time. There is an imbedded or "intrinsic" value to any business. Risk to your money is always related to the price you pay in relation to the quality of the investment you own.

In my many years of absorbing information and wisdom in its various forms, be it written, recorded, graphical, implied, face to face or experiential, I am convinced that, if you pay a high price for an investment, your losses could last years or forever. It doesn't matter how good the reputation of the business is or how long it has been in business, if you have paid too much for it, your odds are much greater that you will lose rather than win.

Success is determined by leveraging the work of investment professionals that gather information and turn it into wisdom. You want to be buying alongside these very people. Those who have made a deep assessment of the value of the business and have paid a fair price for it. They are taking into account all that the future could hold for that business, both good and bad. The market doesn't do that. Not buying the market is being very selective on what you own and what you are investing in today. That is probably more important now than it has been in almost 8 years.

### HOW TO MAKE INVESTMENT DECLINES IRRELEVANT

You have some money you want to put to invest however, you are always wondering if now is a good time to do that. The late Sir John Templeton, one of the greatest investors of our time said "the best time to invest is when you have the money". Simple advice that has proven to be true, time and time again. This however may not do much for your emotional fortitude to do so. There is a very this simple investment tool that can work wonders for you. It has for me.

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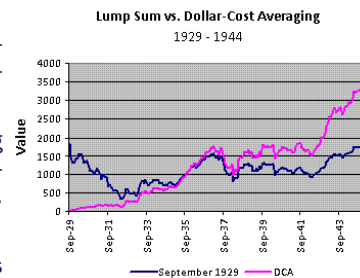
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To the right is a chart showing an investment of \$2,000 (~\$28,000 in 2017 dollars) made at the absolute worst time to invest in the past 93 years, that being September 1929. This was just before the largest stock market decline in history, the Great Depression and then World War II.



In 1929 most people were euphorically climbing over others to invest in anything they could so investing monthly probably would have been shunned however, spreading that investment, in monthly contributions, over the next 15 years would have produced a very healthy, approximately 7% per year return. Those investing at the peak would finally have got back to breaking even, 15 years later.

If today, you are concerned about investing cash simply because, for the most part, “the market” has risen steadily since 2009, setting up a monthly investment of the cash you have at hand now, in a professionally managed portfolio, is the surest and safest way to take the risk out of the market decline you are fearful of. Using the power of “dollar cost averaging”, that inevitable future market decline, should it come tomorrow, several months or a few years from now, along with the daily ups and downs, will make it all work to your advantage.

## THE PROS & CON'S OF BUYING A PRE-SALE

Buying a condo or a vacation property before it is actually built can be lucrative however it also is fraught with risks. First the “Pros”:

- Buying new means an extensive warranty on the building.
- You are only required to put up a small portion of the purchase price. Before you take possession (assuming you don't sell it before it is completed), you won't have to make mortgage payments.
- If prices rise, between the time you enter into an agreement to buy the “pre-sale” and the time the property is finished being built, you have made some money.

Some of the risks include:

- A downtrend in the local economy and softening of real estate prices, which could include an overbuilding of properties just like yours.
- Higher interest rates which means it could cost you much more on a monthly basis should you choose or be forced to keep it. The latter of which could happen if interest rates make mortgage payments too high for potential purchasers.
- If prices fall, the bank will only give you a mortgage based on what the current prices are, not for what you originally agreed to buy it for.
- Completion dates are always estimates. Delays can be several months to well over a year.
- What you thought you were buying can be changed by the developer. This includes finishes and layout. They can make the unit smaller without any changes to your agreement. If you don't close within the developer's usually very short closing time (often 7–10 days), you could be in breach of contract and could lose your down payment.

In BC, there is no set or prescribed pre-sale contract. These are written by the developer's lawyers and thus the terms are in their favour. So, should you choose to go ahead with this kind of purchase it is highly recommended you do so with your own Realtor and Lawyer.

## WHY 0% FINANCING ISN'T SAVING YOU MONEY

As far as I can remember, car loans used to be 5 years maximum. Today, they can be 7 years or longer. For virtually every new client that comes on board, I point out a way to eliminate car financing. If you are in a car loan already, the best thing you could do is, once that car loan has been paid off, to continue those payments into what I call a “Deferred Expenses Account”. This is a separate account I recommend for future car purchases, trips, home expenses like roofs, furnaces etc. When you reach the point of having to deal with that expense, you have the cash on hand.

The reason why this is so important is because, there is a cost to finance a car. This is despite the attractive sounding 0% financing carrot car dealers like to hang in front of you. I'm not going to go into the details of “non-stackable” cash rebates however, it is within this rebate mechanism that auto manufacturers use, through their dealers, to make paying cash for a car, more advantageous.

With 0% financing you probably can't have all of the rebates auto makers give to reduce a car's stated sticker price. Your “rebate” is your 0% financing. Sometimes there aren't any rebates to begin with. If so, there is probably a sticker price for the 0% financing and a sticker price for paying cash. Work out the the 0% financing against what you would get if you borrowed from your own borrowing facilities (ie Line Of Credit) so you could get the lower sticker price. In the end, you'll be better off financially, and if you are truly paying with cash, using money from your “Deferred Expenses Account”, you'll be better off psychologically as well.

## 3 INSURANCES YOU SHOULDN'T BUY

**Mortgage Life or Disability Insurance**—this is when you get a mortgage and the bank (lender) is asking if you want insurance to cover that debt and the payments. Making sure you can make your mortgage payments is important however, when you get life and / or disability insurance, you should always get your own coverage, in a policy that you control. It's better and most often, it's cheaper too.

**Extended Warranties**— these are most often on electronics however you can buy them on a car as well. According to Consumer Reports, 97% of TV's never have a problem so why pay a relatively large percentage of your purchase price, extra for that “just in case” event?

**Pet Insurance**— Everyone who has these policies makes claims on them so, what you are paying in premiums will probably average out higher than what it would cost if you paid the pet expenses as they come up. Same applies to dental insurance that you have to pay for, yourself.

## \$150,000 / YEAR OR \$145,500 WITH A GUARANTEE?

You are self employed and take in relatively high income. Your family loves the lifestyle your income gives however, if for some unforeseen circumstance, you can't work, particularly for a long period of time, what happens? If you were an employee of a company you would probably have insurance to cover you in case of such an event. You however, as a self employed person, may not have given much thought to that risk, and the ramifications. When you do, you are reluctant to add another expense to all the others you are personally responsible for.

Ask yourself this. Would you rather earn your \$150,000 / year with no guarantees or would earning \$145,500 with a guarantee that no matter what happens to your health, you will still earn \$145,500 / year, until you are 65? I'm guessing you'd probably want to hedge your bet because, betting is what you are doing with not having "income replacement" insurance (aka disability insurance).

That isn't the end of your choices however. You can make it even more attractive. With disability insurance, you can add a "Return Of Premium" rider. This means that, if you don't make a claim for 8 years, 50% of what you paid is refunded to you. Should the 8 years after that, be just as good for you health wise, you will get another 50% refund of what you paid for the insurance, and so on.

Interruption of your income earning ability is the biggest financial risk you and your family, faces. Although most people think life insurance is more important, the likelihood of not being able to work and earn an income, is multiple times higher than on you dying prematurely. Picture how your days would be like, and the family dynamics, if you couldn't work. Now, add to that the fact that your family doesn't have your income coming in. I think you know what you need to do... now.

## INVESTING LIKE CPP AND THE WEALTHY WITH PRIVATE INVESTMENTS

Most holdings inside a RRSPs, TFSA's and the like are in investments that are publicly traded. Most of the capitalization in companies around the world are held through public ownership of shares or bonds of these companies. Being publicly traded, if you want to buy, you can do so quickly and easily. Selling works exactly the same.

There is a large segment of the investing world that many people don't have access to simply, aren't even aware of. These are referred broadly to "private investments", those that aren't bought and sold by the masses on a daily basis. Many high net worth investors and even our own Canada Pension Plan are investing in private investments because of the very healthy, steady returns investments in this space, can provide. Examples include:

**Real Estate Investing**— Buy and own income producing property (office and multi-family) or simply to act as a lender to a developer, using the land as security for the loan or mortgage.

**Factoring**— Fulfilling the need for a business to be paid right away, rather than to wait the common 90 days before they will receive their money from the business they sold good or services to.

**Venture Capital**— Investing in a business that is a start up or is relatively small and its business viability, unproven. The people that started the business have usually tapped out their own resources and the banks see them as too risky to lend to. Investors with cash come along side and invest with the originators of the business, hoping for a big payoff should the business thrive.

**Royalties**— The most common in this area, within Canada, are energy related investments which can provide an ongoing royalty income.

The amount of investment required to participate in any of these areas is very often between \$1 to \$10 million dollars. This is too big for the average person and too small for most of the big money, institutional investors and banks. This is because of the investment's complexity and the due diligence required, which translates into a longer period of time before the money can be put to work. There are however many investment firms that specialize in these alternative investment areas, pooling together smaller investment dollars, to take advantage of opportunities in these sectors.

## THE ONLY FINANCE BOOK YOU NEED TO READ (AND LIVE OUT)

I've read a number of finance books over the years. I can't recall them all however, one that I continue to recommend to anyone who asks what money book they should read and I tell them without hesitation, "The Millionaire Next Door" written by Thomas Stanley. This is a book on financial fundamentals, which are traits and habits that the most financially successful individuals have in common. These include:

- You aren't what you drive. The wealthy don't drive expensive cars. 90% of the people that do generally have an inordinate amount of their wealth tied up in looking wealthy by buying things that depreciate (or spending their monthly income making monthly payments).
- Spending time that will provide the best ROI (Return On Investment). An example is given of someone spending an inordinate amount of time negotiating down every nickel he could on a very high end car, one that he should probably not have bought in the first place.
- Paying as little tax as possible. Most of the highest income earners often don't look close enough at their biggest expense, their income tax and because of it, they are sabotaging their wealth creation. Not so with the millionaire next door.

These don't take special talent, simply a change in lifestyle, the biggest part of which is introspection on what you tie your identity to.

## TECH GEMS— CREDITKARMA.CA

Everyone should know how they are viewed by lenders, should they want to borrow money. Doing this through CreditKarma.ca is a good way to do it. This site is linked with TransUnion, so once you input some personal info. it will give you your credit score plus, it will give you a list of who you have any borrowing capability through, as well as current balances. The one caveat about this site is that it asks you for your Social Insurance Number. [CreditKarma.com](http://CreditKarma.com) has been around in the US for years (1 in 5 Americans use it) so that shouldn't be a concern. If however, if you don't want to input your SIN and all you want is your credit score, use [Borrowell.com](http://Borrowell.com) . It's 100% Canadian and pulls its data from Equifax. Some large Canadian companies use it, 1 of which I'm affiliated with as an Investment Advisor.

HMMM...

- Many years ago, when Sir John Templeton was addressing a group in New York, somebody asked him why he didn't own Quaker Oats Co., acquired in 2011 by PepsiCo. Inc. He answered, "Every morning when I get up, I have my oat bran and Quaker Oats. Everyone knows what a great company it is. It's overvalued, too expensive, so I won't buy it." Morningstar, Feb. 2017 #BeGreatOrFollowTheCrowd
- Because of last year's market strength, Canadian valuations are now above long term averages. Craig Jerusalem, Portfolio Manager, CIBC Asset Mgmt Feb. 2017 #DontPayTooMuch
- In the past 37 years (ending Dec. 31st 2016), the US market has had declines every year, on average, of 14.2% yet, 28 of those 37 years have produced positive, calendar year returns. Standard & Poors #DeclinesAreNormal
- Coca-Cola used to do most of its own bottling but over the past year its moved to sell off it's bottling operations and have someone bottle for them. The idea is that it can focus on what it does best, developing new products. Coca-Cola Press Release, Feb. 2016 #DoWhatYouDoBest
- The odds are in your favour if you wait (to collect CPP). If you delay CPP until age 70, you will receive roughly double the amount that you would have received at age 60 and 42% more than what you would get at age 65. Assuming you live the average lifespan of a 65 year old, which is to age 85 years of age. Fred Vettese, chief actuary at Morneau Sheppel #CPPItPaysToWait
- Pension money is not guaranteed to be there. It can be seized by creditors, which is what happened with Nortel. So, anyone left in the pension is only going to get his pension after all the other creditors in a company bankruptcy, are paid. Advisor.ca, Jan. 2017 #NoGuaranteesWithPensions
- Average holding period for US big company stocks was in the 60's 8.33 years, 70's 5.25 years, 80's 2.75 years, 90's 2.17 years, 2000's 1.17 years and 2010's 7 months. #PatiencePaysMoreNow
- "Never let a good crisis go to waste". Winston Churchill #Crisis=Opportunity
- Only if a business owner can "buy and hold" their investments and earn 100% capital gains, will they be better off leaving their excess money inside their company. In most other cases, it is better to take that money and invest inside an RRSP. Financial Post, Feb. 2017 #ItWasntAlwaysLikeThis
- Food inflation averaged 3.93% / year from 1951–2016. TradingEconomics.com Feb. 2017 #YourMoneyNeedsToWorkHarder
- Investments that are bond-like, in the sense they are considered quite safe investments, ones that pay shareholders a steady annual cash payment, are typically most at risk as interest rates go up. Finimize, Feb. 2017 #SeemsSafeButIsnt
- Economic activity and job creation in the Eurozone hit its highest level in 6 and 10 years respectively. #ManyDidntBelieve
- On Feb. 10th 2017, the all Canadian, S&P/TSX Index, hit its first new high since September 3, 2014. Along the way it declined 24.4% and recovered 20.1%. CI Investments Market Board, Feb. 2017 #TheWholeWorldIsYourOyster
- A behavioural bias referred to as the "preference for lotteries" is the bias that has investors willing to overpay for the chance of much higher returns. Invesco Blog, Feb. 2017 #PayMore=LoseMore
- 10000 Sq ft house on 20600 sq ft lot in Vancouver is currently listed for \$46,800,000 and is the highest priced property in all of Canada (it isn't even on waterfront). Assessed value is a relatively fair \$6.4 million. #WealthvsIntelligence
- White cars have the highest resale value. If you buy used, look for a grey convertible or blue pick up because they depreciate the fastest. Globe & Mail, March 2017 #MyCarIsWhite
- Australia is gaining the most wealthy migrants, followed by the USA and Canada (the USA however had the biggest, year over year increase). France is losing the most, followed by China. Market Watch, Feb. 2017 #MoneyAttractors
- The Liberals clearly prefer government pensions and income supplements to private savings, the nanny state over the private sector. Jamie Golombek, Managing Director, Tax & Estate Planning @ CIBC, March 2017
- I have read the opinion that "belief" is somehow stupid or naïve. The question I would ask of those is, "do you believe that?" #EvidenceBasedBelief
  - "If you think your IQ is 160 but it's 150, you're a disaster. It's much better to have a 130 IQ and think it's 120." Charlie Munger (Warren Buffett's business partner). #HumilityWorksInYourFavour

