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AFTER 9 YEARS GLOBAL GROWTH IS BACK

Almost 9 years ago the world experienced the biggest financial turmoil in 80 years. We have finally, just now, gotten to a place where globally, we are in financial sync again. A global deflation cycle started mid last year and economic risks are down significantly. Deflation worries continue to recede while economies around the world are growing (yes, even Europe), and corporate earnings are moving up (the key driver of share prices).

On the political front however, there is definitely more noise; everything Trump related, the Eurozone saga of "do I stay or do I go", tension waves from North Korea and the ISIS black hole. These things though, are out in the open. Very short term panic attacks in the psyche of the investment world could flame up and modestly affect investment prices down but since these risks are known, they will probably be less economically disruptive. Political events will just be interrupters and most likely, short lived. History and a growing economic back drop will prove that point to be true.

Evidence of this low level of perceived risk is seen in the "VIX" which is a measurement of market volatility. This "fear gauge" is at its lowest level in 24 years. Some may view it as an unhealthy level of complacency. Yes, low volatility does encourage investors to take higher risks. The biggest modern day experience of that was the tech bubble in the late 90's. We are seeing small pockets of that so be mentally prepared to stand your ground should something entice you to stray from being financially prudent. As long as you don't follow the lemmings, you will be perfectly fine.

So, where are the broad swaths of opportunity today? Europe. It is growing significantly faster than the US economy and has been for a few years now. This isn't being widely noticed by the mostly rear mirror looking investment public. They are still, for the most part, chasing anything US based. So much so, that valuation premiums on average in the US versus the rest of the world are at historical highs. In other words, compelling value can still be found abundantly outside the US.

That being said, you have to look at where a company is selling their products and services to. A multi-national company, with its head office in the US, that derives 70% of its revenues from outside US borders, can be a more compelling investment opportunity than something that is based in Europe. Comparing investment opportunities from the ground up paying careful attention to what its actual worth (intrinsic value) investment's intrinsic value. That, along with diversification. A strong, fruitful portfolio, is firmly rooted in those two tenets.

WHY VOLATILITY ISN'T BAD

Investments fluctuate, we all know that. If we could have it any other way we would rather they didn't because volatility is bad, right? You would think if the price of a company's shares fluctuates wildly, that it is a poor investment.

The table on the right shows shows the range of share price fluctuation for the 10 largest companies in the S&P 500 index in 2016. If you bought shares of a company and shortly thereafter saw its price fall 18–55% wouldn't you feel just a little uneasy?

As the column on the far right shows, all of the companies listed produced positive returns. On average 17% for 2016. To produce healthy long term gains, investors have to fight their emotions, through unsettling events, disregarding significant swings in the price changes of their investments. The significant price swings is the irrationality of the market reacting to daily

	Price Volatility*	2016 Total Return
Apple Inc.	27%	12.4%
Microsoft Corp.	27%	15.0%
Exxon Mobil	26%	19.9%
Amazon.com Inc.	55%	10.9%
Berkshire Hathaway B	29%	23.4%
Johnson & Johnson	27%	15.3%
Facebook Inc.	34%	9.9%
JP Morgan Chase & Co.	49%	34.5%
General Electric	18%	4.6%
AT&T	26%	29.9%

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news because the actual value of the business didn't change as much as the price did. The biggest fight we have is with ourselves, to not succumb to this irrationality. (Source: Dixon Mitchell Investment Counsel)

WE ARE OUR OWN WORST ENEMY

Our natural tendency is to think we are better than the average, in what many may view as relatively simple tasks to master. Take driving for example. If everyone thinks they are above average, then our roads would operate quite a bit differently than they actually do.

Let's assume for this exercise that you are "average" and that you are really no better at investing than the neighbours that live on either side of you. Unless you have put in 10,000 hours of perfecting the craft of investment management or you have a God given gift in this discipline I think it safe to say that my average assumption of you in this regard, is more likely to be right than wrong (if I'm wrong, please accept my apologies).

As you can see from the chart to the right, the average investor in both "Equity" and "Income" (bonds), experienced a significantly lower return when left to their own devices. So, what are the things that make us our own worst enemy?

Trying to time the market— There has to be a good time to get in and a good time to get out, right? Yes, there is but because there are so many random events at play, along with a lot of irrational behaviour of the market as a whole, it's impossible to do so.

Chasing what is hot (afraid to miss out)— The last time I saw this in such a wide spread way was the tech bubble in the late 90's. I have seen some hints of this today, most often in stories of something involved in tech and to a lesser extent, alternative energy.

Panicking during a market downturn— I have the best clients in the world in this regard; they are stalwarts. If you are one of those, I thank you for your emotional fortitude. You are disciplined and make my job so much easier in helping you succeed. There are so many not like this. I remember another advisor's client phoning my office, wanting to move his portfolio, for me to oversee, simply because he was scared. He felt he had to react and react quickly. 999 times out of 1,000, that's a bad idea. It sabotages success.

Not investing regularly— I am a disciple of have a monthly contribution going into any kind of investment account, including RRSP's, TFSA's, and RESPs. It's financial exercise habit. It's like physical exercise but easier. The results of monthly (weekly, twice per week etc.) investing over the longer term can be much more staggering than physical exercise.

Time Period (ending Dec. 31, 2014)	Average Equity Fund Investor Return	S&P 500 Average Return	Difference	Average Fixed-Income Fund Investor	Barclays Aggregate Bond Index	Difference
1 year	5.50%	13.69%	(8.19%)	1.16%	5.97%	(4.81%)
3 years	14.82%	20.41%	(5.59%)	0.72%	2.66%	(1.94%)
5 years	10.19%	15.45%	(5.26%)	1.21%	4.45%	(3.24%)
10 years	5.26%	7.67%	(2.41%)	0.69%	4.71%	(4.02%)
20 years	5.19%	9.85%	(4.66%)	0.80%	6.20%	(5.40%)
30 years	3.79%	11.06%	(7.27%)	0.72%	7.36%	(6.64%)

4 THINGS TO KNOW ABOUT BORROWING TO INVEST

Borrowing to invest (aka "leverage") is a common tactic used when buying a home or rental property. You take your own money and procure a multi-times more sizeable amount of money from the bank. You can apply this leverage tactic to almost any kind of investment vehicle. Before you do that though, there are 4 things you should know:

The Interest You Pay Can Be Tax Deductible— Debt is a 4 letter word but it isn't always derogatory. Unlike bad debt, "Good Debt" can speed along wealth creation. Interest on good debt in most cases, when used for investment purposes, is tax deductible. Interest on bad debt is paid for with after tax dollars. With bad debt you have to earn \$1 but only have 70 cents after tax to pay for that bad debt. Tax deductibility of interest makes borrowing to invest, very tax efficient because you get that 30 cents back from the government.

Leverage Increases Risk And Improves Potential Reward— The key is to minimize as well as mitigate the risk. Minimize the downside risk and mitigate the feel of the risk should you experience it. Investing with cash involves the same process. The case with borrowing to invest is you have interest payments to make so you want to ensure you can continue to pay them. How much free cash flow do you have for discretionary expenses? With lots of room you minimize payment risk. Working with a Financial Advisor will help you take as much risk out of the picture as possible and that includes the risk of how your emotions may effect your decisions should things go south for a spell.

Make It Fit For You— You can borrow to invest in virtually any amount. You can't do this with a direct real estate investment which requires a go big or go home investment. Making the amount of leverage, fit into your circumstances, is much more prudent, from a financial planning perspective. You can start smaller and use a different investment vehicle, yet still take advantage of the power of financial leverage.

You Can Make Money With Interest Costs That Are Higher Than Your Investment Returns— It sounds counterintuitive but you can actually pay a higher interest rate on your loan than what you are making on your investment and come out ahead. Example: If you pay \$1,000 / year on interest and your marginal income tax rate is 40%, your actual cost is \$600 / year. This is because you get back \$400 from the tax deduction. On the investment side of the ledger, if you earned a relatively small, \$1,000 of capital gains, only 50% is taxed, costing you \$200 in tax. With \$800 being your after tax gain and subtracting the \$600 net interest costs you paid, you have a positive net return.

HOW TO COMBAT "INSTANT WEALTH BLOW SYNDROME" (IWBS)

A very high percentage of people who experience sudden wealth, go from rags to riches and back again in usually a period of 5 years. Most burn through the money on a bunch of high priced consumer items and experiences. Instant wealth is something I personally will never experience because I don't buy lottery tickets. There are many though that will benefit from a windfall, either from a lottery or a substantial estate being passed down to them. The next step is in preparation for that "just in case", so you don't succumb to the deadly, IWBS.

First thing to do is.... nothing. When that cheque comes in, do nothing for 3 months. This will give you time to think and talk to others. Even if the money just sits idle, let it do just that. Don't worry about it just sitting there. That is a small price to pay for laying the ground work to do the right things.

Second, if you don't think you have the emotional fortitude to stick with Step 1 completely, carve out a pre-determined piece (ie 5, 10, 12, 15% etc.) and put it completely separate from the rest of your new found nest egg. Spend that mad money, freely. Go on that around the world trip. Buy that old or new era car. Doing so will quell your spending urge and help keep the majority of the money in tact.

Third, is to find the Financial Advisor that you fit most comfortably with but also who is not afraid to coach with conviction, to help keep you out of trouble. You should look far and wide for broad experience and capabilities. You'll want a very foundational financial plan, not simply "put your money here, here and here". This could very well take you away from the local bank branch that you have been dealing with for so long but if that is the path you must take, then take it. Initial discomfort will give way to "I should have done this a long time ago".

LIFESTYLE CREEP—THE FINANCIAL VINE THAT CAN CHOKE YOU

Despite paying off your mortgage, it seems like you don't have any more free cash than you did before. Many times this is simply a function of your expenses shifting. Instead of mortgage payments you probably now have post secondary education costs for your kids. You may also feel the clock ticking on your working years and because of that, your RRSP and maybe TFSA contributions have increased.

There may however, be another cause for your lack of extra free cash flow. The culprit may be what is called "Lifestyle Creep".

Lifestyle Creep is a very common "financial vine". As your income increases often so do your lifestyle expenses. This is probably the biggest hurdle to retiring in what you may define as a "comfortable retirement".

I must confess, for Cheryl and I our biggest consumable increases have been in the area of wine (a few ounces with dinner) as well as travel. On the travel side of the ledger, for 2017 alone, we will probably be out of town more than 10 times. To be fair, some of that is holiday time that we wouldn't have taken if it wasn't tied in with a business trip. Despite that, for us, wine and travel are definitely our Lifestyle Creep categories.

Investopedia defines Lifestyle Creep this way: "a situation where people's lifestyle or standard of living improves as their discretionary income rises either through an increase in income or decrease in costs. As lifestyle creep occurs, and more money is spent on lifestyle, former luxuries are now considered necessities". That last part is the danger point, **what once were luxuries are now considered necessities**. So, before you get too far along in your Lifestyle Creep, do these steps.

The first is to have a Financial Planner run some "Retirement Income Projections". This lays out, where you are now, how much income you are earning, what you are saving, where you want to be, at specific times in your life; when you will be spending more and when you will be spending less, if any. The point is to see if the lifestyle you envision, which is based on the one you are currently living, can be kept up.

Do you see red? If so, the second step is to take a hard look at your spending, going through each category of expense, what it is in dollars as well as a percentage of your income. Knowing that, you can work on making your spending more efficient. This can be from making changes to housing, reducing energy costs, cutting auto expenses and minimizing income tax.

The third is to set up or increase, monthly contributions to RRSP's and TFSA's and increase them a bit every year. Increasing these intentionally will boost saving while at the same time combat the unintentionality of future lifestyle creep.

If your future income plans match up with your projected portfolio growth then, lifestyle creep away, but watch for needed pruning.

THE PROS & CONS OF "IN TRUST" MONEY FOR YOUR KIDS

Parents and grandparents often put money away for their younger generation family members, using an RESP. This can be a very effective tool particularly because of the 20% government money that is added. Many families want something that doesn't have the restrictions that the RESP has; how much money they can put in, when they can and can't withdraw from it etc. The "In Trust" account is often the solution.

An "In Trust" account is considered to be an "informal trust" as there is no legal document laying out the parameters and stipulations on the investment or use of the money. You as a parent or grandparent simply open an account that has your name on it followed by "ITF for" and your children's (or grandchildren's) names.

Despite an In Trust account not having any limitations on how much money can go into the account and what it can be used for, there are 2 things that are significant caveats:

- 1) All income you earn within the In Trust account is taxed right back to you. Although you have earmarked the money for the benefit of your family's younger generation, you pay the tax on the investment income; all income, except capital gains. Any tax on capital gains are taxed in the child's name. Choosing capital gains producing investments will however need a longer time horizon.
- 2) When a child reaches the age of majority (18 or 19, depending on the province) they are legally entitled to all the money in the account. Of course, they have to know about it so, keep what you are doing to yourself and the money can stay in your control.

TECH GEMS—UBER

On a recent Toronto trip, Cheryl and I stayed in a condo on Queen St. West, away from the downtown core. I had meetings in Toronto's financial district as well as in Mississauga and I got to use this "taxi business disrupter", more than I have on previous trips.

The Uber app finds your address automatically. You start typing in your destination address and it starts showing potential matches. Next is whether you want to be the sole passenger or if you're willing to "ride share". In Toronto, I always chose the ride share because it cut my cost by approximately 30%. It did make each trip a bit longer but the cost vs time was worth it to me for the enjoyment I had talking to people joining Cheryl and I in the car. Around Toronto, I could normally get a pick up within as short as 2 minutes and the app always showed a handful of cars really close by. Before I booked each trip, I knew the price and my stored credit card, was automatically charged.

During one of my rides, I mentioned to the driver that I didn't see a tipping feature on the app as I didn't always carry cash. He said Uber discourages tipping. You can give a rating of your service though and as well, the driver rates you. I know that when Uber finally comes to the Vancouver area, it will make life for our tourists and locals without cars, much easier.

HMMM...

- (Canadian) Bank stock valuations, based on estimated fiscal 2017 price-earnings ratios, are nearing their highest levels since the 2008 to 2009 financial crisis. AdviceForInvestors.com, May 2017 #BuyValueNotNames
- Ford Motor Co. may be a very large company but it is still a family business. Henry Ford's great grandson is the chairman of the board and the Ford family owns about 40% of the company's voting stock despite owning less than 2% of the company. In other words, they have control way beyond their actual ownership. Ford isn't the only company structured in such a way. Finimize, May 2017 #MoreControlThanOwnership
- The CPP in 2016, had one of the highest expense ratios of 6 very large pension plans at 1.07%. Fraser Institute #BiggerShouldBeCheaper
- While 75% of investment managers underperform their benchmark over time, when asked, 75% of all investment managers still believe they are above average. Edgepoint Wealth, April 2017 #BeliefDoesntMakeTruth
- WABCO Holdings Inc. makes components for large trucks, such as brakes. 2/3rds of their business is done in Europe, yet they're classified as a U.S. business. Morningstar, May 2017 #HeadOfficeLocationIsIrrelevant
- Uber lost almost \$3 billion in 2016 (on revenues of \$6 billion), a huge loss even for a company most recently priced at \$68 billion (price is what people will pay, value is worth). #PricelsSubjective
- More people earn a pay cheque from Uber than from any other private (non-government) employer in the world except for WalMart and McDonalds. #SelfEmploymentExplosion
- With the U.S. economy at close to full employment and moving along faster than Canada's, US interest rates have upward pressure on them. Mortgage rates in Canada in turn would be forced upwards. This would put significant strain on the heavily indebted Canadian households and could trigger a hard landing in the overvalued housing market. Macleans.ca, Jan. 2017 #CanadalsntHeavenOnEarth
- The average annual rate of return on Vancouver residential homes, from 1980 through 2012, was 6.4% / year. The national average was 5.3% / year. TD Economics #CompoundingCreatesWealthNotProperty
- In 1995, Italy was the only country with more people over 65 than under 15. Today there are 30 nations in that camp and by 2020, there will be 35. Forbes, Feb. 2017 #ShrinkingCountries=LessHousingDemand
- There's an etiquette class in Beijing, where Chinese spend \$16,000 for a 2 week course to learn how to pronounce luxury brand names, eat caviar, and sit at the table like a Westerner. Bloomberg, April 2017 #HowTheOtherHalfLives
- I did an online survey for McDonalds that took about 5 minutes. They promised me a coupon, which ended up being for a medium fries, one of their lowest cost items to produce. The coupon was good for 2 weeks and I had to buy something else with it. #DoesMacDonaldsReallyValueMyFeedback
- The oldest human, Mbah Ghoto, who was a heavy smoker, died in Indonesia on May 2nd 2017, at the reported age of 146. The oldest living person before him, a Frenchwoman, died in 1997 at age 122. The oldest living today is Jamaican, Violet Brown, age 117. There are over 1,100 people who are verified as living to age 111 or older. The Guardian, May 2017 #YouMayLiveLongerThanYouThink
- Most anyone would say that shark attacks cause fatalities more frequently than injuries sustained from falling airplane parts. It's 30 times more likely however that a falling airplane part will kill you. This is due to "Availability Bias", thinking that something is true because it is more in your face through a disproportionate amount of media attention. Cdn Securities Institute, Advanced Investment Strategies Text-book #WhatYouBelieveMayNotBeTrue
- E-Cigarettes are 95% less harmful than regular cigarettes. They give you the Nicotine (a stimulant similar to Caffeine) but without burning and inhaling Tar and other toxins. Their use can help get people off regular cigarettes yet, anti-tobacco activists are strongly opposed to e-cigarettes. PragerU.com #ECigarettesArentCigarettes
- In a recent trip to Toronto I noticed that gas was \$1.07 / liter. A day before, when I left Vancouver it was \$1.35. The price difference is almost all due to significantly higher BC provincial taxes. #GladIWalkToWork
- My son Marcus ordered a part for his car. It left Hong Kong with its first stop being Anchorage, Alaska It then went to Memphis, Tennessee, Seattle and finally Blaine, Washington, right across the border, where he picked it up. #GasIsCheapObviously
- After 21 years of being in the same home, Cheryl and I moved into another home mid-June 2016 . BC Assessment says our new house is worth 19% more than what we paid for it just 2 weeks before their July 1st 2016 valuation date. #WhatIsItReallyWorth?

