

# MUTUAL GAINS™



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Without money, possibilities are limited..... without personal relationships, life is barren...  
without balance, happiness and fulfillment are but a dream.



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## "Oil that is, black gold, Texas tea"

Jed would have loved these rising oil prices. However if you look closer, we are nowhere close to the peak prices reached during other energy price spikes, if you take inflation into account that is. Jed wouldn't have been able to afford his move to Beverly Hills if he made that move today. Instead, it probably would have been East LA.

In the early 80's the price of oil rose to over \$80 per barrel when measured in today's dollars. Likewise, the price of oil rose to almost \$55 per barrel just before the Gulf War in 1990, again, as measured in today's dollars. Today, it's at \$40 per barrel.

The reason I raise this point is because oil price increases (the percentage increase combined with the rate of change) have an effect on economic health worldwide.

Prices aren't at the levels they were in previous oil price spikes. So what about the rate of change? Well, if you look back over the past 30 years, if the price increases by over 80% year over year economic havoc is the result. This was the case in 1973-74, the early 90's and 1987. When oil prices change more gradually, consumers and businesses

have time to adjust. By definition there is no shock.

What we have seen over the past 12 months is an increase in crude oil prices of approximately 18%. I'm not talking about the price at the pumps, but the price of crude. One expert expects that the trend over the next while will be a trend downward closer to the \$30 per barrel rather than to \$48 where red flags start to wave.

## You May Own Part Of A Businesses Just Like This

As an investor, what would you think of this deal?

An entrepreneur wants to sell you his company for its fair market value but he will retain full control in running the business and in voting power. You will supply all of the money. You will own more than 99 per cent of the company. In return, you will share whatever cut of the profits the entrepreneur chooses to give you..... after he pays himself a generous salary and bonuses of course.

If that sounds good to you then you are like all of the investors in Magna International. It was sold long ago by its founder Frank Stronach yet Mr Stronach controls the majority of its voting power while owning less than 1% of the company.

This scenario has come about because of Canada's dual class share culture, which puts the voting power in the hands of a few. Rogers and Power Corp. are 2 other examples of big Canadian dual class share companies. The U.S., by contrast doesn't allow dual-class share companies.

So check your portfolio, the mutual funds you own. Know what you hold and who is in control.

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## Taking Your Pension Plan Details Out Of It's Black Hole

Over the past decade, many companies have abandoned the traditional "defined-benefit" pension plan because they didn't want the liability for guaranteeing a level of retirement income to their employees. Instead, they have set up defined-contribution plans.

Rather than you getting a "guaranteed" retirement income at a certain age, as is the case with the traditional "defined benefit" plan the new "defined contribution" plan will give you a retirement income based on the success of the investments chosen by you the plan member. In other words, this defined contribution pension plan is much like your RRSP.

There is nothing wrong with this change other than many people who have a defined contribution pension aren't aware that they are responsible for their plan's success. Because of that many don't pay much attention to where their money is being invested. In most cases, the advice on the plan comes from a brochure or a company website and a recent survey found that you as an employee need more than that. It found that 69 per cent of employees want more one-on-one investment advice about retirement planning, and 79 per cent want direct advice about their specific pension plan. The sentiment seems to be "Don't give me another brochure. Sit down with me and explain it to me, and more or less tell me what to do".

Are you aware that with most pension plans, when the "pensioner" dies only 60% of the pension continues to the surviving spouse? If you want to receive 100% of your spouse's pension income then I'd suggest looking into transferring your pension to a "locked in" RRSP (you can only do this if you have left your employer). 100% of the income and 100% of what's left in the plan can go to your heirs.

If you feel completely in the dark about your pension plan, whether you have left the company or not I'm here to help bring your pension plan out of that black hole it is in now.

## You Could Lose Your "Benefits" When You Take Your Gold Watch

If you are retired and have health benefits like extended medical, dental and life insurance don't be surprised if you get a notice that those benefits are going to be cut back.

Company benefit plans pay for services not covered by provincial health insurance programs. They can include prescription and over-the-counter drugs, dental care, ambulance services, eyeglasses and upgrades to a private or semi-private hospital room.

Many of Canada's largest employers expect to reduce or eliminate these benefits within the next three years. Employees are retiring earlier than at any other time in history and are living much longer. Someone retiring at 55 may have just as many years in retirement as they did working. This ever-lengthening time of retirement is making costs get out of hand. Currently, a retirement benefit package can cost a company \$1,000 to \$4,000 annually for every employee, current and retired.

Company pensions could be the next thing on the corporate cutting block. Contrary to popular belief there is no government backup or insurance fund for company pension plans. So, if you are an employee, both current and past, of a big corporation with a nice benefit package and a healthy pension, know that nothing is guaranteed in the new world economy.

## For Long Term Employees With No Pension Plan

Actually, there is more to the idea I'm going to mention than what the title says. Along with being a long-term employee (or business owner) and not having a pension plan you also need to be 1) Over 40 to make this work (the older you are the better it works) and 2) Earning over \$100,000 per year to make this work.

What I am talking about is something that has been around for well over a decade still not well know by many. It's an Individual Pension Plan and has been often called a "Super Charged RRSP".

Since an IPP fits a relatively small niche I'm not going to take up a lot of space here to spell out the details. If the above sounds like you, I'd suggest you call or e-mail me. I can explain and / or e-mail you an article on it as well as run some preliminary numbers to give you an idea of how it may be better for you than your RRSP.

## An RESP Caveat For Your Family

It is generally not recommended that grandparents set up a separate RESP for their grandkids.

1<sup>st</sup> reason: Should the grandchild(ren) not pursue post-secondary education the income earned on the money would not transferable to the grandparent's RRSP as they potentially could be over age 69.

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2<sup>nd</sup> reason: The amount of Canadian Education Savings Grant is set on a per child basis not per plan. If both parents and grandparents are contributing to separate plans you may not be getting as much bang for your buck as you expected.

Of course, you must be aware that the money, if not used would go to the "subscriber" (the adult whose name is on the RESP).

## Passing On Your Nest Egg..... Again, and Again and Again

Some people have concerns about how their hard-earned savings will be used after they are gone. There is a way however that you can have some control from the hereafter. It's called an Annuity Settlement Option.

An Annuity Settlement Option provides a simple and cost free method to gradually transfer your money to your beneficiaries. This is done through pre-scheduled income payments, which go directly to your beneficiaries after your passing, rather than in a single lump-sum payment. This can give you the peace of mind that your spouse, children or grandchildren are provided for over a longer period of time.

## An Annuity Is:

An annuity is like a mortgage payment that works in reverse. Instead of borrowing money, you invest money with a financial institution. In exchange for this investment, the financial institution then makes regular income payments back to the owner of the annuity (you). The income payments you get can either continue for a specific period of time, or for the rest of your life.

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PLUS PLUS!.... some pages on me (my introduction to you, client testimonials, news articles and TV spots I've been in) to help you feel warm and fuzzy about us working together on all your financial plan and all the financial decisions that come with it.

## If We Gave Freely They Wouldn't Have To Take So Much

With an election going on the issue of social justice is always raised (i.e. health care for all, daycare programs, tax rates between the have and have nots, social housing etc. I understand that governments have to redistribute wealth to some degree however, it is really up to those of us who are doing fine to loosen our grip on our own finances and to proactively, and on a grass roots level, redistribute wealth by our own choice.

We only need to look at "me" to see why the government, and society as a whole feels the need to continue it's outcry for compassion in the form of funding social programs.

Wants some ideas on how to contribute proactively and may I strongly suggest, monthly? Go to [www.careyvandenberg.com/links.php](http://www.careyvandenberg.com/links.php) and scroll down to "Charities". To feed the accounting side of you, any money you donate will only cost you approximately 40%.

## HHHhhhhmmmm.....

Canada's rate of long-term unemployment – 1 year or longer (LTU for short) is very low for a G7 country. In Europe, a horrendous proportion of the unemployed has been out of work for more than a year -- 59 per cent in Italy, 48 per cent in Germany, 34 per cent in France and 23 per cent in Britain. In Japan, the latest figure is 31

per cent. By contrast, Canada's "long-term unemployed" accounted for just under 10 per cent of all those without work. The LTU rate in the U.S. is a bit lower than ours. (Globe & Mail, April 26<sup>th</sup> 2004)

China laid over 39,000 km's of new highway in 2003. Only 10% of the excavation work was done by machine.

One "Air mile" is worth about 15 cents.

The price of gas "across the line" is approximately 86 cents a litre.

Around town with an SUV you can drive approx. 7 km for every litre of gas. With a mid sized 6 cylinder you can go 10 km. A small car will take you 14 km for every litre.

A car driven 16,000 km's per year costs \$22.53 per day to own (all costs included). That's over \$8,000 per year.

Rental glut true story (from Globe & Mail article, June 2<sup>nd</sup> 2004): A woman searching for a place to live in Toronto, walked into a freshly painted vacant one-bedroom on the city's west side. A similar apartment in the same building used to rent for about \$1,100 a month. It's now being offered at \$1,000 per month. After some negotiation the landlord came down to a rent of \$825, plus a small fee for parking. That tells you how competitive the city's rental market has become and is a reflection of how the rental market is going. The vacancy rates across Canada are rising quickly. Rents are falling.

The biggest expenses for the average Canadian as a percentage of income are, 1) Income Taxes (20%), 2) Shelter (18.6%), 3) Transportation (14%) and 4) Food (11%)

Total credit market debt as a percentage of US GDP has steadily grown since the mid 70's to 299% today. The highest time before that was in the early 30's when it hit 270%.

The US "Current Account Deficit" is significantly lower than the last 2 major current account deficits, 1988 and one hundred years before that, 1889.

10 new countries entered the European Union on May 1<sup>st</sup> 2004.

PE (share Price to Earnings) ratios in Europe average in the low teens. In the U.S. PE ratios are in the high teens.

Over 75% of income trusts are owned by retail investors. High yield bonds on the other hand are almost exclusively held by institutions.

20% all business income trusts distribute in excess of 100% of their cash flow.

The allocation of money to "alternative strategy" investments pools by major institutional investors such as the Harvard and Yale endowment funds is 25 – 40% of their entire portfolios.

"Focusing on where we are not investing is just as important as the areas we are investing."  
Keith Graham, award winning Canadian portfolio manager

I had a chance to sit down with Keith Graham (above) over breakfast in White Rock on May 11<sup>th</sup>. He told me that when he meets with the senior management of a company he is looking at investing in for people like you he assumes they (management) are "liars, cheats and thieves... until they prove otherwise".



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