CEV WEALTH

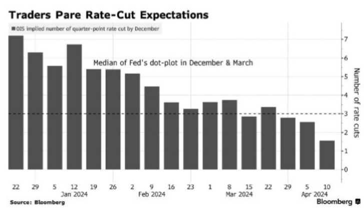
FINANCIAL PLANNING • WEALTH MANAGEMENT • INSURANCE

mutual gains

ISSUE NO. 221 May / June 2024

High Rates Mean Economic Resilience

As we've moved along with these relatively high interest rates, the US economy in particular, has shown in many measurements (including inflation and low unemployment), that it has an underlying strength which continues. Because of that, the expected number of US interest rate cuts has decreased steadily rather quickly. If this trajectory continues, interest rates aren't coming down in 2024.



That is the US situation. Canada could be very different since our economy doesn't have nearly the same economic diversity and productivity. In fact, our economy has more and more become based on real estate related activities which is one of the reasons for Canada's decades long, falling productivity. Today Canada is producing at 72% of US productivity. Canada is also below many Scandinavian countries (we're 42.5% of Ireland's productivity which is #1). This is a really troubling trend which will continue to lessen our living standard and keep widening the gap between the wealthy (baby boomers mostly) and those that are younger (as well as new immigrants). This decreases a society's stability and will have more and more people wanting to hand governments more power so as to equalize the financial score.

Canada is in a tough situation. It continues to borrow heavily with "no end in sight" deficits. This contributes to inflation, making those with less feel the pain the most. At the same time our unemployment rate has been increasing (it's quite a bit higher than the US). Technically, it needs to lower interest rates so as not to squeeze our heavily indebted consumer. But if rates are lowered, the low supply of housing increases the upward pressure on property prices. Also, our dollar weakens which adds to more inflation pressures (if we are lowering rates and the US is keeping rates steady) because it costs more to buy anything that is imported.

Despite that mosh pit of conflicting objectives, interest rates are likely to stay higher for longer here in Canada. For those with mortgage and consumer debt, the best thing you can do is look at ways to cut expenses. Every little bit helps. Look at the bigger household expense lines and work your way down. Think creatively when trying to cut expenses. Leave no stone unturned; have no sacred cows (those things you don't think you can live without). It's amazing how budget creep (the addition of a bunch of small expenses over time)

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We will listen carefully
to what you are saying
and be attentive to your desires
as well as your fears
so together we can build
and enjoy
a harmonious
and responsive relationship
in attaining your life's dreams
and through that
We will be attaining ours.

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can really add up.

If you have more cash in your bank account than you really need (more than 1 month of living expenses) I'd highly advise setting up a high interest savings account that earns more than 4%, but which you can access relatively quickly. Having this money sit at anything less than that means your money is losing buying power with every passing day. We have clients whose chequing accounts are linked to a high interest savings account (HISA) outside their regular bank. If money is ever needed, we can have money back in their chequing account within 48—72 hours. For every $10K you having sitting in your chequing account you could gain over $400 / year of interest by simply making your cash more efficient using this chequing account—HISA tag team set up.

Last (and definitely not least), having a portfolio that is diversified across many different industry leading global companies is your defence against inflation or a fall in the Canadian dollar, and helps to produce long term wealth. These global companies are ones that can be bought at a price where you aren't paying for their future growth. As well, you'll be insulated as much as possible, from the negative effects the Canadian economy can potentially face because your investments are fundamentally non-Canadian.

High Uncertainty Equals Low Risk

This sounds like a "too good to be true" or "this can't be possible" principle, particularly since everyone seems to believe (or at least acts like they believe) that uncertainty means high risk. However, a successful long term investor views risk as what it really is - the potential for permanent loss of your money, not just the fluctuation of a price. An investor who doesn't really understand what they actually own will be highly fearful when the dollar figure on their portfolio statement shows a decline, because they believe the decline is permanent. This is despite a couple hundred years of history showing that this isn't the case (assuming high quality holdings are held at reasonable prices). That widespread belief by so many (and the irrational reaction to it) is where the rational investor's opportunities flourish.

Of course, relatively few take advantage of it. Instead, the scared money flows to investments that have the appearance of security. When you have many flocking to the same thing, the price becomes higher as the flock becomes bigger. Higher prices though have historically been the deliverers of permanent loss.

Here are 2 examples. The 1st is what I am referring to about high prices leading to permanent loss; when a large number of people see as certain (and safe). The 2nd is what so many sold because of the fear that uncertainty breeds. I want to point out that both of these examples are of highly profitable companies:

Tech Company in 2000— This large business was one of the "must own" in the late 90's. It was then, and still is today, a business that is a leader in its field. However, many people bought it at very high prices for 2 years (early 1999 to early 2021). If you bought it during the ~12 months when it was selling at extreme price levels, then saw its price fall, you could very well have held on because, "the price was at $X so it is worth close to X" or, "I'll wait until it gets back to X and then I'll sell. After 24 years, you would now just be breaking even or perhaps still at a loss of ~40% (depending on what price you originally paid).

Insurance Company in 2020— Covid scared many people into selling high quality, well priced businesses, indiscriminately. This included businesses that are foundational to our society, namely all banks and insurance companies. When Covid shut the world down, the shares of this healthy dividend paying, 130+ year Canadian life insurance company, fell by over 50%. The business however didn't really change. Sure, its revenues were flat for 2020; however, it was paying only ~50% of its revenues out as dividends (as many conservatively managed companies do) so shareholders continued to receive their quarterly dividends. Eventually people realized this business was worth way more than the price showed, so in relatively short order, the share price went back to what it was truly worth. Since then the business has increased its dividends to shareholders and the price of the business has tracked with actual financial performance of the underlying business.

The only difference between these 2 examples is the vast majority of investors' perceptions of the risk (or safety) they saw in these 2 businesses. Belief and reality are very often 2 completely different things. Buying when things seem to be so uncertain is where opportunity is boundless and risk is at its lowest. Going on belief alone (or following what so many others believe) and trying to convince yourself that it is unequivocally true (or hoping that it is so), is highly reckless. The portfolio management teams that we have the most confidence in (and the ones we entrust the most money to) are those who, as soon as they commit to buying shares in a business, ask themselves, what did we miss? What aren't we seeing?

Keep Mortgage Payments The Same (Even With Higher Interest Rates)

Interest rates should eventually be coming down. We've already seen that in 5 year mortgage rates (the 5 year rate was recently well over 5% and it's under 5% today). However, despite this, if you have a mortgage that was done 4—5 years ago, you're going to see a rate on

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your mortgage that is significantly higher than what you are currently paying.

The federal government is offering a fix on that front; however, it is only for 1st-time home buyers. For those, they will allow longer amortization on a mortgage if it is for a newly constructed home. They are doing this because longer amortization lowers the mortgage payments. However, that doesn't help many people (and it actually pushes up prices).

Here's the dilemma you may be facing and a way to lessen the squeeze (at least until mortgage rates are lower than they currently are). I'll use an example of someone that may have bought their 1st home 5 years ago with a $750,000 mortgage at 2.9% interest. They initially chose a 25-year amortization, making a monthly payment of $3,745. Now, at renewal, their balance is $651,636 with a 5 year rate at 4.9%. If they continue on with their current amortization (now at 20 years), their payments will be $4,247. That's an increase of just over $500 / month. To lessen the payments, simply extend the amortization to 25 years again. This makes your payments $3,753 / month which was almost exactly what was being paid before.

Extending your amortization should be used as a strategic move. What you are simply trying to do is to match your payments and all of your other expenses to your household income. If you can't make your payments, the only other option is to sell assets to reduce your debt burden. If you see this as a temporary increase in debt expenses, I'd suggest that as your income increases and interest rates come down again, you then allocate more money to debt repayment, bringing you back to the paydown schedule you originally set out on.

Of course (as I've said before), everyone who has a mortgage should have a mortgage broker and Financial Planner working in tandem to ensure you have the best mortgage for your situation.

RRSP Deductions Can Be Used Into Your 70's (And Beyond)

RRSP contributions aren't only for when you are working. They can be used as a tax deduction even if you are in your 70's and aren't allowed to have a RRSP anymore. To make this work, you would have to make sure you contribute the maximum amount you can to your RRSP the year you turn 71 (at the latest). The key strategy here is that you are making RRSP contributions but not deducting them in the year you contribute. You simply hold on to the tax deduction until you want to use it in a future year that is most advantageous for you. If you expect your income to be higher during retirement than when you were working, you should definitely do this. Here are a few different situations where this makes sense (these are not uncommon):

1) You are good with money. Because of it you have amassed and grown a substantial nest egg, one that would create a monthly income that exceeds your employment income. This could be a your "problem" (a nice problem) that can occur from mandatory RRIF income along with your CPP, OAS, dividends and the sporadic triggering of capital gains from a well diversified portfolio.

2) You have a rental property or cottage that will eventually be sold or handed down to the next generation. Doing so could trigger a very large capital gain. Having RRSP deductions that you haven't yet claimed can offset what could be a very large tax bill at a very high tax rate (much higher than the tax bracket you were in while you were working).

3) Expecting a large inheritance after you are 71. A large amount of money coming in can increase your tax bill. You're not paying tax on it when it is being paid to you (because there is no inheritance tax in Canada). It is the fact that you will have a large amount of capital that will be invested and grow over your lifetime. The future earnings from this capital, whether it be interest, dividends or capital gains, could put you in a higher tax bracket. You want a tax deduction in your back pocket to offset this.

I hate it when we take on a new client after age 71 and find out they have thousands of dollars in unused RRSP contribution room that could have been used but their previous advisor just wasn't paying attention. Tax savings are guaranteed and there for the taking. It is low hanging fruit which, when isn't picked, is unnecessarily wasteful.

Your Credit Score Is A Vital Statistic

Many years ago you used to have to pay to get your credit report. Since 2014, it's been free and easily accessible. Having easy access to your credit history is an excellent tool to give you a general idea of your financial standing (your credit worthiness). It also protects you against identity fraud or theft.

There are 2 main credit bureaus that collect financial data on you. This data is used to build your credit file. It will include your employment history, your payment consistency, any outstanding debts, as well as who and when a recent credit report was requested on you. This report will include all of that data. Your "credit score", is a number from 300—900 that determines your grade (the higher the better).

The key things lenders take into consideration are:

Payment History—For them, this says the most important thing about you. It carries the most weight in determining if they will lend to you. Consistency and timeliness of payments is key. It says something about your character; who you are.

Credit Utilization—If you have e.g. $500,000 of credit available and are using more than 30% of that ($150,000 in this case), it will negatively affect your credit score. Ironically, for this reason, it can make sense to increase your available credit even if you aren't going to use it.

Credit Mix—If you have a HELOC along with an amortized loan and a credit card, points will be added to your credit score more so than someone with only a HELOC (the more diverse your borrowing, the better).

Recent Credit Inquiries—If you are applying for credit often, you're going to make a new lender, nervous.

Credit Karma (owned by Intuit) and Borrowell (which is Canadian) are 2 apps that you can use to get ongoing reporting on your credit.

Life Gems— BC Hydro Peak Saver Program

If you like a challenge (and like to get paid a bit if you win) you'll love this (Cheryl does). You are simply trying to reduce your electricity usage during peak / high demand times and you only have to do it for 1—3 hours. Sign up online and you'll get an alert when the next Peak Saver event is. When you cut your consumption by the stated percentage, you'll accumulate credits that will be applied against your bill. Cheryl likes this "game" almost as much as Wordle and Nerdle.

HHHmmm…

Since 1970, you are about 7x more likely to get a 20% or higher annual return than a 20% or greater decline. Overall, you are about 80% more likely to have a positive return than a negative one. Manulife Investment Management, April 2024 #DeclinesAreTemporary

If investors had bought into U.S. equities <u>at the peak prior to the pandemic</u> on February 19, 2020, their total return as of the end of December 31, 2023, would've been ~ +50.0%, or 11.1% on an annual basis. There's always a reason to want to sell or wait to get in, but… those reasons are often shortsighted and can lead to missed opportunities. Manulife Investment Management, March 2024 #TimeNotTiming

I read a report by a do it yourself investment advice portal, why a particular company was probably best to avoid as an investment. The top echelon investment management firm we use for the largest portion of our client portfolios (they have an excellent long term track record, managing over $30 billion in assets), have this particular company in our client's top 3 holding as of December 31st. #WhoWillBeRight?

NFT's (non-fungible tokens) were all the rage a few years ago. They are simply a certificate of ownership and authenticity of something digital (like art). Tech entrepreneur Jack Dorsey auctioned off his 1st Tweet as an NFT in 2001 and sold it for $2.9 million USD. 1 year later the new owner listed this NFT for $48 million. It didn't sell. It was relisted a 2nd time and the highest bid was $6,800. It didn't sell. 3rd time listed, the price was set at $277. Again, it didn't sell. The most recent bid is $3.77. Edgepoint Wealth, Jan. 2024 (just because you can spend millions on something, doesn't mean you are wise). #FOMO #21stCenturyTulipMania

In its fiscal 2023 (which ended Sept. 3), Costco generated $237.7 billion in revenue from its stores and $4.6 billion from membership fees. But the cost associated with the selling of products and services at its stores was around $234 billion which means their stores actually generated a gross profit of only around $3.5 billion. Their membership fees (with virtually no costs to issue) made up more than half of the company's $8.1 billion in operating income. Costco's big goal is to keep its customers so happy that they continue to renew their memberships each year. The way to do that is by offering the absolute lowest prices they can. Globe & Mail, April 2024 #ILoveCostco

"I would say that trying to minimize taxes too much is one of the great standard causes of really dumb mistakes." Charlie Munger (former vice-chairman, Berkshire Hathaway) #TailWaggingTheDog

Canadian Prime Minister Justin Trudeau should rein in spending in his upcoming budget if he wants interest rates to come down quickly and alleviate cost-of-living pressures… "If (the government) did hold back its spending, that would help to provide more of a disinflationary impulse to the Canadian economy," Randall Bartlett, senior director of Canadian Economics with Desjardins Group, March 2024 #CutSpending

BC is is expected to have its highest deficit in history. This year alone, the interest on the Province of BC's debt will be $4.1 Billion. That's more money than the province collects in gas taxes and carbon taxes, combined. BC Taxpayers Federation, Feb. 2024 #ThisCan'tContinue

C.D. Howe estimates that between C$100 billion and C$130 billion is laundered annually in Canada. Not a wonder FINTRAC fined RBC, CIBC and most recently TD, for a total of $18 million (1/2 of that was to TD) for violations that included failing to report suspicious transactions. Investment Executive, May 2024 #WillfulBlindness

Short-term rentals took 16,810 housing units off of B.C.'s long-term rental market in June 2023, signifying a 19.1% decline in housing availability over 2022. Western Investor, April 2024 #HousingAsABusiness

The tuition for undergraduate Canadian students for a Canadian university is between ~$6,000 - $9,000 / year. Univcan.ca #PayWithRESP

The USA set up the 1st National Park in the world (Yellowstone) and were the 1st philanthropists. "These (ideas) were absolutely American, absolutely democratic…The roots of the word philanthropy are love and mankind…As agents for change, Americans set an example that the rest of the world, to a greater or lesser extent has followed. Neil Peart, deceased Canadian drummer of RUSH (in his book "Far & Away") #USATheInnovator

Most people will die after 3 days without water. But drinking too much can be equally dangerous – water intoxication is deadly and during rigorous training about a dozen soldiers / year are hospitalized for drinking too much water. Morgan Housel, March 2024 #Moderation

Nicotine pouches are categorized as a "natural health product". They will give you a nicotine hit that can be taken orally yet they are highly addictive and available widely in Canada since 2023 and in the US since 2014 with no age restrictions. The 2 big brands in our 2 respective countries are now owned by big tobacco companies. CBC News Explore (YouTube) April 2024 #CaffeineIsAddictive #NotSureWhatIThink

"We are built with an almost infinite capacity to believe things because the beliefs are advantageous for us to hold, rather than because they are even remotely related to the truth." Dee Hock, Founder & CEO of VISA #BeliefIsn'tFact

"It doesn't take much to convince us that we are smart and healthy, but it takes a lot of facts to convince us of the opposite." Dan Gilbert, American billionaire, philanthropist & majority owner of Rocket Mortgage #OurBiasedBelief #BlindToSelf

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