CEV WEALTH
FINANCIAL PLANNING • WEALTH MANAGEMENT • INSURANCE

mutual gains

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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.

When Perfection Doesn't Happen

"Priced for perfection". This is a term used for any company whose share price is multiple times higher in relation to its current earnings. This happens when people buying shares only see good things happening with the company; they haven't priced in negative things that could happen. Virtually all of the priced for perfection situations today are with companies who will benefit from AI spending.

For example, there is concern that the US government could put US restrictions on microchip sales to China. When something is priced for perfection and blemishes start to appear on those perfection expectations, share prices for these "priced for perfection" companies can decline swiftly and significantly. In fact, most chip makers, which are the companies that have the most to win due to the AI spend (the reason for the boom), recently suffered their worst rout since 2020.

This makes "the market" decline however, the decline is predominantly affecting the share prices of AI beneficiary companies. Companies that aren't considered part of the AI boom have seen little change in their share prices. In many cases, these share prices continue their climb.

For virtually all of our client families, we manage 100% of their investment assets. We work to keep our own feet on the ground and try to do the same with those we work with. The question our portfolio management teams are always asking themselves is, what did we miss?. What aren't we seeing? What could go wrong? This is a stance keeps you looking for the downside and is vital to reduce risk when you think you have all the data and have made an very well researched decision. My own investment assets are managed in this way and I wouldn't want my client's money managed any differently.

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Buying Something That Is Far From Perfect

Rather than try to invest in something that everyone knows about, and all the information about the entity is public knowledge, investing in something that has high uncertainty has proven to be a lower risk and higher reward way to invest. For most people this seems counterintuitive – however, isn't that how so many things are? Doing exactly opposite of what seems comfortable or that seems reasonable. Here is one example of many that shows how our primary portfolio management team sees and acts.

A holding that I, along with most of my clients owned in 2017 was a company that owned all the airports in a European country (I am being vague on the

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details as I am not allowed to talk about specific examples as it could be construed as investment advice for a particular security).

At the time the country was in a deep recession (I was there for 3 weeks in 2013 and saw how hard it had been hit by the global financial crisis). Unemployment had spiked to 26% and domestic passenger traffic had fallen to 30%. Airports have a lot of fixed costs and the company was operating at only 59% capacity. Even if people don't travel, you still have to buy insurance, heat and cool the airport and pay your employees. While the investment appeared scary, we saw a business with low risk and high uncertainty. It was a question of when, not if, travel would recover. The company's business model was a lot less risky than other airport operators as they owned the real estate of the airports, had airports in 46 different locations, and had already invested in their infrastructure.

The lack of visibility (people not recognizing the opportunity since you had to really dig to know what was going on) allowed our portfolio management team to buy for us a monopoly airport owner at an extraordinary price (approximately 10x free cash flow**). It took less than a year for attractiveness of this investment to be evident to more people (thus increasing the share price quickly) and all of the shares were sold less than a year after they were purchased.

**Buying at 10X free cash flow is akin to buying a $1 million rental property that after all costs (property management costs, property taxes, maintenance and a side account to upgrade and / or replace the building etc.) putting $100,000 / year in your pocket.

Most People Do Much Worse By Trying To Outsmart The Market

Peter Lynch, who is 80 years old, was a household name when I started out as a Financial Advisor in 1987. From 1977 through to 1990, he generated an astonishing 29% / year return while managing the Fidelity Magellan Fund. You would think that he made a lot of people rich. A study by Fidelity however shows differently. Though the fund turned an initial investment of $100K into $2.7 million during that time, they found that the average investor in the fund actually lost money. Why? It was bad investor behavior. During the 13 years that Lynch was manager, the fund decreased by 10% 15 times, dropped 15% 6 times, declined by 20% 4 times and plummeted by 30% once. Each of these descents gave the nervous, uncertain, 2nd guessing investor an excuse to bail. Ironically, when the fund recovered, money poured back in again (or went on to find something that seemed more attractive). Despite many thinking that you need to make more buys and sells in your portfolio to get ahead (or try to outsmart a decline), this is 1 of many stats that continue to show that a patient investor who fights the urge to sell, will do much better.

How Often Will Your Money Double?

Most people can relate to seeing their net worth double, triple and quadruple, and this likely through their most valuable asset, their home. As time goes on, an asset will eventually do this, but it takes time to produce this compounding effect. Often your money doubles, depending on the rate of return.

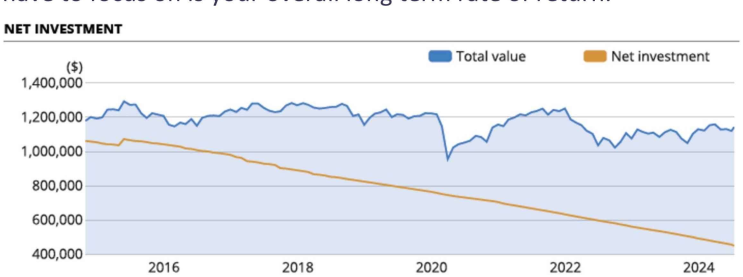
Growth of $1,000 for 36 Years - Rule of 72						
Years	2%	4%	6%	8%	10%	12%
0	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000
3						
6					$ 2,000	$ 2,000
9				$ 2,000		
12			$ 2,000			$ 4,000
15					$ 4,000	
18		$ 2,000		$ 4,000		$ 8,000
21					$ 8,000	
24			$ 4,000			$ 16,000
27				$ 8,000	$ 16,000	
30						$ 32,000
33						
36	$ 2,000	$ 4,000	$ 8,000	$ 16,000	$ 32,000	$ 64,000

Residential real estate prices from 1963 through 2024 in the Vancouver area have gone up by ~6—7% annually (according to Copilot, Microsoft's AI app which is built into their Edge browser). I did a quick calculation of the price we paid on our 1st home which we bought in 1990. The price today is 6 times higher (after 34 years) which works out to a return of 5.41% per year.

There is a simple rule you can use to calculate approximately how long it will take for your money to double. It is called the "Rule of 72" which was discovered in 1494. You take 72 and divide a rate of return into it and you have the years it takes for that money to double. As you can see, time and rate of return work hand in hand to multiply your wealth. It's not what you hold but rather at what the investment will compound that makes your money grow in the long term. As you can see, getting a slightly higher return over a long period of time can make a huge difference in what you have to work with (provide a monthly income for you) when you choose not to go out and earn an income.

6% Return Means You Can Take 6% Out

Eventually, you'll want your assets to produce the money you formerly used when you were employed . Said differently, eventually you'll want your investments to pay you, rather than your employer. Many believe that this "income" has to come from interest, dividends or rental income to meet their retirement income objectives. The reality is, it doesn't matter what kind of return you are getting. What you have to focus on is your overall long term rate of return.



If you want the highest return for the least amount of risk, you want to be able to have a wide range of options. They call this diversification; spreading your money out to reduce risk. If you are simply focusing on trying to get interest or dividends paid to you, you are probably 1) missing out on a lot of opportunities where higher overall growth is possible, 2) probably taking on more risk, and 3) investing in something that isn't sustainable in the long run (e.g. interest rates won't be at this level long term).

(Continued on page 3)

The graph on the previous page shows a very well diversified, balanced portfolio that has produced an overall return of ~6%/year. This has predominantly come from a combination of interest, dividends AND capital gains which allows the portfolio's owner the ability to withdraw ~$6,000/month ($72K / year). As you can see, despite the portfolio's fluctuations, over time it has stayed at about the same dollar level because the rate at which money has been withdrawn is about the same total compounded rate of return the portfolio had produced.

Ensuring The Highest Income For Your Whole Life

The scenario above shows that you don't need income, dividends (or rental income) to create the income you want (or need). However, using the total return of your portfolio can create anxiety when you see that your portfolio has dropped (e.g. Covid in early 2020). If you want to be even more confident that you won't run out of money, you can use the following withdrawal modifiers.

Reducing withdrawals when portfolio is down—for some this is not an option. However, if you can remain nimble in your spending and / or don't really need 100% of what your portfolio is paying out to you, a 10% temporary reduction in the amount you are taking out every month minimizes selling too much when things are down. The Canadian government allowed this on RRIF's when Covid had a short term negative effect on the market and thus RRIF portfolios.

Not increasing the amount paid out of your portfolio every year (to offset rising lifestyle costs / inflation) - when I do retirement projections, I always assume that every year a little more will be taken out of the portfolio and paid into client's bank accounts. We do this because almost everything we buy goes up in price over a long period of time. We want to ensure clients can take more and more out of their portfolio to match those price increases. Interestingly enough, very few of our clients actually increase their portfolio withdrawals.

Adding either of these withdrawal modifiers can, along with ensuring your money lasts your whole life, actually help your portfolio slowly increase as time goes on. This means you can live the life you want and pass a substantial amount of money on to your heirs. Your choice.

Using A Credit Card When You Travel Abroad

I got my 1st credit card when I was 18. It was a Chevron gas card which I could use only at Chevron. I have a couple of credit cards today and I'm sure I'm like many; using a credit card is as common today as strong political opinion. Because of the ease of use, perks and safety of using a credit card, I almost never carry cash (I don't use debit). The credit card is my conduit for paying for almost everything.

When you travel though, you are buying for goods and services in a different currency. Most credit cards charge the market rate of a currency exchange and add 2.5%. For cards that have all kinds of bells and whistles, you are most likely paying that percentage. You'll find it buried in the fine print and it isn't a separate charge. They are getting the extra 2.5% by giving you a less attractive exchange rate. When Cheryl and I travel, we simply consider that the cost for simplicity.

Another way to handle purchases (in the US) is to have a US based credit card. We have a Mastercard issued by Banner Bank. They have a branch just over the border in Blaine Washington, about 10 km from our house. We have a bank account with them as well. When we are spending money in the US we can use our Banner Bank Mastercard instead of our Canadian Mastercard. When the bill comes due, we can exchange Canadian dollars to US dollars through a currency exchange called Knightsbridge. It's simply a phone call and an e-transfer of Canadian dollars to them. Within a few days we have US dollars in our US Banner Bank acct and a payment can easily be made to our US Mastercard.

For several hundred or even a couple of thousand dollars it doesn't make much sense to go the US bank route since currency exchanges charge between 0.5% and 1.5% (and it's a bit more work to do the exchange and payoff your US credit card). However, using your credit card's exchange rate or a currency exchange is almost always cheaper than doing the exchange at your own bank.

Not Losing Track Of Money Or A Life Insurance Policy

Yes, there are many people who aren't very organized and those people are the ones who tend to lose track of a bank account, a RRSP, life insurance policy etc., never to be found again. In fact, I can think of 2 cases going way back where we got an investment statement returned to us by Canada Post saying "not at this address". The person moved and never notified us. To make matters worse this was before email was so prevalent and their phone was now out of service.

Today there are so many more ways to find someone. However, despite that, there are over $1.1 billion of bank accounts where the rightful owner can't be found. And those are bank accounts that have been dormant for over 10 years and are held by the Bank of Canada. This is where your bank sends money that they have in unclaimed (dormant) accounts.

To find a life insurance policy, you have to go to the OmbudService for Life & Health Insurance (OLHI) which has a search tool that lists a deceased person's insurance policy if it is less than 2 years since their death. Nearly all Canadian insurance companies are OLHI members. If they aren't a member or if you have a policy through a credit card, or an association like Costco or CAA, the policy probably won't show.

These data bases can help find financial instruments that are your property. However, the best line of defence is to keep your banking and investments as simple as possible. Also, your Financial Advisor hopefully knows a lot about you and knows where all your money is. Of course, you have to keep your Financial Advisor up to date and be fully transparent with them.

Life Gems— Insta360 Webcam

I often use Zoom or Teams for online meetings. I've been using the same Logitech external webcam for several years. One thing that frustrated me with Zoom and a standard webcam is that I could not get my face zoomed in. The new webcam I have (Insta360) solved that problem but it also added many features on top of that. The first is, the webcam follows me as I move around. It is mounted on the top of one of my monitors (I have 3) and the camera lens physically pivots while I move.

The 1st client I used this with said it's like I have someone filming me while we talk. I love AI! If I have a client on the other end using a phone, I can change the aspect ratio so they get the best aspect ratio for them. In the event I have a paper on my desk, or want to draw something out for a client on paper, I can push a button in the software which will point the camera down to what I'm trying to show. If you are wanting to up your professionalism in your meetings or just want to make you look better for the person on the other side, this is the best webcam out there.

HHHMMM…

• In many ways, A.I. is comparable to the technology bubble. It's a wide-reaching technology that promises to fundamentally change the way the world works. Many say it's different this time— companies are "real" or profitable. This implies that the companies from the tech bubble were neither, and yet many were, such as Microsoft, Amazon, Intel, Adobe, Cisco, Texas Instruments, Comcast and Qualcomm. They still exist and thrive today, but they took a decade or more to meaningfully surpass their late 1990s/early 2000s highs. A perfect example of a quality business whose share price was overvalued for the early part of this century is Qualcomm (see chart, above). #CostOfPayingTooMuch #20YearsBackToEven

• Ross Stores is the 2nd largest off-price (discount) retailer in the US with about 30% market share. It can comfortably expand its top line (increase in revenue / gross sales) at a mid-single-digit pace. Ross is a trusted place for manufacturers and retailers to sell extra inventory discreetly. It consistently stocks its more than 2,100 stores with a wide assortment of branded merchandise at bargain prices due to its plentiful vendor relationships and meticulous inventory management. Noah Rohr, Morningstar Equity analyst, June 2024 #MeetingANeed

• The US government's deficit-financed spending won't cause it to hit a brick wall. Because it issues debt in its own currency, there's no hard limit on its borrowing. Essentially, it can borrow forever, but it can't borrow forever without consequences. We don't have to wait decades for the repercussions of excess spending to show up. We've already experienced those effects in recent years: high inflation, surging interest rates, and the resulting degradation in Americans' confidence in their government. The 20% growth in US consumer prices over the past few years is a direct result of that government borrowing and spending. Mackenzie investments, March 2024 #CanadaIsn'tBetter

• For those of you who think Tesla is an electric vehicle manufacturing company, you have missed the fact that it is the pioneer in "full self-driving" software. Every Tesla on the road has been collecting driving data and sending it back wirelessly to their data centre. The cameras serve as their eyes, and they are quietly observing to become you (and replace you), the driver. One day cars will "talk" to each other (something humans cannot do) and the roads will be very safe. Alfred Lam, CI Multi Asset Management #YouAin'tSeenNothingYet

• Tera bought a development site at West 28th Avenue (Vancouver) in the Cambie corridor for $18 million. The previous developer had paid $23 million. The last developer paid so much for it, but that doesn't mean we got a really good deal. The market today can bear a cost of about $1,400/sq ft for townhomes and if construction costs rise or the residential market softens, we will very quickly be losing money. Western Investor, June 2024 #PriceVsActualWorth

• An apartment tower in Edmonton was just sold for $51 million after being built for $7 million and owned by the same entity since then. That works out to an annual compounded rate of return of 3.8%/ year. Western Investor, May 2024 #Time&Compounding #RateOfInflation

• It costs the US 3 cents to produce every 1 cent US coin. This comes at a total cost of $100 million / year. StosselTV (YouTube) #PenniesNotNeeded

• You finance everything you buy. You either pay interest to someone else or you give up interest (or capital gains, dividends etc.) you could have earned otherwise. Nelson R Nash #AllSpendingIsBorrowing

• Cell phone prices decreased by 26.5% from February 2023 to February 2024, while Internet services went down 13.2% (According to StatsCan). Morningstar, May 2024 #CompetitionReducesPrices

• The suicide rate in South Korea is the 4th highest in the world and it's mostly related to the elderly. Traditionally, children have been expected to care for their aging parents; however, because this system has mostly disappeared in the 21st century, many older adults commit suicide, rather than feel like they are a financial burden on their families. Students also have higher-than-average suicide rates, at least partly because they feel high levels of pressure to succeed academically. When they do not achieve their goals, they may feel that they have dishonored their families. (if you scroll down their country by country table, it becomes very evident that suicide has nothing to do with economic prosperity or lack thereof). World Health Organization #WhereGrassIsn'tGreener

• The Dominican Republic has just over 11 million people. About 54 of them are Indian. Wikipedia

• A great way to understand yourself is to seriously reflect on everything you find irritating in others. Kevin Kelly (co-founded Wired)