KLT Group

Financial Strategies

Fall 2017

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What to expect from real estate

Time and time again, I run a financial model and well over 60% of retirees net worth is tied up in real estate.

If I was an Investment Advisor, and I told you you should put 60% of your money into a particular stock and diversify the rest, you would probably think I was insane and run for the door.

Yet this is what most retirees are doing—tying up a huge percentage of their net worth in a single residential property and maybe a vacation property.

Real estate isn't a bad investment, but we have a conflagration of events taking place, starting right now, that will make real estate not such a good investment moving forward.

Demographics

Baby boomers are all hitting retirement age. The later ones are starting to downsize. This demographic holding onto their homes for investment gains has sapped liquidity and allowed the froth of the market to drive prices, segments such as foreign buyers and Gen X and Y buyers trying to get in the game. As this demographic starts cashing out, downsizing or moving into nursing homes, this will put tremendous pressure on the market. Financing your retirement using real estate is coming to an end. It's time to truly diversify and take some money off the real estate table.

Interest rates

Interest rates are rising. Central banks don't raise rates rapidly, they do it incrementally, but as they do it they will slowly price new buyers out of the market and possibly put overstretched buyers underwater and out into the market in a hurry to sell.

Foreign money

Foreign money moves fast. Buyers from countries like China are simply looking for a safe place to park money away from their government; with little connection here once the losses pile up they won't mind taking deep losses to move money elsewhere.

Why "dealing with my bank" isn't so safe

We've seen it in the news, I've been crowing about it for years, CBC Marketplace has done a number of exposes, yet the "safety of dealing with a bank" still isn't so safe.

It's not that Canadian banks aren't fiscally some of the most solid in the world—they are raking in close to 10 billion dollars in profits in a year.

However there's a reason for that. The goal is to pitch product above all else at the lowest possible rate of service. Most poor financial advisors at banks are either poorly trained, or overworked, or both, toss in limited product selection and you have a bad recipe.

Insurance strategies in a nutshell

Retirees are financing their retirement on credit or real estate—and this is a very hazardous strategy which includes a lot of leverage in a single asset class.

That pesky life insurance rep may have a point—or they may not. They all need to meet sales targets so it is important to understand why you'd buy life insurance.

Dependents

If you do not have a younger spouse dependent on your income, or children who are dependent on your income, life insurance beyond burial expenses is largely pointless and a waste of money. When you're dead, who will need this money to, and why?

Estate planning

The tax implications of a family vacation property is actually a good reason to have insurance, should you want to leave behind your whole estate and eliminate estate shrinkage. There are also taxes payable on your RRSP/RRIF, and depending on how much you want to leave behind and to whom, insurance can help you with this need.

Planned giving

If you plan to leave behind a sizeable estate, buying life insurance is a wise move; as it bypasses probate and taxation. The contributions made to family members, friends, or charities can also reduce estate shrinkage

Family businesses

While complex, insurance can help you meet your goals in some cases.

Canadian / US Dollar

Currency hedging in your portfolio is key

Last May, I can't count how many advisors were discounting my opinion that currency hedging was an important part of all foreign denominated assets. At that time the dollar was at 72c USD. Now we are at 82c USD (at the time of this writing). That would lead to a 12% drop in all USD demoninated assets, with variable effects on assets held demoniated in other currencies. This means that even if your investments made 10% in the past 8 months, you would still have taken a 2% loss in Canadian Dollars—the currency you spend on your fuel, utilities, mortgage, and groceries. Knock in the sometimes high fees and you might have lost 4% in what could be considered an excellent growth market.

The Bank of Canada surprised advisors with another 1/4 point rate hike in September, and has left further rate hikes open in the future in 2017 and analysts expect this to accelerate in 2018. Contact us for information on a currency hedging strategy that works for you.

My safe bond fund portfolio

Bond funds are the riskiest part of today's portfolios

The Bank of Canada just bumped interest rates up another 1/4 point.

This news sent bond fund yields higher and bond funds tumbling by about 1%.

This drop may not be seen as that deep, but considering that most investors are told by their advisors that the bond fund component of their portfolio is the "safe" part of their portfolio, taking a minor loss of 1% over the course of 5 days may prove to be a bit unnerving.

For over a year I have been warning that bond funds are the riskiest part of an investors portfolio right now.

After a 30 year bull run in bonds, what goes up must come down, and this is starting right now as the BoC is looking to normalize interest rates.

There are ways to get safe investments while reducing the interest rate risk the markets are facing right now. Contact us to see how.

GICs—Trading safety for opportunity

GICs aren't providing yield—they are providing real return losses

The Bank of Canada targets an inflation rate of 2%. Right now RBC has a limited time rate special of 1.05% on an 18 month non-redeemable GIC. Given that the average inflation rate in Canada in 2017 is 1.55%, that results in a *negative* real return of 0.50%. In a non-registered account at the highest marginal tax bracket, it gets worse— a real return after tax loss of about 1%, equivalent almost to the advertised return of the product!

There is an opportunity cost as well, as you are locking up your money for 18 months, meaning you can't invest in a higher yielding investment nor spend the money during that time.

Sound like a great investment? I doubt it. Sounds like a great safe way to lose money to me. Putting cash in a safety deposit box or under your mattress would be just as if not more effective since the cash is liquid.

There are safe options to park money in a conservative manner while still making money and yield for fixed income investors.

Contact us and we can help you understand the marketplace outside of getting crummy sub par returns on GICs.

RRSPs while retired?

RRSPs can still be a good investment during retirement

I have encountered quite a few retires who received poor advice, namely that they can no longer contribute to RRSPs as they are now retired. Some are encouraged convert their RRSPs to RRIFs.

The way RRSPs work is, as long as you are under age 71, all your taxable income is applied against your RRSP contribution room. Period.

While there are more complex products such as RPPs and special tax structures, taxable benefits to pensions, etc., normally if you are paying income tax on income, then you can still contribute a portion of that income to RRSPs and receive the tax credit.

For savers, those who are downsizing, receiving an inheritance or gift, or who simply have high income in retirement, contributing to an RRSP can make good financial sense even when retired.

The tax credits can provide more money to place in non-registered accounts and TFSAs, buy insurance, or spend on lifestyle. Contact us to see about your situation.

We can help you.

Reverse mortgages

Don't be fooled by commercials showing retirees happily writing cheques with reverse mortgages

We all see the ads on CBC and other TV channels. Happy retired couples writing cheques, promises that you can remain in your own home as long as you live there, receive "tax free cash" and live the good life.

However reverse mortgages are very expensive. Think of a reverse mortgage as the difference between a traditional mortgage and a credit card. Which has a higher interest rate? On a reverse mortgage you are paying close to credit card rates.

Ever wonder why you can only get up to 55% of the value of your home in "tax free cash"? Well it's because the interest will gobble up the rest of your home equity while you sit there writing those cheques.

A smarter plan is to downsize and rent, or downsize and buy, invest the money and take the income. You will save a lot of equity by avoiding these products.

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What a beautiful summer!

We had such a beautiful summer, hence Kris Taylor, our Principal, and investors alike were forgetting the markets, investments, banking, fees and enjoying some much needed time in the sun!

Spring seemed to take a vacation this year so the hot weather and sunshine was much needed by everyone.

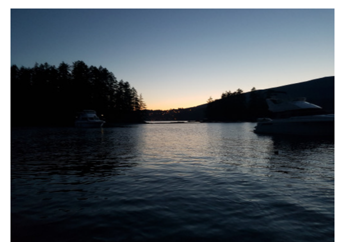
Now that fall is upon us, it is time to think of the end of the tax year.

TFSAs, RRSPs, investment fees, returns are all worth taking a look at right now—as the rainy season starts.

During summer, like the rest of us, institutional money managers and traders are on vacation, so markets tend to be flat. During fall, post-Christmas winter, and spring things become much more volatile as everyone is out looking for their bargains, momentum plays, getting back to watching financial news, and chasing yields.

It is best to start looking at those portfolios now, as momentum starts moving as towards the end of the year most institutional and large investors will be looking at tax loss selling between Christmas and New Years.

The Bank of Canada has it's next meeting about rates in late October, and while they are expected to stand pat this round, they are known to surprise and Canadian fundamentals are strong.



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