



Net Wealth to Financial Health

Monthly Bulletin

Number 14

Spring-Summer 2010

Great Reads

The Perez Family by Christine Bell
W.W. Norton & Company, 1990
Novel, 256 pages

Remembering Babylon by David Malouf
Pantheon Books, 1993
Novel, 200 page

Useful links

Doppler Radar
http://www.weatheroffice.gc.ca/radar/index_e.html?id=WKR

From the Bank of Canada
<http://www.bankofcanada.ca/en/fsr/index.html>

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A commentary on interest rates

My dear clients,

Much text and airtime has been devoted to the issue of interest rate speculation as of late.

Will they increase? When will they increase and by how much? If the rates are going to increase should I lock into a fixed rate mortgage now or not?

Although I have commented on this issue in my last two newsletters, it may be helpful to review the subject from a historical perspective. There is no doubt that interest rates based on Bank of Canada prime are at an all time low. Having reviewed prime interest rate levels over the past five years, one can see that they rose from a low of 4.25% in 2005 to a high of 6.25% in Jan 2008 and now sit at 2.25%. The average prime rate over this period (Jan 2005-March 2009) was 5.12%.

Bank Prime Rates

Low	03/2009	2.50
Average	01/2005 - 03/2009	5.12
High	11/2007	6.25

These are the results from the five-year conventional mortgage rates.

Low	03/2009	5.55
Average	01/2005 - 03/2009	6.64
High	12/2007	7.54

Source: Bank of Canada website

The bank of Canada has firmly stated that it will not attempt to raise interest rates until July 2010, and at that time will review our economic health to see if an increase is warranted.

Bulletin board

TFSA accounts:

Time to top up- add \$5000 in 2010.

RRSP Limits

Limit 2010: \$22,000

HST- Ontario residents

Effective July 1st. If you are self-employed and bill more than \$30,000 per year, you should obtain an HST number. This will allow you to deduct HST paid on business related purchases from HST charged before you calculate your HST remittance. Please refer to our website for additional information.
www.jeffwachman.com

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It is most common for bank prime rates to average inflation plus 2 to 3%. (the annual inflation target of the Bank of Canada has been 1-3% over this period)

Why should interest rates rise?

Consider the fact that as of Dec 31st 2009, unemployment remains above 8%, core inflation at this time is 1.6% and although economic conditions are improving, the economy is still performing at 67% of capacity, well below the 80% average*.

There is little evidence that the bank of Canada has to urgently raise rates.

Consider the fact that governments around the world are managing high deficits which are a result of stimulus packages put in place offset the financial crisis. Our governments will have to finance these deficits. Higher interest rates will increase interest payments dramatically so governments around the world are not eager to raise interest rates unless they must to control inflation.

On the inflation front according to Statistics Canada, Canadian companies are operating well below capacity, which means that they can increase production using their existing plant and equipment. There will not be inflationary pressure caused by the manufacturing sector increasing capacity.

Consider the fact that in general rising rates also increases the value of a countries currency relative to other currencies. In Canada for example, an increase Canadian prime rates would lead to an appreciation of the Canadian dollar vs. the US dollar and the Euro. This has the effect of making our manufactured products more expensive which at this time in our market recovery would not be a desirable.

One fact that we know for sure:

Is that we are sitting in historically low interest rate territory.

How do these issues affect me and my debt (mortgage)

To make sense of our options, let's look at two families both with mortgage debts of \$200,000.

Family One - used an equity line of credit at prime (2.25%) to finance their mortgage. Their monthly payments are \$375 (interest) and \$1725 (principal repayment).

Family Two - financed their mortgage on a five-year conventional mortgage at 4.99% with fixed monthly payments of \$2100/month.

When rates are falling:

Family one using their equity line over the past five years would save about \$5,000/year in interest charges. As a consequence, they will pay down their mortgage 12 months faster than family Two.

When rates are rising:

Family one would pay down their mortgage in about the same time as family two, if they had five or more years left to left to pay off. (Based on Bank of Canada historical five year average rates)

So the answer is that locking into long term mortgages can costs on average about more 2% per year over five years, because locking in is in effect buying insurance against rate changes. This insurance costs about \$4000/year on a \$200K mortgage.

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www.google.com/goog411/

No More Fly's

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Doppler Weather

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http://www.weatheroffice.gc.ca/radar/index_e.html?id=WKR



Families who do not have surplus cashflow and the flexibility to cover higher interest payments should be willing to pay for this insurance.

If today you were to evaluate the best five year mortgage rate say 4.99% vs. a bank equity line of credit rate of 2.25%, you would be able to pay an additional \$415/month of principal for every month that the bank rate remains unchanged.

* www.bankofcanada.ca/en/rates/indinf.html

Average rates for 30-year mortgages fall

The press has devoted the past two months to speculation about interest rate hikes, but this is what is actually happening in US mortgages. Freddie Mac says average rates for 30-year mortgages fall to 4.78 per cent, shy of record low.

Thu May 27, 1:20 P.M. Alan Zibel, The Associated Press.

WASHINGTON - American mortgage rates have fallen to the lowest level of the year, a result of investors pouring money into the safe haven of U.S. government securities amid concerns about European government debt levels. The average rate on a 30-year fixed rate mortgage dipped to 4.78 per cent this week from 4.84 per cent a week earlier, mortgage company Freddie Mac said Thursday. It was the lowest level since early December, when the 30-year rate fell to a record low of 4.71 per cent. The American and Canadian mortgage systems differ in several ways, so rates in the two countries aren't directly comparable. However, Canadian banks recently lowered their five-year mortgage rates for the second time in less than a month. Mortgage lenders on both sides of the border are finding their own costs of wholesale borrowing on the bond markets have fallen as fund managers turn to North America as a safe haven from the uncertainty in Europe. The average rate on a 15-year fixed-rate mortgage in the United States fell this week to 4.21 per cent— the lowest level in nearly two decades. Concerns over the European debt crisis have sent yields for 10-year and 30-year U.S. Treasury bonds to their lowest levels of 2010. Rates on 30-year home loans often rise and fall in line with the 10-year note. Analysts say the opportunity may not last. If Europe's woes subside and the U.S. economic recovery stays on track, rates are likely to move higher. That's because traders will move their money back into riskier investments.

Lessons from a true leader

Our very own retired General Rick Hillier was the guest speaker at our national Assante conference in Ottawa last week. His humor and wit are legendary as is his compassion and his ability to unite individuals to exceptional achievements as a group. On the subject of leadership General Hillier lives by these three rules:

1. Follow no fads
2. Fit no stereotype
3. Do not accept that anyone in your group (team or company) follows a stereotype.

These statements resonated with me because too often groups try to make individuals fit a certain stereotype. They do this to make the process of managing easier.

This tendency (let's call it the union effect) can have a dampening effect on an individual's initiative and creativity especially when one's natural talents for success do not match the stereotype.



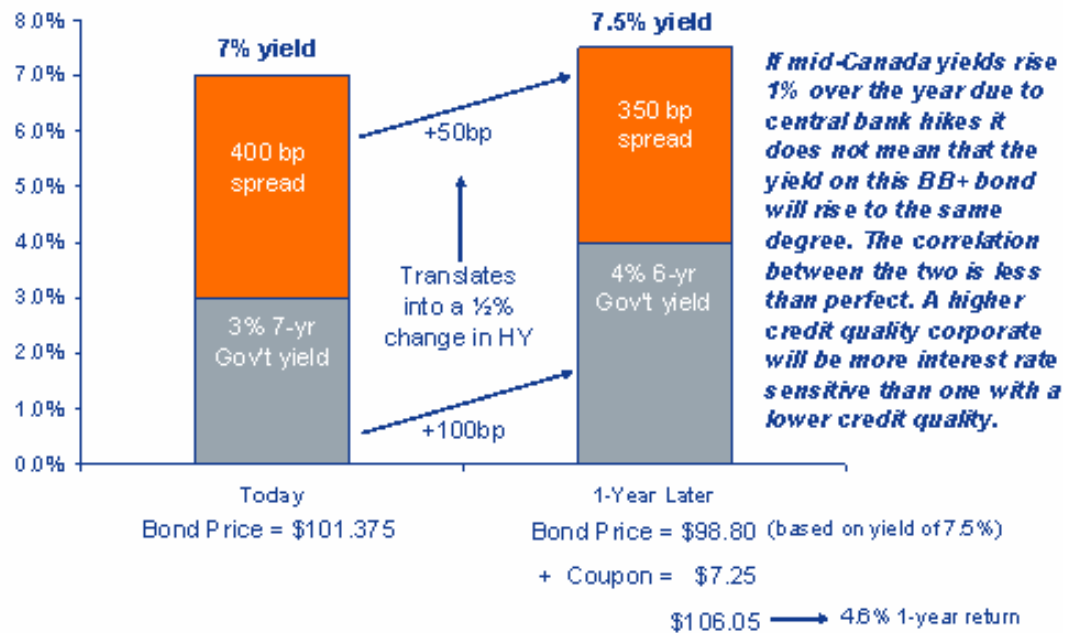
Just Released-Bank of Canada

The Financial System Review - June 2010 issue

This document is now available on the Bank of Canada's website at:

<http://www.bankofcanada.ca/en/fsr/index.html>

How do interest rate changes affect bond values in your portfolio?



Cutting the distraction: from a multi-tasker to a single tasker



While on a conference call with the executive committee of a non-profit board on which he sits, consultant Peter Bregman decided to send an e-mail to a client. With his focus half on the call and half on the e-mail, it took three tries to get it right. And when he finally refocused on the call, he realized he had missed a question the board chairman had directed at him.



Cutting the distraction-ctd

Such are the results of trying to do two things at once. A chastened Mr. Bregman decided to embark on a one-week experiment in which he would avoid multitasking, focusing solely on the task at hand. On [Harvard Business School](#) blogs, he shared his results, and some tips on joining him in single tasking:

Results

Delight: He found it delightful to focus more intently on whatever he was doing, most notably when he was with his children, cell phone off and more deeply engaged. "Don't laugh, but I actually – for the first time in a while – noticed the beauty of leaves blowing in the wind," he writes.

Enhanced productivity: He made significant progress on some challenging projects that require thought and persistence – the kind of tasks he often distracts himself from when the work becomes hard. In this case, he stayed with it, and experienced a number of breakthroughs.

Reduced stress: His stress dropped markedly. "It was a relief to do only one thing at a time. I felt liberated from the strain of keeping so many balls in the air at each moment. It felt reassuring to finish one thing before going to the next," he says.

More protective of time: He lost all patience for things that were not a good use of his time, and resisted them, like hour-long meetings and meandering, pointless conversations. He became focused on getting things done.

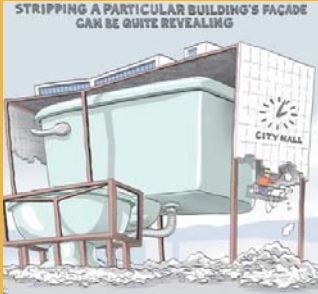
More patience for useful things: On the other hand, he had more patience for things that were useful and enjoyable. He could listen to his wife without feeling in a rush to do something else, or stay with moments when he was brainstorming ideas, instead of flitting to something else.

No downside: He lost nothing by not multitasking. No project was unfinished and nobody was frustrated that he didn't return a call or an e-mail as soon as he received it.

Tips

Turn off interruptions: To avoid the temptation to multitask, turn off interruptions. Disconnect your computer from your wireless connection when working on other things, and leave your phone in the trunk of your car at times.

Use loss of patience to advantage: Create seemingly unrealistically short deadlines. Cut meetings in half. Give yourself a third of the time you seem to need for a task. You may surprise yourself with how quickly things will move in a single-focus world, and how stress-free it will seem, even with tough deadlines.



Just leave to Google to come up with something like this!



Here's a number worth putting in your cell phone, or your home phone speed dial: 1-800-goog411 or **1-800-466-4411**. This is an awesome service from Google, and it's free, great when you are on the road. Don't waste your money on information calls and don't waste your time manually dialing the number. I am driving along in my car and I need to call the golf course and I don't know the number. I hit the speed dial, the voice at the other end says, "Say the name of the business and the City & Province." I say, "Kingsville Golf Course, Kingsville, Ontario". He says, "Connecting" and Kingsville Golf Course answers the phone. How great is that? This is nationwide, Canada & US, and it's **absolutely free!** Works on cell and landline phones. Give it a try. Click on the link below and watch the short clip for a quick demonstration. You'll see there are no strings attached and this IS exactly as described! Just watch the video at Google's link below for an example of how it works. It's GREAT!!

www.google.com/goog411/

Fly's in the house?

Try this fly swatter idea-

Take a ziploc bag half filled with water. Add 4 pennies then zip them shut. Attach them to a wall or post near your outside door and see what happens. Below are some comments on this fly control idea found on Google.

"I moved to a rural area and thought these "hillbillies" were just yanking my city boy chain, but I tried it and it worked immediately! We went from hundreds of fly's to seeing the occasional one, but it didn't hang around long".

Best weather info

Keep an eye on the Doppler and you will know what to expect. Click the link below, press the play button and it will show you how the weather has behaved for the last hour and you will be able to ascertain what to expect over the next couple of hours by what you see. Best short-term forecaster going.

http://www.weatheroffice.gc.ca/radar/index_e.html?id=WKR

Disclaimer

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*We love to hear
your suggestions
for the newsletter.*

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