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From the Desk of Laszlo Szojka

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## THE GREEK TRAGEDY

Summer, my favorite time of the year. Coffee on the deck in the morning or a glass of wine in the evening, you just cannot beat summer in Canada. Of course, this is an investment and financial advising newsletter and while I sit here, having coffee on the deck, my thoughts turn to world events and some of the ramifications. Many of us hear tidbits of what is happening in Greece. Greece; founders of democracy, the Greek Tragedy, Ouzo, and probably the best modern day example of successive governments promising and spending everything to the point of destroying a modern economy.

You see, pensions, government benefits and all government services are funded by taxing people. Nobody would deny the fact that having functional roads, bridges, hospitals, pensions and all those lovely things need to be paid for somehow. Taxes in the way of income taxes, business taxes, sales taxes, and a host of many other taxes pay for these services. There is a BALANCE to taxation and government services that if you tip too far one way or the other, economic consequences will result.

When governments see that taxation is not enough to keep up with their promised spending, they do something that in a normal family would be considered dangerous. Governments issue debt and print money. They issue debt to make up for low or inadequate taxation in the short term hoping that the economic benefits will offset the borrowing in the long term. Independent countries also have the ability to do another thing, it's called printing money (wait, Greece doesn't have that ability; the EU does, so Greece can ONLY issue new debt).

In family finance, there is a distinction between good debt and bad debt. Good debt is usually money borrowed to increase long term wealth (a mortgage, money for education, start up for a family business, RRSP's) versus bad debt, which is usually money borrowed for depreciable and expendable goods (computers, dining out, clothes, or a bottle of scotch). Bad debt that is paid off quickly is no big deal; but what would happen if most of your family expenditures are bad debts? What would happen if you didn't have a house but instead used your credit card and bought drinks, clothes and other expendables over a long period of time? Worse, what would happen if you took out more credit cards to pay for the minimum payments on your already maxed out credit cards? The answer is fairly obvious isn't it?

Not for Greece. You see, when they joined the European Union, they were issued a credit card with exceptional low rates. At first, Greece having the Olympics in 2004, spent billions on infrastructure. This is good. It provided jobs (income taxes), increased the net worth or assets of the country (good debt) and encouraged businesses (employment) and showed Greece to the world which increased tourism (long term income). However, on the taxation side, people didn't pay their full income taxes (use of taxation loopholes, excessive deductions or tax avoidance), a lot of business was done under the table (barter) so sales taxes were not paid, and finally, the corruption of building the massive infrastructure was unheard of until the most recent Olympics in Russia (excessive borrowing for overpriced infrastructure). This coupled with some of the most generous pension benefits, free education, early retirement (as early as 45), and a civil service which comprises over 60% of the general population. ALL OF THIS was funded by, not taxation, but the issuance of more and more debt.

Fast forward to 2015 and the "credit card" company has stopped issuing more debt to Greece as it can no longer even pay its minimum payments. In normal family finance, this is called bankruptcy. There are only two options for a family; one is to get work, get a second job, reduce spending and pay down debt OR two; go bankrupt, liquidated assets and rebuild. On the surface, option two seems like a good option but most assets will be sold and given to creditors. Greece would be faced with the same issue of "liquidated assets". This would mean all bank savings, all infrastructure and any other potential assets would be taken and sold. Essentially, other governments and companies will own many parts of Greece. What of option one? This will be difficult as most people are either retired, government employed or have left Greece in the last 5 years as they had one passport called the EU passport.

To put it in perspective, in the investment world, Greece is less than 2% of the EU economy. Its total debt, if Apple Inc. wanted to, could be paid off by Apple. Greece's economy is smaller than the state of Oregon. Most of its debt is no longer owned by private hands (aka pension funds, investment firms, etc); it is now owned by EU Governments and the European Central Bank. In short, what happens in Greece now is not an investment event, EXCEPT for the people of Greece. This is a very sad and hard event for them. I do not know what their ultimate solution will be, but one thing is certain, the status quo is no longer an option.

## TFSA's versus RRSP's

The new financial reality of TFSA versus RRSP comes down to a simple formula. The more income you make, or the more taxes you pay, RRSP's should take priority over TFSA's. However, if you make under $44,000 or non-taxable income, the TFSA's are the best choice. If you are making over $44,000 you will want to maximize your RRSP's to maximize your tax refund. Keeping this in mind, I usually do a more detailed analysis of your particular situation. Factors such as your age, whether you are working or retired, a business owner or employed person must all be taken into account. This requires a plan and review of your situation to determine the optimal mix.

It surprises me how many people I run into who still use the TFSA as a savings account. These TFSA accounts should form an integral part of your retirement planning. With the new limit being $41,000 and rising yearly by $10,000 (depending on who Canadians elect in October), these accounts actually assist all income brackets and, in my opinion, help the lower income groups the most. Oddly, the politicians who want to eliminate or reduce these accounts are those that say they support the middle and lower income Canadians. Nothing is further from the truth. For example, I have had many clients in the lower income group receive a large sum of money from various sources; selling of a house, a surprise inheritance, life insurance proceeds or one off severance from work. The income generated from these accounts is sheltered from taxes and therefore still allow lower income individuals to qualify for government assistance and programs.

Even though the TFSA limit is $41,000, many of the TFSA's I manage are approaching the $50 to $60 thousand mark or more due to growth. The power of compounding starts to take hold on these larger accounts. That compounding does NOT happen in a bank savings account where the returns are typically much lower. That is why TFSA's are not meant for savings accounts even though the majority of Canadians seem to get their advice from the bank teller.

On the flip side, TFSA's are not to be invested aggressively or in speculative investments. If you lose money inside, there is no way to recoup your money either. I typically use low/medium type investments and those that pay income on a consistent basis. The excuse of, "I am young, I can take more risk in a TFSA" is incorrect. You want to build your TFSA steadily and consistently.

## Investing and the FUTURE…

Many people ask me, "What do you think will happen over the next year?"

While I have NO CRYSTAL ball and never try to predict the future, one can see trends. In many newsletters I have explained what I research and watch. Two of the most important trends are: demographics and the action of central bankers.

Demographics: The demographics in Europe, Japan, Russia and China are terrible. The demographics in Mexico, Brazil, India, many Asian Pacific nations and the USA are actually positive. Canada is neutral.

Central Bankers: The central banks of Europe, Japan and China are printing money; the central banks of North America are not. Other central banks are lowering interest rates.

What does this mean?

Invest in economies longer term that have positive demographics or companies that invest in positive areas. Always get a dividend or some form of income from those investments. Many of the funds I recommend do just that. They attempt to avoid negative areas, and companies that rely on the negative regions, but do invest in companies that are growing, even in negative areas. Does that mean you should AVOID Europe and China? Absolutely not. Many companies are based in "terrible" regions but receive the majority of their income from other growing regions. This is why I use actively managed funds. I meet personally with the managers on a regular basis and attend focused investment conferences of those that manage billions of dollars. This provides me with insight that no newspaper, internet article or google search will ever give. I have direct access to these top managers and their research. I do NOT have to rely on in-house research which can be biased or inconsistent with corporate identity. Instead, I focus my education and knowledge directly from the people that manage the money and their research.

This is on top of sitting down with you to discuss all other matters such as estate planning, retirement planning, and general financial planning. All included within one practice. When it comes to what I see in the future, allow the managers to make the decisions on what companies to own and from where. The one big thing is; I personally invest where I place my clients. I also pick managers that invest large portions of their families' net worth in the very funds they manage. THIS IS ACTUALLY THE FIRST thing I look for in manager. I call this "vested interest".