

# Reality Cheque

February 2008

Create abundance from what you have regardless of how much money you start with.

### Quick Facts

- The current overnight rate dropped to 4.0% on January 22, 2008. Mark Carney is the new Governor of the Bank of Canada, replacing David Dodge February 1, 2008.
- The average MER for equity and balanced mutual funds in Canada is about 2.6%
- Over the course of 25 years, each 1% increase in fees or charges on your mutual funds reduces your capital by 20%.
- See the impact of fees and charges on your mutual funds using Mutual Fund Fee Impact calculator at [www.investored.ca](http://www.investored.ca)

### Stay Current with the Reality Cheque

Have your issue delivered right to your inbox by subscribing at:

[www.maliroo.com](http://www.maliroo.com)

or

[www.glo-mar-vpc.com/newsletter.html](http://www.glo-mar-vpc.com/newsletter.html)

### Inside this issue:

<i>Investing In Experience</i>	2
<i>A Cashflow Moment</i>	2
<i>By The Book</i>	2
<i>Diving Into Due Diligence</i>	3
<i>What's That?</i>	3
<i>Time For Fun</i>	3
<i>Cashflow Game Nights</i>	4
<i>Catching Up</i>	4

## Mutual Fund-amental Costs

Imagine twenty years ago you invested \$1000 in a mutual fund with an 8% annual return. Now you go to take out your calculated \$4661 only to find you have \$2807. What happened???

A 2.6% MER is what happened.

Every mutual fund has a Management Expense Ratio (MER) which covers the costs of operating the fund - manager's fees, marketing accounting, legal costs, etc.

The MER is a percentage of the total value of the fund's

### "The Naked Investor"

by John Reynolds  
(ISBN 0-14-305543-7)

A must read for anyone owning or planning to purchase mutual funds in Canada.

assets. If the fund value is \$100 million and \$2 million is taken out for expenses, the MER is 2.0%.

Some points of interest:

- the MER is paid first before the fund value is reported
- the MER is paid whether the fund has gains or losses
- the MER in Canada includes a "trailer fee", a fee paid to dealers and advisors as long as you hold the fund
- Higher MERs do not guarantee a higher return
- Domestic funds tend to have lower MERs than international funds; bond funds tend to have lower MERs than equity funds

The "load" is an additional



fee charged for buying (front-end) or selling (back-end or deferred sales charge) a mutual fund. Some mutuals are no-load and have no sales fee.

Front-end loads can be negotiable with your advisor. Back-end loads get rolled into a higher MER AND you are penalized for selling early.

More fees may be charged for such things as closing your RRSP account, transferring funds, and annual RRSP trustee fees.

## The Next Generation

**Cashflow 101 vs Cashflow for Kids** by Jenaya (11) & Anja (12)  
Cashflow 101 is a lot different than the kids game...it is more realistic.

The Cashflow For Kids scorecard uses diagrams and game pieces as opposed to the 101 scorecard which uses only numbers. There

are ups and downs with the 101 game like the fact that if you have an unlucky roll and land on "Baby" square, your expenses go up.

Playing Cashflow 101 we discovered sometimes it's better to have a lower income with fewer expenses to pay each month, which made it easier to get out of the "Rat

Race" and into the Fast Track.

Overall we learned when you buy stock or real estate sometimes you have to wait a while for a good price to sell for the money you invested, and more, to be returned to you. It's better to invest than to spend money on unnecessary Doodads!

# Investing In Experience

from the desk of Lorraine & Bonnie

No news is good news, or is it? Often the answer depends on which side of the table you're sitting on.

When you're in charge it's easy to get focused in on the day to day operations and leave the communication for the "important stuff".

When you've handed over your money to someone else it's easy to let your mind run wild when all you hear is silence.

We've come to realize the closer we are to controlling a deal the less concerned we are about

communication - simply because we know more about what is going on.

One of the items we've added to our personal due diligence check list deals with communication.

We specifically look at how often we'll receive updates, what will be included in those updates and how

easily we can contact someone for answers once the "papers are signed".

We've found it much easier to

assume no news is good news when the communication process is made clear upfront and is delivered accordingly.

For us good lines of communication are important enough we have made decisions to not reinvest where the communication is poor.

On the flip side, our experiences make us very aware of the reverse situation. The more responsibility we have for an investment, the more we need to ensure we set clear expectations with others involved and ensure we keep them informed with what they need to know on an ongoing basis.



"Don't waste mistakes. They become more expensive each time you make the same one."

# A Cashflow Moment

from Robyn P's game board

Every time I played the Cashflow game I would use the same strategy - purchase small deals, flip a few for big cash, graduate to BIG deals and concentrate on assets for their cash flow to get out of the rat race. Sometimes I would get out and sometimes I wouldn't.

During one game I had a small paycheque and little cash to buy deals. Across the table was a fellow with a large paycheque and equally large expenses. He was frustrated having a lot of cash but no deals with large cash flow. It

would take him A LOT of small deals - and time! - to get out of the rat race.

We agreed to work together. By joint venturing (JVing) on big deals he was able to access the deals I drew from the deck. I benefitted because he contributed most of the down payment and we would split the cash flow.

I needed only a few of these JVs to get out of

the rat race. My JV partner was able to purchase more large assets in less time and get out of the rat race too.

Since then I've played in games where *everyone* at the table worked together, helping one another while helping themselves.

This is a huge and remarkable departure from the "same old strategy".

*"Small opportunities are often the beginning of great enterprises."*

# By The Book

"The Monk and The Riddle" by Randy Komisar - 2001, ISBN: 1-57851-644-7

*"How do you drop an egg three feet without breaking it?"*

If life was insurance, most of us would be living the Deferred Life Plan: Do what you *have to do* so you can do what you *want to do*.



In this dual layer book, Komisar takes us through the valuable lessons he learned for all start up businesses during his time in Silicon Valley.

At the same time, Komisar passes on his insights on how he learned to live the Whole Life Plan, the marry-

ing of time, values and passion with the energy one invests in their work..

Komisar asks us to go deeper by posing the question "what would you be willing to do for the rest of your life, and what would it take to do it?" What is most important and meaningful to you that you would give it your most precious asset - your time?

# Diving into Due Diligence

## Political Leadership

Whether you are investing in money, business or real estate, the political leadership of the country, province/state and municipality sets the tone for business and investment friendliness ... or not.

An area positioned for strong long term growth will be actively attracting new businesses and creating more jobs through its laws, monetary policies and taxation strategies.

Staying aware of



the political climate and policy proposals will give you a good feel for the direction the leadership is headed.

Raising taxes (both income and property), increasing bad debt, uncontrolled spending and prohibitive laws all work to deter business and investments in an area.

Look at two towns surrounding a boom area (see last month's column on the ripple effect).

If one is thriving and the other is not, look closely at

differences in the political atmosphere to gauge what is going on.

A great way to get a first hand feel is to contact the local Economic Development Officer (EDO). Not only is the EDO a great resource for gathering information on short term plans and long term visions, their willingness to speak with you will tell you a lot.

Some EDOs and political leaders enthusiastically promote their plans and the benefits of investing in their area. This signals they are actively thinking about the future. Other EDOs and leaders are less cooperative and reluctant to share any information. This can be taken as an indication of how they promote their area overall.

## What's That?

### Exit Strategy

*"If you have a good plan for your money before you make it then your problem will be having too much money."*

Most people focus primarily on their entry strategy - where will the money come from - once they have found an investment they like.

Experienced investors focus on their exit strategy first - what will happen

at the close of the investment. Even before buying in they answer questions such as:

- how can/will I get out of the deal?
- when will I get out of the deal?
- what will the money be used for next?

- what strategies can I use to minimize the tax implications?

Knowing your exit strategy up front lays out a plan to follow and removes emotion from your decisions.

It might even make you think twice about how suitable the investment is in the first place.

*"Words are but the signs of ideas."*

Samuel Johnson

## Time For Fun

### Did you know:

Litres of water needed to produce 1kg of:  
beef - 13,000 wheat - 2000  
(UN FAO)



(T White, Ecological Economics, 2000)

### Brain Teasers

a) What is full of holes and holds water?

b) What same three letters would make complete words of TE--ER, S--ET and EAR--E?

c) What is something when you don't know what it is, but is nothing when you do know what it is?

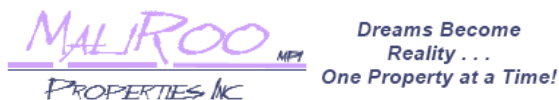
- see answers next month -

### January's Answers:

- a) the numbers 0-9 are in alphabetical order
- b) a hole c) deck of cards

Cattle require 7kg of grain to produce 1kg of beef; pigs require 4kg of grain to produce 1 kg of pork

MALIROO PROPERTIES INC.



Debbie & Gary Niessen

[mpi@maliroo.com](mailto:mpi@maliroo.com)

[www.maliroo.com](http://www.maliroo.com)

GLOMAR VPC INC.



Lorraine Watson & Bonnie Duckett

[vpc@glomar-group.com](mailto:vpc@glomar-group.com)

[www.glomar-vpc.com](http://www.glomar-vpc.com)

This newsletter is researched and presented in good faith without any warranty or liability for any erroneous, incomplete or misleading information. Seek independent professional advice for your investment decisions.

## Cashflow Game Nights

Come out and have a fun night playing your way onto the Fast Track ... where your money works hard for you instead of you working hard for your money.

**Okotoks** (doors open 6:15pm)  
Crystal Shores Beach House - 403 Milligan Drive

- February 27, 2008 6:30pm - 9:30pm
- March 26, 2008 6:30pm - 9:30pm
- April 2008 - TBA 6:30pm - 9:30pm

RSVP to [vpcinfo@glomar-vpc.com](mailto:vpcinfo@glomar-vpc.com) or register at the Beach House: 995-1358

**Calgary** (doors open 6:30pm)  
Willow Ridge Community Centre - 680 Acadia Dr SE

- February 8, 2008 7:00pm - 10:00pm
- March 14, 2008 7:00pm - 10:00pm
- April 11, 2008 7:00pm - 10:00pm

RSVP if possible to [vpcinfo@glomar-vpc.com](mailto:vpcinfo@glomar-vpc.com)

Please remember to bring a calculator, pencil, eraser and paper.

Sign up for your courtesy Game Night reminder service at:

[www.maliroo.com](http://www.maliroo.com)

or [www.glomar-vpc.com/event\\_schedule.html](http://www.glomar-vpc.com/event_schedule.html)

## Catching Up

MALIROO PROPERTIES INC.



Deb & Gary

With January comes a blast of not only the cold, but reality when the early mornings and busy schedules begin again. We are so looking forward to our vacation get-away coming up soon.

We have had some fun lately though. A bridal

shower for my sister included some time with family that we haven't seen in a while and some really good laughs. Jenaya's performance at the Starskate Competition in Airdrie was one to be proud of. All the young athletes were amazing, and it is great to see how they show support to their fellow competitors.

The latest real estate investment seminar I attended was fun and informative. I discovered tips and advice on topics like landlording, marketing, renovating, goal setting, as well as economic updates. The time spent talking with other investors about their strategies, experiences, and the markets where they live or invest was invaluable.

GLOMAR VPC INC.



Bonnie & Lorraine

An intrinsic part of Canadian culture is the impact of our environment. The blasting cold temperatures in the last week of January certainly gave us a reason to be Canadian! I can't count how many times I gave thanks for having sweaters, blankets, a warm house and not having to venture outside.

Along with the not-yet-known possibilities that come with the start of a new year, so too comes the time for filing away 2007 documents, updating our financial statements and reviewing credit reports. Like anything else, the first time seems to take forever but once you have a system worked out it all goes pretty quickly.

We're looking forward to an exciting year ahead. With all the media doom and gloom reports we know that signals the time has come to leverage the fundamentals into some solid investments. The marketplace is entirely different when seen through the perspective of long term fundamentals rather than short term speculation.