Newsletter

Spring 2016

In this issue, AAMIC business update and a 3-D perspective over investing towards retirement

Our inaugural year Audited Financial Statements for the period ended June 30th, 2015 is now available on our website. The mortgage portfolio at our 1st year of operation was $1.3 million. This has now reached $5.7 million by end of January 2016, comprising of 10 residential and 1 commercial mortgage (2.6% of total portfolio value) with a weighted average LTV of 42.6% and weighted average terms to maturity of under 10 months. Average mortgage size is $520,000. All mortgages are of good standing at end of January 2016. AAMIC continues to be on track to meet its target return of 8% to its investors. 2016 initiatives for AAMIC includes a) Updated AAMIC Offering Memorandum with latest audited financial statements, regulatory compliance disclosures and investor risk acknowledgement forms; b) Initiatives to drive AAMIC brand awareness c) transition to automated monthly distribution; and d) drive towards a growth target of $10 million by end of fiscal year 2016.

Market Turmoil & 3 Dimensional Retirement Thinking

Be it Chinese economy slowdown, or fall of oil prices, neither should be shock news for any market pundits but DJIA closed at 17,721 (TSX 13,246) on December 29, 2015. By January 4, 2016, first full day of trading, it plunged to 17,149 (TSX 12,927) or 572 points (TSX 319) with an intraday loss of 276 points (TSX 83). The loss would have been much heavier if not for a sizeable recovery during the last 30 minutes of trading when "The People's Bank of China (PBOC) poured nearly $20 billion into money markets, its largest cash injection since September, and traders suspected it was using state banks to prop up the yuan CNY=CFXS at the same time." (Reuters, Jan 5, 2015).

What this little snippet suggests is that trying to catch the market is an exercise in futility as there are far bigger forces in play that can reshuffle the entire world market at any given moment. Another observation is that changes in fundamentals do not happen overnight and ignoring them will only results in getting caught by the inevitable. The 3rd element is that with any decision making, be it investment or anything else, effects from "timing" of events and circumstances are paramount. All these factors do not work in isolation or in a pre-defined sequence.

As such, though diversification, invest for the long-term and the like are sage investment advices, understanding the market segment, investment product or the company one is investing in are also critical. Get advice from ones' advisors but also do your own research. A dairy produce wholesaler should not be deriving a sizeable portion of its revenue from hedging or investment from assets-backed-securities.

'Time' is both an investment friend and enemy. Established companies and products with a solid track record tend to suggest a proven business model, decent product offering, reliable management expertise or all three. Even start-ups can be relatively safe if the management team is seasoned and respected. Conversely, the capacity to weather out fluctuations in investment returns should diminish relative to one's years to retirement. Lastly, one should not haphazardly react to short-term market volatility.

All investments has the same purpose – to benefit one's future and that of family. There is merit to segmenting investment portfolio into different risk groups but each should nonetheless have the same goal of maximizing returns. A well managed and prudent mortgage investment corporation ("MIC") that has a diversified mortgage portfolio with overall low loan-to-value and relatively short 'term to maturity', and coupled with a consistent rate of return noticeably higher than a typical 5-year GIC, may be a good component in one's mundane 'fixed income' portfolio. And as one gets closer to the golden years, there is further merit to rebalance one's investment more towards steady income vehicles and less on speculative gain products; like equity, mutual funds or ETFs (under the RRSP umbrella or otherwise). CanadianMortgageTrends.com offers an excellent two-part article explaining what is a MIC – Part 1 & Part II.

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