Pop

On December 17th (that was Sunday) one Bitcoin was worth a hair less than $20,000 US. Five days later (Friday), it was $13,000 – a swing of 35%. In the meantime the founder of Litecoin announced he was cashing in all his chips. Two major Wall Street trading platforms got into the cryptocurrency futures business. And Goldman Sachs, of all people, said it was setting up a Bitcoin desk.

By Friday this was an inefficient market in disarray. The digital currency peaked at $15,800 and plunged a few hours later to $10,800 – a swing of 31%. What will happen next is utterly unknown. It could go to $100,000. It might return to zero. But it looks like the margin calls have started, plus the realization this is an asset that borders on illiquidity. Easy to buy in – "in 60 seconds with Visa/MC!" – as the unregulated exchanges brag. But not so easy to sell. You can liquidate an ETF with one click and get your money in two days, guaranteed. Converting a Bitcoin to C$ can be tortuous, time-consuming and involve a wait of weeks.

Well, days ago this blog told you not to buy Bitcoin. Good advice. Heed it. It's not money, but a speculative commodity. There is nothing backing it – no company, no earnings, no hard assets, no government, tax system or central bank. Most of the units are closely held by a small group. The trading of it is unstable and sporadic. And the retail investors pouring in are, largely, naïve sheep.

Meanwhile 'digital currencies' which are not currencies at all, are being invented, marketed and speculated upon in forums which are unlicensed, unregulated, unsupervised and often unstable. The backers of non-fiat money and proponents of the blockchain technology behind most say none of that matters. This is the future. It's the final step into electronic money from the age of the printing press – a revolution of the payment system and at the same time a stick in the eye of central bankers and the financial establishment responsible for the consolidation of wealth into the hands of the elite. Especially those who publish free blogs.

So I get digital money. Who doesn't? How many people still carry folding money, ever write a cheque or go to a physical bank? A dwindling number. In time, none. I also understand how moisters who have grown up taught to be afraid of stocks and realize they can't afford real estate would be drawn to cryptos. In large part, they own this market. They constitute the millions of retail investors who have been pouring billions into Bitcoin and its clones on the faith that it's the future. And in that, a huge parallel with the dot-com bubble of 18 years ago. We know how that ended, even though the underlying principle – that the whole world would go online – was totally valid.

So while cryptocurrencies have legs – the Bank of Canada is investigating creating one of its own and Bitcoin ETFs will soon appear – the current trading platforms and valuations could turn to dust before long. The sheep are doing predictable things – flocking to anything that promises rapid gains with renegade genes. The current story illustrating this is of the Long Island Tea Corp, whose stock jumped 289% when it renamed itself the Long Blockchain Corp. Hey kids, maybe you should Google pets.com.

Like dot-coms with cool ideas, CEOs on skateboards and no profits, cryptos are not valued based on traditional metrics. Most investors wouldn't know a blockchain if they fell over one. The market is completely driven by speculation. It's gambling, not investing. The surprise which awaits the buyers when they decide to become sellers will be epic. As the financial professionals move in – and it's happening – the kids will end up being someone's lunch. The coolness and technological elegance of the underlying asset will not matter one whit. Early speculators are often rewarded. Later ones are always spanked.

Bitcoin, Litecoin, bitcoin cash, ethereum, ripple and whatever's next may be new. Human nature is not. And the young must learn the same stuff over and again. It's not different this time.

The wrong stuff

How should we be taxed? The nuts who live in Vancouver are leaning heavily towards the taxing of stuff – property, real estate – in the mistaken belief this is ‘fair’ to the people who covet it. Thus Van has a tax on non-residents and a tax on under-used homes, as well as a tax for owning real estate itself. The locals want more, including a new housing speculation tax, while the socialists in power are considering raising all the existing taxes.

But taxes on stuff are the unfairest of all. They bear no relation to the income someone makes, their net worth, ability to pay or consumption. For example, in leafy, desirable parts of both YVR and the 416 reside many old wrinklies who bought there decades ago, eke out on CPP and OAS, and couldn’t possibly afford to pay more property tax. To compensate, BC lets them defer this. But how fair is that to struggling young families who have to pay full freight?

Scarier still is the level of debt homeowners now shoulder. Because you own a piece of real estate doesn’t mean that, well, you actually own it. With $1.5 trillion in outstanding mortgages, Canadians occupy houses with scant equity and yet pay property tax as if they possessed 100% of the value it represents. Sucks.

Of course, as property values increase it doesn’t mean the guy owning land gets richer. He doesn’t actually have any more cash to pay an increased property tax bill, nor can he sell off 5% or 7% of the holding in order to meet that obligation. Residential real estate is normally indivisible and sometimes illiquid. Unlike an ETF, you can’t dump a bunch of units with the click of a mouse.

So taxing houses based on the money they’re worth at any one time in a fluid market, regardless of who lives there, is ridiculous. It’s feudal. The lefties running BC are out of control with this thinking, as are the bicycle-riding, Bernie Sanders-worshipping moisters who elected them. Tax what people make, not what they have. Better still, tax what they spend and stop screwing the frugal.

Well, this brings us to another reason real estate in Vancouver is doomed (relatively speaking).

The empty homes tax is toxic – a timebomb with the potential to hurt innocent people who are finally able to achieve home ownership in our most delusional city. As mentioned here before, it's really just a tax on the wealthy who already pay a disproportionate share of the freight in Canada. It disregards those who legitimately need and use second residences for business reasons, making Van look even more provincial than it is. But worse, as a tax attached to a thing instead of a person, it poses a serious risk to the entire, inflated market.

Law firm Thorsteinssons gets the credit for blowing the whistle on local politicians who should stick to parking meters instead of tax legislation. "A flaw in the scheme of the tax makes it a serious risk for virtually anyone who buys a home in Vancouver after 2017," the lawyers say. "This should also alarm local realtors and real estate lawyers, all of whom need to be aware of the issue."

You bet. What a potential swamp Van city hall has created.

Anyone who, in the view of bureaucrats, does not live in their house enough days a year will be slapped with a tax equal to 1% of the value of the property. In a city where the average detached is $1.6 million that's a helluva load. Failure to file paperwork costs an extra $10,000 a day. Wow. Registered owners must make a declaration as to the use of their property and the city has the power to accept or reject it, or even go back a couple of years later and assess the tax in full.

But it's agnostic. It's tied to real estate, not the owner who must pay it. And owners change. So when you sell a piece of land the regular property tax – which is known and pre-determined – can be apportioned between buyer and seller. The empty house tax, in contrast, is utterly confused. "There is nothing in the bylaw that specifies, in the event of a sale during the declaration period, which owner has the filing obligation," say the lawyers. "Similarly, the city is entitled under the bylaw to require a "registered owner" to provide information at any time and for up to two years after a taxation year. Again, does this mean an owner in 2019 can be requested information about the individual who occupied the property in 2017, with whom they might have absolutely no connection? And who is entitled to dispute an assessment? How would that work?"

A property might have been taxable in the hands of the seller for a period of ownership, but not as the buyer intends to use it. Yet, as registered owner, the buyer would have to pay the levy, depending on the closing date. As the legal beagles state: "After the sale, the city might conduct an audit and disagree with the seller's declaration. Or the city might agree originally with the seller's declaration but then re-consider and assess within two years. Disputing the assessment might be impossible, and the tax would become payable by the buyer, even though it involves the seller's period of ownership."

Of course, given the highly political nature of the law, the moonbeams running City Hall and the hammer-&-sickle gang in the Legislature, anything's possible. In Vancouver real estate is a religion, emotions are stretched and entitlement runs rampant. Tax is the weapon of the masses. Invest at your peril.

As the lawyers correctly state, anyone buying in Van these days is accepting a ton of risk. After all, 77% of houses changing hands last month went for less than the asking price, as the market starts to wobble and degrade. Buyers are often overreaching, hideously indebted and stretched financially. "The possibility of them inheriting a seller's vacancy tax liability after the purchase is not only unfair – it might also be too much to bear."

Multiply

Ten years ago Stephen Harper threw my derrière out of caucus for blogging, failing to genuflect when he brushed by, and having an attitude. But at least his feisty little finance minister listened to me (and others) and created a new tax shelter. The TFSA (I called it an investment account, not a savings account) was the centrepiece of a report I gave the guy on how to fix things a little for the middle class.

Other suggestions included raising the GST and lowering income tax; bringing in income-splitting for married couples trying to get by on one income; and seriously revisiting the idea of a flat tax rate for all, with a big deduction for lower-income people, moving towards the idea of a guaranteed income. Well, F adopted the TFSA part, but went on to royally fudge things up by bringing in 40-year mortgages and 0% down payments. After I squawked about it, the writing was on the wall. Garth was pooched.

Ten years later I run a fabulously-lucrative free blog where I have fun every day fighting bigots. What's not to love? And meanwhile the TFSA has become the single most popular investment vehicle in the land, even though most people squander it. The latest stats showed 15.1 million accounts had been opened in Canada, but just 1.8 million were maxed. Thus, 88% of people have not fully used what is arguable the biggest money machine they'll ever be given. In fact, four in 10 with a TFSA open somewhere put in zero. Ugh.

In a few days Canadians can stick new money into these plans, and this post is a reminder to do so. If you don't, spending your cash instead on a Wolf stove, Adele tickets or tokens the Litecoin guy dumped, you deserve the future you get. Why?

The long-term growth, free of tax, is epic. Invest $5,500 this year, then add $100 a week for the next three decades in growth assets making 7%, and you end up with $576,338 of which $414,838 is growth. Besides tax-free compounding of investment returns, the real benefit of this thing is that it will throw off income in retirement (or anytime else) which is not counted as income. So in the example just given, forty grand a year could be earned with zero tax payable on it.

Now let's look at two 40-year-olds who have wisely maxed their TFSAs with $52,000 in each. If they keep their accounts topped up and full of ETFs giving the same return, at 65 they'll claim $1.26 million, of which almost nine hundred grand is taxless growth. In retirement that amount can provide an annual income of about $90,000, and these guys can still collect their CPP and OAS without having any of it clawed back (assuming no other income source). If they had $1.26 million in RRSPs, the after-tax income would be about $52,000 and they'd have a marginal tax rate of 29.65%. No contest.

For anyone with a good company pension plan, and especially for the Aristocracy Among Us with gold-plated, defined-benefit schemes (teachers, cops, retired finance ministers) investing in this vehicle is far better than feeding an RRSP. At age 71 all registered retirement plans must be partially unwound, with the income being added on top of pension payments, often boosting you into a higher tax bracket. But no matter how much is skimmed off a fat TFSA, nothing is taxed or even recorded as income.

Of course, TFSAs can be used for income-splitting, too. You can gift your spouse or your adult kids money to invest in one. None of the gains will be attributed back to you. You can withdraw money and, unlike an RRSP, put it back the following calendar year. Unused room can be carried forward indefinitely. And a tax-free account can hold almost any investment asset, so keeping a moribund high-interest savings account or a brain-dead GIC in there is a big fail.

For those who are too afraid to invest because they think stocks markets are high, then ensure you are taking a balanced and diversified approach to protect yourself. That kind of portfolio (40% safe stuff, 60% growth assets) just chalked up a 11% gain in 2017. Not shabby. And if you fear financial markets but are willing to enter a bidding war for a $1.58 million semi held together with pot light wires and bug spit, good luck.

Anyway, the TFSA should be viewed as an awesome long-term benefit to society, kind of like this pathetic blog. Don’t worry if there’s an occasional reversal, correction, implosion or eruption, because over time it’s the single best place you can put $5,500 in 2018.

Yes, little F loathed me, but that’s okay. He gifted us this, and I forgave him.