Aldershot Financial Group of ACPI guides families through decisions that affect their financial well being and investments. We are the 'go to' people in Aldershot when a life event requires sound financial advice. We care. We simplify. ***We've been through this before.***

Oct 2019 :

SimpleSmart ADVICE

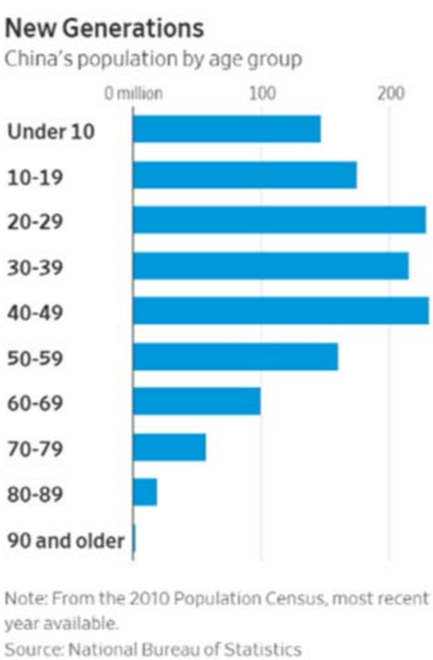
Our monthly newsletter designed
to keep in touch with you.

Debt - Is China Catching Up?

As I waited at the Main Street/ Dundurn traffic light the other day, it occurred to me that very little has changed in this corner of Hamilton over the past 20 years. Wait a minute, the store immediately in front of me at the light used to be a Taco Bell (I almost forgot)! When the kids were growing up, it was difficult to go past without a quick trip in the drive through for a few tacos and cheesy fries – so yummy, so unhealthy.

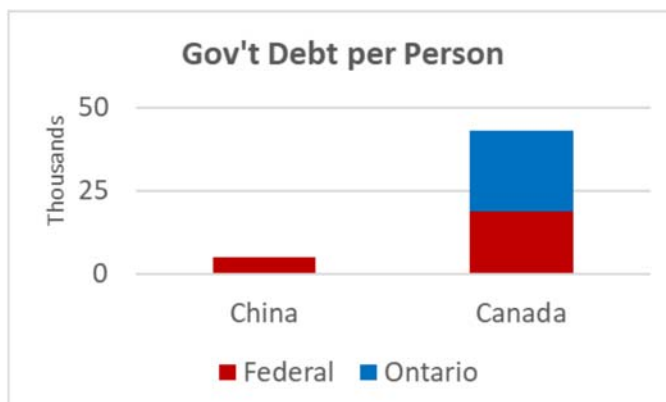
That Taco Bell is now a Cash Mart. It seems that these cash stores now litter the landscape like fast food chains – with equally questionable financial health benefits. As a parent of two twenty-somethings, I am concerned that payday loans have become as popular with young people as Uber and Amazon. Combined with crushing student loans, this age group could use a crash course with Dave Ramsey!

Sadly, this flirtation with debt extends well beyond our borders to Chinese youth. A recent Wall Street Journal article Young Chinese Spend Like Americans—and Take on Worrisome Debt points out how much this new generation of Chinese consumers, the 330 million people born between 1990 and 2009, have fallen in love with entertainment, travel and electronics. Sound familiar?



The article goes on to describe a typical millennial Chinese consumer, Wang Xinyu, a 24-year-old college grad, earning $600/month working in a Beijing bookstore. He has racked up $11,200 on six credit cards, mostly through overspending while in college. His entire salary is now going to pay down his debt, sometimes relying on one credit card to pay off another. This age group will soon account for over 60% of all new car buyers in China and are easy targets for on-line lenders. Even Chinese banks are starting to worry about ballooning mortgage debt among this age group. Mortgages have grown from $1.1 trillion in loans outstanding to 3.9 trillion in the last seven years in China. Millennials are not taking on this debt alone – Mom and Dad and sometimes grandparents get in on the act, which may be a sign that the Chinese housing market is due for a correction.

Add to this depressing news that jobs, once plentiful in the Middle Kingdom, are hard to come by. College graduates are on the rise and some of the country's leading employers are cutting back in the face of Trump-era tariffs and a global slowdown. You might ask why so few young people even think about saving for a rainy day. The easy answer is that they have never seen one. Digging deeper, asset prices are inflating so quickly in China that young people fear that if they don't spend their cash it will be worth much less later. With so many savers and a rapidly expanding economy, China has a long way to go before they catch up to Canada. Have a look at our government debt per person vs. China's:



Look out Greece, here we come! Mark

Sources: Young Chinese Spend Like Americans—and Take on Worrisome Debt. Wall Street Journal. Aug. 29, 2019. Stella Yifan Xie, Shan Li and Julie Wernau and https://commodity.com/debt-clock/china/
https://www.debtclock.ca/
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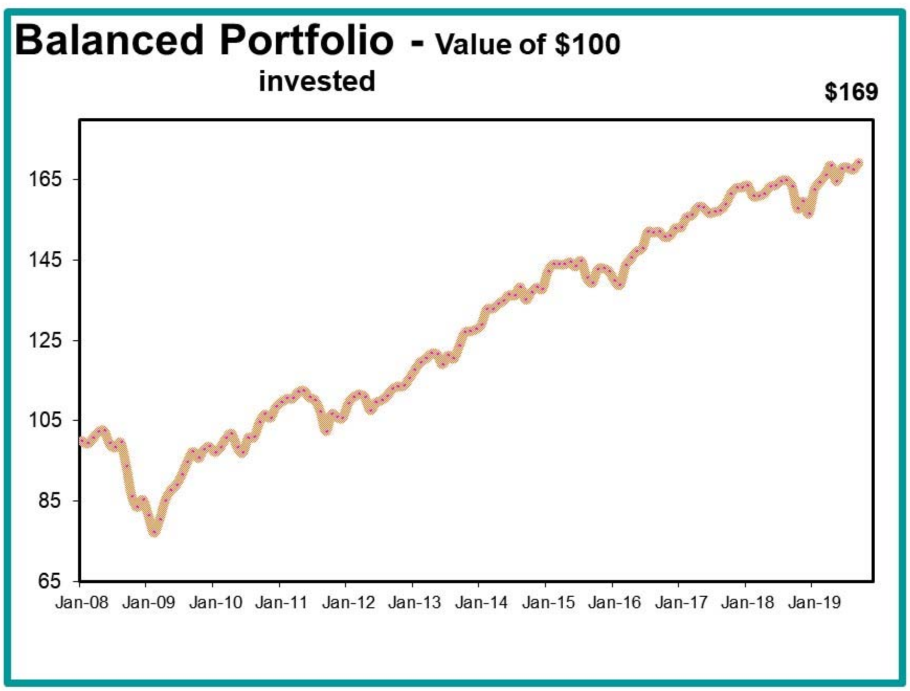
Final Thoughts

Can Canada Afford More Debt?

Between his first year in office (2015) and the end of his first term later this year, Prime Minister Trudeau is expected to increase federal debt (per person) by 5.6 per cent—the largest increase of any prime minister in Canadian history who didn't govern during a world war or recession.

Compare that record to other recent Liberal prime ministers such as Jean Chrétien, Paul Martin and Lester Pearson who also never governed during a world war or recession. They all cut per-person debt—Chrétien by 13 per cent, Martin by 8 per cent and Pearson by 6 per cent.

Source: The Fraser Institute



This graph represents a hypothetical portfolio using 45% DFA Five-Year Global Fixed Income Fund Class A, 15% DFA Canadian Core Equity Fund Class A, 15% DFA US Core Equity Fund Class A (from January 31, 2008 to January 31, 2009) / DFA US Core Equity Fund Class A (H) (from January 31, 2009 to Sept 30, 2019), 15% DFA International Core Equity Fund Class A and 10% DFA Global Real Estate Securities Fund Class A, initially invested on January 31, 2008 with pricing up to Sept 30, 2019 using monthly data and rebalanced on a month-end basis. The data series has been smoothed. Actual client portfolio holdings are recommended based on personal circumstances.

Commissions, trailing commissions, management fees, and expenses may all be associated with mutual fund investments. The indicated rates of return are the historical annual compounded total returns including changes in unit/share value and reinvestment of all distributions/dividends. They do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Please read the Fund Facts and consult your Advisor before investing.

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