

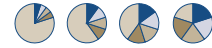
# HIGH NET WORTH JOURNAL

*An Investment Update*



**RICHARDSON PARTNERS  
FINANCIAL LIMITED**  
FAMILY WEALTH MANAGEMENT

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**MCIVER WEALTH MANAGEMENT**  
CONSULTING GROUP

## What's News

By Neil McIver



### Travel South

The strength of the Canadian dollar versus the U.S. dollar has created some interesting opportunities for Canadian consumers. Beyond the novelty of the recent ability to purchase goods and services from our American cousins at much more reasonable prices, there are some important consequences of our red hot Loonie.

When our currency rises, so does the price of our exports. This naturally makes our exports less attractive internationally. Studies have shown that a shift in the price of a Loonie takes between eighteen and twenty-four months to fully impact the economy. This suggests that our economy is only now beginning to be impacted by the move in the Loonie from \$0.62 to \$0.77. The latest rally, taking the Loonie from \$0.77 to above \$0.94, potentially could inflict damage to Canadian manufacturers and exporters over the next few years.

The rise in the Canadian dollar also has the effect of depreciating U.S. dollar-denominated assets in your portfolio, even if they are rising in U.S. dollar terms.

I've recently heard a number of people reacting to the rising Canadian dollar by suggesting one remove all assets from U.S. dollar-denominated securities. This is perhaps the best example of "rear view mirror" investing or more simply, buying high and selling low. In reality of course, the time to have done this would have been when our dollar was at \$0.62, not \$0.94. Indeed, our Asset Allocated portfolios have deliberately underweighted U.S. positions over the past five years based upon the currency risk.

You may have noticed during our recent spring rebalancing of your

portfolio that, in many cases, we moderately increased our positions in U.S. dollar-denominated securities. While remaining inside the strict confines of our Asset Allocation process, this increase was done partially with this currency issue in mind. Although some fundamental researchers and analysts suggests that the Loonie could reach parity with the U.S. Greenback, the risk of owning U.S. dollar-denominated assets is now far lower than when the Loonie was at \$0.62. It's equally important to note that U.S. equities are also less expensive than Canadian equities on a Price/Earnings basis.

I also suggest that if you were planning on buying a U.S. dollar-denominated asset, such as a summer home, that you consider doing so with our dollar close to par.

### Summer Market

On both sides of the border, the mix of rising equity markets combined with low market volatility and investor complacency, continue to be a concern. This type of an environment often requires a solid correction (fall in value) to wake investors up to the inherent risks of owning stocks. This may indeed take place over the summer.

However, the valuations of equities generally remain low for an economic environment characterized by a global and durable economic expansion, mild inflation and low interest rates. This suggests that there is room for healthy equity market gains over the next twelve to eighteen months.

### Housekeeping

This publication, the High Net Worth Journal, is produced nine months during the year. Each year we suspend publication in January, July and August. The next Journal will reach your home the first week of September. If you are not receiving our weekly emailed report, the High Net Worth Weekly and wish to do so, please call or email Karm Bhatti.

Have a wonderful summer.

## On the Mark

By Mark Jasayko



### The Distant Future

In May I was in New York City for the Annual CFA (Chartered Financial Analyst) Conference and had the opportunity to listen to some views regarding the next couple of decades. This is a contrast to the topics discussed in this column that have focused on the current market cycle and the tactical asset allocation methods that we use to manage the risk over this shorter time frame.

One subject discussed at the Conference involved the economic development in Asia and how this affects the flow of trade and capital between this region and the U.S. The U.S. trade deficit will persist and Asian governments will use their surpluses to continue to buy assets around the world. In addition, since there is a higher individual savings rate in Asia, private investors will also be buyers of U.S. assets.

Then, to provide a better illustration, this issue was presented in a different way. Throughout history, older generations sell assets to the next generation in exchange for goods. This was then applied to the international economic level where economies that have been developed for decades will sell assets to the new emerging economies in exchange for goods.

We are seeing the shorter term effects of this phenomenon. The American appetite for consuming imported goods continues unabated. This has resulted in record-breaking surplus reserves held by China and Japan. Much of this capital is invested into U.S. Treasury bonds. This drives up the price of these bonds and drives down the level of interest rates. This in turn makes the U.S. stock market look attractive on a yield basis and causes it to rise.

In the shorter term, it is reasonable to assess that the U.S. markets have risen too far, too fast. By historical standards, a correction is likely. Over the next few months, a catalyst factor such as a further evidence of an economic slowdown in the U.S., a spike in inflation, a rise in oil prices, an acceleration of defaults in U.S. home mortgages, or a downdraft in the levels of Asian stock markets (especially in China) could induce such a correction.

However, the underlying trends of economic development in the

emerging economies and the growth in their surpluses have very strong momentum. As a result, even if we do see some turmoil, once the uncertainty recedes, the strength provided by emerging market capital looking for a place to invest will become evident again in the increasing prices of investments located in the developed world.

## Sincerely Saleena

By Saleena Vellani



### Householding - Consolidating Client Statements

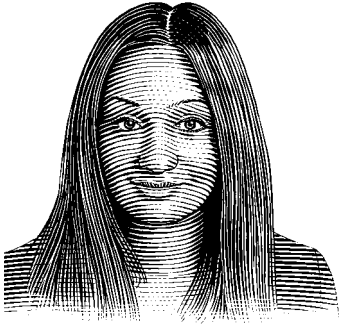
Many clients have asked us to consolidate all their individual monthly statements with a common address into one envelope for mailing. We are now creating the ability to do this for you in a process called Householding.

The goal of this project is to reduce your paperwork and make it easier for you to file your monthly statements if you or your family have more than one account. The process is simple. We create the household name and add your accounts under this profile. Once a household has been created, we will generate a letter of authorization form and mail this document to the main household. Please sign and mail back this document as it is required to "household" your statements. This project pertains only to your monthly statements. All trade confirmations, mutual fund mailings, company prospectuses, and other corporate mailings will continue to be mailed using the current individual process.

Householding will be phased in from June through October. We will keep you posted with any future updates as this project is being rolled out.

## Good Karma

By Karm Bhatti



### Gateway Casinos Income Fund - Cash Offer

For those of you that own Gateway Casinos Income Fund in your portfolios, you will have received a special offer notice in your mail recently. Please note that we also receive all offer notices as well, on your behalf.

An Australian firm has offered to purchase all outstanding shares of Gateway at \$25.26 per share. The offer has the support of the Gateway Board and the majority of shareholders. It is highly likely that the offer will be accepted and the sale will go through.

Gateway has been a profitable position in your portfolios, paying a nice 10% yield (distributed monthly) on your invested dollars while rising in price, over 40% in most cases.

You are not required to complete any paperwork and we will submit all necessary instructions. For tax purposes, this transaction will be marked as a disposition. We are currently in the process of selecting an appropriate replacement for this position in your portfolios.

If you have any questions, please call me directly at 604-678-6563.

## Preserve and Protect

By Tricia McIver



Last month, in discussing strategies to reduce the family's tax bill, I briefly mentioned the family trust and its use as a tool for income splitting. As promised, this month I would like to expand on this concept as well as highlight other non-tax benefits the family trust may provide.

What is a family trust and when is it used: A family trust is a legal vehicle created through a contract whereby a person (the settlor) transfers assets to one or more people (the trustees) to control those assets for the

benefit of other persons (the beneficiaries). The primary benefit is that income earned on the property transferred to or purchased by the trust may be allotted to the beneficiaries and taxed in the beneficiaries' hands.

Why use a family trust: The most common purpose for a family trust is to split income among family members who are beneficiaries under the trust. Typically these trusts are discretionary, meaning that the trustees may allocate income (or capital) to whichever beneficiary(ies) they choose in whatever amounts they choose. This provides flexibility to meet the financial requirements of the beneficiaries and or to take advantage of the specific tax situation of each beneficiary.

An example: Sean is married and has teenage children approaching university age. Sean runs a successful medical practice and has sufficient cash flow to fund education costs, which he intends on doing. Let's assume the company has \$10,000 of before tax profits available to distribute for education costs. Two options to pay for the university expenses:

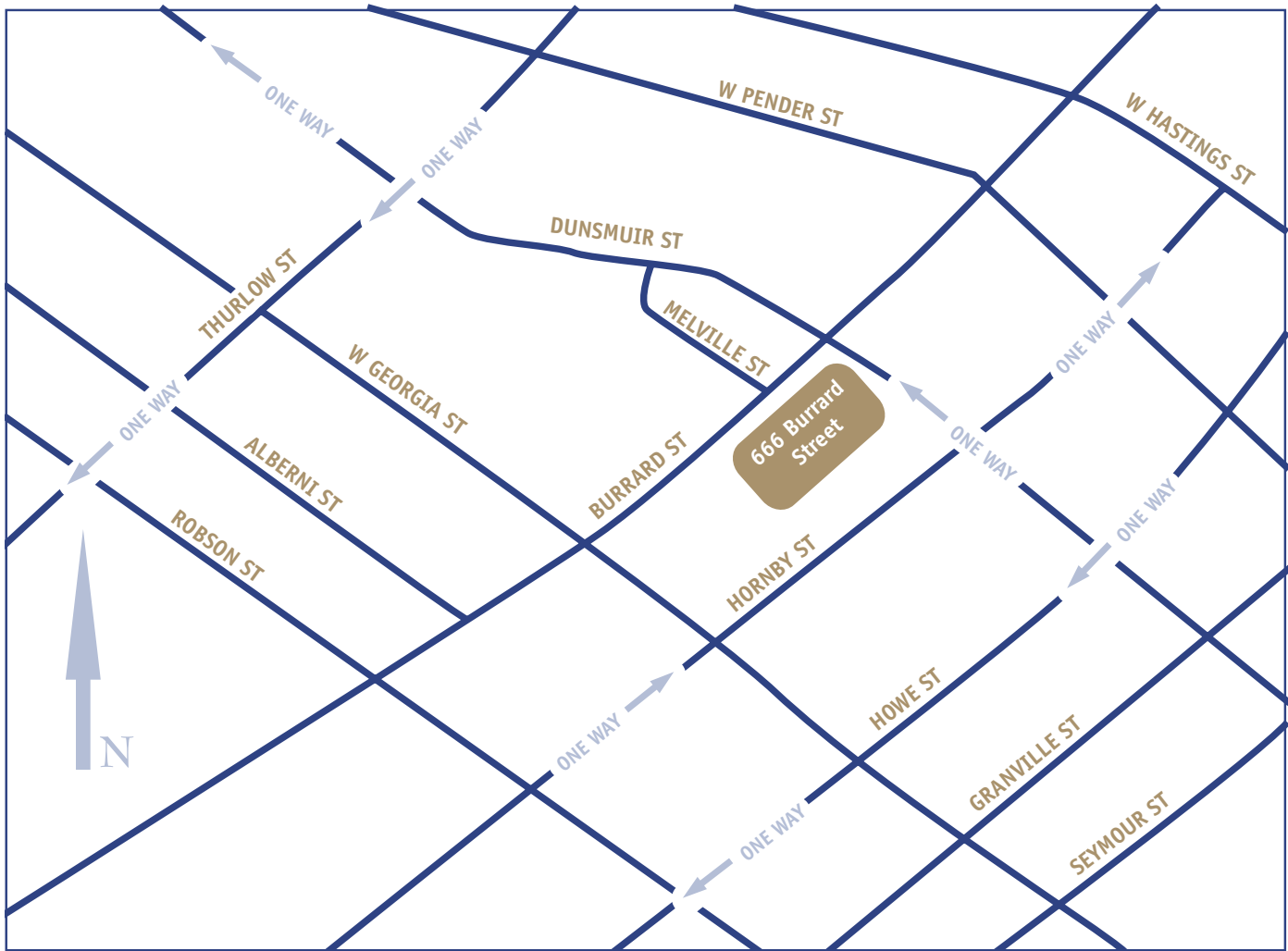
1. Sean can pay himself additional salary to cover his children's university expenses. As he pays tax at the top rate of 44%, additional salary of \$10,000 will leave only \$5,600 to help pay for the university expenses.

2. Sean can restructure the ownership of his company so that a family trust owns shares of his company. The company pays tax at a rate of 18% leaving \$8,200 available to be paid as a dividend to the trust, which in turn will allocate the dividends to one or more of the children once they turn 18. The trust will not pay tax on the dividends as they have been paid to the children. Each child will be taxed on dividends they receive but, assuming they have no other income, each child is eligible to receive \$31,000 of dividends tax free. The end result is that \$8,200 is left to help pay for the university expenses, \$2,600 more than under the salary option.

It may not be that simple: In certain cases the attribution rules may apply to income generated from the trust property. Where the attribution rules apply, income allocated to a spouse or minor child (under 18) will be attributed back to the settlor, thwarting the income splitting objective. "Kiddie tax" rules dictate that private company dividends paid from the trust to minors (as in the above example) will be taxed at the top rate, but only until they reach 18.

Other advantages: Apart from the possible tax savings, family trusts may be used to protect assets from creditors (of the settlor and beneficiaries) as the assets are property of the trust and not of the individuals. The trust will also ensure confidentiality in relation to assets owned by the trust.

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