

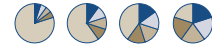
HIGH NET WORTH JOURNAL

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



The past year has been unsettled, with two primary challenges facing the Canadian investor. Firstly, the credit crunch, which spread across the global markets and undercut equity prices. Secondly, the rising Loonie wiped out international gains and accelerated losses in the U.S markets. The only hedges were in Gold and in some cases, energy, which mitigated these significant headwinds.

Reasonable Year

Both fundamental (traditional economic) and technical (charting) research point toward a milder recession or slowdown, lessened by the aggressive interest rate cuts by the U.S Federal Reserve. It's important to keep in mind that the equity markets are a leading indicator, constantly trying to analyze data, predict the economic future and in doing so, will 'price in' the likelihood of a recession. Indeed, this is happening now and has been happening since the start of the year. The average length of a recession is typically ten months with the markets bottoming roughly half way through this time frame. If this 'average' recession is laid overtop of our current environment, it would suggest that the equity markets will bottom at some point in May or June of this year, before recovering upward.

The average short term equity market recovery is in the range of 13% (this usually happens within just a few days) and the average final recovery of over 24% within a few short weeks. There is little to suggest the economy and the equity markets will not generally follow this pattern in the months ahead.

Many analysts, including RBC Asset Management, are predicting rates of return of 20% for the S&P 500, 18% internationally and 7% on the TSX over the next 12 months. To a great degree, technical (charting) research concurs with this view over the intermediate term. If the research is correct, then the difficulty will be weathering the emotional storm until the market and then finally the economy, recovers. We will likely have some disappointing days between this day and that day.

Long Term View

Back in 2001 I recall running a long term chart of the S&P 500, which charted the market and its momentum from 1900. It clearly depicted three strong bull markets with three intervening bear markets. 1918 – 1929 was the first bull market followed by a terrible 18 year bear, persisting from 1929 – 1947, ending just after WW2. 1947 – 1968 was another great 'generational' period of bull market expansion, which again was followed by a 14 bear market lasting 1968 – 1982. The next bull market, from 1982 – 1998 (1998 – 2000 was a blow off rally narrowly focused on tech stocks and not enjoyed by the whole market) was perhaps the greatest and strongest bull market yet experienced and the one most investors relate to today.

What frightened me about the data and the chart was that I could clearly determine that the long term market momentum was rolling over and that we were headed for another long bear market period, perhaps until 2012 – 2014. I called one of the best technical analysts in the country, explained the chart I had run and said "It looks to me that we're in for a pretty crappy market for then 10 or 12 years!". I waited in the silence, desperately hoping that he would explain the error in my analysis. Instead he said "Yes we are Neil".

The reality is that inside all of the larger 'tidal' movements (bull and bear markets) which I described above, there are smaller waves (recessions and recoveries) which can last anywhere from 18 months to 4 years. These are often mistakenly called bull or bear markets but are really smaller, secular market environments, such as the 2003 – 2007 recovery rally.

What most of us didn't want to believe seven years ago has proved to be a reality (please see Mark Jasyko's column) and we're likely seven to nine years into a larger bear market in which the 'tide' is receding. The upside of this likely reality is that we're most of the way through such a market and we can begin to slowly build for the next bull market, perhaps two to six years away. I'll cover this in greater detail in next month's Journal.

On the Mark

By Mark Jasayko



The Myth of the Decadent Decade

Even with the economic and financial market turbulence of the last eight months, most observers might conclude that this decade has been a good one for stocks. However, with 22 months left in this decade, there are a number of surprising anecdotes that challenge this assumption.

Although the Dow Industrial Index in the U.S. had an impressive rally from 2003 to 2007, much of this advance was a retracement of the tech-bubble implosion and the 9-11 induced decline from January 2000 through to January 2003. With the four-month selloff in the Dow since last October, the Index is now only about 3% above where it was in January 2000, over eight years ago. At this rate, the Index would have to rise by more than 50% between now and December 2009 in order for this decade to qualify as an average one for US stocks. Unless the markets find a good reason to explode dramatically to the upside, the probability that this decade will be below average for stocks is very high.

From a few different perspectives, the performance of U.S. stocks has been even worse. The technology-focused Nasdaq Index is still a sobering 56% below its record high from March 2000. Additionally, the USD is down double digits in percentage terms against all the other major currencies this decade, and down over 30% against the CAD specifically since 2000. For all investors who reside outside the U.S., their experience of investing in the US has been more disappointing than the index numbers initially indicate.

Despite the reality, the tone of the financial news on TV and in print has been bullish and optimistic for most of the decade. Perhaps some of this is the result of rising home prices offsetting the frustration of financial investment mediocrity. Also, following the triple waterfall drop in stocks at the beginning of the decade, the recovery from the lows was relatively quick. There wasn't the prolonged hangover of low, skidding stock prices that would force investors to conduct a gut check with respect to long term investing in shares of companies versus leaving assets in money market securities.

It is a testament to investors that they have not abandoned investing in stocks. Although we still have the inherent emotions that have caused investors to succumb to a herd mentality during difficult markets of the

past, investors appeared to have gained a wider perspective over the last generation. Some of this is the result of better and more available information as well as self education.

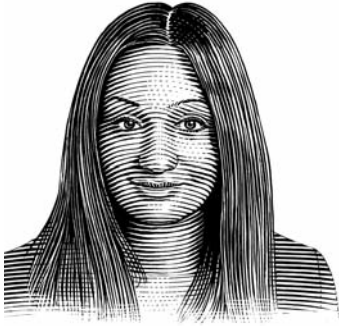
As mentioned previously in this column (July 2006), we have been in a secular bear market as defined by a constantly declining average Price/Earnings (PE) ratio for publicly-traded companies since early 2000. History tells us that we still have some distance to go in terms of time as well as a further reduction in the average PE ratio. However, history also tells us that we are most of the way through this secular bear market. It wouldn't be surprising to see investor pessimism escalate as volatility and selloffs continue. Then, just as this pessimism is at its maximum, a secular bull market could be upon us, one that few investors will notice immediately.

So, why will investors not notice a potential new secular bull market as the next decade emerges? Part of the answer can be found in the fact that they are hardly noticing that we are currently in a secular bear market and, with the exception of the 1930s, heading for the worst decade for stocks over the last century.

Our Asset Allocation process addresses this situation by remaining conservative while adding positions in sectors that have under-performed. For instance, U.S. value stocks (stocks that trade at a low price compared to their true value) are slowly looking more attractive. A similar opportunity existed during the latter stage of the secular bear market of the 1970s, an opportunity of which many of today's most famous investors took advantage and made their reputations.

Good Karma

By Karm Bhatti



Tax Filing Deadline and Tax Slips

The filing deadline for most individuals is April 30th, 2008; however, if you, your spouse or common-in law partner carried on a business in 2007 then neither of you are required to file until June 16, 2008.

Over the next several weeks you will be receiving a flurry of tax slips. As

tax regulations can be complex and ever changing, we recommend that you use an accountant to file your return. If you are in need of an accountant, please let us know the nature of the work required and we can pair you with a suitable tax professional.

Spring Re-balancing

Our annual spring re-balancing is fast approaching and will be taking place from mid-April to May. This is the point where all our Asset-Allocated portfolio positions are put through a thorough and comprehensive due diligence process and are re-evaluated. Please keep an eye out for emails detailing updates and any changes.

New RRSP contribution limit

The new RRSP contribution limit for 2008 will be \$20,000.

Every Canadian, 18 years or older with a social insurance number may establish a TFSA. The younger an individual starts contributing to a TFSA the better due to the benefits of long term tax free growth. I would suggest that you ensure your children and/or grandchildren have a social insurance number and have filed a tax return for the year they turn 17 (regardless if any taxable income exists) so they can establish a TFSA when they turn 18.

As a qualifying individual you may **save up to \$5,000 annually**. The \$5,000 limit will be indexed to inflation, and where you have contributed less than the limit amount, the difference ("**unused room**") **may be carried forward** and added to future years' limits. Unused room may be carried forward indefinitely until used. In addition, and a tremendous feature of the TFSA, is the ability to **withdraw money tax free** with the opportunity to **re-contribute the withdrawal at a future date**. This contrasts to an RRSP where withdrawals are taxed and cannot be re-contributed and hence tax free accumulation room is permanently lost.

While contributions to your TFSA are not tax deductible, any income or capital gains earned is not taxable either, while in the account, or on withdrawal. Attractive to retirees as well, withdrawals from your TFSA are not considered income and so **income-test benefits, such as the age amount and OAS, are not compromised**.

Typically where you make a loan or gift to your spouse and your spouse invests the money, any income or capital gains are attributed back to you (attribution rules) and taxed in your hand. The **attribution rules do not apply to TFSA's** and so gifting or loaning money to your spouse to invest in a TFSA is an effective way for your spouse to accumulate his or her own wealth.

The question arises – what happens to these accounts when the owner passes away. Under normal circumstances the account loses its tax free status after death. However, the **owner can designate his or her spouse/common law partner as a successor owner**. Where this is done the account will maintain its tax exempt status. Alternatively, the **deceased's TFSA may be transferred to the spouse's/common law partner's own TFSA**. Neither of these alternatives affects the surviving spouse's/common law partner's TFSA contribution room.

The TFSA, a new and not so complicated opportunity. At this early stage there are many questions regarding the TFSA. Please visit the "Library" section of our website (www.mciverwealth.com, click on "Resources", click on "Library") for two articles on TFSA's; "Tax Free Savings Accounts" and (2) "Tax Free Savings Accounts – Q & A". As always, I am happy to answer any of your questions, either by telephone or email.

Preserve and Protect

By Tricia McIver



Beginning January 2009

The Tax-Free Savings Account (TFSA), introduced in the Conservative's 2008 Federal Budget, provides you with a new tax advantaged way to accumulate wealth. Once passed into law all income and capital gains will be earned tax free inside a TFSA.

