High Net Worth Journal

An Investment Update

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Family Wealth Management

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McIver Wealth Management
Consulting Group

What's News

By Neil McIver

The recent decision by the U.S. Federal Reserve to lower rates by a further ¼ point to just 2% added fuel to the recovery rally in equities.

Another catalyst for optimism was that U.S. unemployment fell from 5.1% to 5%. Additionally U.S. corporate earnings have been acceptable, falling 12% over the previous quarter. However, when the financial companies are excluded, the net change over the previous quarter is actually a gain of 10%.

These reports suggest that the slowdown in the U.S. economy may not develop into a recession, or if it does, that it will likely be a short and shallow one. The jury is clearly still 'out' on this subject.

Economic head winds remain; including a lack of corporate liquidity (ongoing hangover from the credit crunch) and falling U.S. home values, which threaten the spending habits of the U.S. consumer.

The Federal Reserve in the U.S., led by Chairman Ben Bernanke, will now likely step back and wait for its cheap money to once again percolate into the economy. While the next month or two may be weaker in the equity markets (technical research suggests this), the second half of the year may provide some welcome reward for equity portfolios as the U.S. economy may indeed begin to fire on all cylinders in this low rate environment.

If the above holds true, then the U.S. dollar may be at, or near, its bottom. This bodes well for the changes currently being made to your portfolios in our annual rebalancing. In most cases, we are taking some profits on Canadian commodity companies and then moving those dollars into U.S. dollar-denominated large dividend paying equities (stocks).

It's important to note that we will remain happily constrained by our Asset Allocation model. The model uses historical realities to limit our ability to make wholesale tactical changes to the asset class structure of your portfolio. This adherence doesn't limit our ability to sell any underperforming asset (stock, bond, money manager), within each asset class. We can and will continue to make changes, when necessary.

Inflation Coming

One can only assume that inflation will develop over the next year with demand for global commodities driving the price of oil above $120/barrel and causing concern over potential global food shortages. In fact, inflation will be the real challenge the global economy faces in the coming years. Accordingly, we'll continue to hold commodity based Canadian equities in gold, energy and food production.

Straighten the tie

The influential investment industry monthly the Investment Executive ranked Richardson Partners number one overall in its 2008 Brokerage Report Card. This extensive study covers every national Investment Dealer in Canada, from the well-known large bank-owned firms, to smaller boutiques.

The Report canvasses advisors across the country on 31 categories. Richardson Partners Financial ranked number one in an amazing 24 of the 31 categories including; Firm Ethics, Corporate Culture, Products and Support for High Net Worth Clients, Research, Pricing of Fixed Income Products (bonds), Wills and Estate Planning and Tax Planning. We also had the highest average client asset size in the country, which figures based upon our top ranking in the above mentioned categories.

With now almost 8 billion dollars under management, Richardson Partners is one of Canada's fastest and steadiest growing independent wealth management firms in the country. I'm proud of our McIver Wealth Management Group and the professionalism we bring to working with our clients. I'm also very proud of the fact that our group founded the Vancouver office of Richardson Partners Financial over three years ago. When we elected to join Richardson Partners Financial there were just 19 other teams in the firm across this country. Today we have 61 teams in 11 branches and we recently opened two new offices, welcoming new Partners in both Charlottetown P.E.I. and Sidney B.C.

On the Mark

By Mark Jasayko

Rice Rocket:

After a generation in hibernation, inflation is making a comeback. While there have been some forms of inflation along the way, most of these have been contained to areas that don't especially impact the average consumer. This includes price increases for real estate, most financial investments, luxury goods and vehicles, and higher-end services such as restaurant dining and theatre performances. In the meantime, the average consumer has benefitted from stable or decreasing prices in the areas such as basic food and clothing, transportation, and fuel.

Over the last 25 years, a number of events have contributed to a low inflationary environment. These include the defeat of the inflation of the 1970's that was finally choked off with very high short-term interest rates, the end of the Cold War, and the export of manufacturing jobs to countries with dramatically lower wages. Just as importantly, people began to adjust their expectations for inflation and did not seek the cost-of-living-adjustments to salaries and wages that were a common part of negotiation in the 1970's. The troublesome wage spiral had ended.

However, during this benign period, the seeds for the eventual return of inflation were planted. One of these seeds was that the growth rate of the money supply in the U.S. was faster than the rate of economic growth, a strategy designed to inoculate the U.S. economy from recessions. Central bankers and politicians were pleased with the results and advocated the policy for every subsequent threat of recession.

If money growth outpaces economic growth, it has historically led to inflation. The recent period was an exception to this rule as the excess money was more mobile than it ever was before as economic barriers fell after the Cold War. The liquidity flowed offshore, seeking investment and trade in the emerging markets. This helped to expand the development of countries such as China and India (although the governments in these countries are loath to admit it). However, this also helped to limit price increases in the developed world.

The phenomenon of excess money growth without inflationary consequences led to a massive build-up of risk among global financial institutions. Because the level of volatility in such an environment is low, and because the availability of liquidity is overwhelming, banks, hedge funds, and investment firms were seduced into increasing leverage to record highs. Additionally, since interest rates were low, much of this leverage was used to purchase riskier assets that would provide tempting yield spreads over what was offered on safer corporate and government securities.

The landscape finally changed over the last year. The cost of living in developing countries began to rise. As these areas began to urbanize, the demand for fuel, food, and raw materials increased. Also, diets shifted to higher protein foods such as dairy and meat which require higher grain production, increasing the competition for available arable land. Higher wages are now required to pay for higher food budgets. This directly increases the costs to produce all the basic clothing and manufactured goods that are exported to North America and Europe, in essence exporting inflation.

The other major event affecting the new inflationary environment was the collapse of the American sub-prime mortgage market and the distressing impact on all the institutions and investors that were overloaded with mortgage-backed investments. In response, the Federal Reserve (the US central bank) opened up the money supply spigots in order to inject more liquidity into the financial system in an attempt to hold off a potential recession. Again, this is the typical policy response of the last couple of decades. However, with inflation already in the global economy, this additional money seriously risks a further acceleration in the rate of price increases.

Fear of accelerating inflation has already resulted in consumer behaviors that have not been witnessed in a while, including demands for higher negotiated wage settlements (primarily in Europe so far), and the hoarding of some basic food commodities. Newscasts have been full of images of people stocking up on bags of rice at Walmarts and Costcos in the U.S. and scenes of popular unrest and riots in Southeast Asia and Africa. The recent devastation caused by a cyclone that hit Burma is expected to send the price of rice even higher. Some governments are becoming so concerned that there is even talk of a rice cartel (similar to OPEC – the global oil cartel).

In order to take advantage of rising food inflation, our Asset Allocation model holds positions in the Claymore Global Agricultural Index and Potash Corp., the Canadian-based fertilizer company and the world's largest producer of potash.

Good Karma

By Karm Bhatti

Index Distributions:
Within the Asset Allocated portfolios there are two positions in particular that have a unique method of reporting capital gains: Ishares Cdn SP/TST Gold Index (XGD) and Ishares Cdn S&P/TSX 60 Index (XIU). At least once each year, these indexes will pass along all net taxable income to investors in the form of distributions. These distributions will either be paid in cash or reinvested back into the Index. As an example the Gold Index (XGD) paid a special one-time dividend of $7.40 per unit, in December, which was reinvested.

Although the distributions are taxable capital gain distributions, they are added to the adjusted cost base (ACB) of the investment so that when the investment is eventually sold the resulting capital gain is reduced from what it would otherwise would be (therefore saving tax at time of sale). The flip side of this is that your cost for the position will appear higher on your statement, by $7.40, than it is in reality.

Unlike Income Trusts, Richardson Partners Financial **adjusts the book value on the monthly statement to reflect these capital gain distributions** so that you **do not** have to track it and make the adjustment yourself. This contrasts to an income trust's return of capital amounts, which you or your accountant, have to track and adjust for at the time of sale.

Preserve and Protect

By Tricia McIver

The Social Aspect of Wealth:
We all are philanthropists – whether involuntarily through taxation or voluntarily through charitable giving. The government has given us a choice (1) pay our taxes and let the government decided which social programs to fund, or (2) donate to organizations of our choice thereby exercising our right to decide what is important, what is in the best interest of our Country and what issues are addressed and resolved. We all have social capital. Its simply a question of how we spend it.

Through many tax initiatives the current government has recently enhanced the impact of voluntary philanthropy, often with an enhanced impact to the general welfare of the country. What if you could turn a $55,000 tax liability into a $250,000 gift to charity? Where would you make a difference – to whom would you give that money and what would you have them do with it? The result would be leveraging your wealth to maximize social benefit.

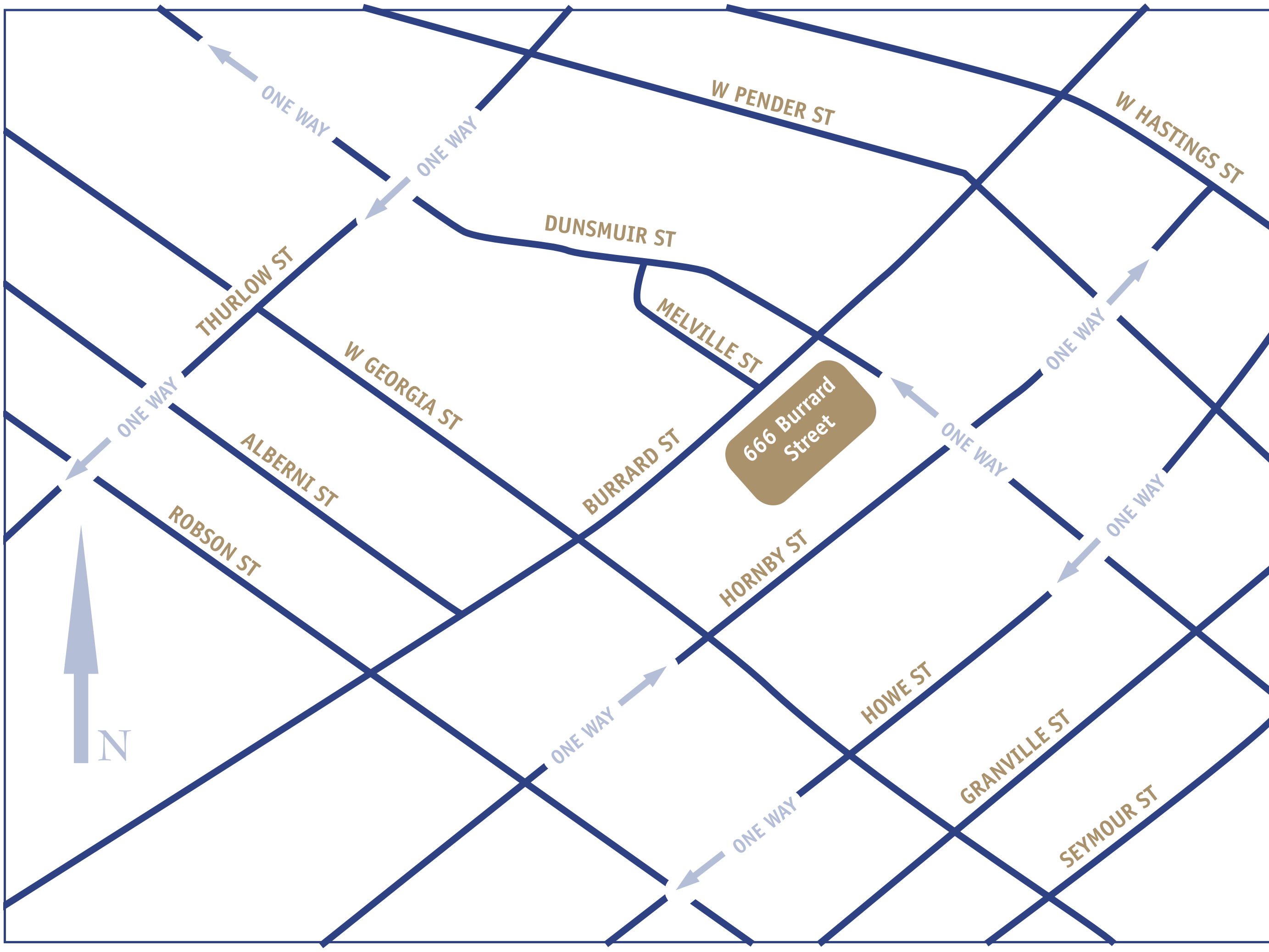
Generally speaking, when we donate to registered charities, all but $200 qualifies as a credit against tax, calculated at the top personal marginal rates regardless of whether you are taxed at those top rates. As a further incentive to support charitable giving, tax laws were introduced so that publicly traded securities could be donated to registered charities or private foundations without triggering any capital gains tax. These donations still qualify for the tax credit described above. A donation of securities, when compared to cash, is generally much more effective and has a bigger economic impact.

In planning for charitable giving consider the following strategies that maximize economic benefits to both the donor and the recipient of the gift:

1. **Flow Through Shares:** I've discussed gifting FTSs, such as Canada Dominion Resources LP, that some of you own, in previous editions of this publication. This approach allows an investor to write off expenses flowed to them from the FTS, yet avoid the large capital gain liability by donating the shares to charity.
2. **Donation of publically traded securities** to a registered charity – when comparing a donation of cash and shares, it is often economically more efficient to donate the shares as tax on the sale/gifting of the shares is avoided.
3. **Donation of publically traded securities to a private foundation** – the same benefits of #2 above, the added benefit is the private foundation may allow for a more public demonstration if civic acknowledgement is important
4. **Donation of insurance policies** – may allow for current donation credit, or defer donation credit until death, depending on how the donation is structured.

You must contribute one way (taxes) or another (charitable gifting). There are very effective methods to vote your social capital. A little careful planning can ensure your vote is structured most efficiently and effectively. I am happy to chat with you about any questions your have on philanthropy.

Visit Us in Person or Online!



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