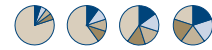


HIGH NET WORTH JOURNAL

An Investment Update

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RICHARDSON GMP



MCIVER WEALTH MANAGEMENT

CONSULTING GROUP

What's News

By Neil McIver



Interest rates and inflation are increasingly becoming the focus of the financial markets. A good example of how inflation can be triggered in a local economy is taking place right now in British Columbia.

Many things cause or perpetuate an inflationary cycle, but one of the major factors in any local market such as British

Columbia, is upward wage pressure based upon expectations. With the sudden announcement by Christy Clark, BC's new Premier-Designate, that the 'training wage' was being eliminated and that the minimum wage was being increased by 28%, she has introduced a much higher set of expectations, with which one can expect a local inflationary cycle which eventually ensures that everything from food prices to transportation will begin to rise. These sorts of expectations cannot be easily undone in the future. Once the genie is out of the bottle, it has proven almost impossible to put back in.

The reason for this decision was not economic, as a good economy creates its own upward lift on wages. The reason was political. It was an attempt to nullify what was very likely going to be a significant plank in the NDP's platform in the next Provincial election.

For those of us who remember the great battle against inflation, U.S. central bankers going back to Paul Volker in the 1970's, fought inflation with everything they had. The battle was mostly won in the 1990's under Alan Greenspan as inflation, measured by the annual rise of the Consumers Price Index (CPI) stabilized in the 1% - 2% range (2.2% currently) after hitting a catastrophic 14% in 1980. So important was this battle that during these years the role of central banks was seen primarily to be a bulwark against inflation which had been so destructive.

Many today have either forgotten the economic misery of inflation, or never lived through it. Perhaps this lack of personal experience is why politicians and policy makers seem so blasé about triggering rising prices. I remember the ravages of inflation very well and the ac-

companying headlines which detailed its destructive path on a daily basis in the 1970's and 80's. Since then, our clients have very much benefited from the price and economic stability that has characterized the last 20 years. The stable relationship between the valuation of our investments and the cost of goods and services has made it easier for us to maintain our lifestyles.

Ultimately it is the savers, those with capital, who are hurt by inflation, as the comparative size of our nest eggs shrink against the rising cost of goods and services that we consume. That said, it will be critical to ensure portfolios are properly structured to not only absorb the pressure of inflation, but actually profit from it as well. Only because we are savers, and therefore have capital, do we have this opportunity.

We recently completed the Spring re-balance of your portfolio. In this re-balance we continued to reduce your exposure to traditional bonds and increased your exposure to inflation-protected Real Return bonds. We also added to your already profitable gold positions, which are a hedge against both the U.S dollar and inflation.

We have been discussing the eventuality of higher rates and the effect of inflation on portfolios for almost two years – before everyone else. With news this week that PIMCO, the world's largest bond fund, has begun to short (bet against) U.S Government debt, it appears that others have joined us in our opinion.

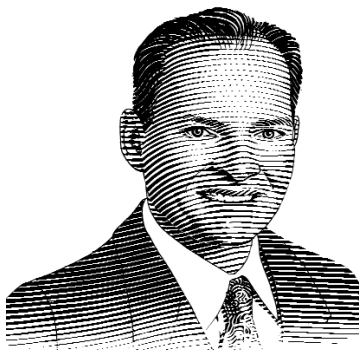
From both a Technical (charting) and Fundamental (traditional) perspective, the current pullback in equities appears to be a buying opportunity and an attractive entry point for those of you with cash on the sidelines.

Your portfolios have been nicely hedged against rising interest rates and inflation and we are set to profit in this market environment on the equity side as well. Equities have outperformed the market over the past two years and I expect that to continue.

Go Canucks!!

On the Mark

By Mark Jasayko



Inflation Generation

Inflation is almost always with us. The only thing that really changes is the rate of inflation. Even when inflation appeared to be dormant during a stretch from the late 1980's to the mid 2000's, it was still slowly increasing. We all knew this was happening as it was still common for the goods and services that we liked to purchase to crawl higher in price despite

what the official government statistics were telling us.

Then, beginning about three years ago, commodities began to accelerate in price. Global growth had reached the point where the demand for raw materials and energy was outstripping supply. Additionally, for the first time since the 1970's, basic food prices began to rise as a shift towards more protein-enriched diets increased the amount of inputs necessary to satisfy appetites. When people have a little more money to spend, eating cabbage becomes less appealing compared to a growing list of choices. This has been happening in the developing world.

Then along came the bursting of the subprime mortgage real estate bubble which morphed into a global credit crisis and put a lid on increasing prices. However, the factors that led to rising commodity prices were still in place. Once the U.S. Federal Reserve's money-printing campaign really took flight and lowered the cost of money to the banks to almost nothing, economic growth slowly began to expand and the lid began to come off of commodity prices again.

There are a couple of different sources of inflation. It can be the result of supply and demand imbalances, but this tends to be very temporary until new supply sources come on stream or until consumers change their behavior. It can also be the result of an overheating economy where there is a combination of increased bidding for commodities and no spare industrial capacity. Increase prices for inputs along with limited supply output lead to increased prices for consumers. This type of inflation has a little more staying power until imbalances correct themselves.

Inflation can also be the result when too much money is printed for the economy to absorb. When it becomes apparent that there are too many bills in circulation, prices begin to rise. Historically, this kind

of inflation persists for a number of years because governments are vulnerable to the addiction of money-printing as a quick Band Aid for on-going economic troubles.

Finally, the mere expectation of inflation causes inflation. If we all think inflation will occur, then we tend to ask for higher wages. Businesses that expect it will factor in higher prices for their final products when they do their budgeting. Once inflation gets into the psyche of the population, it becomes difficult and painful to remove it. This is what we witnessed back in the early 1980's when interest rates hit 20%.

In the current inflation cycle, the biggest risk is currently coming from excess money-printing in the U.S. Once the U.S. begins to use this method to finance deficits, it becomes hard to stop. Additionally, for the printed money not to have any inflationary effect, it would have to be withdrawn from the economy. As of June, there will be \$2.3 trillion of excess money. Imagine how difficult it would be to just withdraw a small portion of that. Any withdrawal will have a detrimental economic effect. As a result, if history is any guide, most of the printed money won't be removed and will be inflationary, but may take a couple of years for investors to accept that conclusion.

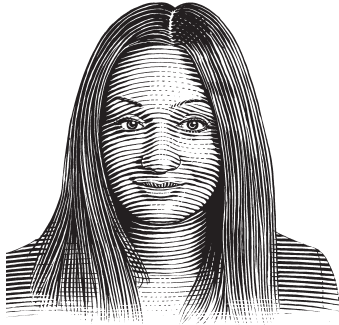
At this stage there has not been a marked increase in inflation expectations which would be the worst scenario. The U.S. Federal Reserve has been quick to point this out and will often reiterate this to argue that the inflation that we are currently seeing is temporary. However, there has been very little dialogue with respect to the strategy required to take the excess money back out of the system. Until now, Fed representatives have said that they are totally confident that they will be able to do this, but they haven't communicated a plan.

As mentioned, the current money-printing campaign will end in June. However, there are a few things that will complicate matters in the near term. As the U.S. prints money, it is essentially trying to devalue the USD in an effort to boost exports in order to add to economic growth. Unfortunately, other countries have been trying to do the same. Additionally, the economic crisis in Europe and the natural disaster crisis in Japan will spur those regions to increase liquidity even further, leaving the U.S. behind and potentially requiring the U.S. to print yet more money in order to counter these international effects.

Since we believe that the inflationary cycle will continue longer than government officials expect, we continue to hold inflation-protected real return bonds and are avoiding bonds with long maturities. We are also holding the stocks of many companies that have the best chance to pass along price increases to customers.

Good Karma

By Karm Bhatti



High Net Worth Weekly

April 1st, 2011 marked the fourth year anniversary since our launch of the High Net Worth Weekly. As most of you are aware, this email-only publication is designed to keep you informed in a quick fashion. This is achieved through both Neil and Mark's market-related commentary. In addition to that, Tricia provides professional suggestions and recommendations for wealth preservation and I provide a market summary for the trading

day as well as the Heatmaps which track portfolio performance. If you are not currently receiving this email publication and would like to, please email me directly at karm.bhatti@richardsongmp.com and I will add you to the list.

Preserve and Protect

By Tricia McIver



It's that time... April 30 is the deadline for filing your personal income tax return.

Overall, it's been a fairly quiet year. There were few major changes – some tax rate adjustments (rates on eligible dividends increased marginally), changes to rules for stock options and other minor issues. I would like to remind you of a few opportunities:

- (1) **Pension income splitting:** Where you are 65 years or older you may **allocate up to 50%** of RPP, and payments from DPSP's (deferred profit sharing plans), RRSP's and RRIF's to your spouse or common-law partner. If you are under 65 years of age, allocations are limited to payments from an RPP and certain other payments received as a result of the death of the individual's spouse or common-law partner. Once again I remind you that:
 - a. individuals over the age of 65 are eligible for the \$2,000 pension income tax credit and so at a minimum allocations should be made to use this benefit; and
 - b. care should be taken in allocating pension payments so as to not

compromise government benefits or increase medical benefits that are based on an income means test.

- (2) Claim all charitable gifts made by the family on the higher income earner's return
- (3) Claim all family medical expenses on the lower income earner's tax return
- (4) Where it will increase the married/equivalent-to-married tax credit or impact government benefits that are based on an income means test report the dependant spouse's dividend income on the supporting spouse's return
- (5) Ensure carry-back of eligible amounts (i.e. capital losses) are carried back to higher income years, where available.

Finally, remember that amendments to returns already filed for overlooked, miscalculated or misallocated amounts may be made. All is not lost.

Canada Revenue Agency (CRA) administration made easy – *My Account*

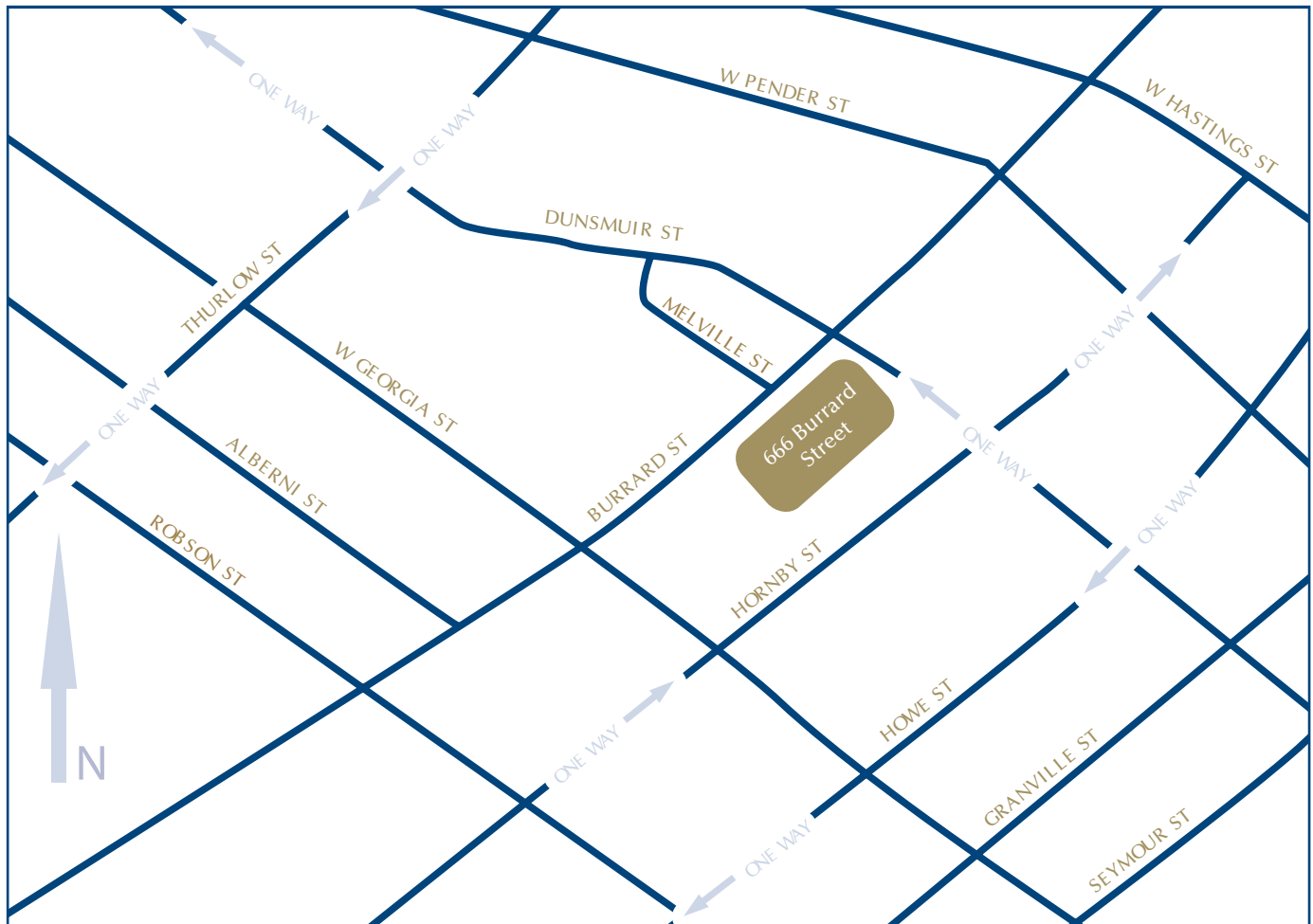
With a view to streamlining efficiencies across departments, the Government of Canada replaced the **Epass** service with **Access Key**. As a result, the **CRA My Account** service was removed from the Access Key system and now operates as a stand alone system. If you had previously registered for **My Account**, your user ID and password expired on October 4, 2010. If you have not logged into the system since that date you will need to create a new user ID and password. If you have not registered for **My Account**, you may do so online. It's very easy, just ensure you have a copy of last year's tax return as the registration process asks for information from that return.

My Account is CRA's electronic service that allows individuals and businesses online access to tax information from the Canada Revenue Agency (CRA). Through CRA's **My Account** you may access and manage personal and banking information, and details relating to your tax returns, benefit payments, financial information and RRSP's.

You may also authorize a representative (typically your accountant) to deal with the CRA on your behalf. The **Represent a Client** service will allow an authorized third party to access your tax information and in certain circumstances request changes.

CRA's **My Account** and **Represent a Client** services provide a fast and easy way for you and your representative to manage your tax account. For further information about these services, and detailed instructions regarding registration visit the **My Account** website at www.cra.gc.ca/myaccount.

Visit Us in Person or Online!



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