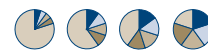


HIGH NET WORTH JOURNAL

An Investment Update

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RICHARDSON GMP



MCIVER WEALTH MANAGEMENT

CONSULTING GROUP

What's News

By Neil McIver



Welcome to 2011

Following a successful 2010 in which our dual portfolio strategies of building U.S. positions in conjunction with holding gold as a currency hedge were both very nicely rewarded, clients are understandably eager to know what is next for 2011.

The dominant story this year will be the effect of

the U.S. Federal Reserve withdrawing the liquidity it is providing under the Quantitative Easing program (QE2) from the world's largest economy. There is no question that the U.S. economy has been accelerating, however slowly, from one of the worst recessions in the past century. However, it has done so by riding the wave of unprecedented levels of central bank influence in the economy. The massive level of artificial stimulation now surging through the U.S. economy (and spilling out into other economies, artificially skewing them as well) has not been attempted before and, thus, the end result is not entirely known. It cannot go on indefinitely, lest it break the back of the U.S. dollar, yet there are no textbooks on how to manage its withdrawal. For more on what we can expect, please see Mark Jasayko's excellent column.

Individual investors and savers often wonder why professional Portfolio Managers outperform so substantially over the mid to long-term. The primary reason is that we know, over time, that all markets normalize and return to their long-term averages. To capture this knowledge as a return, we employ a proprietary and sophisticated asset allocation process which takes into account almost 100 years of data. This is the primary input that is used to create your portfolios which, in short, helps us take profits in markets that have outperformed in the past and weight portfolios toward markets that will outperform in the future. Layered on top of this, we use Fundamental (traditional) and Technical (charting) research to identify individual securities in any given market with the best opportunity to outperform.

Currently our research is suggesting that some profits need to be harvested as we prepare to rebalance the portfolios this spring. Fundamental (traditional) research suggests that Canadian equities are trading in the mid to high range of the fair market value band which makes these stocks the most expensive in the world. Accordingly, we will be taking some profits this year as we trim back our

exposure. U.S. equities, after over a decade of zero performance, are currently trading at the bottom end of the value band and look attractive on a relative basis and we will continue to add to these positions. European equities are the least expensive but have an 'event' risk which will not allow us to increase our exposure at this time.

Bond prices move in the opposite direction of interest rates and we've nicely taken advantage as rates fell over the past two decades and bond performance exceeded their long-term averages. But with interest rates now at the bottom of the cycle and very likely set to rise once QE2 ends this year, bond returns will normalize and in the process will very likely underperform their long-term averages into the future. However, because bonds do provide safety of principal and regular income, they cannot be entirely eliminated. With this in mind, we will be shortening the maturities, adding inflation-busting Real Return bonds, while decreasing our general exposure.

We are consistently looking out for your best interest.

Canadian success story

2010 was a great year for Canada, and Vancouver in particular, as we hosted the world and delivered a tremendous Olympic games, which included triumphant Canadian performances.

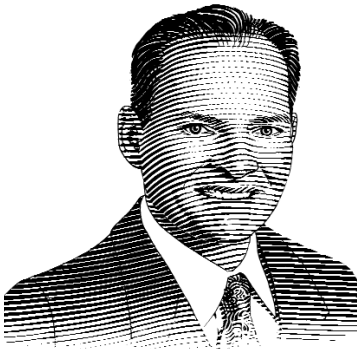
Last year also marked the 8th year of Richardson GMP and the 6th year since McIver Wealth Management founded the Vancouver office of the Firm. In that time frame, we have grown to become Canada's largest non-bank owned Investment Dealer and the top-ranked firm for High Net Worth investors.¹ With \$14 billion under management and 15 offices across the country, we represent a true Canadian success story. A story built, as all the good ones are, on a solid value proposition to successful Canadians; Transparency, Consistency, and being the best at what we do.

Our success, as a firm and as a group, can be directly attributed to our high calibre clientele. Thank you and I look forward to our future together.

¹ 2010 Brokerage Report Card, *Investment Executive Magazine*

On the Mark

By Mark Jasayko



QT, or not QT

Over the past two years the U.S. Federal Reserve Board has been engaging in something called Quantitative Easing, or, as the press refers to it, QE. Without getting too technical, this is a method used to achieve the same thing as printing money. It is a form of money-printing.

In the depths of the financial

panic that swept through markets in March 2009, the Fed announced that it would engage in QE as a step towards restoring calm. QE would increase the amount of liquidity in the system and it was hoped that this would lead to a decrease in interest rates. Lower interest rates would also enable people to borrow in order to buy real estate or stocks, helping those two asset classes to recover. In the process, QE resulted in about \$1.7 trillion of new money printed.

However, as we all know from the experience of the 1970's, when a government prints too much money, inflation will eventually appear. As a result, the Fed also announced that it would begin to implement an exit strategy (or, as I call it, Quantitative Tightening, or QT) beginning in April 2010. The Fed was rather bullish about the economy and led investors to believe that economic growth would be sufficient to allow the Fed to withdraw the newly-printed money, thereby avoiding inflation.

April 2010 came and went. The expected QT didn't arrive. Instead, the Fed announced that the economy was growing too slowly and that unemployment was too high to risk engaging in QT. Either the Fed's forecasting wasn't accurate or its QE strategy didn't work. Regardless, the stock market and housing began to wobble, highlighted by the "Flash Crash" in May 2010 and followed by a declining stock market through the summer.

As the declines in the stock market and housing sectors continued, and as unemployment remained stubbornly high, the Fed surprised everyone by announcing that it would introduce QE2 and engage in more money-printing, resulting in an additional \$600 billion to be injected through to June 2011. This did wonders for the stock market, especially for riskier small stocks. Even before the Fed outlined the details of its plan, stocks enjoyed a stunning rally through September and October. In fact, the effect on stocks was so pronounced that on

days when the Fed was actively increasing liquidity, the S&P500 did three times better as compared to days when the Fed was inactive. In other words, it took less than a day for the additional liquidity to flow, on the whole, towards speculation.

On the other hand, QE2 has done nothing to lower longer term interest rates or prop up the U.S. housing market.

Despite some success, the economy is still left with a problem: too much money has been printed relative to the anemic level of economic growth. If an economy is balanced and growing, an increase in the money supply can be put to productive use. But that is not happening. Inflation is still at the end of the tunnel, unless the Fed finally feels obliged to enact its long-promised QT.

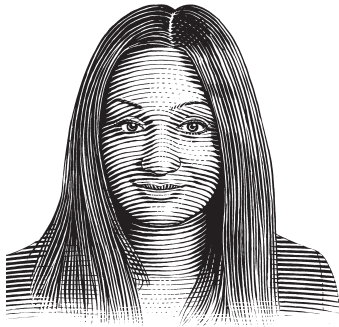
However, it is hard to imagine the current leadership at the Fed engaging in QT. The voting members on the Federal Reserve Board for the next couple of years are considered to be very "dovish" when it comes to battling the threat of inflation. As a result, unless economic growth unexpectedly explodes upwards, the prospects for QT seem slim.

As long as this is the case, it will be a very accommodative environment for stocks, especially for U.S. equities. The question is: For how long? At some point the markets may require QE3 and perhaps QE4 to keep the party going. It appears that stocks are beginning to price in these possibilities. If these future attempts at money-printing are stymied by political roadblocks, the markets will have to reassess things and we could see a significant sell off down the road. If more money-printing does become reality, then the inflation vigilantes will go on notice and the market could be vulnerable to any apparent sign that inflation is picking up.

The bottom line is that it could be clear sailing for stocks in the near to mid-term. Beyond that it becomes complicated. Once the eventual problems of using financial engineering to save the economy surface, it will be too late. The markets' ability to turn on a dime will leave many investors without a seat when the music stops.

Good Karma

By Karm Bhatti



Don't Miss the Last Day for Your 2010 RRSP Contribution: Tuesday, March 1st, 2011

The RSP limit for 2010 contributions is \$22,000, and for 2011 contributions it will be \$22,450.

I have mailed each of you an RSP package which includes a quick reference guide with important RSP information in addition to a convenient postage-paid-reply-envelope if you wish to mail your contribution.

If you wish to make a contribution from your cash account, please email or call me and we can quickly and easily arrange this for you.

If you have any tax strategy questions related to your RSP, please email or call Tricia McIver and she will be pleased to help.

Neil and Mark will be rebalancing your RSP after March 1st and your contributions will be invested at that time.

Getting your estate in order will have a lasting impact on the people (and possibly charities) that mean the most to you. In creating your plan, or in reviewing your existing plan, thoughtfully consider the following:

- **Assess your worth:** Identify your financial and investment assets as well as real estate and other personal property. What taxes will need to be paid by your estate? Is there sufficient liquidity in the estate? What would be the impact on your wealth should you become incapacitated?
- **Ensure beneficiary designations are up to date.** RSP's, RIF's, guaranteed annuity payments and life insurance may be bequeathed directly to a beneficiary. This will avoid probate, but watch for pitfalls.
- **Write it down.** Most prudently with the help of a lawyer, draft your Will. This process will document your wishes – how you wish assets to be distributed, and if you have minor children, who it is that you wish to care for them and how they will inherit your estate. Keep in mind that 'life changes,' such as marriage, divorce, acquisition of assets, or the death of an executor, should necessitate a review and an update of your Will where required.
- **Choose an Executor.** This person(s) should not only be someone you trust to carry out your wishes, but who is also capable of making decisions and administering your estate. A back-up executor should also be considered. Ensure that the appointees understand your intentions and are able and willing to take on the responsibility.
- **Discuss your wishes with your family.** This can be the best prevention against misunderstandings once you are gone. Also consider writing your intentions down ("Letter of Wishes") to provide further clarity and understanding.
- **Consider the use of a trust (living or testamentary).** To maintain control while alive, to ensure privacy, and avoid probate. Effective in circumstances where minor children or young or difficult adult beneficiaries exist, or in protecting assets.
- **Write it down again - Power of Attorney.** Choose a trusted and competent individual(s) to look after your financial affairs should you become incapacitated.
- **And again - "Living Will" or "Medical Directive".** This documents your wishes regarding medical decisions in the event of a significant mental or physical incapacity where there is little hope for recovery.
- **Safe-keeping.** Make sure your documents are kept in a safe and secure location.
- **Follow up review.** Life does change, and so must the plan to keep current on family circumstances and financial fortunes. A minimum 5-year review rotation is recommended.

It is a lot to consider, but there is a lot at stake. I encourage you to take the next step. And as always, I am here to help you.

Preserve and Protect

By Tricia McIver

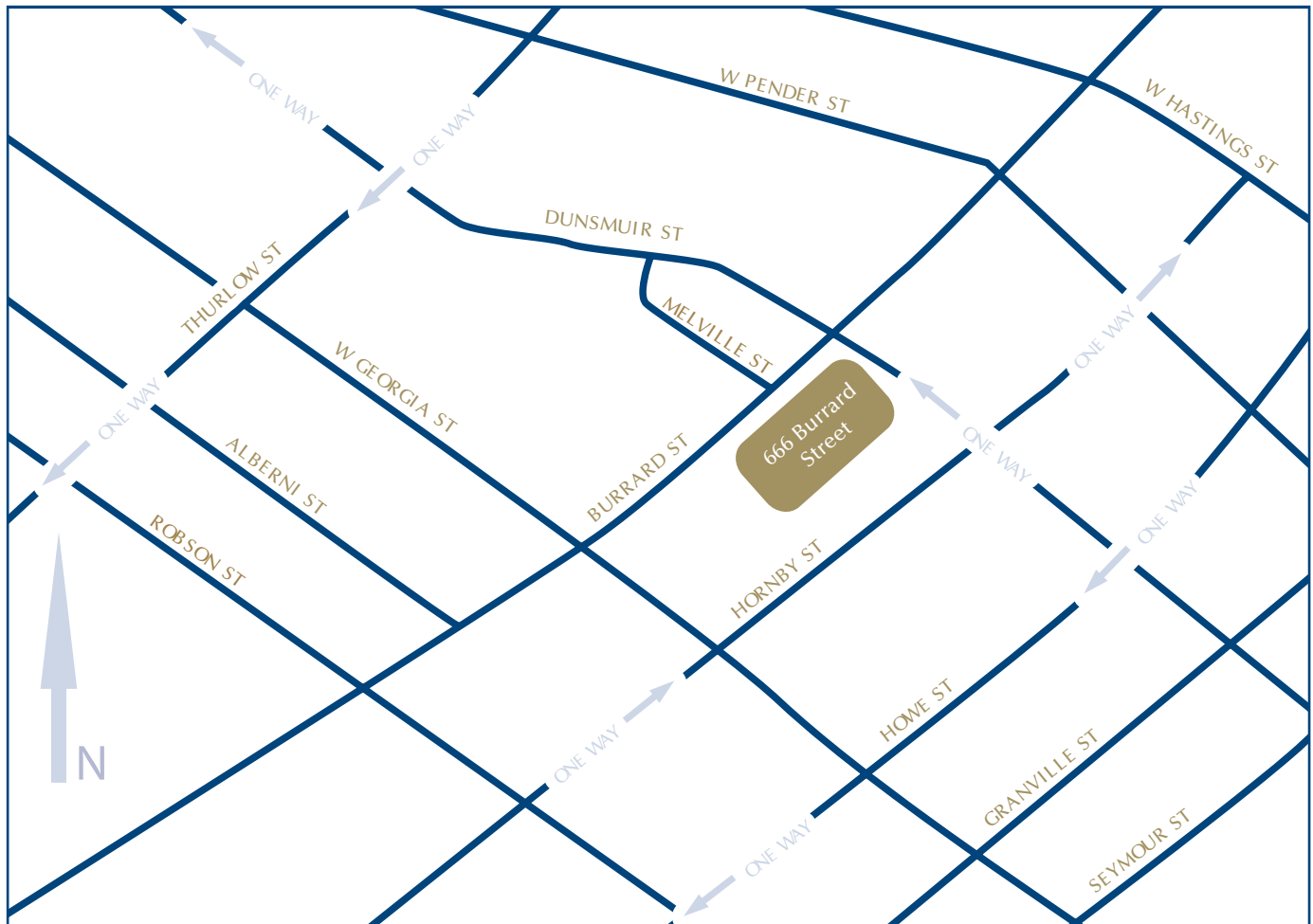


Reality check

When was the last time you cast your eye over your portfolio? More than likely it was when your last statement arrived. When was the last time you cast your eye over your estate plan? Possibly on the day the ink dried on the legal documents. Don't worry, you are not alone. I have observed that much time and attention, wisely so, is given to managing market risk but far too

little is devoted to establishing and maintaining the relevance of a solid estate plan. There is a preoccupation of sorts with "growing the pile" while neglecting to protect what has been saved for oneself and eventually for others (your heirs). Interestingly, far more money has been lost or misdirected due to lack of appropriate and effective estate planning than has been lost to market downturns.

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