FACTS & OPPORTUNITIES

An Investment Update

RICHARDSON PARTNERS FINANCIAL LIMITED
FAMILY WEALTH MANAGEMENT

MCIVER WEALTH MANAGEMENT
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"There is a tendency to judge a race, a nation or any distinct group by its least worthy members." **– Eric Hofer (1902-1983). The True Believer: Thoughts on the Nature of Mass Movement, 1951**

Quick Market Facts:

As I've discussed here in Facts and Opportunities over the past six months, oil and energy prices have moved from being an important factor in the price of financial assets (stocks and bonds) to becoming the dominant factor across the board. This has led to much speculation about the future of oil prices, particularly in light of the devastation of the gulf coast by Hurricane Katrina. The two primary questions to be addressed are: What do higher oil prices mean to the economy and will prices go higher?

Higher oil prices cause economic concern as they are inflationary and will eventually drive up the cost of everything from fruit and vegetables to clothing and travel. In turn, wage earners particularly in areas where there is high percentage of organized labour such as Canada, demand higher wages to offset these higher prices and up goes the inflationary spiral. Inflation has the effect of stifling economic expansion by handcuffing business and the consumer with high interest rates on credit (credit cards, lines of credit, business loans, mortgages etc) and eventually pushing the economy into recession. In this potential scenario, corporate earnings decline, taking down stock prices with them. Also, as interest rates rise, the value of bonds fall.

Interestingly, higher gas prices at the pumps have yet to have this effect. This is primarily due to the real estate bubble that has inflated the prices of homes (and therefore the consumers' net worth), offsetting the immediate impact of high-priced gasoline.

Will oil prices continue upward? This is a difficult question to answer and is dependant over the short term on many unknown variables such as OPEC decisions and natural disasters, as we have seen. The larger picture, however, is somewhat clearer. China and India, although slowing now, are just beginning their industrial revolution and will require a vast amount of energy in the coming decades. In addition we must keep in mind that every major oil deposit is thought to have been discovered and that currently production is running close to capacity. These factors, and others, point toward continued strong demand for energy resources which will eventually be depleted. This implies that while oil prices may decline over the shorter term to as low as $40 per barrel from the current level of around $66, the longer term picture suggests even higher prices.

In your Asset Allocated portfolios, we've over-weighted energy positions in order to take advantage of this, although we may take some oil profits as we move forward. In addition, the diversification and tactical response of Asset Allocated portfolios, naturally hedge many of the risks that we currently see. The Allocation Model as maintain exposure to Gold as well as up to two hedge fund positions (Blumont Canadian and Horizons Mondiale) to ensure that the portfolios are well-equipped to battle an inflationary environment. Mark will add a few additional comments in his column on the next page.

Finally, a few of you have asked me if the massive federal budget surplus resulting from our tax dollars would ever be used to ease gas prices. Unfortunately this is unlikely. First, the current minority government is in some difficulty and will the surplus will come in handy when funding election-related spending and promises. Second, the Government is well-versed in capitalizing on voter confusion with respect to how the surplus was funded, thereby diffusing anger; it was created by our increased tax burden and not by the Government's fiscal management ability. Confusing the voter was also a tactic used in the heat of the sponsorship scam. Therefore, I would not expect those surplus dollars back in the economy via lower gas taxes.

Thank - You

I would like to thank all of you who have referred family and friends to us over the past year. The number has been tremendous and unexpected. Nothing speaks more of your confidence in our abilities than recommending us to those whom are important to you. Your confidence is both respected and appreciated.

Be Good - Neil

BEST RATES – RRSP ELIGIBLE

GIC	Government Treasury Bills	Stripped Bonds
1 year 1.40%	30 Days 2.50%	1 Year 3.09%
2 year 1.80%	60 Days 2.66%	3 Years 3.36%
3 year 2.05%	90 Days 2.79%	5 Years 3.62%
4 year 2.30%	180 Days 2.85%	10 Years 4.44%
5 year 2.60%	364 Days 3.01%	28 Years 5.05%

On the Mark

Asset Allocation & Oil Price Shocks

How does our Asset Allocation Process behave in a world where the investment markets are impacted by unforeseen developments like the recent rise in the price of oil? In general, Asset Allocation models tend to become a little more active as they anticipate the fallout from such events and react by increasing investments in Asset Classes that may either benefit, or provide protection in the case of continued uncertainty.

Events like rising oil prices, inflation, and the risk rising interest rates tend to define Bear Markets like the present one that began in the spring of 2000. The preceding Bull Market of 1982 to 1999 was characterized by more stability in these overriding factors. Although there were some brief interruptions (1987 Crash, 1991 Gulf War, 1994 Interest Rate Surprise), that Bull Market didn't face much resistance over a span of 18 years. In that type of period, it is desirable for the Asset Allocation Process to be relatively inactive and accept the on-going gains produced by the markets.

Although Bear Markets are more challenging and require more action, they are not overly dire. For example, the Bear Market from 1966-1981 had 9 positive years and 7 negative years. A study conducted by Crestmont Research in the U.S. showed that when models were rebalanced more often during that Bear Market, they were able to add an additional 1.3% to annualized performance. This becomes significant when considering that this is a compounded rate over 16 years!

Although during the current Bear Market we are inundated with more conflicting news on a daily basis compared to the previous decade, the Asset Allocation Process comes to life and responds in a systematic fashion without emotion in order to protect capital and to seek out new opportunities.

Mark

Good Karma

Arrival of monthly statements

Please note that monthly account statements are mailed out from our back office in Toronto, Ontario every 12th of each month. If the 12th falls on a weekend the statements will be mailed out the following Monday.

Team Information on RFPL Statements

As most of you have noticed, your monthly account statements now provide our direct contact information. Therefore, for future reference please refer to your monthly statement.

Account Sweep

If you are still receiving RBC statements that report any amount of balance in your old account(s) please inform any member of the Team by simply calling our office at 604-678-6561.

Karm