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

Auld Lang Syne:
2006, while being a challenging year in many ways, was nevertheless a profitable one for our Asset Allocated portfolios. The Canadian stock market was driven by volatility in commodities and roared upward through the first quarter of the year peaking in April before falling almost 13% by mid summer. By mid November the market had again reached the April high, but without the same reliance on commodities.

The nice steady, low volatility and high performance of our Asset Allocated portfolios continued in 2006, with all client portfolios (comprised of cash, bonds, equities and hedging) being very nicely rewarded. More importantly, these returns were provided within the very low risk environment of our process driven, Asset Allocation models. Wealth preservation at it's finest!

Bannockburn - Looking Forward:
Looking forward to 2007 we see opportunities developing primarily outside Canada. We expect that commodities will continue to experience a mid cycle correction making it difficult for the TSX to advance. Technical research suggests that oil will remain in a tight trading range around $55 - $60 barrel.

This will likely result in the TSX providing rates of return in the low single digits this year (3-5%) while opportunities look more promising south of the border and in both Europe and Japan. The equity (stock) markets of U.S., Europe and Japan are poised to potentially provide double digit rates of return. We will be adjusting your portfolios to reflect these likelihoods when we rebalance your Asset Allocated portfolios in the spring. That said, the strict process we employ to manage risk in your portfolios will not allow us to make wholesale changes to the structure - nor should we.
Fears of an inflationary environment have abated and with this change will come the end of the long series of North American interest rate hikes by the U.S. Federal Reserve and the Bank of Canada. Bond yields may very well fall over the coming year potentially providing a small positive rate of return over and above the interest rate on a bond for the first time in a number of years.

As I've suggested would happen, it appears that the U.S. is experiencing a 'soft landing' which will have a number of effects on the capital market place. The most important is that it potentially provides the best environment for a 're-loading' of the current bull market in U.S. equities. Importantly, price/earnings ratios, especially for the S&P 500 lie below levels consistent with a durable economic expansion, low interest rates and mild inflation which the U.S. is currently experiencing.

A Mans' A Man for a' That:
I look forward to this New Year and continuing to provide the highest quality portfolio management and wealth preservation. Our practice continues to grow as we attract some of Canada's most successful families and individuals.

We are currently planning a nice upgrade to our emailed Tuesday Mid-Day Market report which will now include comments on the markets from both Mark Jasayko and I, as well as weekly tax and wealth planning advice from Tricia McIver.

We have some other improvements planned for later in the year as well. Thank you for your trust.

On the Mark

By Mark Jasayko

Something's Gotta Give:
As investment markets and the global economy continue their unabated advance of the last four years, there are a couple of signs that we might have reached a point where things can't get much better. These signs include the unprecedented willingness of investors to take on risk, significant borrowing to leverage investments, and the remarkably low levels of market volatility. All these signs are at or near all-time extremes.

The eagerness of investors to accept risk is reflected in the miserably low yields on higher-risk corporate bonds. Compared to risk-free U.S. government bonds, these high-risk corporate bonds are only paying 2.85% more in yield. As a comparison, in the early 1990's, these bonds on average were paying as much as 10% more than government bonds of similar maturities!

Investor borrowing is often indicated by the amount of margin debt outstanding at the New York Stock Exchange member investment firms. Levels of current borrowing have almost reached the record high during the peak of the dotcom craze in early 2000.

With respect to volatility of the stock market, the most commonly used measure is an index call the VIX. This index indicates the expected volatility of the S&P 500 index for the following few weeks. Right now the index is at a level of 10 points. However, it has been as high as 45 points in mid 2002, and averaged about 25 points between 1997 and 2003.

Another indication of the lack of volatility is that the U.S. markets have now gone four years without a 10% correction. This is the longest stretch ever. Recently, through to the end of January, U.S. markets have not had a down day of at least 2% in four months. That is the longest stretch since 1958.

As markets and their statistics have a very strong tendency to regress back to their averages, there is some concern that the signs above will move back to normal levels. In summary, we would see investors demand more return for accepting risk, reducing the amount they borrow in order to invest, and an uptick in market volatility. All of these developments would increase the chance of the markets clearing out some of the over-priced sectors before being able to continue its advance.

A few possibilities that could disrupt the delicate balance of investment market perfection might include persistent inflationary pressure or a slowdown in economic growth (perhaps aided by the U.S. housing slowdown). These events are capable of reducing investor overconfidence, reigning in investor borrowing, and causing the market to take a bit of a roller coaster ride.

Our Asset Allocated portfolios are addressing these concerns by maintaining their diversification as well as setting aside cash that is produced by the investments in the portfolios and investing this in money market instruments currently yielding 4%.

Sincerely Saleena

By Saleena Vellani

Summary of Changes from Last Year:
The world is always in a state of change, and 2006 was a year that was no exception. The following are some of the more prominent federal tax changes that have taken place over the past year.

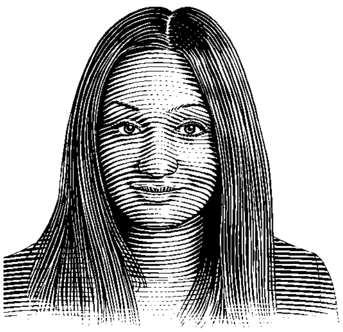
1. RRSP maximum Contribution Threshold increases from $18,000 for 2006 to $19,000 for 2007. The Maximum Contribution Limit remains equal to the lesser of the threshold amount or 18% of the individuals previous year's earned income.

2. Removal of the requirement to purchase annuities at age 80 for Federal regulated LIFs. Therefore, Federal LIFs will no longer carry a maturity requirement at age 80.

3. The new federal government reduced GST from 7% to 6%.

Good Karma

By Karm Bhatti



Talvest Mutual Fund:
As part of our Asset Allocation process, a few years ago some clients held the Talvest U.S. Equity Fund. Recently, a letter was mailed out directly from Talvest in regards to a backup computer file that went missing which contained personal information. Even though our clients have not held Talvest funds for several years, in a precautionary move, this letter was sent out to former clients such as us, as well as existing clients. The letter highlighted the measures that Talvest are taking to resolve this issue.

We have spoken directly with Talvest representatives to further clarify the situation. The good news is that since the Talvest fund was held with us at a brokerage level rather than directly with the fund company, this significantly reduced the risk of your personal information being accessed as minimal information was provided to them.

Please keep in mind that to date, Talvest Mutual Funds still have no evidence that this particular file was in fact stolen or has been accessed. Please call me if you have any questions.

Preserve and Protect

By Tricia McIver

Cash Crunch at Death:
When discussing estate planning with clients it is clear that many of you wish your estate to pass to heirs and charities. Although clear on where one would like to see the value of their estate pass, a commonly misunderstood issue is the cost of transferring those assets. Basic costs include asset transfer taxes (i.e. B.C. Property Transfer Tax), probate fees and legal fees. The largest cost, however, is generally always due to heavy income taxes. Registered accounts are fully taxable on death (or in the case of couples, on the death of the surviving spouse/partner). Likewise, all capital property including investment accounts, real estate (with the exception of the principal residence), private company shares and art will be taxable where the property has appreciated in value since purchase. This final tax liability can, and often is, a significant portion the entire estate. And it poses a liquidity issue: Does the estate have sufficient cash to fund the estate liabilities and, if not, are there near-liquid assets that may be sold to raise the cash? Failing the availability of cash or near cash, are there other assets that the heirs will be comfortable in parting with that may be sold? On this last point perhaps the more important issue would be how the deceased might feel about selling assets he or she wished for the family to enjoy after he or she was gone, such as family recreation property, to pay the tax liability.

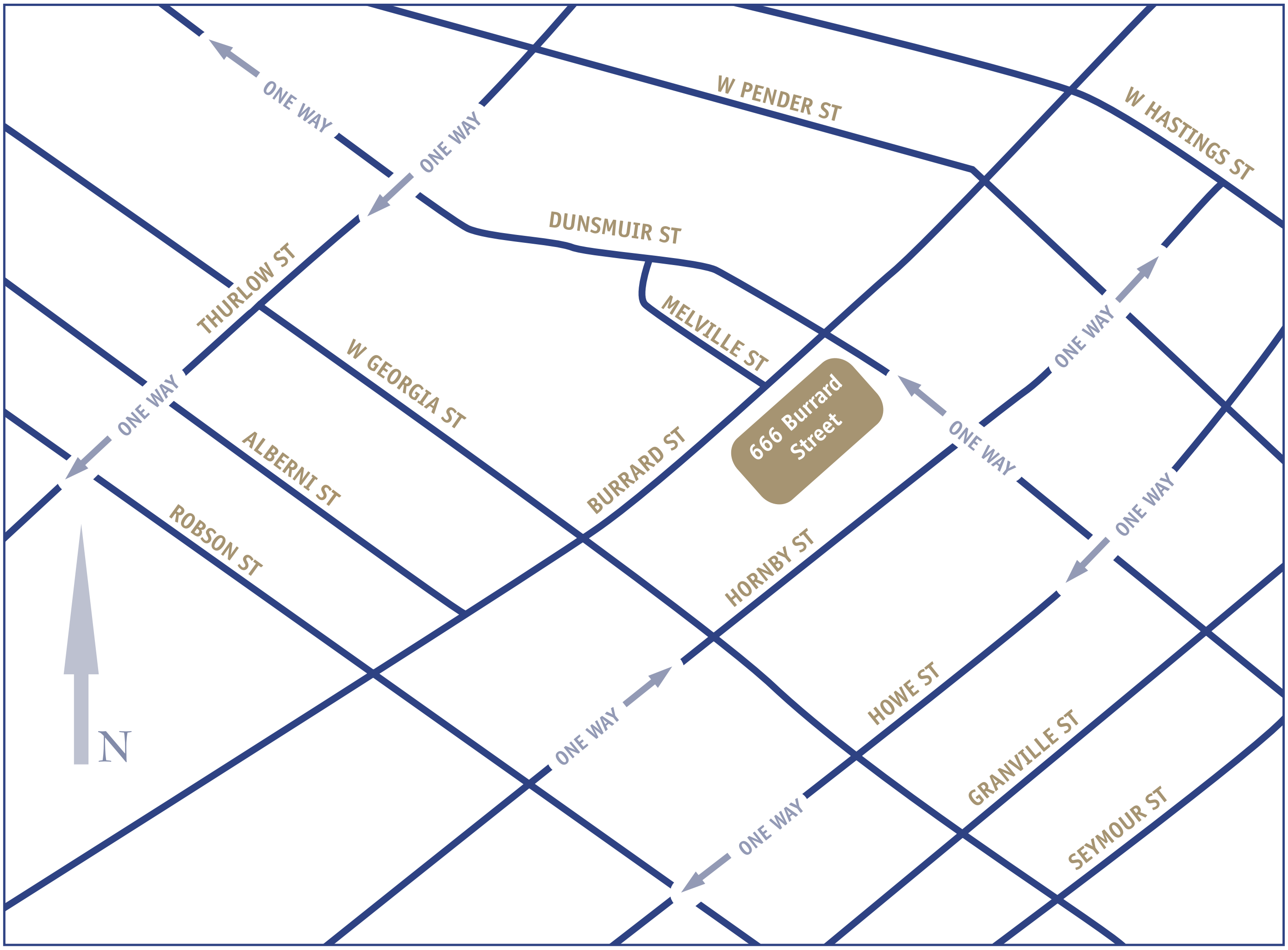
There are a number of different ways of to raise capital to pay the estate costs. As mentioned above, estate assets could be liquidated. Does the matriarch/patriarch wish estate assets to be sold to pay the tax liability? Alternatively, the estate executor could borrow the necessary funds to pay the tax liability. Again, is this within the wishes of the matriarch/patriarch, or is borrowing a practical possibility? Often the best alternative is to purchase life insurance to provide the necessary funds when needed.

When compared to the alternatives, life insurance may provide a cost effective solution, often costing a fraction of the full estate liability. The cost of the insurance will depend on the age and health status of the individuals seeking insurance, as well as the type of insurance purchased. Where the cash need is a permanent one, such as with estate liabilities (at least within the present legislative environment), a permanent insurance policy (i.e. universal life) is recommended as costs can be fixed at inception of the policy.

Insurance is a valuable tool and a cornerstone in estate planning. Using insurance can provide assurance that cash will be available when needed, and ensure that value of the estate is preserved for heirs. Planning today may help lower the cost of solving the estate liability problem in the future.

If you would like more information on this issue please do not hesitate to call me directly at 604-678-6565.

Visit Us in Person or Online!



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