

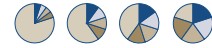
HIGH NET WORTH JOURNAL

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



Volatility Returns

The main theme of most of Mark Jasayko's and my columns over the past year have been the historically low level of volatility in the marketplace. That lack of volatility indicated a complacency and lack of respect for the inherent risk of participating in any market. It's usually a sign that a correction or fall in value is required to return rationality to the market.

The U.S. sub-prime situation provided the impetus for volatility, and therefore rationality, to return. The resulting credit crunch has, for the time being, halted the bonanza in leveraged buy-outs which in many ways were driving the markets up. These types of credit crunches and market corrections are normal, natural and required to return rationality to the marketplace.

Greenback on Sale

The 50 basis point cut in the U.S. Federal Funds Rate, the first in four years, demonstrated a resolve to battle the credit crisis. It appears to have worked and the markets in the U.S. and elsewhere have stabilized. Predictably it has also had the effect of putting further downward pressure on the U.S. greenback as U.S. interest rates are now less attractive than those available in other currencies in other countries. This in conjunction with strong demands for Canada's commodities has resulted in the loonie trading above par with the greenback for the first time in over 30 years.

This upward movement of the Canadian dollar and fall of the U.S. dollar is the single largest factor affecting your portfolios. All U.S. priced assets in your portfolio, such as the iShare indexes and any U.S. mutual funds have fallen in value as they have had to try to overcome a loss of 30% caused by this fluctuation. In many cases, if viewed in U.S. dollar terms, these assets have risen significantly.

Up to this point we have protected the portfolios by limiting the exposure to the U.S. dollar (keep in mind that the U.S. represents a huge percentage of the global market and our exposure has been a small percentage of this) and only increased the exposure this Spring as the U.S. dollar fell. We have also hedged the portfolio, to a large degree, by adding gold - which generally rises as the greenback falls.

While it may be possible to see the loonie higher this will be mitigated by the fact that the loonie will always have the gravitational pull of its purchasing power (about 87 cents) to contend with. What this does create is an environment where U.S. goods and services are much less expensive than those available in Canada. A good way to measure this is to find a car manufacturer with both Canadian and American websites which allow you to 'build' a car and see what the price would be. Select the same car with the same options and look at the price difference, its jaw dropping.

If we review some of the macro facts, which define our current economic situation, clues toward the best course of action in the future become apparent. The first is that the U.S. dollar is at a 30 year low versus our dollar which conversely is at a 30 year high. The second is that the Canadian stock market, driven by a soaring demand for our raw materials is one of the most expensive in the world, trading above its average price earning ratio, while the U.S. S&P is one of the most inexpensive, trading beneath its average price earnings ratio. The third is that all things in our world naturally regress back the mean average.

Assuming the credit crunch passes without causing a recession, most markets in the world are currently trading at attractive valuations. The current global economic environment is characterized by durable growth, mild inflation and low interest rates. In addition, a cut in the Fed Funds Rate has in the past been a catalyst for sustained market rallies following a financial crisis.

On the Mark

By Mark Jasayko



The Recent Volatility and the Bear Market That Began in 2000

With the turbulence in stock prices, many commentators have stated that this appears to be the end of a four year bull market. However, there are convincing indications that this was just a four year market advance contained within a longer term bear market.

Even though the markets have ebbed and flowed over the last seven years, the average Price-to-Earnings (PE) ratio in the U.S. has continued to fall. This contrasts against the last real bull market period between 1982 and 2000 when the PE ratio generally rose. As further confirmation of this indicator, the PE ratio consistently fell from 1966 to 1982, a span of time considered by most to be a bear market. However, as the PE ratio was contracting in that bear market, there were still some multi-year advances (in 1970 and 1971 the S&P500 rose 18% and 15% respectively, and in 1978, 1979, and 1980 the S&P500 rose 7%, 15%, and 8% respectively).

It is also important to note that since 2000 the PE ratio has been falling despite the fact that corporate earnings and the economy have been expanding. If the average PE ratio at the end of 1999 was applied to the current level of corporate earnings, the S&P500 would be at nearly double its current level. This is an indication that the investing public is skeptical about the investment markets. Another sign of this skepticism is the lack of individual investor participation in the stock markets over the past seven years. The recent four year advance has been driven by institutional investors such as pension funds, governments, hedge funds, and private equity firms, all capitalizing on the unprecedented availability of cheap credit.

As we saw at the end of the last bull market in 2000, individual investors began to flee from stocks as they personally experienced the most severe market correction in more than a decade as the S&P500 fell by 16% in 2000 and by another 16% in 2001. However, at the end of the recent market advance, it is mostly Wall Street rocket scientists running leveraged buyout firms and hedge funds who have taken a massive hit to their wealth. So far the only individuals who have really suffered are U.S. homeowners with excessive mortgages that they can't pay back. Otherwise, the bear market psychology that has lingered in the market since 2000 has kept most individual investors out of the line of fire.

As a result, the downside of the current volatility may be limited to a re-adjustment of the perception of risk by larger institutional investors. Once they are able to assess and disclose their losses, the markets may settle down. However, it should be noted that the institutional excesses that were driving the markets the last few years will no longer be present, creating some potential headwinds over the medium term.

Sincerely Saleena

By Saleena Vellani



Statement Improvement

In the June edition of the Journal, I discussed how we were creating a process called householding, which provides a solution to consolidating individual client statements into one envelope for mailing.

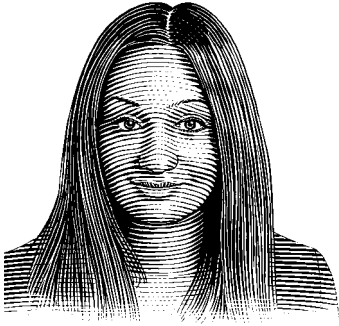
I am pleased to announce that this project has successfully been completed. This service will provide the convenience of receiving all your monthly and quarterly account statements in one package. This will make it easier for you to track and file your statements if you or your family have more than one account.

As we begin creating the households this month, you will receive a letter of authorization form in the mail. Please sign the authorization and mail it back in the postage paid reply envelope provided. On the authorization form, you may customize which statements you wish to receive (personal accounts, registered accounts, joint accounts, corporate accounts and trust accounts) in one statement package each month.

If you have any questions or would like more information on householding, please call me directly at 604-678-6564.

Good Karma

By Karm Bhatti



Enhancing Our Communication

In keeping up with today's technology and to further enhance our communication with you, we recently introduced a timely e-mail to inform you of required portfolio changes. Both client service and contact with our clients are our Team's focus. We can enhance both of these through the greater use of e-mail

as it will enable us to ensure prompt service and clear communication in a timely manner.

One of our prime purposes for e-mail contact is to notify you of recommended changes in your portfolios as well as if we are taking any action on corporate notices/reorganizations. Our goal is to take advantage of time sensitive issues relating to the markets and therefore it is very important that you respond to these e-mails at your earliest convenience.

If you wish to use an e-mail address that we do not already have on file, you can e-mail me the address at karm.bhatti@rpfl.com. Your e-mail address will be used for no other purpose other than direct communication with our Team. Keep in mind that the greater use of e-mail is a service enhancement and if you don't have e-mail, we will continue to call you with the portfolio changes as before.

Preserve and Protect

By Tricia McIver



The Changing Landscape of RESP's

In the April edition of our Journal, I highlighted 2007 Federal Budget proposals - including those relating to RESP's. I think the changes are worth a closer look, as they make RESP's a more attractive saving vehicle than ever.

Two major changes to the RESP contribution rules were

proposed in the Budget: (1) the elimination of the annual \$4,000 limit; and (2) an increase in the lifetime aggregate contribution limit to \$50,000 from \$42,000. The effect of these changes is that parents (or grandparents) who can afford to do so may now lump sum fund an RESP for their children (or grandchildren).

The major benefit of an RESP is that all earnings are tax deferred, meaning no tax is payable on the earnings until dollars are distributed to the children for whom the RESP was set up.

A downside of lump sum funding an RESP is the loss of Canada Education Savings Grants. When an RESP contribution is made, a grant (typically 20% of the contribution) to a maximum of \$500 annually (\$7,200 lifetime) is contributed to the RESP by the Federal Government. However, to qualify for the grant, an annual contribution must be made. If a lump sum payment is made into the RESP a grant for that year will be paid, but any future grants will be lost.

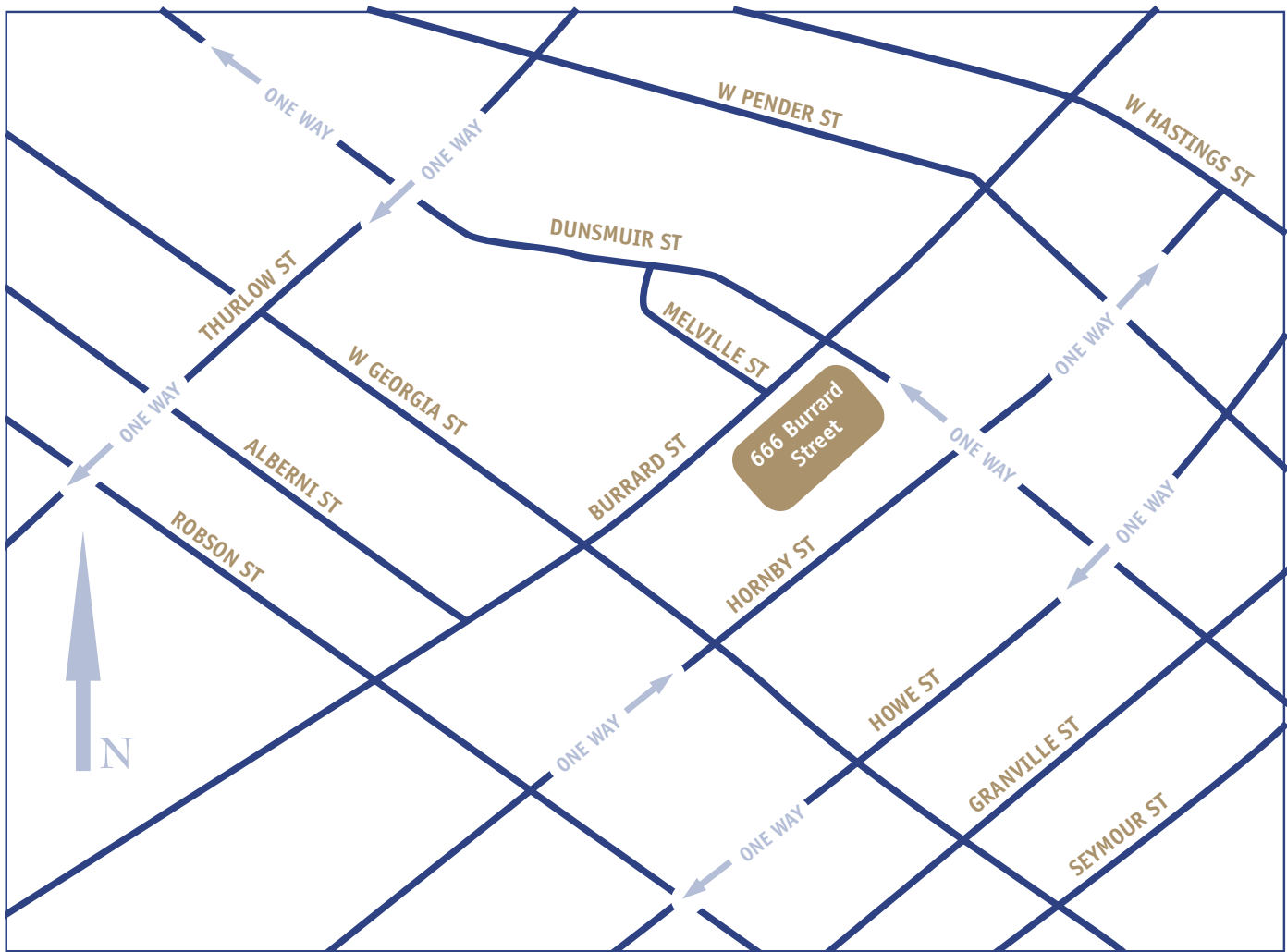
So, the question is: Do the benefits of tax-deferred compounding outweigh the loss of future CESG's? The answer depends on a number of factors such as the type of investments, the rate of return and the period of compounding. As most of our clients are in the highest tax bracket, I considered the question based on the following assumptions: (1) parents, grandparents are in the top marginal tax bracket [43.7%]; (2) income earned is interest; (3) annual RESP contribution is \$2,500 for 20 years; (3) the difference between \$50,000 and RESP contributions is invested in the same vehicle as the RESP; and (5) the annual rate of return is 5%. Given these parameters, I found lump sum funding beat the alternative, in spite of the loss of \$6,700 CESG's. Here are what my numbers look like over a 20 year time frame:

Year	Lump Sum Deposit	Annual deposits for 20 years
5	64,452	61,255
10	82,260	76,403
15	104,987	96,322
20	133,993	120,191

Bare in mind the underlying assumptions. A much different result may occur where, for example, parents and grandparents are in a low tax bracket or investments outside the RESP are invested in tax deferred capital gains vehicles.

Item to note: In May 2006 a private members bill was introduced in the House of Commons. If passed, this bill would allow RESP contributions to be tax-deductible. I will keep you posted on the status of the bill, as this will also have an impact on lump sum versus drip funding an RESP. In the meantime, should you have any questions on RESP funding, please don't hesitate to call or e-mail me. I am always happy to chat with you, our clients, on any wealth planning issues.

Visit Us in Person or Online!



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