

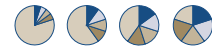
# HIGH NET WORTH JOURNAL

*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



### Real Estate

North American financial markets are still digesting the various problems caused by dramatic melt down in the U.S. sub-prime mortgage sector and the resulting global credit crunch. The real estate party in the U.S. is over and the hangover has presented the global equity markets with its first serious threat in over 5 years. Losses, racked up by Citigroup and others who facilitated the party by

securitizing the sub-prime mortgages and selling them to pension, hedge and mutual funds and individuals, continue to unsettle the market. As I've noted several times over the past 6 months in this publication, regardless of cause, financial market corrections are a necessary and normal part of the environment and this particular one was required to fix a dangerous level of complacency and low volatility.

Late in the summer, central banks around the world reacted swiftly to provide massive liquidity to stem the problems created by this credit crunch with the U.S. Federal reserve lowering rates twice. As was expected, the lowering of rates provided both some comfort for the U.S. economy and positive fuel for equity markets.

The most pressing concern now is whether the U.S. Federal Reserve is behind the curve in fighting a housing led slowdown, which could still gain more momentum into 2008.

While the R word (recession) has been tossed about in discussing the near term future of the U.S. economy, the real possibility of this happening has certainly not been decided. Despite headline grabbing dire predictions, a careful examination paints a slightly different outlook. Among many other symptoms, typically recessions are characterized by building inventories of unsold goods and rising unemployment. These symptoms do not appear to be present in the U.S. economy. U.S. corporate balance sheets are in excellent shape and the U.S. consumer financial obligations ratio

(measures the average amount of fixed financial obligation - debt/mortgage payments - as a percent of personal disposable income) sits at just 19.3%. In other words the U.S. consumer does not appear to be exhausted and laden with massive debt. I would caution, however, that a growing economy is really a collective belief. That belief (consumer confidence) could be shaken if real estate values continue to fall.

### Decoupled

The Canadian economy has decoupled from the U.S. economy over the past five years. The ascendancy of emerging market economies of the BRIC (Brazil, Russia, India and China) countries has pulled the commodity laden Canadian economy along for the ride. Growing demand from these economies for base metals, gold, oil and other commodities has been massive and has resulted in a stratospheric (1.09) Canadian loonie.

This is not without historical precedent, however. In the 1970's, during Japans' resurgence, their demand for commodities drove up the price of the Canadian dollar to above par with the U.S. greenback as commodity prices spiked.

While the loonie may not stay at these lofty levels, it will remain high as long as the current environment of low inflation and strong global demand for our commodities remain.

### U.S. On Sale

While our economy has decoupled from the U.S., it doesn't mean that the U.S. has become less important economically. In fact just the opposite is true. The U.S. produces roughly 30% of global gross domestic product and the U.S. consumer accounts for roughly 23% of global consumption. In other words, 23% of the goods made in the BRIC countries are consumed in the U.S. If the U.S. consumer loses confidence economically, everyone suffers.

The good news is that the U.S. consumer still looks to be in reasonable shape and the U.S. economy resilient.

This would suggest that if you are looking to buy a car, vacation property or equities, then that the U.S. is an attractive market to shop in. Quite frankly, it's on sale.

## On the Mark

By Mark Jasayko

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### Not Getting More Credit... When Credit Comes Due

A powerful undertow in the financial markets this year has been the state of the credit market. This is a part of the bond market where short-term investment notes are bought and sold in order to provide short-term financing. Traditionally, this financing has been needed by companies and banks in order to fund operations. However, in recent years, many issues of these short-term credit

notes have been funding long-term investments that are backed by home mortgages, auto loans, and student loans.

There are two big problems with funding long-term investments with very short-term borrowings. The first problem is that the short-term borrowing has to be continually re-financed every 30 days or so. Since the investments are long-term, they will have to be effectively re-financed dozens of times over their lives. The strategy grows less and less profitable as short-term interest rates rise since the borrowing costs have to be less than the yield on the investments in order for this strategy to work. As long as this was the case, the strategy was a continual money-making machine. This is how many aggressive hedge funds created consistent month-to-month profitability over the last five years. However, things change. Interest rates have been rising and many aggressive hedge funds are having their worst year in a decade.

The second big problem with funding long-term investments with short-term borrowing is when the quality of those investments begins to deteriorate. When this occurs, the buyers of the short-term credit notes start demanding higher interest rates in order to compensate them for the increase in default risk. When the fear of this becomes prevalent, as it has this year, the higher interest rates make the "borrow short-term-invest-long-term" strategy even less profitable. When this occurred in August, some of the more aggressive hedge funds were down as much as 20%. The holders of the short-term credit notes became even more frightened when they read that some of the investments that were being funded with them may not have much real market value since there was not a liquid market in which to trade them. As a result, the rates that the holders of the short-term credit demanded skyrocketed.

The American mortgage industry and the investment dealers that developed the mortgage market had become addicted to the low rates over the last few years that were paid on short-term money. Now the credit market is demanding much higher compensation. It appears to some that the credit market is frozen and that the providers who would buy these short-term notes were no longer willing to do so anymore. This is not true. They are willing to buy the notes, only if they earn much higher rates. The only real problem is

the one faced by the mortgage industry and the associated investment dealers and hedge funds. Their business model depended on low rates of re-financing. This is what is now broken. Once the firms involved take massive write-downs and go out of business or are forced to merge, then the credit markets will return to what is traditionally considered to be a more normal environment where short-term needs are funded by short-term borrowing.

Although this whole issue will make the investment climate more challenging, our due diligence process helped us to steer well clear of any investment that was backed by risky mortgages and other types of questionable loans.

## Sincerely Saleena

By Saleena Vellani

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### Relationship between NBCN and Richardson Partners

When Richardson Partners Financial Ltd. was first constructed, the founders understood that in today's business environment, building an extensive back office for the clearing of securities transactions made little sense. Security clearing is a service which various companies were offering and it was more economical to spend resources building the client service platform

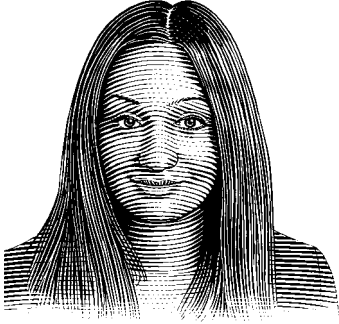
and outsource the back office function. Accordingly, Richardson Partners retained National Bank Correspondent (NBCN) to provide certain record keeping and operational services which includes the execution and settlement of securities transactions, custody of securities and cash balances, and extension of credit on margin transactions.

The safety and protection of your assets are of utmost importance to us and both Richardson Partners and NBCN are member firms of the Canadian Investor Protection Fund (CIPF). NBCN is part of the National Bank of Canada Group, Canada's 6th largest bank. They are Canada's leading supplier of correspondent brokerage services, serving over 80 independent investment dealers, Richardson Partners being one of the largest.

Richardson Partners is one of the fastest growing firms in the country and managing over 7 billion in client assets. Richardson's has been described in the media as Canada's pre-eminent High Net Worth Investment Dealer.

## Good Karma

By Karm Bhatti



### Hedging the U.S. Dollar and Uncertainty

Gold is used as a hedge within your Asset Allocated portfolios and with recent market volatility the use of hedges have never been more important. When taking a closer look you will note that there are several different gold companies that are incorporated in your equities portfolio - two are highlighted below:

1) Barrick Gold - main activities are to explore, develop and produce and operates gold in Canada, the United States, Australia, Peru, Tanzania, Chile and Argentina. During 2006, the Group acquired Placer Dome and Pioneer Metals Inc. Barrick is the largest gold miner in the world.

2) Goldcorp - principal activity is to acquire, explore, develop and operate precious metal properties throughout America and Australia. Its principal products include gold, silver and copper. The Group acquired Eleonore gold project and Virginia Gold Mines Inc. on March 31st, 2006 and acquired Glamis Gold Ltd. on November 4th, 2006.

## Preserve and Protect

By Tricia McIver



Before we head into the Christmas rush and crunch of the New Year, I thought this would be a good time to discuss some year end tax planning strategies that may lighten your tax bill.

### What's new for 2007

**Pension income splitting** - You may now allocate up to 50% of

your qualifying pension income to your spouse or common-law partner. In general, pension income includes payments from a Registered Pension Plan, and where the retiree is 65 years or older, income annuity payments

from an RRSP or a DPSP, and payments from a RRIF or LIF. Caution must be taken to ensure income allocations do not have a negative impact on income based government benefits. (HNWJ - November 2006).

**Deferral to age 71** - Conversion of RRSP's to RIF's and commencement of RPP payments has now been deferred to age 71 (from 69). You can now defer payments (and therefore the tax on payments) for 2 additional years. But remember, if you are 65 years and older you qualify for the pension tax credit (\$2,000), but you must have pension income to claim the credit. (HNWJ - April 2007).

### Other Strategies to Think About

**Donation of publicly traded securities** - to registered charities and private foundations - this is still in draft legislation form but is expected to pass through Parliament. The tax on any appreciated value (capital gain) of the security is eliminated, and you receive a donation tax credit equal to the market value on the date of the donation of the security. (HNWJ - June 2006).

**Flow through shares** - allow you to write off the cost of the share over 2 years (but typically the write off occurs in the year purchased) and, where properly selected, will provide a market rate of return. Further, where these shares are donated to a registered charity (or private foundation) the tax results as noted above will apply. (HNWJ - December 2006).

**Interest deductibility** - ensure your interest costs are working for you. If possible convert non-deductible interest payments (i.e. interest on mortgage payments) to deductible interest payments (interest on money borrowed for investment purposes).

**Income splitting** - where possible pay family members a reasonable salary, and ensure dividend distributions are fully utilized (i.e. where family members are shareholders of family owned businesses or an investment holding company, or beneficiaries under a family trust which owns such shares).

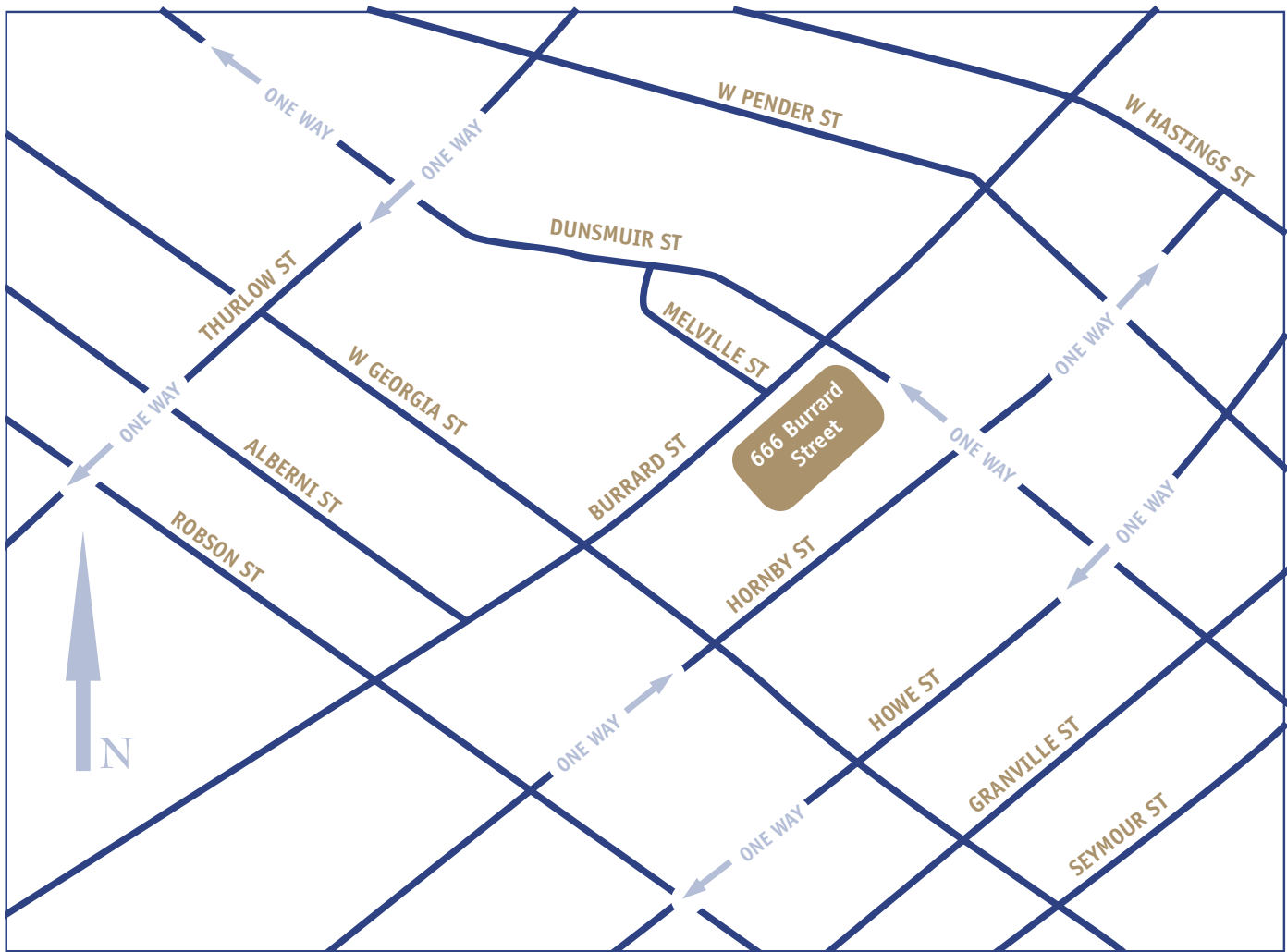
**Maximize your RRSP contribution** - the maximum limit for 2007 is the lesser of 18% of your prior year's earned income and \$19,000 (see your 2006 Notice of Assessment for your contribution limit).

Please see my articles in past HNWJ (published on [www.mciverwealth.com](http://www.mciverwealth.com) > The Archives) for more strategies that may work for you.

### Budget Update

A few measures introduced in the 2007 Federal Budget did not make the Budget Implementation Act 2007 passed into law in June of this year. Draft legislation concerning the remaining measures, including the increase of the Eligible Capital Gains Exemption to \$750,000 and elimination of tax on publicly traded securities to Private Foundations, was released on October 2, 2007 and is expected to pass into law. We will keep you posted on developments. The new mini budget announced significant further tax deductions by the conservative government. The details can be found on our website at [www.mciverwealth.com](http://www.mciverwealth.com) > Resources > Library.

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