High Net Worth Journal

An Investment Update

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Family Wealth Management

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McIver Wealth Management
Consulting Group

What's News

By Neil McIver

Slowdown Priced In

The vast majority of the selling and downward pressure on equities over the past weeks and months has been the markets reaction to fears of a U.S. recession or slowdown. As a reliable leading indicator, the market has begun to price in slower or negative economic growth and lower corporate earnings.

There has been a lively debate in the financial press on whether or not the U.S. has already entered, or will be entering, a period of recession or simply a slowdown. In reality there are far too many variables for any clarity on the matter. The important fact is that the stock market is pricing in this risk and adjusting downward. This is normal and healthy and in a perfect world, allowed to happen unencumbered

Bouncing Bubbles

The U.S. Federal Reserve reacted to the waterfall drop in equity prices in January by lowering rates an unprecedented 125 basis points in a further attempt to provide liquidity to both consumers and institutions alike. This move has been criticized by many, including me, because it fails to address the real problems in the U.S. economy (please see Mark Jasayko's column) and has the potential to create yet another asset bubble when the most recent bubble, in real estate, has yet to deflate. Worse, politicians and presidential hopefuls have pronounced their intention on preserving the bubble by interfering in the free economy and 'managing' it with official policy. These proposals are somewhat akin to not allowing someone to exhale. It's not natural and it's not healthy.

The immediate result of these unusual interest rates cuts was a 700 point recovery bounce on the Dow Jones.

More to Come

This recent recovery in the equity market appears artificial and more volatility is likely. Technical research suggests that the U.S. markets could retrace much of the gains made over the past number years. The time frame of such a downward move could be weeks, or months, depending upon the health of the economy and the depth of a slowdown. Although much of the damage is behind us, the bottom of this corrective cycle is likely still somewhere beneath us. The U.S. dollar should remain low during this period.

The Canadian TSX and international markets will not be able to escape this U.S. reality entirely and these too will remain under some downward pressure.

Silver Lining

Keep in mind that while there will very likely be creaks and groans from U.S. financial institutions, as they continue to write off bad debt, they are liquid, solvent and mostly transparent. It may be that some mergers and takeovers between these organizations will need to take place, as the bad debt is absorbed by these institutions.

Already the U.S. markets are inexpensive by any historical metric and the TSX is not far behind. Most economists are not predicting a deep or long slowdown and corporate balance sheets are in good shape. Even with slower corporate earnings, which are now being 'priced into' stock prices as they fall, the U.S. economy is still in reasonable shape.

Since 1948 the average recession was 10 months in duration. Typically stocks peak 6 months before a recession begins (August 2007 was the high water mark for the market) and bottom roughly half way through it (which would suggest June 2008 as the bottom). This suggests that will be soon an entry point into the U.S. market.

Gold, oil, agriculture and consumer staples all look attractive in both the short and longer terms. All four themes have recently been added to your Asset Allocated portfolios.

On the Mark

By Mark Jasayko

DéJà-pan Vu

During the last ten days of January, the U.S. Federal Reserve Bank lowered its benchmark Fed Funds Rate by a whopping 1 ¼% in response to an economy weakened by crisis and mistrust in the credit markets. These cuts are in addition to a 1% reduction between September and December.

In the past two decades, the Fed has been quick to ride to the rescue of the stock market or the economy. Investors have learned to demand immediate action and then will normally send the market back up following a rate cut. So entrenched is this behaviour that the screams from U.S. investors for quick rate cuts over the past six months has been deafening.

We now have the expected rate cuts, but alas, this time the markets have responded with a yawn. This appears highly unusual. What might be happening to create such a response? For answers, we should look at the one place where something similar has occurred in the last 20 years … in Japan.

The legacy of this period in Japanese economics is still with us today in the form of short-term rates that continue to be a fraction of 1%. Despite the efforts of the Bank of Japan to slash rates to as low as zero percent, the Japanese stock market and economy have failed to approach the glorious heights achieved in the late 1980's.

On closer examination, the problem with the Japanese markets and economy was never the level of interest rates, despite the fact that this was were the Government focused much of its efforts. The problem was the bad debts held by Japanese banks and the poor corporate governance of many of the corporate borrowers. Although most of the bad debts were visible, the system was never allowed to flush these out. There wasn't the political or public will to eliminate or merge the stricken banks or allow a recession to get rid of the low quality corporations that expanded during the boom of the late 1980's.

Back to the current situation with U.S. and global banks that currently hold mind-boggling amounts of bad debts and investments. The most effective prescription would be the most painful. However, like there was in Japan, there is enormous reluctance to do this. Instead, American politicians are trying gimmicks to stimulate the economy, bankers are trying to sell their junk to investors by changing some of the terms, and the Federal Reserve is trying to re-start the real estate bubble in an effort to reduce foreclosures and save some of the investments backed by mortgages.

Unless it is realized that the problem is about bad debts and investments and not about the level of interest rates, policy makers and bankers run the risk of prolonging the market uncertainty and economic imbalances despite reductions in the Fed funds rate. The U.S. may have cultural differences compared to Japan that could allow for a quicker resolution, however, the pain caused by any amount of delay means that accepting the prescription for tough medicine can't come quick enough.

The thorough analysis and cautiousness that characterizes our Asset Allocation and Due Diligence processes become even more critical while this market uncertainty lasts.

Sincerely Saleena

By Saleena Vellani

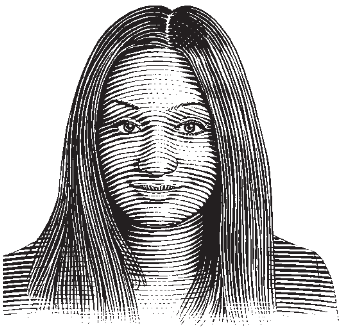
It is with mixed feelings that I inform you that I will no longer be working with the McIver Wealth Management Consulting Group and Richardson Partners Financial Ltd. I would like to take this opportunity to extend my warmest gratitude to Neil McIver, Mark Jasayko, Karm Bhatti and Tricia McIver for the wonderful memories, as well as to Richardson Partners for the numerous opportunities that I was given during the past few years.

I have decided to pursue another opportunity which will allow me to spend more time with my family. I am very excited about my new endeavor, however, I will always cherish the time that I have spent working with such an outstanding team. I will also miss working with each of one of you. It is also to your credit that I enjoyed my time with McIver Wealth Management and would like to thank all the clients
for this.

I would like to extend my best wishes to the entire McIver team and in turn, a prosperous year for you and your families.

Good Karma

By Karm Bhatti



Recent Changes

Recently, as most of you are already aware, we have just under gone changes within your portfolios. All clients whom we have an email address on file, have received notice of these recommendations through an e-mail which provided a full explanation for each buy and sell. Changes within the portfolios are market sensitive and need to be addressed and completed in a timely manner. I wanted to thank all of you for your prompt responses. Here is quick summary of the changes:

Sold	Bought
Brandes International	AGF International Stock
Horizons Mondiale Hedge Fund	Claymore Global Agriculture ETF
Capital International U.S Equity	Dynamic Power American
Opti Canada	Husky Energy
Cameco	Potash
Brookfield (formerly Brascan)	Cash

RRSP contributions

A quick reminder that the RRSP contribution deadline of March 1st is fast approaching: if you have not already done so please submit your contribution ASAP.

If you have any questions please call me directly at 604-678-6563.

Preserve and Protect

By Tricia McIver

U.S. Estate Tax – Issues for Canadian residents

Recently a number of our clients have enquired about the tax implications of purchasing vacation property in the U.S. Often, many are surprised to hear that one of the concerns of owning property situated in the U.S. is exposure to U.S. Estate Tax.

What is U.S. Estate Tax?

Unlike Canada, the U.S. does not have tax system that deems you to have disposed of all property you own at death – thereby triggering capital gains and other income inclusions. Rather, the U.S. levies an Estate Tax. This Estate Tax is applied at graduated rates to the value of your taxable estate. Your taxable estate is equal to the fair market value of certain property you own at death adjusted for permitted deductions such as certain debts and expenses.

Who is subject to US Estate Tax?

As a Canadian resident (and you are not a U.S. citizen) you may be subject to U.S. Estate Tax if you own certain property situated in the U.S. ("U.S. situs property").*

What property is subject to U.S. Estate Tax, and what is not?

Certain property located in the U.S. will be subject to U.S. Estate Tax. Generally, this will include real estate, U.S. stocks and bonds, tangible personal property (jewellery, artwork), and U.S. business assets.
If your entire estate is worth less than US$1,200,000 then U.S. Estate Tax is applicable to only real estate and business assets located in the U.S. and excludes U.S. stocks, bonds and personal property.

Property that is not subject to the U.S. Estate tax includes bank accounts located in the U.S., shares of Canadian holding companies holding U.S. securities, Canadian mutual funds holding U.S. securities and certain life insurance proceeds.

Is there any tax relief?

Canadian residents may claim a "unified credit" to reduce their U.S. Estate Tax liability. The unified credit is the greater of (1) US$13,000, and (2) US$780,800 multiplied by the value of your U.S. situs assets divided by your total worldwide assets. Based on the US$13,000 credit, a taxable estate of approximately US$60,000 would be exempt from tax.

What can be done to avoid, reduce or eliminate U.S. Estate Taxes?

I am often asked if gifting U.S. property to family members prior to death will avoid the tax. Unfortunately, the U.S. has a Gift Tax system, with rates similar to those of Estate Tax. Large gifts will be subject to Gift Tax, and your taxable estate must be adjusted to include certain items previously gifted.

Planning opportunities do exist to avoid or reduce Estate Tax. I would be happy to discuss these with you, to determine if they would be appropriate

*Note that all U.S. citizens, residents and green cardholders are subject to U.S. Estate Tax on the decendant's worldwide taxable estate.

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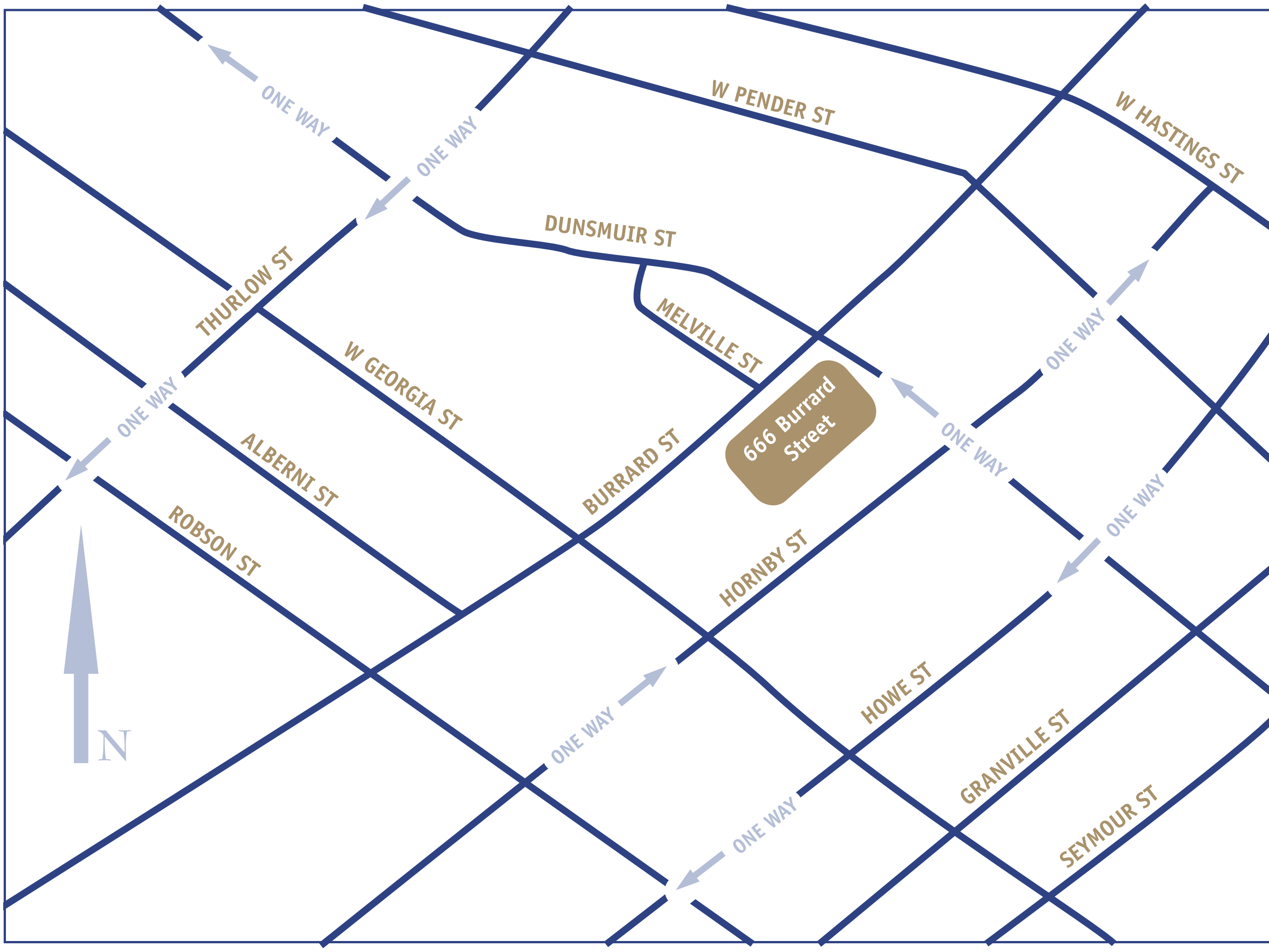

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