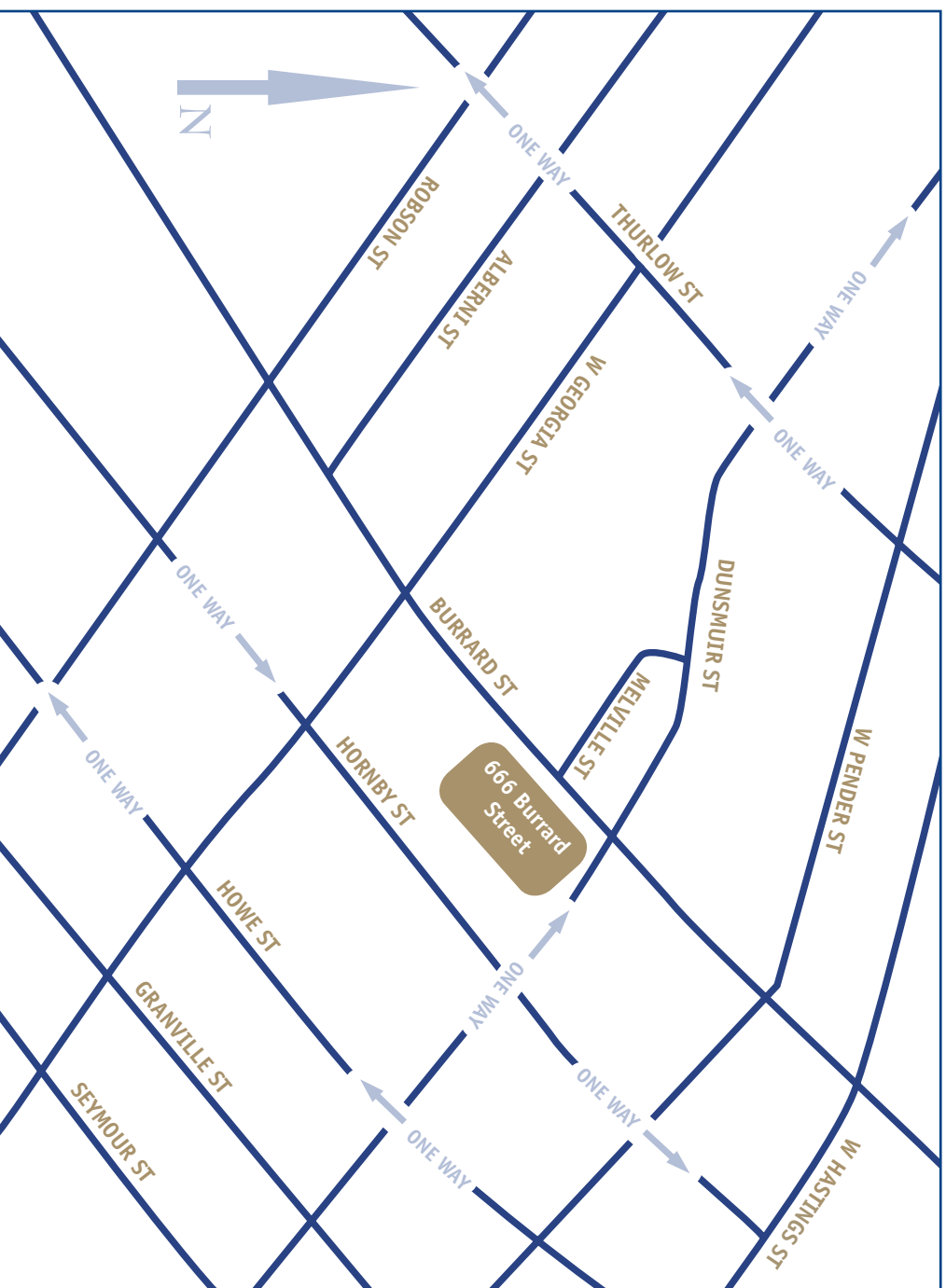


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HIGH NET WORTH JOURNAL

An Investment Update



RICHARDSON PARTNERS
FINANCIAL LIMITED
FAMILY WEALTH MANAGEMENT

Volume IV, Issue I
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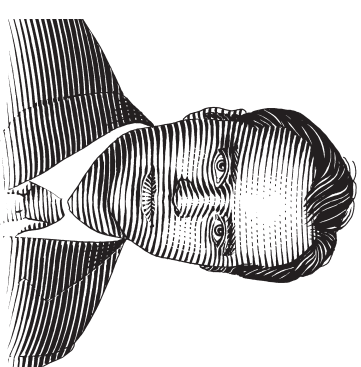
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What's News

By Neil McIver

Moving Forward

As predicted, U.S. markets had a difficult January losing some 9% and revisiting the lows last seen 7 weeks ago, before beginning to recover. From a Technical (charting) perspective, this type of market double bottom or testing of the previous lows, is a positive indicator. It suggests that the stock markets may have fully priced in the current economic reality and a bottom may have been created.



It's important to distinguish between suggesting that a bottom has been created and suggesting a new bull market (such as the 1982-2000 bull market) is imminent. A bottom merely suggests that the downside is limited from this point forward. The next long-term bull market will only develop when a financial recovery is well underway and with sufficient momentum to ignite earnings growth. However, this fact does not preclude a recovery over the short term in stock prices.

While there will continue to be a steady drum roll of negative news out of the media and a certain amount of resulting fear in the economy, there are indications that the seeds of a market recovery have begun to sprout.

Entry Point

We pride ourselves on our independent thought and providing an unfettered and direct view of market. Those of you who have followed our comments will know that we are neither mindlessly buy-side positive, nor beaten into negative conformity by a market that has nearly lost half its value.

Taking the above into consideration and regardless of any short term fluctuations, it's difficult to ignore that, from a long term view of the market, now is a very attractive entry point.

Roadmap to Recovery

The spreads between interest rates of corporate bonds (with perceived risk) versus interest rates of government bonds (with no perceived risk) have finally begun to contract. When these spreads widen it's an indication that investors expect a higher likelihood of corporations defaulting on their debt obligations. These spreads began widening in July of '07 and by November of '08 had moved into extreme ranges (over 600 basis points or 6%) at the height of the panic. In the past, such contractions have been early indications of an economic recovery.

The TED spread is similar to the bond spread above, but measures the difference between at what rate banks will lend money to each other and that of the risk-free 90 Day Treasury bill rate. The TED spread is an excellent indicator of the health of the global financial system. It began to rise from just 0.5% in July '07 and peaked at nearly 5% by October '08, which indicated a near collapse of the global banking system. This spread has now begun to contract and has normalized near the 1% level, indicating that the banks no longer expect other banks to fail. It also suggests that the inclusion of liquidity by central banks globally finally began to stabilize the system.

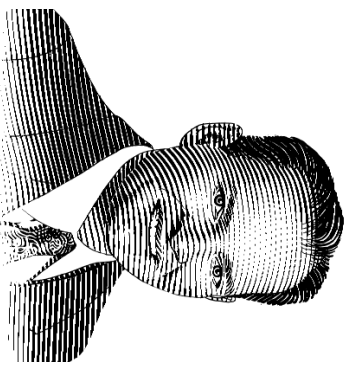
While it's not required for an upswing of stock prices over the next several months, a recovery of corporate earnings growth will be required in order to generate a new bull market. At present earnings growth is still declining, however the rate of decline has slowed and has begun to stabilize. Pockets of resistance have developed in healthcare, technology and consumer staples.

Macroeconomic data (retail sales, purchasing managers and production data) have yet to confirm that a recovery is underway. Like earnings growth however, the rate of decline in these areas has slowed and has even begun to improve in a few. Two relevant factors are, firstly that due to lower real estate, oil and food, real disposable income for consumers has stabilized. Secondly, the early signs of a recovery in China are encouraging as the banks there are functioning well, with plenty of credit in the system. Additionally there has even been a small increase in the demand of some raw materials from China.

All of these indicators suggest that the equity markets hold little risk and may well recover nicely this year. The global economy should trough and begin to improve by the end of 2009 or early 2010. Keep in mind that equities turn upward usually 6 to 9 months before the economic environment improves.

On the Mark

By Mark Jasayko



Parallel Universe

The credit crunch that began over a year and a half ago has had a massive impact on consumers and businesses with respect to their ability to borrow. Governments in the U.S. and the U.K. have observed this and have tried to jump to the rescue. However, these efforts have had very little effect and could prolong the lack of credit as well as the recession.

When governments look at the problem, their conclusion is that banks are not lending enough in order to get economic growth back on track. In response, we have seen massive bailouts and infusions of capital aimed at financial institutions. The idea is to expand the size of bank balance sheets and increase the amount of capital from which banks make loans. These efforts began about four months ago but have not made much difference. In fact, some of the rhetoric from frustrated politicians suggests that banks are not increasing their lending. However, the truth is that the banks are increasing loans (which is very unusual during a recession). The real problem is that prior to the credit crunch, banks were only providing about half of the needed financing directly from their balance sheets. The rest of the financing was coming from another source: asset-backed securities that were sold to eager investors enticed by a slightly higher rate interest in an environment where it was difficult to produce investment income.

The credit crunch obliterated the asset-backed securities industry (these were bonds that were backed by mortgages, cars, credit-card receivables, etc), which accounted for about \$10 trillion of financing in the U.S. in late 2007 according to the Federal Reserve. Traditional banking provided direct loans of about another \$10 trillion. In order to get back to the U.S. credit environment of two years ago, banks would have to ramp up their lending to a staggering \$20 trillion.

The whole area that used alternative methods of creating loans had grown so significantly from its origin two decades ago, that it had acquired its own name: the shadow banking system.[1] It allowed traditional banks to remove loans from the balance sheet and sell them to hedge funds, pensions, and endowments in the form of a

bond that would pay interest. In the process, the banks would charge significant fees while eliminating their risk exposure to the loans that they created. This parallel universe began to collapse when borrower defaults started to accelerate, beginning with mortgages in the U.S. Investors who bought these bonds realized that there was no market into which to sell and they were stuck with the paper.

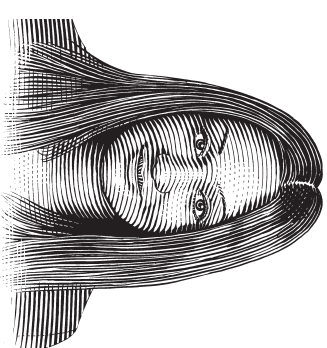
The shadow banking system needs an ocean of willing investors. The reality is that there is virtually no appetite for these kinds of investments and it is unlikely that there will be any for the remainder of the credit cycle (cycles which tend to last for seven to ten years). In light of this, can governments add enough capital, bailout enough banks, or even temporarily nationalize enough banks to make up for the \$10 trillion financing shortfall? The answer is no. It would severely distort the financial markets for an entire generation and impair economic growth for decades. Recent government efforts to do this have only provided a fraction of the amount needed (one-fifth by some measures) and it has already caused political strife and public outrage. Opportunistic politicians leaped at the chance to attach their own unrelated projects to the banking rescue efforts and senior bank officers have continued to award themselves massive bonuses while buying corporate jets and other extravagant perks with taxpayer money. With just a fraction of the government capital needed to replace the loss of the shadow banking system, the rescue efforts have already proved to be almost impossible to monitor.

In the end, the amount of credit in the system will have to contract. The downside is that this will slow the rate of economic growth and temper the enthusiasm for buying up all sorts of assets with borrowed money which helped to drive the prices of those assets upward. However, credit contraction helps the economy by eliminating companies that were only successful because financing was cheap and readily available. In a more balanced environment, companies whose strategies are not dependent on the heavy use of debt will emerge as the new leaders and drive the economy towards recovery.

Our Asset Allocated portfolios and our due diligence process is currently taking advantage of the changing landscape by investing in sectors and companies that are able to survive and grow because of the strength of their operations or their technologies and not because of their ability to financially engineer results using debt.

Good Karma

By Karm Bhatti



RRSP – 2008

Deadline and Limit

It's RRSP season again and the contribution deadline of Monday March 2, 2009 is fast approaching. The maximum contribution limit for 2008 is \$20,000. There are three ways to ensure that you make your contribution in time:

Cheque, by mail

Send in your contribution in by cheque in the mail. Please notify us that you have mailed a cheque so we know your contribution is on its way. Ensure that the cheque is made payable to "RPF" and on the memo line of the cheque please write "2008 RRSP Contribution". Lastly, please ensure you mail the cheque leaving ample time for it to reach us through the mail.

Cheque, in person

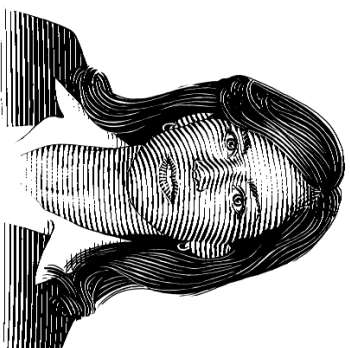
Stop by our office to drop off your cheque. As a reminder, we are located on the 18th floor of 666 Burrard Street. Remember to bring your cheque book.

Transfer from your non-registered investment account

Your RRSP contribution may be made by a transfer of cash or securities from your non-registered investment account to your RRSP account. Please call me directly at 604-678-6563 with the details of the amount you would like to have transferred and I will arrange this for you.

Preserve and Protect

By Tricia McIver



Flow-Through Investing – Many Benefits When Combined with your Corporation and Philanthropy
Back in December 2006 I wrote about the tax benefits of investing in flow-through shares (or flow-through limited partnerships), and further

benefits of donating these shares to charity. My article focused on an investment made by you on a personal basis, but additional benefits may be realized when the investment is made by a corporation owned by you.

To briefly summarize, flow-through shares are securities that are issued by companies operating in the energy and mining sectors. What you pay to the issuing company for the shares must be spent on exploration and the resultant tax deductions for those exploration expenses must be transferred to you. What you pay for the shares must be spent within 2 or 3 years, ensuring a write off of your investment over that same time frame, however typically the majority is spent and allocated to you in the first year. Tax laws mandate that the value of deductions allocated to you reduce the tax cost of your investment. Hence the cost base of your investment in these shares is reduced to zero. When you sell these shares the sale price is taxed as a capital gain.

If you recall, in 2006 the Conservative Government eliminated tax on any capital gain on securities donated to registered charities. So when you donate your flow through shares to a registered charity you will receive a donation credit for the market value of the shares yet you will not be taxed on the gain realized on the deemed sale of those shares to the charity.

Your corporation can take advantage of the same favourable tax results, with an additional bonus. When your corporation invests in flow-through shares, it too can deduct exploration expense allocations against its income. If those shares are then donated to a charity, your corporation may claim a donation deduction and the capital gain is eliminated. The added bonus is the non-taxable portion of a capital gain is added to your corporation's Capital Dividend Account (a notional tax account created under the Income Tax Act), which can be paid out tax free to you, the shareholder, as a Capital Dividend. This effectively opens up a pipeline whereby corporate capital may be paid out to you on a tax free basis. As an example, if you were to donate \$50,000 of flow-through shares to charity, the \$50,000 capital gain (assuming the shares have a cost base of zero) triggered by the donation is not taxable as it is added to your company's Capital Dividend Account. Assuming your Company's Capital Dividend Account balance prior to this transaction was zero it may now pay out \$50,000 to you tax free.

A critical point to know is the balance in your corporation's Capital Dividend Account prior to the donation as this will impact the amount available to distribute tax free. The calculation can be complex – so your Accountant should be consulted on this issue.