High Net Worth Journal

An Investment Update

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RICHARDSON GMP

McIVER WEALTH MANAGEMENT
CONSULTING GROUP

What's News

By Neil McIver

From 2010 and into 2011
Properly hedged with gold (which rose 24% over the year) and protected with bonds, your Asset-Allocated portfolios have enjoyed a nice and steady rate of return over the past year. The weight of your equity exposure was in Canadian blue chip stocks with smaller components in the U.S and global markets. As a reference, thus far this year the Canadian S&P/TSX Index has risen 7.9% while the U.S S&P 500 is up 6.1% and the MSCI World Index gained 4.5%, the impact of the latter two muted, from a Canadian perspective, by a rising Loonie.

The good news is that from both a Technical (charting) and Fundamental (traditional) analysis perspective, 2011 looks to be a year of continued growth for equities.

Technical research suggests that North American equity markets will enter the third leg of a classic bull market pattern (leg one is the volatile recovery rally off the bear market floor, usually lasting about a year; leg two is a shorter downward corrective phase; leg three is a longer, less volatile, resumption of the upward rally). In the recent words of Donald Dony, one of the best Technical Analysts in the country: "stay invested".

Fundamental research suggest that while some significant economic headwinds persist (Sovereign debt levels - particularly in Europe, still high unemployment, questions about how governments are going to exit the money-printing business and rising inflation in China), a decade-long bear market and slowly recovering global economy has resulted in equity prices with room and reason to grow.

The most important change, which I have discussed in past issues of the High Net Worth Journal, is that the U.S market, on a relative risk basis, holds more potential upside than Canadian equities. Largely based upon global demand for our commodities, Canadian equities led all major indexes over the past year and have handily outperformed U.S equities for over a decade. While global demand for our commodities is forecast to remain relatively strong as the world continues its modest recovery, Canadian equities are now the most expensive of all the developed economies. All markets eventually normalize and Canada's will be no exception. In the words of RBC Global Asset Management in their December 2010 Global Investment Outlook, "Canada's outperforming market relative to U.S equities may be growing long in the tooth."

Conversely, both the U.S and European equity markets are mathematically trading below the minimum price levels expected in our current environment of low interest rates and recovering corporate earnings. Highlighting this fact, Goldman Sachs, this past week, forecast a return of 22% for U.S equities and 14% to 29% for various global equity markets over the next 12 months.

Closer to home, in 2011 RBC Global Asset Management is forecasting a 15.4% return in the U.S equity market, 17% in Europe while expecting a more subdued 9% from the Canadian equity market.

A Christmas Story
Recently I caused a bit of a stir at Richardson GMP (as I'm apt to do from time to time) by responding to an email from our hardworking Marketing Department which had announced that company-monikered "Holiday Cards" (scrubbed of any reference to Christmas or symbols such as decorated trees or Santa) were available for purchase by us to send to clients. My cheeky 'Reply All' response rhetorically asked if a "Holiday Card" was similar to a "Mid-Winter Holiday Tree" while suggesting that we should modernize our thinking and drop the intellectually dishonest political correctness. I said that Christmas does not threaten anyone and accordingly should not be denigrated, but at the same time Hanukkah and Ramadan cards should be produced, assuming there is a demand for such cards.

You can imagine the little ruckus that ensued as my email hit over 400 mailboxes at the Firm. The reality is that "Holiday Cards", used as replacements for Christmas cards and sent to people who celebrate Christmas, are discriminatory as they imply that one has to pretend that Christmas does not exist, which can be both annoying and hurtful to those people.

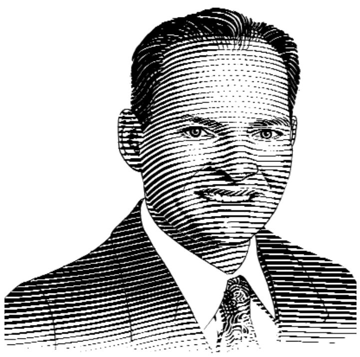
I don't believe any cultural or religious festival is threatening or should be shied away from. For the record, I accept cards and especially gifts in celebration of any religious or cultural holiday!

The net result of my email is that things will be left up to the individual partners to do what they feel is appropriate during various holidays through the year. This makes perfect sense and this how our team has gone about it for years. For the record, I received 47 emails in reply, 46 of them in complete support. Christmas is alive and well. My suggestion is not to let politically correct fear and loathing ruin your holiday, whatever your beliefs.

From my family to yours, have a very Merry Christmas (happy belated Hanukkah) and all the best in 2011.

On the Mark

By Mark Jasayko



Wile E. Coyote Economics

Traveling through Australia at the beginning of November, I was able to witness first-hand an economy that appears to be defying the global economic slowdown. During the visit, the Australian dollar (AUD) reached par with the U.S. dollar (USD) for the first time ever. I remember visiting in 1994 when the Canadian dollar (CAD) was enough to get you 10 cents more in AUD. At the same time, the CAD was less than 75 cents USD!

Another apparent sign of Australia's robust economy is the price of real estate. Although there was a breather a couple of years ago, there was never any sustained fall in prices seen elsewhere in the industrialized world. Even prices in Vancouver came off about 10% before climbing back close to the previous highs.

While I was watching the news down there, the Reserve Bank of Australia shocked investors and homeowners by raising its cash rate by ¼% to 4 ¾%. This was done on a statutory holiday to limit the reaction. Immediately after the announcement, the Commonwealth Bank of Australia raised its mortgage rates by ½%. This contrasts against short term American rates which are almost at zero. In fact, U.S. monetary policy continues to move in the opposite direction as the U.S. Federal Reserve has been forced to conjure up new ways to create money as it is unable to lower interest rates any further.

Prior to the rate increases in Australia, stories of real estate speculation were rampant in the press. In addition, there was an abundance of people buying rental properties and financing those purchases heavily with mortgages. Most of the buying was being done by people with less than $80,000 in household income, indicating that average people were beginning to take the big wager that real estate prices would continue to escalate and hope that this would relieve the initial burden of the mortgage. Much of this was a replay of what had been happening in the U.S. between 2002 and 2006.

Another surprising observation I had was when I was driving around Melbourne and listening to the car radio. There were ads highlighting potential real estate investment opportunities in the U.S. and that tours were being organized for ordinary Australians to travel to the U.S. to see the properties for themselves. Little wonder that the Reserve Bank of Australia thought that it was time to rein in some of the euphoria.

When one steps back, it is clear to see that there is one overriding reason for the escalating real estate prices and the strength of the Australian economy: natural resource exports to China. Without that, one would be hard pressed to find another aspect of the Australian economy that could contribute so much to the Country's economic output.

However, over-reliance on China is risky. Although the Chinese government is loath to admit it, its economic model is excessively dependent upon the American consumer. There is been no sincere attempt by China to shift its economy away from the need to export to the U.S. At the current rate, China will not have enough domestic demand in order to protect itself against a fall in exports to Western economies (even Japan which has an industrialized economy never developed a domestic-demand economy like we have in North America and is now suffering the costs).

Some may point out that the U.S. consumer has already been severely hit and that China, and, by extension, Australia are doing just fine. However, China has used aggressive doses of unsustainable monetary policy to keep the party going. Consequently, we have the result where the fundamentals of the global economy have deteriorated, but a few economies have not been impacted yet. This is much like the Warner Bros. cartoon character Wile E. Coyote who was able to defy the laws of gravity after running off the edge of a cliff … at least until he noticed his predicament.

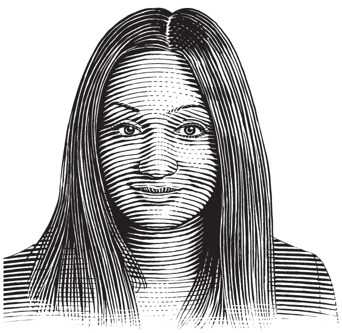
It is difficult to determine how much time it will take for all economies to feel the full effects of the hangover caused by the American credit and consumer spending bubbles that lasted for 20 years. Some countries are arguing that they are on a different track vis-à-vis the U.S. However, all economies that were active in international trade benefitted from the appetite of the American consumer or took advantage of the spillover of easy credit to finance their development. As a result, all of them will eventually be impacted. Countries that have more resources than others are able to cushion and delay the impact, but that doesn't change the inevitable. More vulnerable countries such as Greece, Dubai, and Ireland were only the first to be hit.

Australia's halcyon days will come to an end. Even marginal decreases in exports to China will hurt. To a lesser extent, Canada will face a similar fate. However, our economy is more diversified which offers some good downside protection.

There haven't been any real economic miracles over the last two decades. Instead, global economics has been dominated by excessive money and credit expansion in the U.S. Eventually all economies will have to adjust, including China and Australia.

Good Karma

By Karm Bhatti



As you are aware, our group, McIver Wealth Management, provides professional management and specializes in developing customized solutions for High Net Worth individuals. This detailed process encompasses a full range of objectives including investment research and selection, risk tolerance, investment time horizons, tax, estate, philanthropy, insurance and business secession.

If you have any friends or relatives that are concerned about these issues, our Group would be happy to meet with them on a complimentary basis. Every investor will find this meeting beneficial as we guide and direct them in the right direction.

Preserve and Protect

By Tricia McIver

Last Call

December 31 marks the end of 2010 and, for the most part, the ability to implement techniques to maximize 2010 tax savings. With the year rapidly slipping away I encourage you to take a few minutes to review your financial situation for tax saving opportunities. Below, I've listed several effective year-end tax planning strategies that may apply to you:

Investors

- Tax-loss selling may be considered to shield gains where gains have been realized in the year. Neil and Mark have previously reviewed your portfolios to identify opportunities. Where you hold bonds and securities elsewhere, an evaluation of those holdings should be made.
- Ensure all investment-related costs are paid prior to year end – these would include, for example, safe keeping (safety deposit box) fees and interest on loans used for investment purposes.
- Ensure RSP contributions are made or planned for. Contributions are permitted up to 60 days after December 31 but you will wish to ensure you have the cash available. The maximum 2010 RSP contribution limit is $22,000 and can be made through cash and securities from your non-RRSP account if required.
- Donation of a publically-listed security is a very effective way to contribute to a registered charity as any unrealized gains are not taxed, yet you receive the full fair value of the gift as a charitable donation amount.
- Ensure interest on loans made to a spouse for investment (or other) purposes is paid no later than January 30, 2011.

Business Owners

- Accelerate operating and capital expenditures to maximize tax deductions.
- Review any shareholder loan balances to ensure you do not fall offside of the rules and force an income inclusion of the loan amount. Generally speaking, a loan to a shareholder must be repaid by the end of the year following the year in which the loan was made. Repayments are often made by declaring bonuses (which themselves must be paid within 180 days of the corporation's year end) or by paying dividends.
- Review your remuneration and the mix of salary, bonus and dividends. With favorable corporate and personal dividend tax rates, dividends are often a more tax-effective distribution method. However, other issues must be considered such as creating RRSP room (created by "earned income", which effectively is salary & bonus) and creating CPP benefit room.

Retirees

- You should review the benefits of pension income splitting bearing in mind the preservation of government benefits and long term health care cost calculations (where benefits are calculated based on income).
- Continue to contribute to RSP's (available until conversion to RIF) where contribution room exists.

For Children

- Unlike RSP's, contributions to RESP's must be made by December 31 in order to receive the current year's Canadian Education Savings Grant ("CESG") (maximum $500) and up to $500 of grant room carried over from prior years. It is important to note grants are paid only up to the year in which the child beneficiary of the RESP turns 17 – so if you have a child or grandchild who turns 17 in 2010, this is the last year for which any grants will be paid

General

- If you pay quarterly installments, the last installment date is December 15 – ensure your payment is made.
- Ensure tax-deductible expenses are PAID by December 31.
- Review charitable and medical expenses with a view to accelerating or deferring expenses so as to maximize the benefit in a single tax year.

With warmest wishes, may you and your family enjoy the wonderful Christmas Season.

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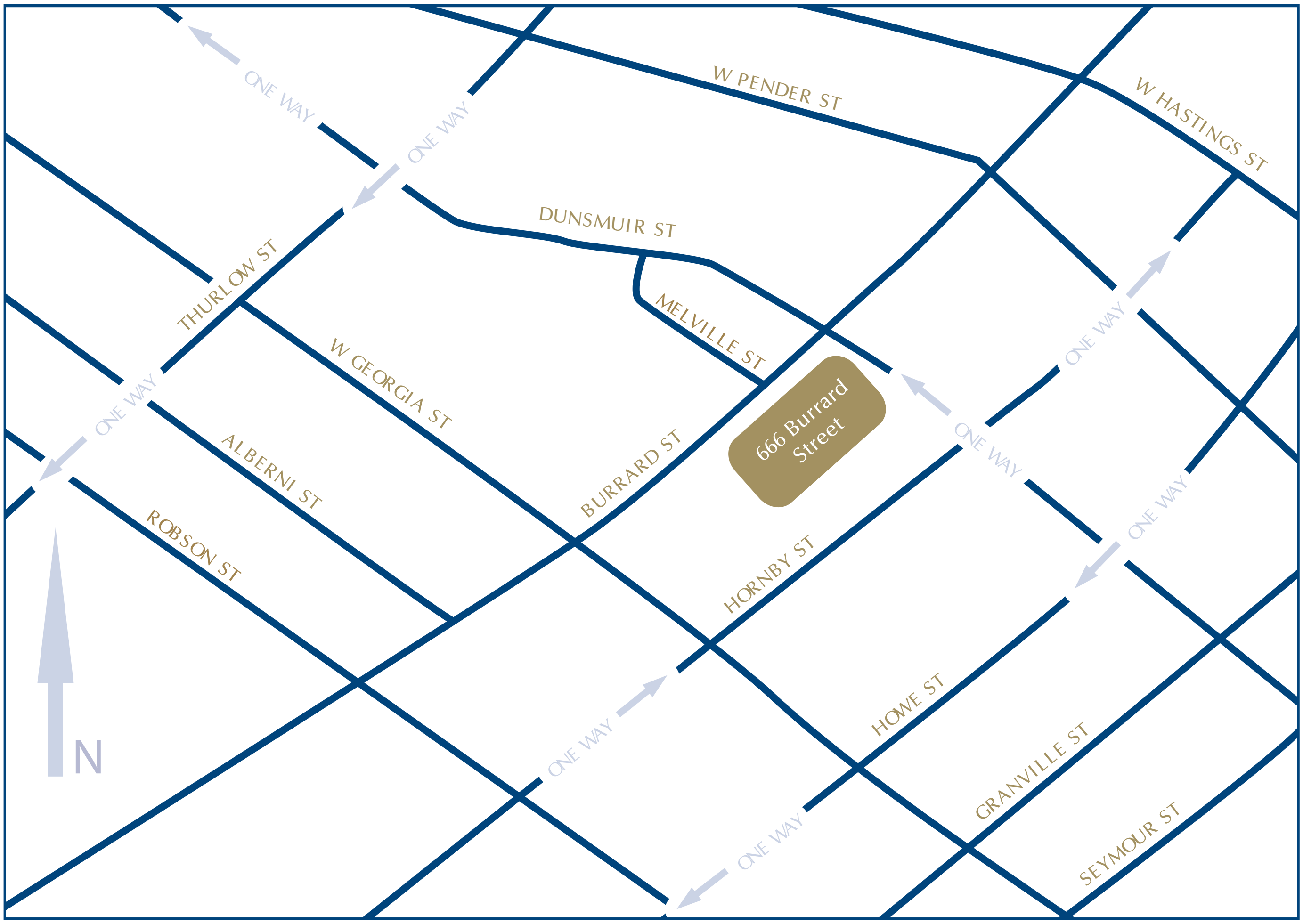

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