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An Investment Update

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What's News

By Neil McIver

Going to sleep each night knowing that individuals and whole families are relying upon your judgment to secure their financial future is a great motivator towards constantly seeking the most reliable portfolio management techniques. Over the course of 20 years of managing others people's money successfully, I've had the opportunity to learn a fair bit along the way.

Early in my career it became apparent to me that large institutional investors had much greater success than individual investors ever seemed to have and those institutional investors experienced much less volatility along the way. This struck me as an opportunity. So over the next several years I studied the investment processes used by institutional investors and compared this with the investment behavior of most individual investors. One of the first things I learned about achieving long-term portfolio out-performance is that it is much more a game of inches than most would initially believe. Many individual investors would likely believe that in order to be successful, one needs to make far-reaching prognostications about the economic environment and then make bold investments based upon this genius into the future. Alternatively, others believe that the out-performance experienced by large institutional investors is the result of 'black-box' mathematical trading algorithms available only to a few. The former harkens back to how stocks were picked by brokers in the 1970's, but studies have proven the high level of risk and ineffectiveness of this approach over any length of time. The latter simply does not exist. Although mathematical algorithms are used by institutions, they are not the key to untold wealth.

Over a number of years of both practice and study, it became clear that long-term portfolio out-performance is achieved through employing a disciplined process which both measures and reduces risk, while adding incremental return. Every study proves the same point; that while more aggressive 'gut feeling' portfolios may be emotionally pleasing for a time, that same volatility which provides those thrilling upside returns at times also delivers devastating negative returns as well. It is these negative returns which kill long-term performance numbers in portfolios. Keep in mind that if you lose 30% in the first year of investing, you then need to gain 43% to make it back to zero. Even if you are able to achieve a steady annual compounded rate of 10% after the first year loss, it would take almost 4 years to make it back to breakeven. That scenario would represent close to a five-year stretch without making any progress. (With respect to the topic of making up for losses, my colleague Mark Jasayko loves to recite the old investment adage: A 50% loss followed by a 50% gain *is still* a 25% loss!)

Having some previous experience working with large institutional investors, I set out learning about how they employed risk management techniques in combination with learning the specific investment processes they employed to build and manage portfolios. I discovered that successful institutional investors were combining mathematical insights from the latest academic research at the time with increased computing power to build sophisticated portfolios that reduced volatility risk while providing the greatest statistical probability of success. My goal was simple; to bring the clear advantages previously available only to large institutional investors directly to individual high net worth investors.

My team and I were first able to offer these risk-adjusted asset-allocated portfolios in late 2000, just in time for the current secular bear market which was then initially descending upon us. In many ways, the timing could not have been better. With the help of Mark Jasayko, we have been able to greatly improve upon these early model portfolios and bring added layers of safety and oversight to our investment process over the past decade. We were pioneers at a time when investment advice was clinging to the old ways of doing things. And, the results for clients who have been with us while we innovated and pushed the technological frontier in order to apply the latest ideas speak for themselves. That is something of which I am very proud. And, it has made that process of going to sleep each night a little bit easier for me and my team.

Over the past 30 years so many things in our lives have advanced and improved. Cars have become much faster, with better safety and more agile handing, are easier to maintain and more fuel efficient. Computers are a million times more powerful than they were just a few short years ago. And cell phones can do things that were not even dreamed of 10 years ago. Yet many investors are still investing like it is the 1970's or 80's, and relying on gut feel and guesswork. Our goal is to help those folks toward a more stable and wealthier future.

On the Mark

By Mark Jasayko

Dubai Part Deux

Five years ago in this column I wrote about a visit to Dubai. I just recently returned from another trip to the emirate and witnessed a number of things that reflect the state of the global economy.

On my previous visit in the spring of 2008, construction was still going full steam. Although the news of the Bear Stearns collapse actually hit while I was there, the momentum of the 2000's Credit Bubble was still in full force. The failure of Lehman Brothers and the corresponding train wreck in the equity markets were still about six months away.

Some people make the mistake that Dubai has plenty of long-term oil reserves and that this is where the wealth comes from. Well, some of the wealth did come from oil, but the reserves are approaching depletion and the strategy was to diversify the economy so that its survival would not be dependent upon oil. However, oil wealth alone was not enough to fund this strategy. Dubai and its state-owned companies had to borrow heavily. At the time it was not a problem. During the Credit Bubble, loans were cheap and plentiful. And, as the economy expanded rapidly, it was easy to cover the cost of all that borrowing.

However, in the column from five years ago I wrote that "... if the economy stalls, it will become harder to finance that debt and complications could begin to multiply." That prophecy came true, and in a big way. Eventually, Dubai was forced into receiving assistance from its very oil-rich neighbour, Abu Dhabi, in order to complete a number of high profile projects including the tallest building in the world, the Burj Khalifa (named after the ruler of Abu Dhabi at the last minute, likely a condition for the emergency cash).

Abu Dhabi didn't bailout everything and everyone. There was some negotiation with international lenders that led to a reorganization of much of the debt used to build the skyline and infrastructure.

Also, a lot of projects just stopped four years ago. One advantage of a desert climate is that it is possible to halt construction for an indefinite period of time without the risk of erosion or dilapidation. One area where this is prevalent is with residential subdivisions. Homes that were started back in 2009 are still standing there in various stages of construction. There are some ragtag groups of foreign labourers shuffling around giving the impression that something is happening. But their numbers are woefully insufficient and their progress is glacial. I got the impression that their presence was solely to soothe some of the anxiety of those (mainly expat professionals based in Dubai) who placed large down payments on these homes years ago.

So, if the world has been recovering as we are told by various governments, policymakers, and financial industry prognosticators, why are they so many conspicuous examples in places like Dubai that suggest otherwise?

The answer is likely that we have not been in a recovery. At least, we have not been in a natural recovery where the global economy, capital markets, and credit markets are healing themselves. Instead, we are witnessing the immediate results of massive policies that are geared at trying to financially engineer a recovery.

When interest rates are severely suppressed and financial institutions are bailed out and subsidized with cost-free capital, it is virtually assured that there will be signs that suggest things are improving here and there. Perhaps the hope is that consumers will see these developments and become encouraged to go out and spend money, thereby adding momentum to the positive signs.

When looking at the Burj Khalifa or the incredible Palm Jumeirah (a 5 kilometer-wide manmade island), it looks like things are recovering. But on closer inspection, the area around the base of the Burj Khalifa is mostly an abandoned construction zone, and most of the homes on the Palm Jumeirah are dark, empty, or partially constructed after four years.

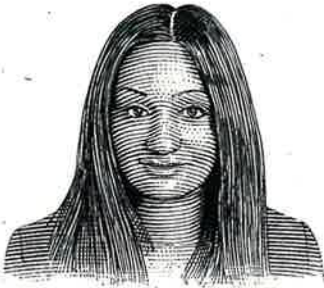
A similar example in the U.S. is the supposed housing recovery as prices are noticeable higher compared to a year ago. Financial TV shows can hardly contain their excitement as they encourage viewers to jump in. However, upon closer examination, prices are actually lower than in 2010 which was the first bounce after the 2007-2009 sell off. Since the bubble, U.S. housing has been in a price range, ebbing and flowing at least three times over the period. We are only at the high end of that price range and still 35% below peak prices on a national basis.

The fallout effects of the credit growth mania that ended in 2008 are still everywhere. Obscuring them are stories of very contained real estate price spikes, hedge funds and private equity firms buying thousands of homes, fixing them up and renting them out, and governments around the world following through with visible infrastructure projects. But stories like these hardly constitute a recovery with respect to global economies (or real estate specifically). They don't necessarily even indicate the beginning of a recovery. But, they do provide insight into the effects of monetary and fiscal policies of unprecedented magnitude.

When a recovery is upon us, we will be able to tell because of improved and sustainable employment, higher income, lower total debt (government, corporate & individual), and clear signs *everywhere*, not just in places where the policymakers are hoping that we are looking.

Good Karma

By Karm Bhatti



On-Line Deposits

A safe and reliable way to make deposits to your investment portfolio accounts here at Richardson GMP is with a direct deposit on-line. In order to set yourself up for on-line deposits, you will need to establish GMP as a Payee (biller). Once you are on your bank's website, input "GMP" as the recipient and it will respond with "GMP Securities L.P." Please accept. This Payee set up is similar to the method you use to electronically transfer bill payments. The account number is your eight-character Richardson GMP account number ending with either an A or an E.

Please notify us when you are sending funds so that we are aware of the transfers and note that it will take up to 48 hours for your money to be deposited here into your Richardson GMP account.

If you have any questions, please call me directly at 604-678-6563 or email at Karm.Bhatti@RichardsonGMP.com

Preserve and Protect

By Mike George

Insuring What Matters the Most

Most people would never give up their home insurance, their car insurance, and even their life insurance. Nevertheless, when the time comes to insure their health, many people believe it's an unnecessary expense, since the government is there if we need health care. Despite our progressive health care system, we are still faced with long waiting periods and increasing health care costs.

Disability Insurance

Disability insurance allows someone who has become disabled, due to illness or injury, to receive monthly benefits during a certain period of time. The purpose of Disability insurance is to compensate, not to make you rich. That is why the benefits are determined according to your income. If you are a self-employed worker, an entrepreneur, or employed by a company that does not offer coverage in the event of disability, this insurance is for you.

Critical Illness Insurance (CI)

CI insurance allows those insured to receive insurance benefits during their lifetime. CI pays a lump sum following the diagnosis of one of the illnesses covered by the program, and this, even if you completely recover. You are free to decide how to use the benefits paid to you.

For those who do not have or cannot purchase disability coverage, CI can offer an interesting solution. If you already have Disability insurance, you can also benefit from CI. If you are unable to work because of a disability, disability benefits help you pay your actual expenses. However, these benefits can be insufficient to cover all important and one-time expenses associated to a critical illness. Moreover, a person suffering from an illness, such as cancer, does not become disabled necessarily when diagnosed. This person will probably have to continue to work until treatment begins before receiving disability insurance benefits. With CI, that person will receive a lump sum benefit 30 days after the diagnosis.

Long Term Care Insurance (LTC)

LTC allows those insured to benefit from an insurance amount, during their lifetime. LTC pays daily or monthly benefits in order to pay for health care at home or in a private facility. Such a coverage provides a tax free benefit that can help fund costs associated with home or facility care as a result of suffering from cognitive impairment (such as Alzheimer's disease) or being unable to perform activities of daily living such as those listed below:

This coverage helps those insured to stay in control so that they have the possibility of choose to: 1) Receive better health care; 2) Stay at home as long as possible or choose the best suitable health care facility (public or private); 3) Compensate an informal caregiver who provides care gratuitously; 4) Protect their wealth and succession they want to pass to their children; 5) Maintain living standards despite inconveniences caused by their state of health; 6) Be able to choose a care facility designed to meet their needs.

The main illnesses causing loss of autonomy are: Alzheimer's disease, circulatory diseases (e.g., heart attack), injuries such as fracture of the hip (frequent among seniors), strokes (CVA) and cancer.

Statistics show that a third of claims are related to injuries and fractures. Furthermore, 41% of the claims are made *before* 65 years old.

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