HIGH NET WORTH JOURNAL

An Investment Update

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RICHARDSON GMP

MCIVER WEALTH MANAGEMENT
CONSULTING GROUP

What's News

By Neil McIver

As summer approaches and we British Columbians sadly give away our hopes for a Canucks Cup win after 40 years, we would normally be expecting the typical summer doldrums to take a hold of the market. But this year we may experience an atypical summer in the financial markets based upon the outcomes of a couple of issues which are, as of today, far from decided.

"I'll gladly pay you Tuesday for a hamburger today"

The first is everyone's current favourite concern; the economic and political future of Greece. In many ways Greece is the proverbial 'Canary in a Coal Mine' for much of socialist Europe. It is the test case for other countries which have promised too many entitlements, borrowed too much, and which never explained to their citizens that they themselves have to pay for those entitlements. Early in Greece's cash crunch, the demonstrators consisted of politically motivated radical disturbers, but recently the crowds have swelled to include the hoi polloi. This group of mostly fifty-something protestors, newly retired on their government pensions, are shouting "Where did all the money go?!?" The other debt-plagued countries, namely Portugal, Spain and Ireland, will be watching closely to see how Greece navigates this collapse as they consider their own future.

It seems clear that some form of default of Greek bonds is inevitable, although the word 'default' probably won't be used. More likely, the term 'restructuring' will be used in conjunction with the terms 'voluntary' or 'strategic' in order not to rattle too many cages. Nonetheless, it will be a form of default, the actual characteristics of which and the impact of which remain unknown until it occurs.

So how do we get out of this one?

Despite the tiny size of the Greek economy, the concern following a default would be the depth of the damage inflicted upon European banks, the global financial markets in general, and the state of the European Monetary Union. However, if the Greeks accept the forced austerity package, which is a European Central Bank prerequisite for a bail-out and an unofficial restructuring of Greek debt, the problem will be kicked further down the road, into 2014. While we have zero confidence that Greece will ever display fiscal responsibility, perhaps by 2014 a more stable environment will prevail in the region, one in which there is less pressure on the heavily indebted nations. By then one can expect some sense of reality will have pushed Portugal, Spain and Ireland into reducing the size of government and balancing the books and therefore reducing the risk of contagion.

The bottom line here is that if the 'Buckley's Mixture' austerity package can be swallowed by Greece and their debt restructured successfully, the economic risk in the current financial markets will decrease, improving the odds of summer stock market rally.

Constructive Impasse

When the Republicans won control over Congress last year many wondered what they could do to reign in the massive expansion of government and government entitlement programs initiated under the Obama administration beginning in 2008. Now we know:

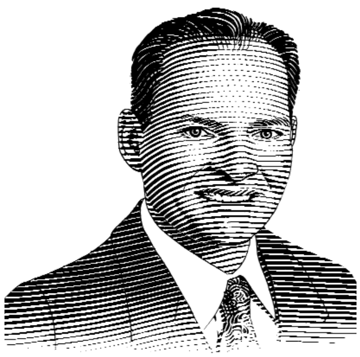
In order for the U.S government to continue paying its bills, it will have to raise the overall debt ceiling above the current (and staggering) $14.29 trillion dollar limit. Permission to do this can only come from Congress and the Republicans are using this to force the Democrats to reduce government spending and cut entitlement programs.

Despite the brinkmanship currently being displayed, failure to compromise would be political suicide as there would be catastrophic economic fallout if the U.S Treasury defaulted on payments. It is unlikely that this will happen. On the flip side, fiscal responsibility and sober consideration have now been forced upon the Obama administration. Both the electorate and the politicians will now have new, lower expectations for the size and scope of government entitlements going into the 2012 presidential election cycle. Regardless of whether this will be achieved through increasing taxes, slashing the size of government, or any combination thereof, this new focus on reducing deficits, reducing government spending, and paying down debt is a positive one from the perspective of investors.

Assuming that both the Greek crisis and the U.S debt ceiling impasse can be resolved in a manner acceptable to global investors, even for the short term, it is certainly possible that a welcome summer rally develops.

On the Mark

By Mark Jasayko



Helicopter Drop

Back in 2002, the future Fed chairman, Ben Bernanke, tried to reassure an audience that the U.S. would be able to fight deflation with the use of the printing press. He equated this to dropping money from helicopters. Soon after, he was conferred the nickname "Helicopter Ben." We got of glimpse of what he might be like if he became Fed chairman. Since his appointment he has lived up to his billing. Although there was some posturing to avoid resembling his nickname as the financial crisis began to hit in 2008, he quickly caved in and began printing money at historically unprecedented rates for a peacetime period.

In late April I read an article in The Vancouver Sun about the rising cost of real estate. Amazingly, the article made reference to helicopters. According to the report, prospective home buyers from Mainland China were being flown around to inspect various neighbourhoods in the Lower Mainland. I had long suspected that our elevated real estate market had something to do with international money flows. Now, with this reference to helicopters, I began to see the outline of the puzzle.

A couple of weeks later, I was in Edinburgh for the Annual CFA (Chartered Financial Analyst) Conference and figured I would mention the article to James Grant who was presenting there. As the editor of Grant's Interest Rate Observer (to which I am a personal subscriber), a financial author, and former Barron's columnist, there is no one better positioned to grasp how money and credit flow across the globe, especially when helicopters are involved. By the time I arrived home, the next edition of the Interest Rate Observer had been published along with the headline "From New York to Beijing to Vancouver" which helped to construct the remaining pieces of the puzzle.

Here is a quick depiction of the completed puzzle. The U.S. prints money to add liquidity to the U.S. economy and temporarily boost economic growth. This leads to continued high U.S. consumption of goods from China. The resulting negative U.S. balance of trade contributes to a current account deficit. The net effect of a current account deficit is a surplus of dollars (USD) flowing to China. But the Chinese government wants a cheap renminbi (RMB) vis à vis the USD to maintain its exports so it prints RMB which are used to buy USD.

In addition to the Chinese government, companies and individuals in China are also net beneficiaries of the trade balance with the U.S. Initially the excess capital was plowed into real estate within Mainland China leading to stunning price increases. But holding RMB and investing in RMB-denominated investments has become a risky proposition because of inflation and price-bubble fears in China. As a result, this capital has stampeded out of China and into overseas real estate located in destinations that are characterized by a combination of existing Chinese communities and having so far avoided the correction that has plagued real estate in most other areas of the world. When I was in Hong Kong at the end of March, I was able to see first-hand the advertising barrage for overseas condos and homes. It also became evident that the same five cities were highlighted over and over in the Hong Kong and mainland Chinese newspapers: Hong Kong itself, Singapore, Sydney, Melbourne, and, you probably guessed it, Vancouver.

This is where things come full circle. Helicopter Ben Bernanke prints USD at a record rate. That capital takes a quick trip overseas, and then boomerangs back to cities like Vancouver, contained in the wallets of those flying around in helicopters looking for a place to spend it. Ben Bernanke's helicopters have literally arrived.

This illustration also gives us a glimpse into some of the risks embedded in the Vancouver housing market. When the U.S. Federal Reserve winds down its money-printing campaign, this international boomerang effect will slow down.

Bernanke has admitted that one of his goals is to create some inflation. The problem is that inflation is uneven and is occurring in some unintended areas: food, commodities, energy, and international real estate. His desire was to create some U.S. housing inflation which would dramatically assist the struggling U.S. economy. But economics is always more messy than surgical.

Those who lament that Vancouver's housing market makes no sense are wrong. It is directly correlated to China's foreign exchange reserves (James Grant's research analysts produced a graph illustrating this relationship). Without rampant U.S. money-printing, expect the housing market to level off. Also, basic commodities and cyclical stocks will likely be in for a rough ride. Finally, if the economy hiccups and it becomes unpalatable for the U.S. Federal Reserve to remove recently printed USD from the system, those excess dollars will become permanent and inflationary, benefitting gold.

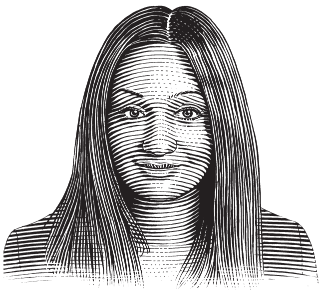
There are a lot of moving targets, but our Asset Allocated portfolios are taking all of it into consideration.

[1] *Gord Goble, "In Vancouver, renting is a better option than buying," The Vancouver Sun, April 26, 2011.*

[2] *James Grant, "From New York to Beijing to Vancouver," Grant's Interest Rate Observer, Vol. 29, No.10, May 20, 2011: 1-3.*

Good Karma

By Karm Bhatti



Below is a table with our most recent performance numbers.

At May 31, 2011 *

McIver / Jasayko Model Portfolio Performance

	12 Months	9 Months	6 Months
P1 - Very Conservative	14.80%	11.35%	4.63%
P2 - Conservative 15.67%	13.18%	5.71%	5.71%
P3 - Conservative Value	16.06%	14.93%	6.17%
P6 - Income	16.79%	13.17%	5.51%
P8 - RRSP Growth	10.79%	7.49%	3.78%
P9 - RRIF	10.77%	7.47%	3.55%

* Performance returns are as of May 31, 2011 and are based on an actual representative accounts. Please note that past performance is not necessarily an indicator of future performance. The indicated rates of return are net of fees. Individual results of clients' portfolios may differ from that of the representative portfolio as fees may differ, and performance of specific accounts is based on specific account investiture. The noted representative portfolio may not be appropriate for all investors.

Preserve and Protect

By Tricia McIver

Sale of a Business

There are two basic methods of structuring the sale of an incorporated business. You can either sell the net assets of the business or sell the shares of the incorporated entity.

Sale of Assets

The total purchase price will be allocated to the various assets based on their fair market value (including amounts allocated to goodwill).

From the **seller's** perspective, there will be two levels of taxation. First, when the corporation sells its assets, any income, gain or loss from the disposition of these assets will be calculated and taxes will be payable by the corporation on its taxable income. The second level of taxation will occur when the corporation eventually distributes the net after-tax proceeds to its shareholders. If a capital gain is realized on the disposition of certain assets, consideration should be given to paying out a capital dividend (the tax-free portion of the capital gain), to the extent that one is available, since a subsequent capital loss could remove the ability to pay out this tax-free dividend.

Sale of Shares

From the seller's perspective it is often preferable to sell the shares of the corporation because any gain on the sale of the shares will be treated as a capital gain and subject to tax on only 50% of the capital gain (taxable capital gain). In addition, because the sale of shares results in the vendor ceasing to own the company, or any of its assets, there will be no on-going filing requirements or issues to deal with.

Capital Gains Exemption

Where a corporation meets the requirements of a Qualified Small Business Corporation, an individual may realize up to $750,000 of capital gains on the sale of their shares on a tax-free basis. Because the requirements are extremely complex we recommend that you speak with your tax professional to ensure that the corporation qualifies for this purpose and your personal tax situation makes best use of the capital gains exemption.

Other Issues

In addition to the income tax implications noted above there are many non income tax issues that need to be considered:

Sale of assets

• Land transfer tax may apply to the sale of certain assets such as land and buildings
• Most asset sales will be subject to Goods and Services Tax (GST) and Provincial Sales Tax (PST)
• The purchaser may offer employment to existing employees or set up a new work force
• The vendor will be responsible for dismissing employees and must comply with various employment standards relating to notice, severance pay and employment contracts.

Sale of shares

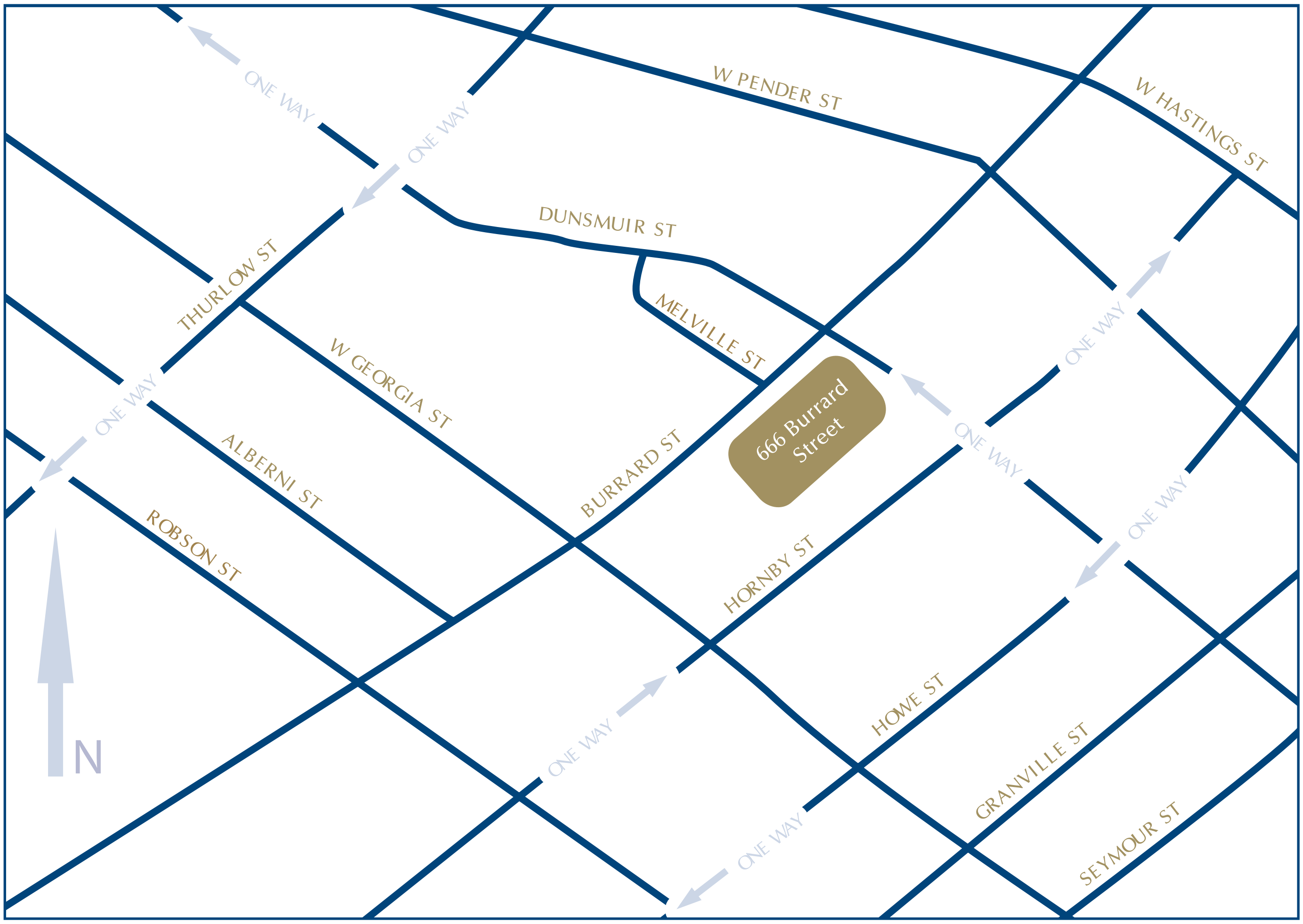
• Does not attract land transfer tax, GST or PST
• Potential cost of dismissing, re-training or litigating with those employees not deemed suitable

Conclusion

There are a number of factors to consider when structuring the purchase and sale of a business. In most cases, vendors will prefer to sell shares due to the preferential tax treatment whereas purchasers' tend to prefer purchasing net assets. In all cases, professional and independent legal and tax advice should be obtained to ensure all the benefits and pitfalls have been addressed.

If you have any questions or require any help with the sale of a business from a tax standpoint, please don't hesitate to call me.

Visit Us in Person or Online!



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