High Net Worth Journal

An Investment Update

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RICHARDSON GMP

McIver Wealth Management
CONSULTING GROUP

What's News

By Neil McIver

Housekeeping:
For those of you here in Vancouver, I hope you enjoyed our collective Olympic experience. The energy in the city was fantastic and unprecedented. The gold medal men's hockey game seemed a fitting end to the Games. I think most of us will always remember where we were when we watched Sidney Crosby, in overtime, receive the feed from Jerome Iginla and fire home the "Golden Goal".

I was one of the estimated 25 million Canadians and 26 million Americans who watched that game live. However, my vantage point was from the U.S. as I had travelled with my family to the southwest desert after taking in the first half of the Games in both Vancouver and Whistler.

It has become an annual pilgrimage to visit this part of the world in the late winter and while there I'm always eager take the temperature of the local business environment. It was on one of these trips in early 2007, well before U.S. residential real estate began its plunge, precipitating the mortgage meltdown and global credit crisis, that I noticed something peculiar and troubling. Just outside of town, in the vast tree-less expanse, there was a very large, brand new, residential development. One side of this development had about 400 completed homes in addition to about 400 more under construction across the main road. Passing through the development daily on that previous vacation, there were never any construction crews working on the unfinished homes. To make matters worse, there was no evidence of occupation of the completed homes, and there were just two or three cars parked in front of the sales office that was festooned with balloons and flags blowing in the desert breeze. In fact, each day it was the same cars that were parked there.

On my vacation this year, I noticed that the same residential development remains unoccupied and mostly in foreclosure, and that both the finished and unfinished homes were decaying in the wind, sand, and sun. This is a simple and clear monument to excessive speculation in the U.S. real estate market from 2000 to 2008, and it is still impacting the economy today. The over-supply will be an anvil around the price of real estate for some time to come. As long as home prices remain under pressure, the average U.S. consumer's credit rating and debt capacity will be impinged because the primary driver of their net worth is not rising.

Despite China's size and growing importance, a global economic recovery will not take place without the re-emergence of a strong U.S. consumer and, to date, there has been scant indication that this has begun to take place.

This is one of the reasons why we've underweighted the U.S. market relative to its size globally. And, this is despite the fact that U.S. equities have had much higher historical rates of return with less corresponding volatility than any other international market.

From an investment perspective, however, there will still be opportunities in the U.S. market. The U.S. equity market has been in a bear market since height of the dot-com bubble in 2000, but bear markets don't last forever. In the decade since then, the rate of return of the largest market in the world has been virtually zero. Most bear markets last 7 to 14 years, the average being 11 years. The objective with investing is not to buy when a market is high; it is to identify weaker markets which are likely to become stronger in the future.

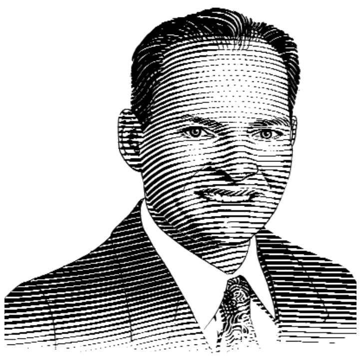
There is evidence to suggest that the economic, fiscal, and regulatory framework is developing which could result in an extended bull market. The question is not if, but when. We've already experienced two quarters of expanding economic output in the U.S. and U.S corporate earnings, which are the ultimate driver of equity prices, have improved in each of the past four quarters. Replacing the 8.4 million jobs lost since January 2008 and regaining consumer confidence, as discussed above, still remain as obstacles.

However, stock markets look forward six to twelve months and the U.S. equity market has already gained 46% from the Armageddon lows set in March of 2009. Technical research (charting) is also suggestion that we've already begun a bull market in the U.S. stock prices.

The bottom line here is that simply because a market has underperformed in the past, does not indicate it will do so in the future. The key going forward is a stabilizing real estate market and a more confident U.S. consumer.

On the Mark

By Mark Jasayko



Weekend at Bernie's III

Over the last number of months, there has been constant press coverage of the apparent economic recovery. In the 4th quarter of 2009, U.S. economic growth spiked to 5.7%. The Asian economies have soared to over-heated levels and many of the economies in Europe have also expanded, but at a slower pace. It looks like governments have beaten the recession and it's blue skies ahead ... right? Now, all that has to be done is for governments to immediately withdraw all the deficit-fuelling stimulus of the past two years and we can officially declare victory. But they won't ... because they can't ... and everyone knows it.

Back in the late 1980's, there was a cult comedy movie titled Weekend at Bernie's. The plot involved a couple of insurance company employees who prop up their deceased boss in order to host a party at his summer beach home. Their efforts miraculously managed to fool almost everyone else in the film. Shockingly, there was actually a s equel to this movie, Weekend at Bernie's II, involving a trip to the Caribbean and another of weekend of fun with the corpse dressed up in tropical leisurewear and sunglasses.

The efforts of the U.S. Federal Reserve, the U.S. Treasury Department, and governments around the world to prop up failing economies have taken on similar comedic proportions. In order for us to take the words of governments and central banks at face value, we would have to suspend belief as objective observers.

Fiscal and monetary stimulus measures are like emergency doses of adrenaline in their ability to restart any economy regardless of its health or degree of freedom. And this is what we saw. In less than a year, the massive injection of global liquidity, initially emanating from the U.S., swung most of the world's recession-plagued industrial economies back into growth mode.

So the story ends with governments and central banks successfully creating global economy recovery ... or does it? Although the word "recovery" is bandied around daily in the press, this story certainly hasn't ended. If the stimulus, in the form of easy credit, government spending, and money printing ends tomorrow, we all know that will be the end of the recovery.

Despite that, most of the press is focusing on the "recovery." Discussion regarding the gargantuan and perilous task of removing the stimulus is limited to a very small minority of analysts and economists who also initially saw the recession coming (by some estimates, it was about 1 in 20 who were ahead of the curve – the remainder were seduced by the new economics of perpetual growth and the elimination of the business cycle). The eternally optimistic new-age economists have enabled the markets to grasp on to the hope that governments and central bankers for the first time ever will be able conquer a recession by flooding the world easy money, handouts, and bailouts, and then to surgically remove all of this without anyone becoming overly concerned.

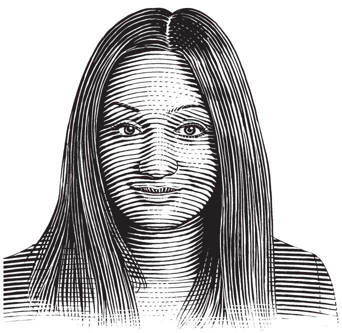
It is universally agreed that the stimulus will have to be removed. In fact, it has to be removed to avoid another set of problems. If it becomes apparent that governments and the central banks are giving up on their willingness to pull the stimulus out of the system, it will become "monetized." This means that the net effect will be a permanent increase in the money supply that is essentially the result of money printing. That's monetary inflation. It will be the 1970's all over again, with the troubling mix of sluggish growth along with rising wages and prices for basic necessities.

Thankfully, the Weekend at Bernie's movie series was never extended into a trilogy. In fact, the producers were pushing their luck with the sequel. Maybe people as moviegoers are initially willing to suspend belief to see how things go. But eventually, this becomes tiresome. It is at this point when the story really ends. The story of the propping up of the economy will end when it becomes apparent that governments and central banks can't turn around economies by printing and spending money and then by hoping to pull it all back out of the system. As more and more investors tire of this real life charade, this will be reflected in their investment decisions.

Although we are seeing some promising signs with the prospect of legislated financial reforms in response to the credit crisis, the investment landscape is still challenging due to latent excessive optimism. When investors realize the limits of government-sponsored meddling with the economy, any resulting selloffs will not only be cathartic, but will also present some great opportunities.

Good Karma

By Karm Bhatti



Online Deposits:

A safe and reliable way to make deposits into 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 select "GMP" as a Payee (biller).

Once you are on your bank's website, input GMP as the recipient and it will respond with the option: "GMP Securities L.P." Please select this. This Payee set up is similar to the method you use to electrically transfer bill payments. The account number is your eight-character Richardson GMP account number ending with either and A or an E.

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

If you have any questions please call Kim directly at 604-678-6564.

Preserve and Protect

By Tricia McIver

March Madness - Budget²

The first week of March brought much excitement with delivery of both the B.C. Liberal's 2010 Provincial Budget and the Conservative's 2010 Federal Budget. Did I say excitement? Hardly. Both budgets proved to be fairly benign, with little impact for the average tax payer. Both budgets contained few new income tax measures, and those that were introduced targeted foreign investment, closed previously used tax loopholes, and provided limited incentives for certain business sectors. Both budgets contained minimal surprises and were preoccupied with stimulus spending. In short – little new news.

Federal Budget

Back in 2009, Finance Minister Jim Flaherty unveiled the Conservative's budget "Canada's Economic Action Plan", a two year plan to pull Canada out of its recession. The 2010 Budget lays out the (previously outlined) second phase of that Plan, including the final chapters of the massive stimulus program. But it also sets the stage for impending austerity. The Conservative government is committed to reducing Canada's debt without increasing your taxes or reducing funding to critical social programs such as health care and education. This Budget presented the initial steps toward debt reduction, revealing plans to cut spending by containing the administrative costs of government, closing tax loopholes, and reducing foreign aid and military spending. These final measures are targeted at battling the deficit created by the stimulus spending.

Some new tax measures that may affect you are:

- No personal tax increases
- Marginal increase in the personal tax credit
- Favourable modifications to the rules relating to Registered Disability Savings Plans
- Modifications to Employee Stock Options rules
- No changes to planned corporate income tax cuts
- No changes to the GST

B.C. Budget

Finance Minister Colin Hansen also delivered a "no-surprises" budget targeted at boosting infrastructure spending, supporting health care and education, and trimming costs with a view to balancing the budget. And the B.C. Liberals continued their preoccupation with the introduction of the HST, slated for July 2010 (see my column in the September 2009 edition of this Journal). Eleven pages of the 134-page Budget document (not including Tables and Appendices) were devoted to the topic. Although arguments that the HST will "be the single most important step BC can take to strengthen the economy" have been put forth, several sectors will be profoundly impacted by this tax. Only time will tell.

Other measures (apart from spending) contained in the Budget that might be of interest to you:

- Introduction of the HST
- Increase in MSP premiums ($3.50/mo for singles, $7/month for families)
- Introduction of the BC HST Credit

What's next

It would appear that both the Federal and B.C. Budgets are predominantly "stay the course, introduce austerity and, wait and see" plans. So we shall wait and see.

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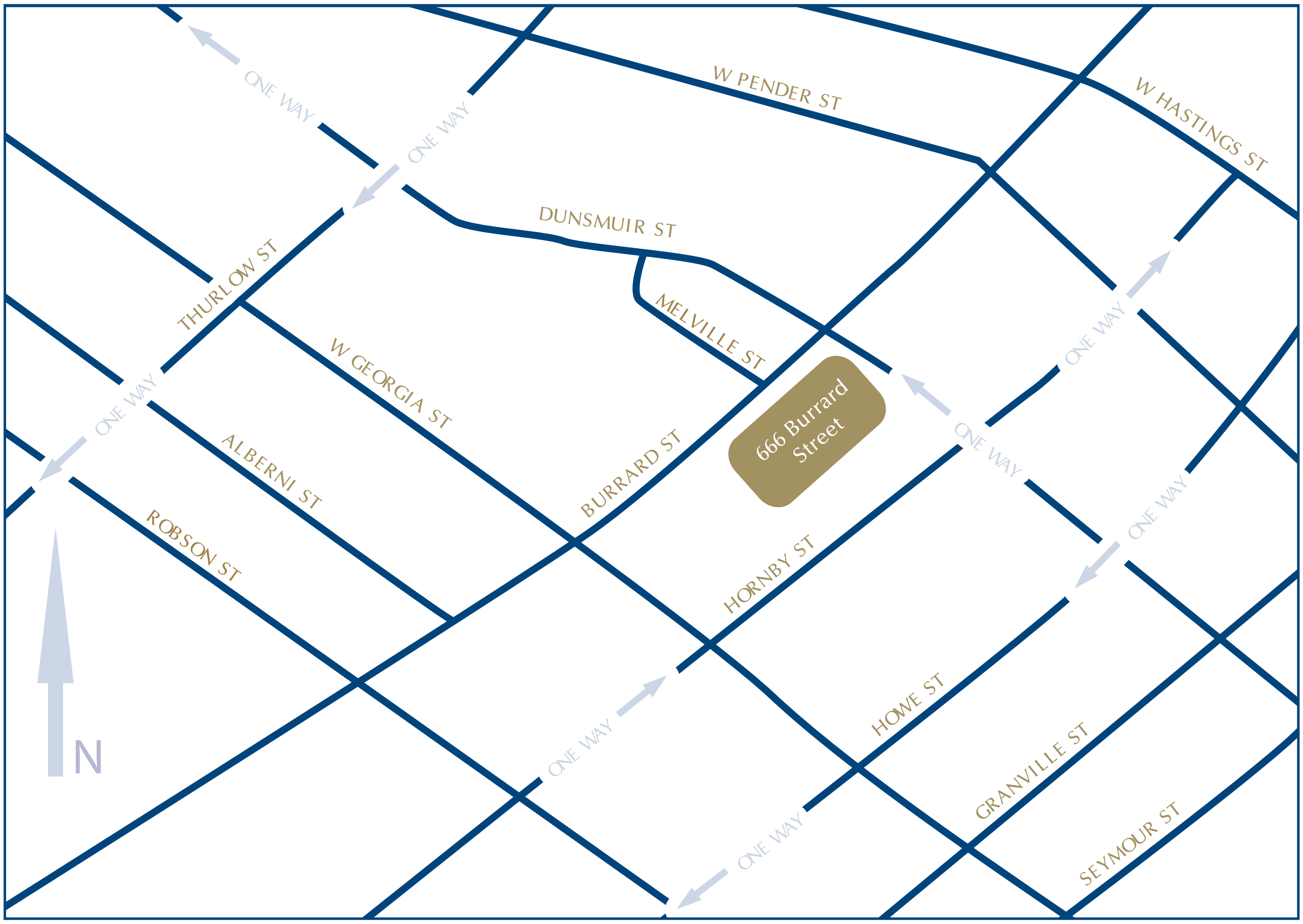

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