

HIGH NET WORTH JOURNAL

An Investment Update

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RICHARDSON GMP



MCIVER WEALTH MANAGEMENT

CONSULTING GROUP

What's News

By Neil McIver



vestment, and therefore benefits savers. Promised lower corporate taxes will benefit Canadian corporations and should increase their investment into Canada. Additionally, lower personal tax rates combined with a doubling of the TFSA limit to \$10,000 will promote further wealth creation and investment into our country.

We just may need it. For some time we have discussed the fact that Canadian equities have outperformed global equities over the past decade and the fact that, unfortunately, this outperformance is unlikely to continue as markets normalize (that is, as markets normalize toward their long term average rates of return relative to other markets). There are a number of technical and fundamental reasons for this that I've previously outlined which support this likelihood. Because of these risks, we have been decreasing your exposure to Canadian equities in favour of U.S equities. To date we have been nicely rewarded by this strategy, despite the rise in the Loonie.

The challenge going forward, with interest rates scraping the bottom after a 30-year bond market rally which saw rising bond prices and falling interest rates, will be to ensure that conservative and moderate portfolios continue to grow. These portfolios have a tendency to contain a greater component of bonds in them and those bonds are producing little in the way of return currently. More importantly bonds are at risk of falling in value when interest rates and inflation (eventually) rise.

Part of the answer to this challenge is moving some of our bond exposure from regular bonds into Government of Canada Real Return bonds which are protected from rising rates because the yield of the bond also rises with inflation (as measured by the Consumer Price Index). Last year we added Real Return bonds to your portfolio and this year we increased the percentage of your bond position which is allocated to these specialized bonds.

So, finally, we have a stable federal majority government. What does this mean for you and our Group's unwavering commitment to the growth and preservation to your wealth? Well, regardless of our individual politics, it is fair to say that the budget which the Conservatives are committed to passing upon the return of Parliament will be one which promotes growth and in-

The second part of the answer to this challenge is employing Strategic Asset Allocation to lower the overall percentage of bonds in the portfolio without increasing your risk. Strategic Asset Allocation uses decades of data to identify top-performing asset classes which are non-correlated (meaning they do not rise and fall at the same time) and puts them together in the mathematically most efficient manner to ensure that the greatest amount of return is squeezed out of the least amount of volatility or risk. In fact, it is possible to have a portfolio virtually devoid of bonds yet have lower volatility than a portfolio with 40% bonds. This is exactly what we've done in your portfolio.

We have used this approach for over seven years which is why we have outperformed right through the worst of the financial crisis and into this recovery.

True Strategic Asset Allocation is an über-sophisticated approach and an approach unique to the McIver Wealth Management Group, not matched by even the most well-known private client investment firms in Vancouver or Canada.

We didn't create the system; it was developed by Harry Markowitz in the 1950's who notably won the Nobel Prize for mathematics twice for its development. Now called Modern Portfolio Theory the most recent Nobel Prize was in 1991. It has been studied and peer-reviewed by both university-level and Nobel prize-winning academia and by industry. Quite simply, it works and the results have been realized, not only by large pools of Institutional clients who have employed the system since the 1970's, but by our private clients here at McIver Wealth Management.

Our recent performance has been delivered with a very low risk level:

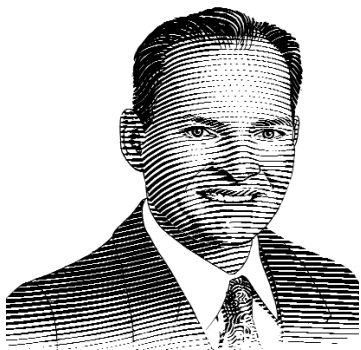
McIver Wealth Management Portfolio Performance

	12 months	9 Months
P1 - Very Conservative	11.23%	13.47%
P2 - Conservative	11.71%	14.76%
P3 - Conservative Value	11.18%	16.02%
P6 - Income	13.71%	13.97%

*At April 30th, 2011 - Please see next page for details

On the Mark

By Mark Jasayko



Clearing the Underbrush

In the early 1980s, the economy was in a double-dip recession with high unemployment. To make things worse, inflation was high, on-going wage gains squeezed profitability, and interest rates were at double-digit levels. Present day central bankers and government policymakers suggest that the episode we just experienced was worse. But that may just be an argument used to

justify all the easy-way-out Band-aid solutions that they have embraced.

Politicians are not economic people as their political aspirations trump economic prudence. That's just the way it is in a social democracy. And, central bankers who seek peace with and admiration from the politicians aren't any better.

With respect to the current economic rescue effort, the most glaring indictment against the emergency policies has been the persistence of U.S. unemployment. The idea is to make free money available to money-center banks that will lend the money out at low interest rates to large companies. Those major businesses would then turn around and spend that borrowed money on hiring as well as on capital investments which would spur on even more employment. However, U.S. unemployment is still stuck at 9%.

This contrasts with the early 1980s recession where the recovery was hallmarked by significant employment gains as the economy reached escape velocity. Unemployment was not an issue in the 1984 presidential election campaign. It will almost certainly be an issue this time around.

So what happened? How did an era of high interest rates spawn a recover in employment 30 years ago? It was because an enormous portion of U.S. industry was killed off and pushed aside. It wasn't an easy or painless process. However, the bloated behemoths from the era of the conglomerates during the 1960s and 1970s couldn't survive the double whammy of recession and high interest rates. It was just as well since a combination of inefficiencies and obsolescence severely restricted these companies from hiring and making an impact on the unemployment rate. Once these companies and industries were cleared out, new companies and industries, such as personal computer technology, led a surprising expansion in job opportunities.

Current policies are perpetuating the existence and influence of the economic superstars of the 1980s and 1990s. Loose government monetary policy helps their balance sheets look terrific. Any of us could give the appearance of being in fantastic financial shape if we had access to incredibly low cost financing. We would borrow while rates are extremely low, locking in to a fixed loan and then keeping that cash on hand in case of a rainy day or when rates do rise and getting financing becomes expensive. However, that is not really adding any sort of value. And it certainly is not contributing to true economic growth. Cash on the balance sheet or in the bank doesn't induce job creation.

Low interest rates have the effect of covering up problems associated with growing inefficiencies that are a legacy of a bygone era. Low interest rates can also maintain structural imbalances in the overall economy. During the U.S. real estate bubble, about 40% of all new jobs created from 2001-2007 had something to do with real estate, directly or indirectly. But by continuing to keep rates artificially low after the crash, there are armies of U.S. real estate agents, mortgage brokers, mortgage bankers, construction workers, and home-improvement center retailers that are on the sidelines and dreaming of the day the next bubble arrives so that they can find high-paying jobs again. The problem is that another bubble is needed to employ these people again in their previous jobs. Low rates are preventing a re-balancing of the U.S. economy where new industries would develop and take over, lessening the reliance on real estate as the engine of the economy. In the interim, these people would rather wait instead of looking and training in new fields.

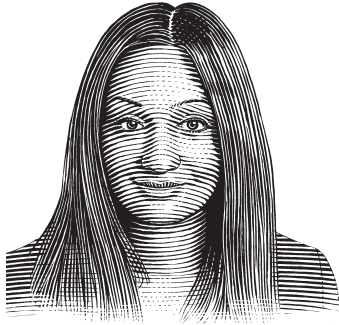
Once rates begin to rise again, it will help the economy to begin separating the wheat from the chaff. Obviously the general stock market will face headwinds in a rising rate environment. However, it will reward stock-picking for a change and help us to move away from a market where even poor companies rise in price mainly because it is cheap to borrow.

Interest rates will rise if inflation becomes embedded in the psyche of consumers. In addition to the benefits of stock-picking during a time like that, inflation-protected bonds, like those that we currently hold, should do well.

**Performance returns are as of April 30th, 2011 and are based on an actual representative account. Please note that past performance is not necessarily an indicator of future performance. The indicated rates of return are (gross/net) of fees and/or commission. 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.*

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 (billor). 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 pay-

ments. 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.

Preserve and Protect

By Tricia McIver



Can ENOUGH be MORE?

Many of you who are now retired planned wisely and are now enjoying a retirement that is full enjoyment and freedom. You have ENOUGH resources to finance the things you wish to do. BUT, have you structured your asset holdings to (1) take advantage of tax saving opportunities, and (2) maximize your cash flow and estate value? Below are a number of opportuni-

ties to achieve just that.

Income splitting with a spouse (including a common-law-partner) is often difficult to achieve as the ATTRIBUTION RULES generally dictate that income and capital gains earned from assets transferred from one spouse to

another will attribute back to the originating spouse for tax purposes. There are however a number of strategies that overcome this hurdle:

-Pension income splitting – up to 50% of qualifying pension income may be allocated to your spouse which helps to equalize income and allows access to the pension tax credit. This strategy may require the conversion of RSP's to RIF's prior to age 71. Tax savings must always be weighed against the loss of tax deferral where early conversion is contemplated.

-Spousal loans – so long as specific rules are followed and interest (at the prescribed rate) is charged and paid, you may loan funds to your spouse which in turn may be invested. Investment earnings will not attribute back to you but instead will be taxable to your spouse. This is a particularly attractive strategy at present as the prescribed rate of interest is currently 1%. Investment earnings in excess of 1% will therefore be shifted to your spouse. A number of our clients have had great success in using this spousal loan opportunity.

-Structure corporate holdings such that any capital gains exemption (\$750,000) opportunities are multiplied amongst family members. Introducing family members as shareholders of qualifying corporations, or holding such shares in a trust of which family members are beneficiaries are mechanisms used to multiply the exemption.

-Income splitting is effective in minimizing the family's overall tax bill and also maintaining certain government benefits such as the Age Credit and Old Age Security payments, which are ground down or clawed back when certain income thresholds are attained.

The **timing of electing** to recognize or defer the receipt of sale proceeds will impact the after-tax cash flow from the sale of property. Consideration should be given to:

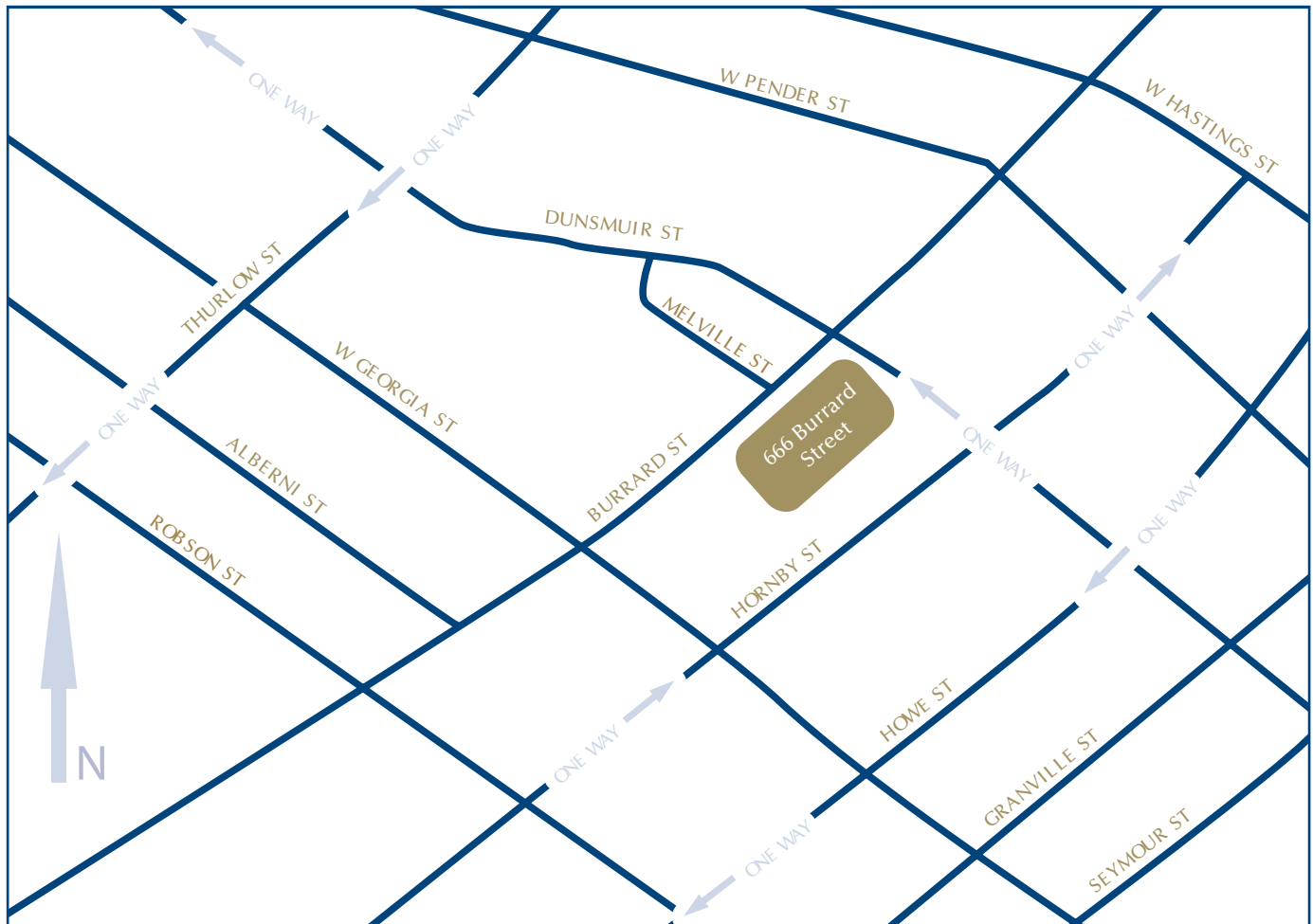
-Where possible, time the sale of property in a year where income will be lower. Of course, attention must be made of market conditions and other significant factors that impact such a sale.

-Where you own multiple properties (home & vacation property) ensure due diligence is performed to apply the principal residence exemption to the property with the largest gain (which in many cases can be a vacation property).

-In certain instances, where a promissory note is taken back as consideration on a sale of property, the gain may be taken into income over a 5 year period (10 years where the sale is to a child). Spreading the gain over a number of years should help to minimize income subject to the top marginal tax rates.

Many of these options have been discussed in greater detail in previous volumes of the High Net Worth Journal. It is important to remind ourselves of opportunities as ever-changing life situations might show that a strategy previously not advantageous has become so.

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