High Net Worth Journal

An Investment Update

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RICHARDSON GMP

McIVER WEALTH MANAGEMENT
CONSULTING GROUP

What's News

By Neil McIver

It has been a busy Spring as we have been working hard for you on two primary projects. The first is a re-vamped High Net Worth Weekly email, which is designed to provide you with a quick weekly review of the marketplace and a quick look into our opinion of the market. It also contains our most recent published portfolio performance and a weekly tax or wealth planning tip. If you have not yet begun to receive this, please let me know and I'll be sure to include you on our list.

Secondarily we have just completed our annual Spring rebalancing of your portfolio. The transaction component of this process used to be more manual and labour-intensive. However, with our industry-leading trading system, transactions which used to take weeks now only take a day to complete. This ensures that each of our clients in a particular model portfolio receive the same transaction prices as all the other clients in that model. We also get better pricing for you because of the bulk-nature of the transaction. Larger trades get better prices in the markets. Finally, all the trades for a specific model portfolio are done at the same time. Our speed in this regard is unmatched in the industry and results in the most timely-managed portfolios.

While our transactional efficiency has improved greatly, this is really the end of a process which starts many weeks earlier. Every year in March, Mark and I begin the rebalancing process by *assessing global economic* factors as well as the relative performance of each of our asset classes. From this we begin to get some ideas as to what the asset allocation changes might look like. The next step is to take our rough asset allocation guidelines and to optimize the combination of the asset classes using a proprietary modeling program which uses historical data going back more than 80 years. This results in the most efficient mix of the asset classes for your risk tolerance.

This year the changes were relatively small, mostly because the stock markets were basically unchanged over the previous 12 months and our view forward has not dramatically changed. The bond asset classes did better than the asset classes that invest in stocks, but not by much. As a result, the relative weightings did not drift too far off target.

In addition to the rebalancing that occurs at the asset allocation level, we also do a rebalancing of the individual positions in many of the asset classes. This helps us to crystallize some of the gains that we have had in specific positions over the preceding year.

The final stage of the rebalancing process consists of an audit where we try to catch any minor trading errors or miscalculations.

Once the rebalancing has been completed, the portfolios should be within the acceptable ranges as outlined in your Investment Policy Statement (IPS). However, as the year progresses, there is a possibility that some asset classes will have very different returns compared to others which raises the chance that the portfolios will drift outside the IPS ranges. Additionally, if a client makes a large contribution or requires a large withdrawal, this will change the relative size of their different portfolios. Since the IPS targets are weighted for all of your portfolios (RRSP/RRIF account, Cash account, Corporate or Trust accounts) as a whole, an increase or decrease in any one portfolio could push the entire family of portfolios out of the IPS ranges.

Third Party oversight of your portfolio is provided, on your behalf, by Paul Adair and Jason Darling who work in the Managed Accounts department of Richardson GMP. Their surveillance of your portfolios ensures that your actual asset class ranges correspond with those in the IPS. When there is an exception, they will inform Mark and myself about this and will ask us about what our solution is for rectifying the situation.

Following this Spring's rebalancing, your portfolios still have a conservative and relatively defensive stance. That said, we still have enough exposure to stocks that should help to capture any summer rally which is a traditional feature of the markets through the June-July-August period. Additionally, there is always the possibility that the U.S. Fed will come to the rescue if the weakness in both U.S. employment and economic growth persists. The potential upside reaction to this type of Fed action, though not long-lived, tends to be materially significant.

It is also worth noting that we are maintaining the inflation protection in the portfolios with the use of inflation-protected bonds, gold bullion, major gold producer stocks, and exposure to agriculture.

On the Mark

By Mark Jasayko

Chicago Confab Perspectives

At the beginning of May, I was in Chicago for three days attending the Annual CFA (Chartered Financial Analyst) Conference. It was an opportunity to get some insight from some of the most notable investment professionals in the world as well as a chance to get a sense of which issues are coming to the forefront.

Last year in Edinburgh, the focus was on the European sovereign debt crisis and specifically Greece. Even though Greece is still dominating headlines, there was a sense that Greece's exit from the Euro is almost a fait accompli. As a result, it had fallen off the top of the agenda in Chicago.

This year, much of the attention was on investing in a low-return environment. Over the last 12 years, markets have been mostly flat and the challenge has been to seek relatively safe returns. This has pushed institutional and individual investors to consider hedge funds, real estate, and high yield income investments without properly assessing all the potential pitfalls.

In the case of hedge funds, it has become evident that their returns aren't any better than that of mutual fund returns and they are not as uncorrelated to the markets as we were led to believe. In addition to that, the management fees for hedge funds have been dramatically higher compared to other managed investments.

Real estate (apart from residential real estate in Vancouver and Toronto) has been on a roller coaster ride over the last decade. Bubbles in the U.S., Spain, Dubai and elsewhere have popped. The current national average home price in the U.S. is back to the same level that it was in the spring of 2003. When U.S. real estate industry cheerleaders were telling us back then that real estate never declines on a national basis, not many people could have envisioned what the next nine years would look like. Also, carrying cost is a major consideration when purchasing real estate as an investment. Many Canadians were seduced by the crash in the Arizona market three years ago and jumped in, thinking that prices had fallen as far as they could and that eventually prices would recover. Prices did stop falling. However, they have mostly remained at their lows. Meanwhile, the carrying costs (maintenance, utilities, and property tax) have continued to accumulate.

Finally, investors starving for yield have been tempted to chase investments that offer the illusion of relatively safe high dividends, interest, or distributions. However, because there is no free lunch, and without doing intensive research, many of these adventures will end in sorrow. It is just too difficult for smaller to medium sized ventures to maintain a high payout.

At the conference, there weren't many easy solutions presented for investing in a low-rate environment. Some of the ideas were to invest in emerging market infrastructure and private equity. But those areas carry significant risks which must be navigated by specialists.

Probably the best advice was to stay invested in conventional investments (stocks and bonds) as long as the U.S. Federal Reserve demonstrates the willingness to react to economic problems with gobs of liquidity. When the Fed finally begins to change direction, then it will be time to reconsider.

The other theme that appeared throughout the conference was ethics and the related roles of investment firms and the industry. There were multiple presentations on leadership and the importance of setting examples. It was encouraged that CFAs (Chartered Financial Analysts) become more outspoken on controversial issues. Also, there was discussion as to what the proper role of Wall Street should be (providing a service to the economy instead of just siphoning off money from the economy with no measurable contribution).

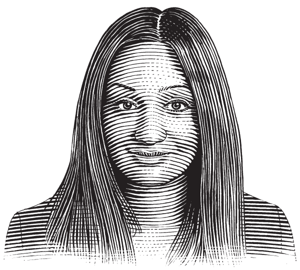
Finally, there was still much talk about China. However, this year it was about the recent slowing of the mainland Chinese economy and whether it would be a hard or soft landing. References were made to the leveling off of the real estate bubble, the transition to a new political regime, the aging demographics, and the precarious state of Chinese banks. Also, recent trade data has illustrated that China is still an export-based economy and that domestic demand is still woefully inadequate to ease the pain from lower exports to Europe.

In the end, there was no single conclusion with respect to a hard or soft landing. However, there seemed to be consensus that we are at the first real crossroads since Chinese reforms in the 1980's set the country on its recent trajectory.

Next year, the Annual CFA Conference will be in Singapore. Being located in a region that is profoundly influenced by Chinese trade, capital, and commerce, I have a feeling that close scrutiny of the Chinese economy and its influence on the world will still be on the agenda then.

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.

Preserve and Protect

By Mike George

There is often confusion surrounding the decision of whether to use an "In-Trust-For" (ITF) Account or a Formal Written Trust. We acknowledge that the most complete solution when investing funds on behalf of third party beneficiaries, particularly if they are minors, is the use of a Formal Written Trust. The difficulty with this solution for most people is the complexity and cost of developing a Formal Written Trust. Instead many choose to use the ITF account in place of the Formal Written Trust. While this is a compromise solution, it does have risks and issues that should be understood and considered before deciding which path to take.

Trust Law Principles

Whereas the powers and duties of the trustee of an ITF account will be limited to the rules set out in the applicable provincial trust statute, a formal trust instrument that outlines the trustee's authority may avoid the application of these rules. For example, if the trust document is silent on the trustees' power to invest the trust property, the trustee will be bound by the powers of investment described in the applicable provincial trust statute. This issue is becoming less of a concern as many of the provinces have moved from a specific list of allowable investments to the prudent person rule, allowing a wider choice of investments. Trustees that breach the investment standards outlined in that statute will be liable for any losses that result from the breach.

On the other hand, a formal trust document can provide the trustee with broad or restrictive powers of investment.

The Canada Revenue Agency

In its published statements, the Canada Revenue Agency (the "CRA") has demonstrated a reluctance to recognize informal trust arrangements, such as ITF accounts, as valid trusts. In order to be taxed as a trust, the CRA requires that the language of the trust document restrict any opportunity for the trust property to revert to the settlor. This is most easily achieved through a properly drafted formal trust document.

While this is CRA's stated position it is still common to have the income from ITF accounts taxed in the hands of the beneficiary. The source of the funds will determine who should pay the tax due to the attribution rules. Generally, income and dividends earned by minors within ITF accounts will be attributed back to the donor of the funds. Capital gains and second generation income will be taxed in the hands of the minor beneficiary of the ITF account. Due to CRA's pronouncements one must always be aware of the risk of having all income attributed back to the donor.

When Would You Use an ITF Account?

As you can see, there are a number of issues that arise where an ITF account is established for a minor child. Despite that fact, the ITF is still a useful and practical planning tool. Unless large sums of money are involved it is unlikely that the parent or other contributor is going to go to the expense and difficulty of establishing a formal trust. The ITF will serve the clients well where there is a desire to set aside birthday gifts, holiday gifts, as well as Child Tax Benefit amounts. It is important to understand the risks of these accounts and realize that they may not accomplish what they were originally intended to do.

Many of the issues arising from ITF can be avoided by establishing a formal trust with terms customized to the particular circumstances and wishes of the settlor.

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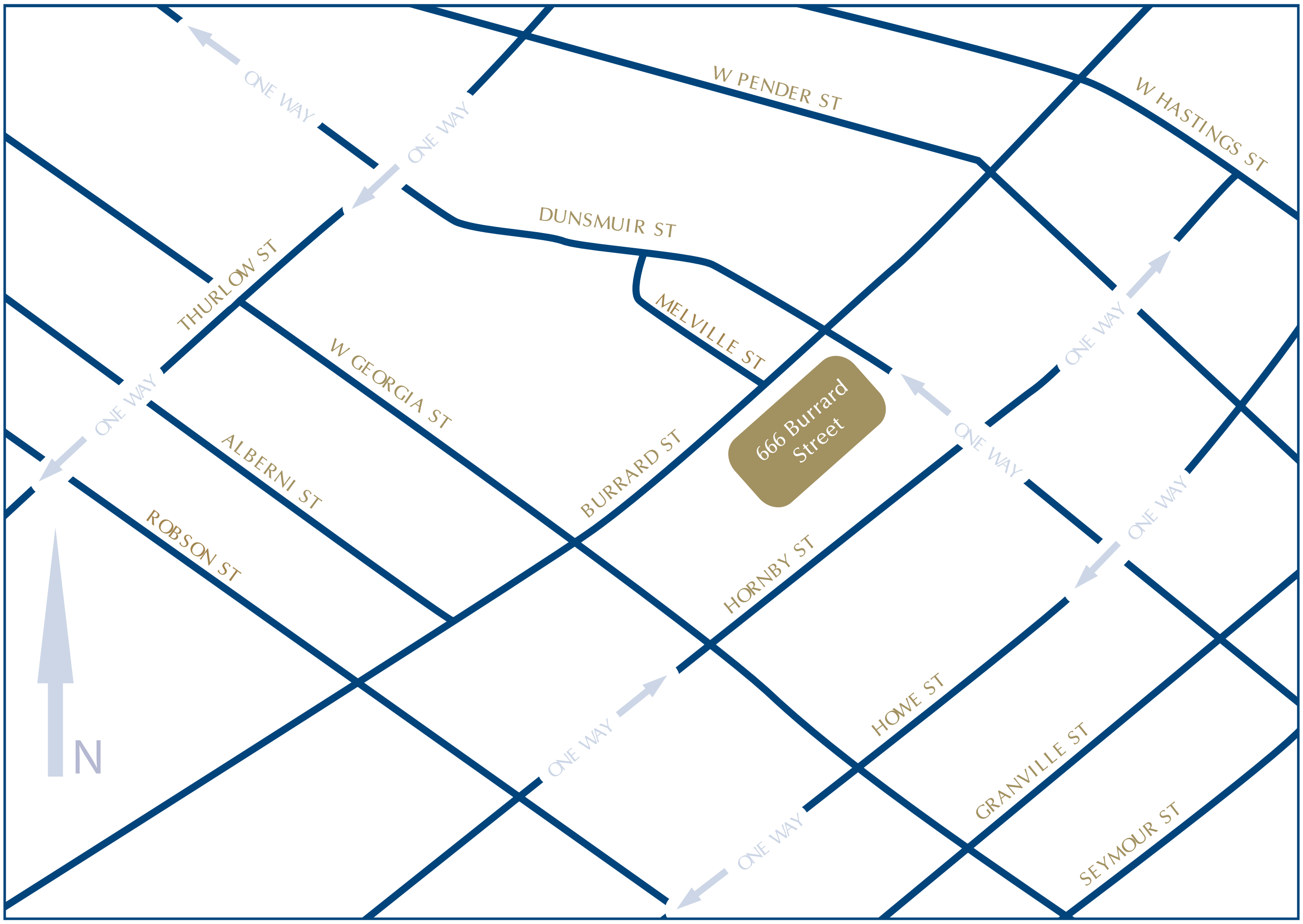

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