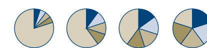
HIGH NET WORTH JOURNAL

An Investment Update

Volume V, Issue VI
November 14, 2011

RICHARDSON GMP



MCIVER WEALTH MANAGEMENT
CONSULTING GROUP

What's News

By Neil McIver

While speaking at an event recently, I was asked why our McIver Wealth Management Consulting Group portfolios have performed so well versus the various comparable indexes often used as benchmarks. There is a mathematical answer to this, it is just not one easily explained in a few short comments.

So, I asked the group if they had seen the movie Moneyball with Brad Pitt since there is a strong parallel between a process heralded in the movie and what we do here at McIver Wealth.

Just like investing, baseball is a very old game, with many traditions, beliefs and taboos. In the major leagues these attributes often influence groups of backroom wizards who arbitrarily combine various metrics (such as how square a player's jaw is, how smoothly they swing the bat, batting averages, number of stolen basis and runs batted in) with their own gut instincts about players in order to construct a team. I would venture to say that this subjective formula is not unlike those used by many investment advisors, resulting in client accounts that lack structure.

The movie chronicles the true story of the Oakland A's general manager Billy Beane during the 2003 season as he decides to approach the game in an entirely different manner. As Beane (played by Brad Pitt) struggles to construct his team on a limited budget, he decides to employ a team building method that was much more sophisticated and statistically sound than the "old baseball doctrine" method had dictated for over 100 years. He began to use quantitative and more objective statistics to find undervalued players who had a high likelihood, or better odds, of making it on base. They also used regression mathematics to analyze what order the players should bat in, and even which pitches each player should swing at (based on the sequence of the pitch, not the type of pitch). Mathematically, this process provides the team with best chance of winning any given game on any given day. Also, with more games, the sample size grows, enabling the process to predict the longer term winning percentage that the team will likely have.

The mathematics were always there. What was new was intelligently applying them to the realm of baseball player selection.

We employ the exact same family of mathematics and a very similar process in creating your Asset-Allocated discretionary portfolios. This is true right down to analyzing how asset classes historically interact with each other and then selecting asset classes which work together to reduce volatility without sacrificing the upside potential of the portfolio (this is called co-variance analysis which would not be possible without the powerful computers of today). Our sophisticated allocation process naturally forces us to take profits on fully valued asset classes and buy undervalued asset classes. Most of this is done during our annual Spring rebalancing.

Just as with Beane and his baseball club, this sophisticated system even tells us what the rate of return is likely to be achieved, given a particular portfolio, and how much volatility we can expect, to the 98th percentile of probability.

I will not spoil the movie for you, but the Oakland A's attained the longest consecutive winning streak in baseball history that year. His ideas, fiercely resisted by baseball's old guard at the time, have now been widely adapted.

Billy Beane, who is now considered a visionary and went on to win numerous awards of distinction, recognized the parallel to investing when he himself said: "It's all about evaluating skills and putting a price on them. Thirty years ago, stockbrokers used to buy stock strictly by feel. Let's put it this way: Anyone in the game with a 401(k) (a type of retirement savings account) has a choice. They can choose a fund manager who manages their retirement by gut instinct, or one who chooses by research and analysis. I know which way I'd choose."

I'm not suggesting that a traditional subjective, stock-picking approach cannot periodically be successful, or that old line MLB backroom wizards won't win from time to time, because they both certainly can. The difference is that those types of approaches have no way to judge the possibility or likelihood of future success, while ours does. The sophisticated, peer-reviewed and defined process we use to build and manage your discretionary portfolio mathematically gives your portfolio the greatest chance of success. Quite simply, it works.

Please call me (604 678-6561) or email me (neil.mciver@RichardsonGMP.com) directly if you have any questions or concerns.

On the Mark

By Mark Jasayko

Ready, Fire, Aim!

The "Occupy" protests on Wall Street and around the world are missing the target of their anger.

As readers of this column can certainly attest, I am no apologist for Wall Street and international financial institutions. As a whole, they were blind to the subprime mortgage crisis and credit bubble. As things started to deteriorate, they claimed that the issues were minor and contained. And, in the aftermath, there has been a vacuum of industry leadership with respect to learning from mistakes and putting those lessons into practice.

However, it was not Wall Street that paved the road that led to the crisis. It was the politicians and the policymakers.

Sure, there is a linkage between Wall Street and Washington through campaign donations. But, those donations do not have to be accepted. As a result, the buck stopped in Washington (and the other major political capitols throughout the world).

The slippery slope began with the easy money policies of former Fed Chairman Alan Greenspan in the early 1990s. By growing the money supply at a rate that was faster than economic growth, rates were kept artificially low and encouraged borrowers (governments, businesses, and consumers) to begin increasing their debt burden. With the exception of a foray into private economic consulting, Alan Greenspan was a political animal, a Washington guy.

In addition, Greenspan would continually meet the slightest of economic interruptions with more doses of money, further adding to the overhang of excess credit. This policy persists to the present day as his loyal supporter and eventual successor, Ben Bernanke, fully subscribes to the theory of perpetual easy money.

Next came legislation that broke down the barriers to commercial banks engaging in investment banking and proprietary trading. Legislation gets past by politicians, not Wall Street leaders. This legislation allowed American banks to risk capital from depositors in an effort to make trading profits and to underwrite stock offerings.

One of the chief architects of this legislation was Lawrence Summers who was Clinton's Treasury Secretary at the time. He is still a power player as Obama's director of the White House National Economic Council.

Then came a bi-partisan political effort to maximize the number of Americans owning homes. Fannie Mae and Freddie Mac were cut loose from their original mandates and encouraged to pump up the American housing market. Increasing home ownership was a fantastic way to secure votes for re-election.

Barney Frank, a current Democrat Congressman, was front and center in the late 1990's in pushing Fannie Mae and Freddie Mac to evolve into risk-taking enterprises with their chief executives amassing fortunes in the tens of millions during their tenures.

In the crusade to find more ways to increase home ownership, subprime mortgage lending took off. Regulatory oversight became less strict as politicians and sympathetic economists argued that we were in the era of the Great Moderation and that cycles in the housing sector, just as with economic and business cycles, had been flattened or eliminated. The political belief that housing would rise forever lessened the scrutiny over the explosive growth in mortgage debt.

Timothy Geithner, Obama's current Treasury Secretary was the President of the Federal Reserve Bank of New York, the most powerful of the regional Reserve Banks, during the growth of sub-prime lending. Despite his regulatory stature vis-à-vis the New York-based money center banks, he did not publicly voice concerns about expanding mortgages and the deterioration in lending standards.

When the crisis finally hit, most politicians and policymakers, the most prominent being Ben Bernanke, downplayed the events.

In the aftermath, there might have been the opportunity to look at what happened in terms of an historical context and to contrast the American debt crisis against some other areas of the world which did not fall into the same trap. However, the political response has been to shower money at the problem and to focus on gimmick solutions as well as hasty regulatory proposals that are aimed at vote-getting as opposed to getting to the root of the problems that led to the crisis.

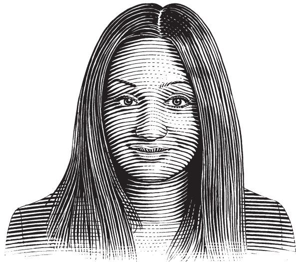
The irony with respect to the Occupy protestors is that many of the issues they are highlighting were being warned against as early as 2003 by a small minority of critics in the financial industry itself. If the protestors had been following things from early on, they would understand that it was the politics that allowed Wall Street to take on massive risks and politicians from all major political parties and ideologies played a role.

However, the "Johnny-come-lately" protesters are not able to grasp this and have missed the mark. Ben Bernanke, Lawrence Summers, and Timothy Geithner had prominent seats at the table during the growth of the crisis and remain to this day as the three most powerful economic policymakers in the U.S. Not once have I heard the protesters mention any of these names, or Obama's name as he is the one that made the appointments. I guess they are all getting a free pass.

One recommended item for the protestors' agenda at this point should be the potential inflationary fallout from the financial crisis. Your Asset Allocated portfolios continue to hold inflation-protected bonds, gold, gold producers, some stocks that can be an inflation hedge.

Good Karma

By Karm Bhatti



RESPs

A Registered Education Savings Plan (RESP) is a special savings plan that can help you or your family to save for a child's post secondary education. An RESP is a government-sponsored savings program specifically designed for education savings and is a tax-advantaged way of accomplishing this. Key notes are listed below:

1. The lifetime RESP contribution limit is $50,000 per beneficiary (there is no annual contribution limit)
2. The maximum annual amount of the Basic **CESG (Canada Education Savings Grant**) that can be paid in any year was is $500 (and $1,000 if there is unused grant room from previous years). The lifetime CESG for each child is $7,200.
3. Contribution deadline is **December 31, 2011**.

Wealth Planning

By Mike George

Tax Loss Selling

Tax loss selling is a strategy used to reduce or recover taxes paid or payable on capital gains. This strategy involves selling investments in a loss position and using this loss to offset capital gains of the current year, the previous three years or gains realized in the future. A capital loss occurs when the fair market value (FMV) of an investment is less than its adjusted cost base (ACB). Your ACB is typically the average cost, in Canadian dollars, of the investment.

For tax purposes you must first offset your capital gains of the current year. If there are capital losses in excess of the current year's gains, you may offset capital gains incurred in any of the previous three years by carrying-back your capital loss. By doing this, you can recover taxes paid in those years. Alternatively you may choose to carryforward the capital loss against future capital gains.

Benefiting from a Superficial Loss

While superficial losses are typically viewed as an impedi¬ment to tax loss selling, this law may actually promote tax loss selling in the right circumstances. Consider the following example:

• Carl has capital gains that would otherwise be subject to tax in the current year.

• His wife, Justine, has investments that would generate a capital loss if they were sold. Since Justine does not have any current year capital gains and did not have any capital gains in the previous three years, the tax loss, if realized, would be carried forward to offset future capital gains.

Rather than waiting to offset future capital gains, Justine may be able to transfer these losses to Carl and reduce taxes that would otherwise be payable by him.

Steps Required:

1. Justine sells her investments that have unrealized losses to Carl for FMV

2. Carl can pay Justine with cash (or other property) or a loan at Canada Revenue Agency's prescribed interest rate.

3. Carl holds the investment for at least 30 days.

4. Justine elects to not have Section 73 (1) of the Income Tax Act apply so that the loss is not "attributed" from Carl to Justine.

5. Justine's capital loss on the sale is deemed to be a superficial loss and Carl's ACB is increased by Justine's superficial loss. Carl now has Justine's original ACB.

6. Carl sells the investment and generates a capital loss and uses the loss to offset his capital gains in the current year. If he realizes capital losses in excess of current year gains he can carry them back against capital gains realized in the previous three years or can carry forward the loss to offset future capital gains

Need for Individual Advice

As with most tax planning, tax loss selling is a strategy that is constricted by very detailed laws. We can certainly help with referrals to leading tax experts.

If you have a premier discretionary portfolio with us, Neil and Mark will be undertaking some tax loss selling to offset gains taken earlier in 2011. If you do not have a discretionary portfolio (discretionary portfolios start with "50G-") and have not spoken with us about it, please contact Neil on his direct line (604 678-6561) to explore using this strategy.

A Gracious Goodbye

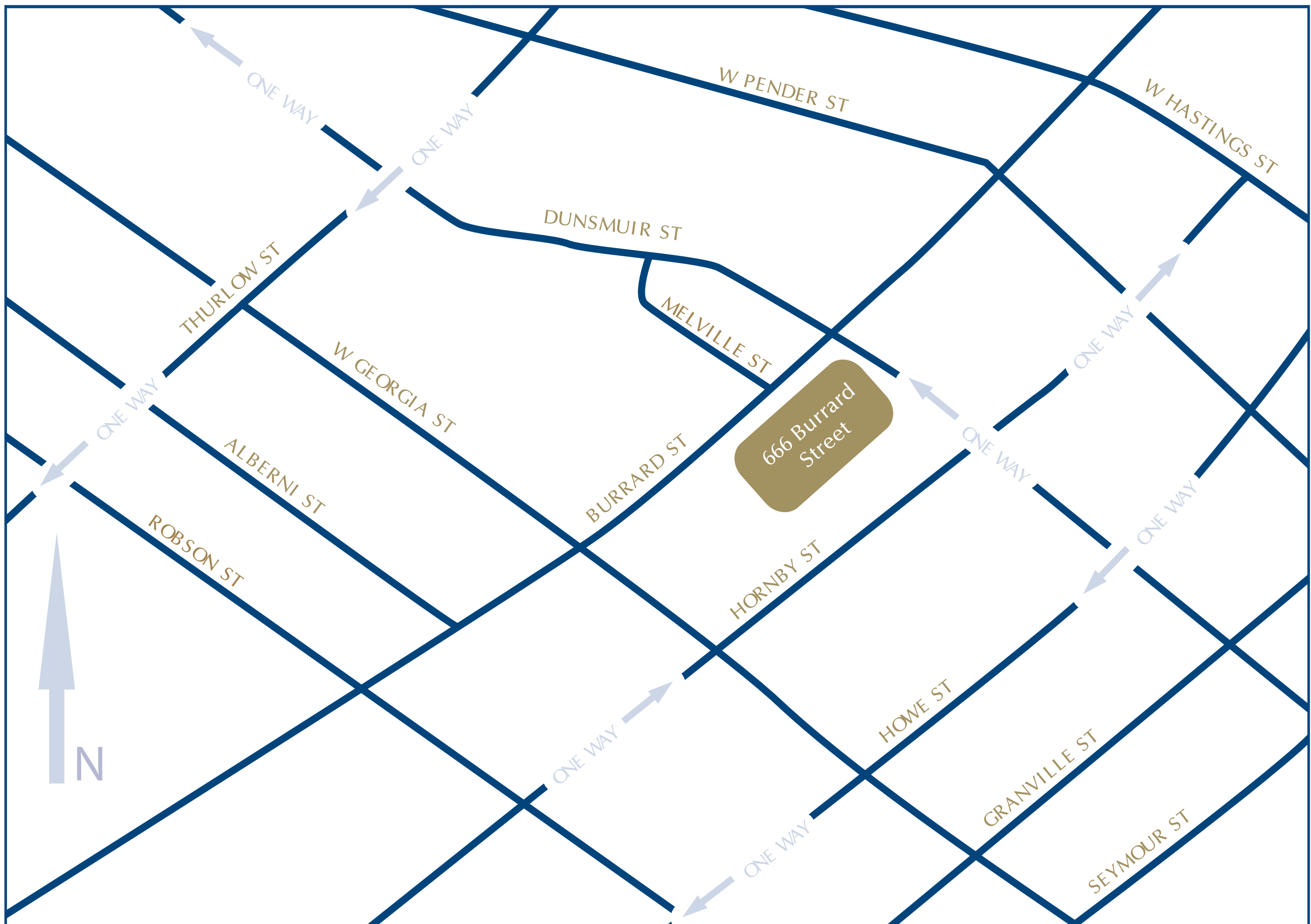
After six years with the McIver Wealth Management Consulting Group, I am shifting gears to pursue other opportunities. To the credit of Neil, Mark and Karm, my colleagues at Richardson GMP and, most importantly, to the credit of you, our clients, I leave with so many fond memories. I consider myself very lucky to have had the opportunity to work with you; listening to you and your stories, identifying opportunities to enhance your life, developing practical and value-added solutions for challenging issues, and providing a sounding board for your many questions. At McIver Wealth, we are all about simplifying your life, simplifying your wealth management. I was proud to be part of this process, and thank Neil for the opportunity to do so.

The Richardson GMP Wealth Management team will take up my role within the Group. I leave you in very good hands with this talented and very capable group of professionals. I am confident of this.

It is with fondness that I say goodbye. I thank my Team, my colleagues and you, my clients, for the many wonderful experiences. It was my great joy to have shared time with you.

Tricia McIver

Visit Us in Person or Online!



RICHARDSON GMP LIMITED

Park Place • 666 Burrard Street, Suite 1800 • Vancouver, British Columbia • V6C 2X8

Toll Free: 1 (866) 364-7735 • Phone: (604) 678-6561 • Fax: (604) 678-6640

www.mciverwealth.com

Neil R. McIver	Director, Wealth Management	(604) 678-6561	Neil.Mciver@RichardsonGMP.com
Mark Jasayko, MBA, CFA	Associate Portfolio Manager	(604) 678-6562	Mark.Jasayko@RichardsonGMP.com
Karm Bhatti	Associate	(604) 678-6563	Karm.Bhatti@RichardsonGMP.com

The opinions expressed in this report are the opinions of the author and readers should not assume they reflect the opinions or recommendations of Richardson GMP Limited or its affiliates. Assumptions, opinions and estimates constitute the author's judgment as of the date of this material and are subject to change without notice. We do not warrant the completeness or accuracy of this material, and it should not be relied upon as such. Before acting on any recommendation, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice. Past performance is not indicative of future results. Richardson GMP Limited, Member Canadian Investor Protection Fund. Richardson is a trade-mark of James Richardson & Sons, Limited. GMP is a registered trade-mark of GMP Securities L.P. Both used under license by Richardson GMP Limited.