HIGH NET WORTH JOURNAL

An Investment Update

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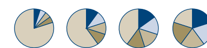
RICHARDSON GMP


MCIVER WEALTH MANAGEMENT
CONSULTING GROUP

What's News

By Neil McIver

There are times when a victory is simply staying where you are, particularly while walking up a down escalator. It has been a difficult environment and we've been working hard to maintain value for you. Much of our work is intrinsically built into your sophisticated asset-allocated portfolios, but much was also done in the spring as we prepared for the possibility of more volatile stock prices and through the summer as we continued to make changes in many portfolios. Those changes have always been made within the confines of your stated risk tolerances.

Since the start of the year the Canadian TSX has fallen nearly 15%, while France and Germany are down over 20%, Japan is down 15%, Brazil has lost 25%, and Hong Kong is down nearly 25%. As we correctly prognosticated here in this publication, the best performing equity market, in relative terms, has been the U.S, which has lost just 10%, and less so in Canadian dollar terms as the Loonie retreated.

Over the past year to September 30th, our discretionary models, based on actual representative client account, have returned in the range of -0.66% for the most aggressive to +4.19% for the most defensive. These returns are real net/net client returns after our low transparent fee. In a normal or growth environment, these returns may not be anything to write home about; that is, until you consider the reality of our current environment.

Despite the volatility and the media headlines, it can often be comforting to know that our disciplined process is working for you and maintaining or growing value in the most challenging markets. When the equity markets eventually recover and normalize from this compression, I am confident that we will be well placed to capture the upside, as we have in the past.

What now?

After a nice rise during the first half of the year, the equity markets finally began to break down in July as the economic concerns facing the European Union intensified and it became clear that the U.S was not immediately going to continue its quantitative easing. Each of the two previous tranches of that quantitative easing (often referred to by the initials QE1 and QE2) had the effect of creating an artificial liquidity. That liquidity, or cash, sloshed from the U.S and into markets around the globe, driving up the value of equity markets. Without any immediate expectations for QE3, growing concerns about Europe, China's moderating growth, and the fears of another U.S recession, a witch's brew of fear developed and equity markets rolled over.

Please read of Mark Jasayko's column this month regarding the current macroeconomic environment.

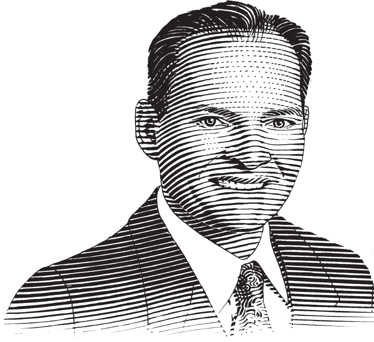
We have been preparing for some time for the environment we are currently experiencing. On a relative basis, U.S equities have been and remain more undervalued than Canadian equities, followed by Europe and Japan. This suggests that U.S. equities hold more potential upside and less risk. This reality, combined with the likelihood that the Loonie would come back to earth, led us to decrease your exposure to Canadian equities and increase your exposure to U.S equities. To date our strategy has resulted in a lower volatility and less downside due to the better relative performance of the U.S equity markets and the drop in the Loonie.

Moving into the future, Technical (charting) and Fundamental (traditional) analysis suggest that a welcome recovery rally may develop during October and November, the start of which we may now be seeing. The caveat being that another corrective phase and market low may again plague us in December or early in the New Year. This forecast suggests two courses of action over the next quarter. Firstly, current cash reserves should remain in cash until the second low develops. Secondly, we will be using this recovery rally to make further changes and add positions that can profit in a more inflationary environment, which may be the next likely dominant theme with which we will need to contend.

Welcome to the fall, we have some work to do. Please do not hesitate to call or email me if you have any questions or concerns. I'm always available and we are consistently working in your best interest.

On the Mark

By Mark Jasayko



Why is the global economy so sluggish? Why is U.S. unemployment stubbornly high? Why is Europe in the midst of a debt crisis? Why are equity markets not able to hold on to their gains? Why are markets everywhere so volatile?

It's because politicians, central bankers, and financial industry leaders are inadvertently "kicking the can down the road."

Despite continuing rhetoric about how the economy won't enter a double-dip recession and how there will be a solution with respect to Greece's debt, the market has experienced increased volatility since April.

In the eight months prior to this April, the markets were stampeding forward in response to the U.S. Federal Reserve policy of printing money. Ben Bernanke stated that it was his belief that if he could get stocks to rise in price by increasing economic liquidity, consumers would feel rich enough to continue spending and to start buying homes again. The result was a steady climb in share prices with almost no volatility. The stock market graph looked like a straight line heading higher.

However, investors knew that the money-printing was set to end on June 30. As that date began to appear on the horizon, traders started to look for other catalysts other than money-printing which could take the market higher. They didn't find much. In fact, as they began to look at things more closely, they discovered that there were actually some gathering clouds which were not accounted for in all the optimistic economic forecasts made at the beginning of the year.

Although the policymakers had good intentions, the policies of the last year are a continuation of short-term Band-aid solutions that have plagued the markets and the economy for the past decade. It was wrongly believed that the business and economic cycle was dead and that we had entered into a period called the Great Moderation. Central banks believed that they could engineer economies that were resilient to recession by increasing liquidity and lowering interest rates enough to keep people buying homes, automobiles, and big screen TVs.

The politicians also took advantage of this and increased spending to be financed with lower interest rates on the debt that they issued. Heck, if there won't be any more recessions, then who cares how much debt is outstanding? They were comfortable in believing that the economy would just help them to grow out of the debt burden.

It is likely that the central bankers and politicians still have some hope in this belief. It would certainly explain their actions up until now. Although there has been growing anxiety on behalf of investors, policymakers have only paid lip service to tackling the fundamentals causes of the debt crisis in Europe and the U.S.

Hopefully there will be a reprieve soon. The historical seasonality in the markets suggests that this will be the case. Also, Ben Bernanke and the U.S. Treasury Secretary Tim Geithner are extremely aggressive interventionists judging by their past records and comments. As long as they are in their positions, it is very likely that a large money-printing program and government spending package will appear if the economy continues to struggle.

If we see this kind of response, it will be another dose of heroin for the markets and could push them toward double digit gains over a short period of time. However, this will be yet another chapter in "kicking the can down the road."

Even better would be a realization among the policymakers that it is finally time to become realistic, to accept that the economy still has cycles, and to implement tough measures to avoid even greater economic hardship down the road. This kind of response would be politically unpopular as it would allow economies to slip into recession. Some of the poorly managed companies, that should have faded away years ago if we had normal and cleansing recessions, would quickly meet their fate. Fortunately, as portfolio managers, we can avoid investing in them. For the remaining shareholders, management, and employees, things would be tough.

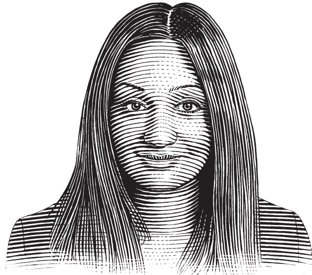
Despite the pain that tough medicine can exact, the investment markets love these measures. They provide a roadmap to recovery and significantly reduce uncertainty which is the greatest hindrance to long-term rising markets. Tough medicine could also lead to relatively quick double digits returns. Even though there will be many stories about lost jobs and increased unemployment, the investing class, including our clients, will finally see their interests given respect and will reward policymakers by bidding up the prices of investments.

Even though the second scenario is preferable for prudent investors and savers, the first scenario (printing money and trying to spend the way out of the slowdown) is much more likely. It should provide a boost to markets like we saw last year. However, it will also increase the probability of a sharp increase in inflation with all the money that will be latent in the system and which would be too politically difficult to remove during a recovery.

As a result, we continue to be situated to capture any sudden market recoveries in response to aggressive government and central bank policies. In addition, we continue to include protection against any resulting inflationary fall out with inflation-protected bonds, gold, agriculture stocks, and companies that can pass along price increases without hurting profitability.

Good Karma

By Karm Bhatti



Mciverwealth.com

Our Group has strived to remain among industry-top in all aspects, including our website www.mciverwealth.com

Our website design is designed as a resource and guide for our clients. It explains how we provide discretionary investment management services and its advantageous benefits for clients and also explains the concept of providing wealth management planning services.

Our website also contains full biographies on each of the team members and you can access your portfolio online directly from our website. At the McIver Wealth Management Consulting Group, we pride ourselves in delivering the highest quality advice and financial solutions tailored for the most successful Canadians and their families. Please feel free to share our website with those who qualify and may benefit from our exclusive services. We believe that they will value our conservative guidance.

We are constantly working in your best interest.

If you have any questions please contact me directly at 604-678-6563 or at karm.bhatti@richardsongmp.com

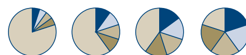
McIver / Jasayko Model Portfolio Performance

Below is a table with our most recent performance numbers:

At September, 2011 *

	12 Months	6 months	3 months
P1 - Very Conservative	-0.74%	-7.25%	-5.75%
P2 - Conservative	-0.09%	-7.81%	-6.59%
P3 - Conservative Value	-0.77%	-9.41%	-7.58%
P6 - Income	4.00%	-4.45%	-4.39%
P8 - RRSP Growth	-0.70%	-4.97%	-3.72%
P9 - RRIF	2.36%	-2.28%	-2.14%

*Performance returns are as of September 30, 2011 and are based on actual representative accounts. Please note that the past performance is not necessarily an indicator of future performance. The indicated rates of returns are net of fees and before taxes. Individual results of clients' portfolios may differ from that of the representative portfolios as fees may differ, and performance of specific accounts is based on specific account investitures. The noted representative portfolio may not be appropriate for all investors.



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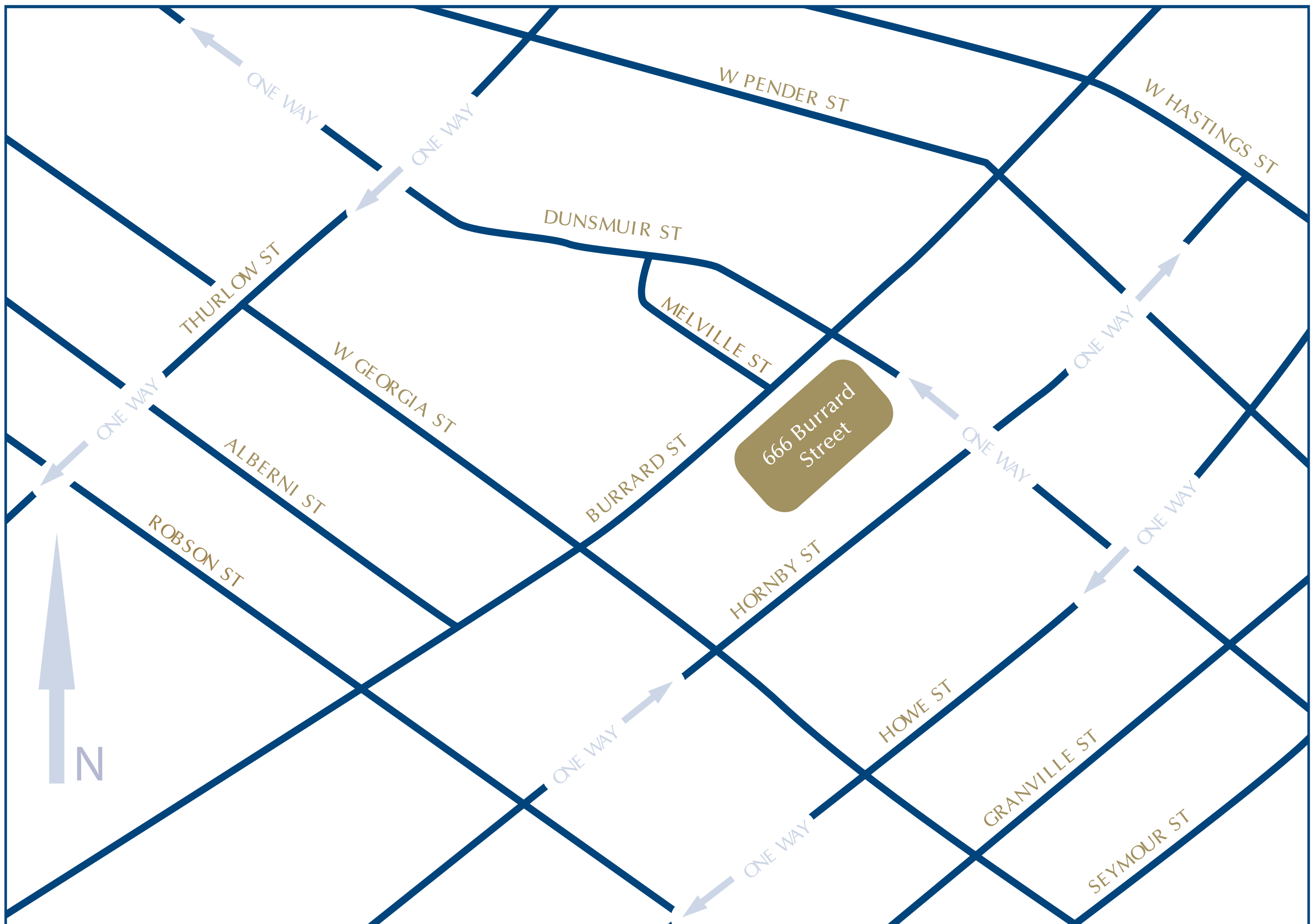

RICHARDSON GMP LIMITED
Park Place • 666 Burrard Street, Suite 1800 • Vancouver, British Columbia • V6C 2X8
Toll Free: 1 (866) 364-7735 • Phone: (604) 678-6561 • Fax: (604) 678-6640
www.mciverwealth.com

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

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