High Net Worth Journal

An Investment Update

Richardson Partners Financial Limited
FAMILY WEALTH MANAGEMENT

Volume IV, Issue III
April 17, 2009

McIver Wealth Management
CONSULTING GROUP

What's News

By Neil McIver

I hope that the tone of my column in this month's Journal is not dismissed as too positive. I wouldn't want to be accused of running contrary to the endless stream of Chicken Little's flooding various information mediums.

I'm excited about this year and next. Change creates opportunity and opportunity fosters renewal. Before I continue I'll review an important point, which many may already know, but one worth mentioning again.

On Your Side

Our advice is mostly devoid of the pressures often found in other businesses such as those in the real estate business whose job it is to bring to market real estate and foster transactions. This sort of environment often dictates that one expresses a constantly positive view of the market. The same could be said of the research departments of large, usually bank-owned, broker-dealers. We are also unlike those who sell stock market newsletters and are not directly responsible to the individuals who follow their advice.

In contrast to these honourable economic pursuits, we have the benefit of a single (usually fiduciary) responsibility to our clients and their financial well-being. We don't need to generate transactions, we don't have an investment banking arm (by design), and we don't need to sell the hottest stock idea.

The purpose of our commentary is simply to illuminate the market and economic topography for our most important constituency, our clients. Like a trial lawyer before the unknowable verdict is read, we gain no advantage by unnecessarily raising client expectations.

History Lessons

If we were to look back and consider our market position two years ago, in 2007, there was clearly much more risk and much less opportunity than today. Real estate and home prices were unattainable by many and there was no real ability to buy and rent real estate to cover borrowing costs and generate a profit. The major international stock markets, excluding the commodity sector, had experienced little or no growth over the previous eight years; yet large U.S. investment dealers were announcing record profits. At the same time, we were told that securitization (the chopping up and broad distribution) of risky debt would forever moderate the credit cycle for everyone's benefit.

Fast forward to today and Americans now understand that real estate can actually go down in price. The spectacular and related failure of risky securitized debt virtually cut the equity markets in half and collapsed the price of corporate bonds.

But all markets correct, eventually reaching a point of maximum pessimism. History suggests such pessimism does not last forever.

Risk and Reward

Because the market is trading, to an extent, beyond fundamentals, there is a value in examining anecdotal evidence of the larger market sentiment. In doing so there is a growing list of signals which indicate a recovery may be developing. Investors are tending to buy the dips again, rather than sell into rallies as they've done over the past 18 months. The volume of home sales in the U.S. is starting to increase in some areas as investors look to take advantage of depressed prices (a classic bottoming signal). HSBC was able to raise over $17 billion in an equity financing and the well-respected RBC Asset Management is estimating a total return for the S&P 500 of 39% and 30% for the TSX over the next year.

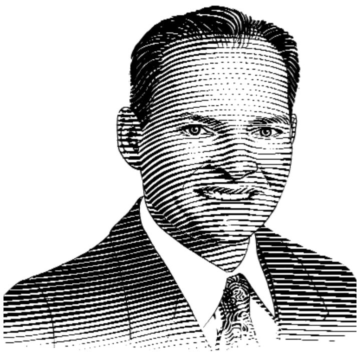
While I hope RBC is right, I would suspect that we may see another low developing in June and then again in October until we've exorcised the majority of our demons.

You won't see us with pom poms just yet regarding this market, but clearly optimism is developing. While blind optimism has little value, I also don't know a single successful businessperson who isn't an optimist.

Clearly the risk/reward equation is tipping toward reward.

On the Mark

By Mark Jasayko



Notorious A.I.G.

It was 1994 and a financial industry friend and I were driving up to Whistler one morning discussing a number of companies that appealed to us as value investors. We didn't agree on everything, but there was one company whose merits and track record were so brilliant that we were in full agreement with respect to its future investment potential. That company was AIG.

AIG was the pioneer in bringing insurance to emerging markets, especially China. In fact, AIG was founded in Shanghai in 1919. It wasn't until the communists advanced upon Shanghai in 1949 that AIG finally moved its head office to New York. In the ensuing years AIG used its international experience to expand to other countries and developed its operational expertise to become the premier provider of property and life insurance. Its ability to manage underwriting risk fuelled a steady but conservative growth in the Company's value. Then, as China opened up again, AIG capitalized on its pedigree to gain very early entry, further burnishing its reputation as the leader in global insurance.

Fast forward to the present: AIG has been bailed out to the tune of over $170 billion, employees are still receiving multi-million dollar bonuses, and the depth of the problem continues to be obscured by the Company's toxic asset-infested balance sheet.

What went wrong?

AIG got involved in the business of providing insurance against the default of bonds. There were a few issues with this. First, this business grew rapidly and began to significantly affect the Company's income statement. Second, AIG had no expertise in this. Again, their reputation was made in property and life insurance. Institutions that were experts in bonds were thrilled that they could buy bond insurance from an insurance company with no track record in bond dealing. Third, this business violated a critical principle of insurance: insurable interest. You and I should only be able to buy insurance against something that affects us. However, anybody could buy bond default insurance from AIG. Without insurable interest, insurance becomes a direct form of gambling. Essentially, AIG had become a horribly-run casino where gamblers could make windfall profits.

The automatic reaction was to save AIG with a bailout. The $170 billion total reflects three separate bailouts. The argument is that an AIG failure would destabilize the global financial system. AIG and Wall Street lobbyists also made the argument that the personnel responsible were needed to help unwind the mess. Many of these people were significant recipients of the incendiary bonuses.

As someone who has been in the investment industry for a couple of decades, the government and regulatory responses surprised me. One of my reference points with respect to incidents like this was the failure of Barings Bank in 1995 when unsupervised rogue trader Nick Leeson was successful in hiding accumulating losses until the total reached over $1 billion (notice how the dollar amounts have changed in 15 years). There wasn't even a sliver of consideration of permitting Leeson to stay and help clean up the problem. Instead, the focus was to remove him immediately so that he couldn't manipulate the situation and cause more harm.

In contrast to the mid-1990s, we are seeing policy decisions that reflect the bubble market era thinking of the last ten years. There is still some willingness to hand the keys back to those who were responsible, believing that the rocket scientists who designed risky complex investment products are the only ones we can trust to fix things. Government officials are still swayed by the pleas from Wall Street warning that the geniuses will leave if they don't receive lucrative bonuses (this belies the fact that there are masses of unemployed Wall Street workers and a constant stream of new mathematically talented university graduates looking for jobs).

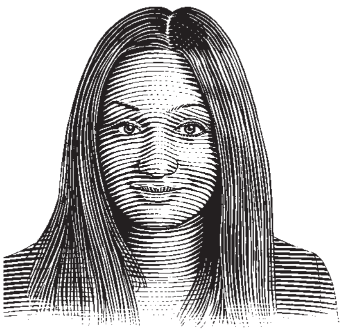
In a previous column I discussed the need to get new policymakers who don't have baggage associated with playing a role in the creation of world's current financial problems. There has still not been much progress on this front. However, in response to public anger, there is finally some incentive to remove some of the implicated corporate leaders. U.S. Treasury Secretary Timothy Geithner (who has some baggage of his own) announced that he will look at removing the senior management of any bank receiving 'exceptional' aid, as the Treasury Department worded the statement.

The AIG bonus brouhaha has also set a precedent in terms of public response to questionable government action. Further news of excessive bonuses paid to the usual recipients will increase the career risk of elected and appointed officials. As a result, instances like this will likely subside.

The increased focus on replacing policymakers, on replacing senior bank management, and on euthanizing institutions that have sold their soul to the world of toxic investments before they can issue bonuses indicate that there is some progress being made towards a better global financial model upon which markets and economies will be able to grow again.

Good Karma

By Karm Bhatti



High Net Worth Weekly

April 1st, 2009 marked the second year anniversary since our launch of the High Net Worth Weekly. As most of you are aware, this email-only publication is designed to keep you informed in a quick fashion. This is achieved through both Neil and Mark's market related commentary. In addition, Tricia provides professional suggestions and recommendations for wealth preservation and I provide a market summary for the trading day as well as the Heatmaps which track portfolio performance. If you are not currently receiving this email publication and would like to, please email me directly at karm.bhatti@rpfl.com.

Tax Deadline Reminder

This year's tax deadline is on Thursday April 30th, 2009. The volume of tax slips and summaries can be overwhelming,. If you feel that you are missing anything please call me directly at 604-678-6563. Please keep in mind that we do not mind speaking directly with your tax advisor and providing them with the necessary information.

Preserve and Protect

By Tricia McIver

Income Splitting

An end goal at tax time should be minimizing the collective annual tax bill between you and your spouse. For those of you who are retired, the new strategy of splitting pension income is very effective. This allows you to allocate up to 50% of your qualifying pension income to your spouse. The purpose is to equalize the reported taxable income between you and your spouse to ensure the lowest tax brackets of both of you are utilized, as well as minimizing the impact of the age credit reduction and the OAS claw back.

For those of you who are not retired, pension income splitting is obviously not available, but there is an opportunity to split investment income. This may be accomplished by way of a spousal loan. Under normal circumstances, where you transfer capital to your spouse and he or she uses that money to purchase investments, the income (interest and dividends) and capital gains earned on that capital is attributed back to you and must be reported on your tax return. However, where you advance a loan to your spouse and where interest on the loan is **paid** by January 30th following the calendar year end during which the loan is outstanding, the attribution rules should not apply. The interest rate that is applicable to the loan is the prescribed rate set by CRA at the time the loan is advanced. Currently this rate is 1% - unprecedented in recent history. This provides an excellent opportunity as realized income and gains (i.e. that which is reported on your return) typically exceeds this 1%. The spread between the realized rate of return and the 1% interest on the loan is effectively transferred from you to your spouse. The rules relating to spousal loans must be followed very carefully to ensure the intended tax result is achieved, and I would be very happy to discuss the rules in greater detail with you. I also strongly encourage you to discuss this alternative with your accountant prior to implementing a loan.

CRA administration made easy – Epass Canada

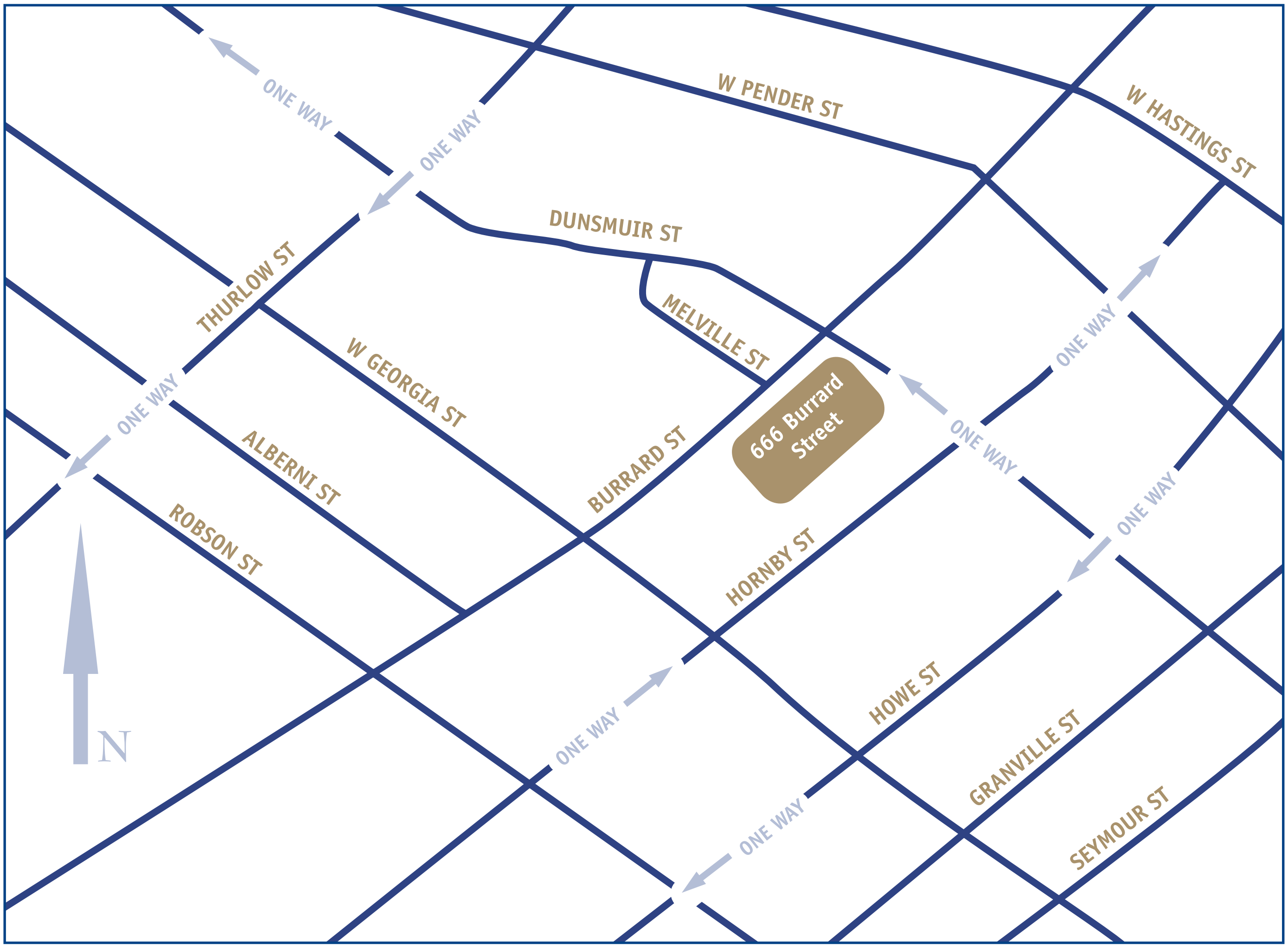
Epass Canada is the Government of Canada's electronic service that allows individuals and businesses online access to government services, including accessing tax information from the Canada Revenue Agency (CRA). Through CRA's **My Account** you may access and manage personal and banking information, and details relating to your tax returns, benefit payments, financial information and RRSPs. A few examples of what you can access through Epass include:

- Access to copies of your last 7 years' returns
- Netfile access code, required to electronically file your return
- Carry-over amounts such as unused capital losses and unused charitable contributions
- Instalment information; what you are required to pay and what you have paid
- For those of you with margin accounts, ensure you deduct interest paid on these accounts. The interest paid by you may be found on the Summary accompanying a T5 or T3 slip.
- Your RRSP limit and unused contributions, and details relating to your Home Buyer's Plan and Lifelong Learning Plan

You may also authorize a representative (typically your accountant) to deal with the CRA on your behalf. The **Represent a Client** service will allow an authorized third party to access your tax information and in certain circumstances request changes.

CRA's **My Account** and **Represent a Client** services provide a fast and easy way for you and your representative to manage your tax account. For further information about these services, and detailed instructions regarding registration, visit the **My Account** website at **www.cra.gc.ca/myaccount**.

Visit Us in Person or Online!



RICHARDSON PARTNERS FINANCIAL 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	First Vice President	(604) 678-6561	neil.mciver@rpfl.com
Mark Jasayko, MBA, CFA	Associate Portfolio Manager	(604) 678-6562	mark.jasayko@rpfl.com
Karm Bhatti	Associate	(604) 678-6563	karm.bhatti@rpfl.com
Cara Dunlop	Assistant	(604) 678-6564	cara.dunlop@rpfl.com
Tricia McIver, CA, CFP, TEP	Tax & Estate Planning Consultant	(604) 678-6565	tricia.mciver@rpfl.com

Insurance services are offered through Richardson Partners Insurance Services Inc. in BC, AB, MB, ON, NWT.
In Quebec, Insurance services are offered through Richardson Partners Insurance Services (Quebec) Inc. Affiliated with Hub Financial Inc.
Richardson Partners Financial Limited is a member of CIPF.