… # High Net Worth Journal

An Investment Update

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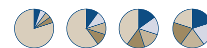
RICHARDSON GMP



McIVER WEALTH MANAGEMENT
CONSULTING GROUP

What's News

By Neil McIver

Let's draw our focus back and consider the impact of investor psychology on investment returns.

All things move in cycles, from weather patterns, crop yields, and security prices to general economic conditions and to society itself. Those things specifically influenced by humans have a great tendency to have momentum attached to their natural cycle. That momentum, which is really a byproduct of human expectation, can skew the cycle by driving it higher or lower than it really should be.

Without much thought, most will emotionally believe that if something is rising, then it will continue to rise. If it's falling, then it will continue to fall. Similarly, if something has not been profitable for a great number of years, then it will always be a poor investment. The interesting thing about this behaviour is that most people inherently believe this, even if they don't want to.

Avoiding these emotional beliefs when making large investment decisions is critical to long term outperformance. Why? Because what's happened recently may have no bearing on what will likely happen in the future and this is particularly true near the top and bottom of investment cycles. At these points, the emotional decisions to buy at the top and sell at the bottom are specifically the wrong ones.

This is the primary reason why most investors, professional and amateur alike, vastly underperform the major market indexes. They move in and out of the market based upon these emotions.

As Portfolio Managers, our job is not to step outside into the sun and then predict that this will continue, nor do the same when it's raining. Our job is to shape portfolios around a core Asset Allocation structure dialed to your specific level of risk tolerance - but tactically taking into account the expected future economic environment.

We'll never be out of the market completely because no one knows the exact date that the market will start and then stop going down due to the human momentum factors discussed above. Under no circumstances is being completely out of the market the right thing to do. But we will tactically weight your portfolio in the areas which have the least risk and highest expectations based upon fundamentals. Additionally, we will suggest times that you may wish to consider asking us to decrease or increase your exposure to risk.

Suggesting a change in risk exposure is what we did during 2008 and 2009. We recommended from November of 2008 until April last year that clients add capital to their portfolios in order to buy securities and increase their risk exposure. We also did a special rebalancing of portfolios in November 2008, which had the intended effect of selling bonds and buying equities. The bottom of the equity market correction (in most cases the markets were down about 50%) was reached twice, in November of 2008 and again in March of 2009 before the sharp rebound began.

Housekeeping:
Cara Dunlop is no longer with our team or our firm. We wish her all the best in her future endeavours. We're excited to welcome Kim Reynolds to our team. She'll be handling all of administrative and client service functions. As the former Branch Administrator for our office, Kim has a wealth of experience in our industry and with our firm. She's also fully licensed as an Associate Investment Advisor.

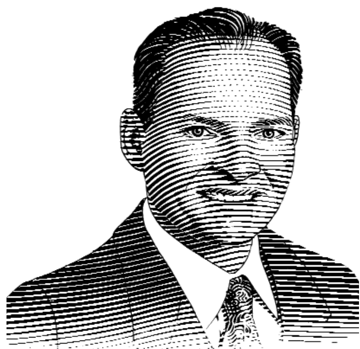
Kim will be working diligently to overcome some of the administrative challenges created by our merger, which took place, inconveniently, during the conversion to our discretionary portfolio management model. Kim has our full confidence.

Due to downtown travel and security restrictions during the Winter Olympics (February 12th to February 28th) in our (warm) city, our business hours will be pared back to market-trading hours from 6:30 am to 1:30 pm. However, through Blackberry communication, all of us are available outside these hours via email and we'll be regularly checking voice mail.

Enjoy the Games!

On the Mark

By Mark Jasayko



First Light

This column has previously discussed the fact that we have been in a secular bear market since March 2000. Although there have been a few stretches where stock markets have gained, all those gains have been given back. Also characteristic of secular bear markets is that a vast majority of analysts and strategists failed to anticipate the sell-offs. Old thinking from the previous secular bull market (1982-2000) prevents many of them from being objective enough to correctly assess the big picture. Not here though, as we have written for years about the secular bear and the need to be more cautious than average with respect to the strategy employed in our Asset Allocated portfolios.

To review where we have come from during this secular bear market, market valuations are at the same level they were almost 12 years ago. In March 1999, the Dow crossing 10,000 was in the news. Today, that is about where the Dow is. It is also remarkable that North America has seen a full decade of almost no net job growth. The jobs lost in this recent last recession wiped out all the net job creation since 2001. And finally, when we remove the effects of dubious financial engineering and leverage, economic growth has been flat.

In our publications we have also talked generally about the signs that will indicate when the secular bear market is nearing an end. Low valuations for stocks will obviously be one of those signs. However, a number of other qualitative factors will also begin to signal a change.

One of those factors is financial reform. Amazingly, two and a half years after the credit crunch led to market turmoil, not much has been done with respect to reform. Policymakers and industry players have hoped that rising markets would help to quell the concerns and that we could get back to business as usual without much public outcry. This is common behavior as it pertains to the financial markets. One drawback of this is that the markets and the economy remain stuck in the mud as stakeholders who did well in the previous era try to maintain the status quo, only prolonging the secular bear market and delaying the changes needed to encourage a reallocation of financial capital to its most efficient use. However, eventually political and economic realities override this behavior. In the late 1970's, it was inflation that forced the Carter Administration to abandon their flimsy band-aid solutions and introduced new policymakers who implemented strong-medicine solutions.

In the last two weeks, and for the first time in a generation, realities have once again achieved the critical mass necessary to cause a shift in the priority of financial reform.

Only a year after being elected, the Obama Administration has squandered most of the goodwill that it acquired with campaign rhetoric and has seen approval ratings fall as fast as any Administration in the past. This culminated in the loss of what was considered a permanent Democrat Senate seat in Massachusetts. Within two days, Obama had done a full U-turn away from the watered-down reform endorsed by his staff (Treasury Secretary Tim Geithner and National Economic Council Director Larry Summers), and embraced the tough proposals outlined and advocated over the past two years by relative outsider Paul Volcker, the Chairman of the Recovery Advisory Board (who, ironically, was the one who deployed very dramatic interest policies as Fed Chairman to kill off inflation and pull the financial markets out of the misery that hallmarked the 1970s).

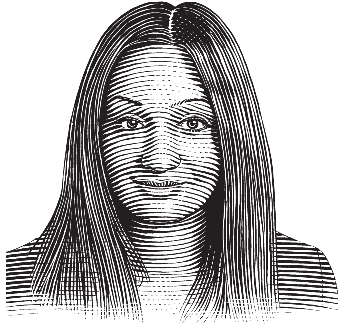
Essentially, the current 'Volcker' proposal is to prevent the banks from speculating with capital that originates from their relatively stable and economically important commercial and retail banking operations (deposit-taking and lending). It is reminiscent of the kind of legislation that resulted about five years after the market crash of 1929, but is updated to address the modern aspects of banking.

Many bankers and their lobbyists immediately attacked the proposal, stating that it would hurt the financial system and that banks might move offshore or legally fight this. There was also an undertone that this was an erosion of free market policies. However, that amounts to turning things on their heads. The financial system had developed socialist characteristics with its oligopolies, heavy state involvement throughout the world, and with the socialization of enormous trading losses. Capitalizing on socialism does not equate to capitalism. In the last decade, the vanguard of capitalism and free markets had been hijacked by Country Club Republicans and Champagne Socialists. And now Obama, one of the most prominent socialists of our time, has inadvertently turned the tables.

We are still a few years away before ascending from the uncertainty created by the monetary and fiscal crises and the unemployment and slow growth scenarios that those crises created. However, the impact and sincerity of this proposed reform will add to the foundation from which the next secular bull market will be built. When markets realize in retrospect the benefits of transparency and the more level playing field resulting from this reform, the upside will be impressive. However, for the time being, our Asset Allocated Portfolios will remain cautious.

Good Karma

By Karm Bhatti



Month End Statement

In February you will receive two January month end statements. One statement will be in the old format showing your portfolio transferring out of the old platform, and one statement will be in the new consolidated format showing your portfolio transferring into the new account platform.

RRSP – 2009 Deadline and Limit

It's RRSP season again and the contribution deadline of Monday March 1, 2010 is fast approaching. The maximum contribution limit for 2009 is $21,000. You may make your contribution by:

Cheque by mail - Please notify us that you have mailed a cheque so we know your contribution is on its way. Ensure the cheque is made payable to "Richardson GMP" and on the memo line of the cheque please write "2009 RRSP Contribution". Please ensure you leave ample time for your cheque to reach us through the mail.

Transfer from your non-registered investment account – Or you may transfer cash or securities from your non-registered investment account to your RRSP account. Please call Kim Reynolds directly at 604-678-6564 with the details.

Tax reporting deadlines and contact information

As tax reporting deadlines approach please direct and technical tax questions (tax advice) to Tricia at 604-678-6565 and any administrative tax questions (forms, etc) to Kim at 604-678-6564.

Preserve and Protect

By Tricia McIver

Thinking ahead

Having recently returned from a CBC Board meeting, governance is top of mind. After debating strategy issues, planning for upcoming budget meetings and reviewing various Committee mandates, I pondered the role of governance and the processes in place to ensure 'best practice' outcomes. I applied this to our business at McIver Wealth Management Consulting Group, which is tasked with providing exemplary investment and wealth management. This required me to step outside our business and evaluate whether our structure and processes actually delivered the desired outcomes within our own mandate.

The starting point for my evaluation had to be our mandate:
"We are dedicated to simplifying your life while maintaining your lifestyle. Enhance your wealth. Maintain your lifestyle. Simplify your financial experience. Transition your success to the next generation."

Simplicity is a common theme throughout our practice and we have focused on establishing processes that: (1) make it simple to deal with our team and our firm, (2) provide effective - but simple – solutions to your challenges, (3) establish well thought out investment practices that are steeped in discipline and accountability, and which are applied and f ollowed systematically, and (4) provide easy-to-follow performance reports and wealth management updates which are predictably delivered.

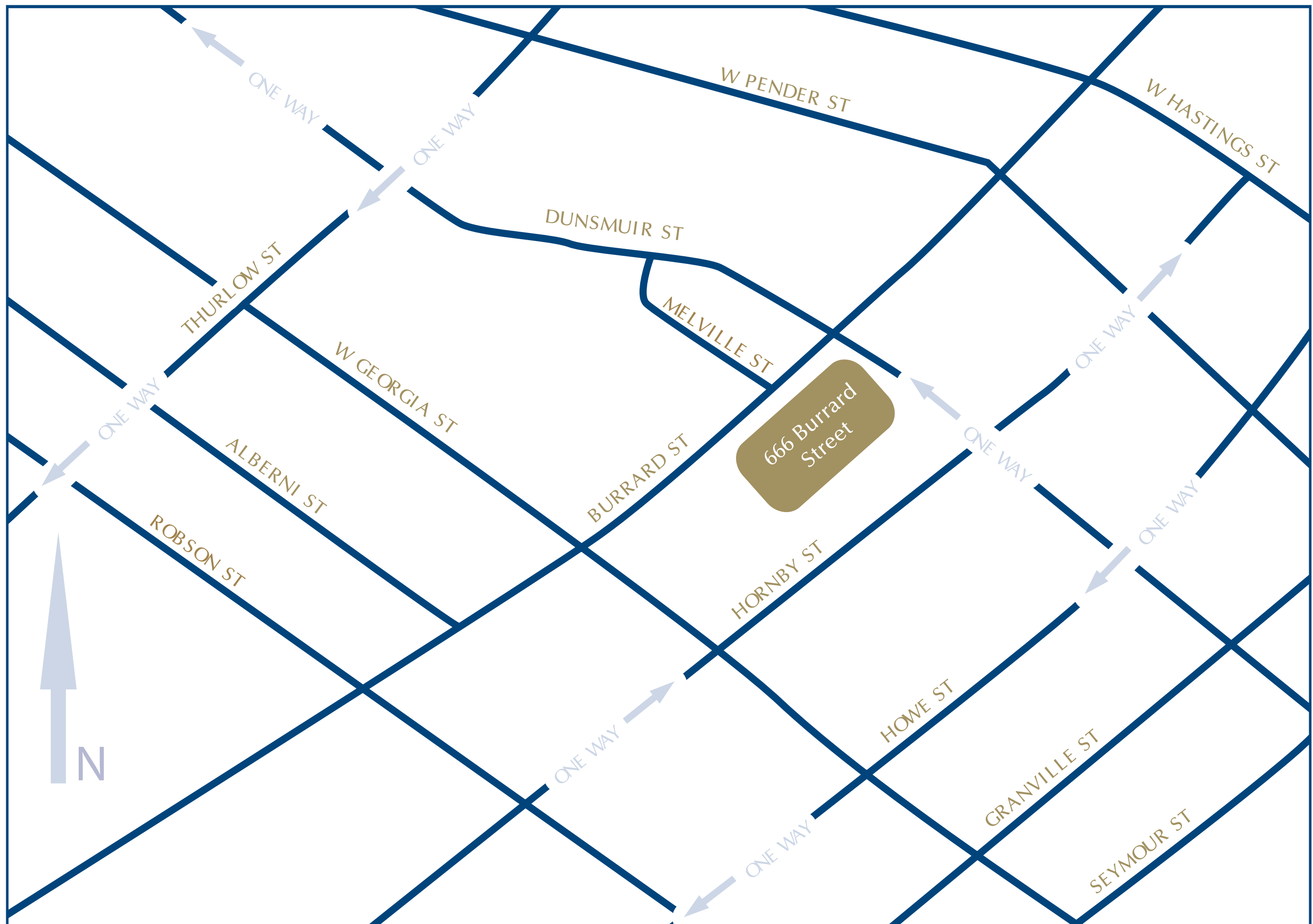
Safeguarding your investment assets is an overriding concern in both our investment approach and our wealth management recommendations. We are risk managers. By effectively managing those risks which threaten your wealth: market risk, volatility, capital erosion due to poor tax and estate planning, we strive to ensure that your wealth is protected, thereby maximizing the potential for growth. The result is to make sure that we manage your wealth so you may continue to enjoy your lifestyle without pause.

We strongly believe that with wealth comes responsibility, one of those being the education of children and grandchildren so they posses the necessary skills and have adopted your engendered value system. We have counselled many of you on this issue and have encouraged you to invite your children into the dialogue surrounding your wealth and ask them to share in the investment process.

So how have we done? Are we meeting our mandate? I think on the balance, the answer would be yes. We do recognize that there is always room for improvement, for enhancement and for refinement. New initiatives come from our observations of the industry and market, self assessment, and your feedback.

Over the last year we have been converting our practice to a discretionary basis. This will allow us to manage your portfolio more efficiently and respond quickly to market adjustments. Most importantly, it will keep us "out of your hair" in terms of individual trades, but "in your hair" in terms of performance reporting and accountability (our plan: semi-annually). Our disciplined approach to investment management, which Neil and Mark have developed and improved over the last number of years, is maintained. Our approach and our processes – for both investment and wealth planning - are predictable and dogmatic, which is not to say they lack innovation or the ability to quickly respond to market conditions. Instead, they keep us focused and on track, and accountable to our investment mandate, to ourselves and, of utmost importance, to you.

Visit Us in Person or Online!



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