HIGH NET WORTH JOURNAL

An Investment Update

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MCIVER WEALTH MANAGEMENT
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What's News

By Neil McIver

Market Timing Doesn't Work

It will be an interesting summer as competing economic visions clash over the likelihood and strength of an economic recovery.

Ironically, it's been a difficult year for those who have remained invested and also for those forced by fear into cash. The market reversal from the March low has been startling to many. Bears were caught on the sidelines as one of the strongest rallies in over two decades drove the market upward nearly 30%. This rally began quietly enough, and then grew like a snow ball, gathering strength as it went.

The question of course being, 'is it real'?

The Bulls feel that the U.S government 'recovery' plan, anchored by massive spending and injections of liquidly, is beginning to pay dividends. The primary point of optimism being the slowing rate of economic decline. Indeed, there is a case to be made here and the building blocks of a recovery are within grasp. Additionally, from a technical (charting) and fundamental (traditional) research perspective, commodities, which tend to be a leading indicator of the overall market, have bottomed. This is positive for the markets as a whole and the Canadian equity market more immediately, which was battered so heavily last year as commodity prices dropped precipitously.

The Bears seem to have a longer term perspective which casts shadows over the future of American economic leadership (based upon a crippling long term national debt, rising taxes, growth in government and government interference in the economy - hampering innovation) while offering excuses for missing the impressive market rally over the past four months. To a Bull, cash represents unused fuel for the fire which, when eventually thrown onto it, will drive the fire (or the market) higher. Many Bears went to cash either at or near the November or March lows and ironically have fed the Bull argument that the markets should rise based upon the amount of cash on the sidelines.

The economic and market reality will likely be somewhere between these two rather divergent positions. However, the weight of evidence suggests that while the Bulls may temporarily have the upper hand, the Bears' concerns are economically sound.

There is increasing evidence that this rally has played itself out and, as I've said before, don't underestimate the madness of crowds. This is particularly true with regards to a crowd of professional money managers who are frightened of missing this rally (and their bonuses) and who began to leap into the market regardless of the economic evidence gnawing at the back of their minds. Following them into the market were individual investors, many whom were chased out of the market near the very lows.

Keep in mind that the very existence of the global financial system was threatened last fall and once that fear of a system wide collapse subsided, it was inevitable that a rally was due. That the rally perpetuated was the surprise.

Projecting these see-saw market events (waterfall sell-offs and robust rallies) against the canvass of Asset Allocated Portfolios, in which we don't sell to cash but steadfastly remain invested in high quality income-paying securities and then rebalance to take advantage of low prices, and the value of a strategic portfolio becomes evident. Relative to the market we've done extremely well and, most importantly, we're not left with the agonizing decision to jump into the market or not.

The reality is that even in the best of times embarrassingly few market forecasters can ever consistently out-guess the market and time it correctly. Today, with economic visibility at virtually nil and emotion driving the market each day, this is even more pronounced. The market is simply relearning what every academic study of 'market timing' has revealed – it doesn't work. But that does not mean that opportunities don't exist. Quite the contrary.

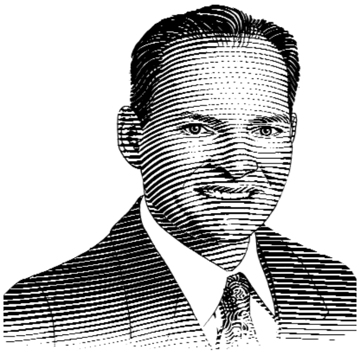
Over the next number of months we are going to be working toward improving the portfolios, reviewing each and every position and building inflation protection.

Housekeeping:

This is the last edition of the Journal until September (we publish 9 times year, excluding July, August and January). If, during the summer while sipping gin and tonics in your favourite flip flops, you feel you simply must have your dose of market reality from Mark and I, please email or call Karm. She'll add your email address to our list to receive our "High Net Worth Weekly' report. Have a wonderful and relaxing summer.

On the Mark

By Mark Jasayko



Twitter Bulls and Bears

Twitter is the social networking website that has taken Web 2.0[1] to the next level by allowing users (aka Tweeters) to blog real time about what they are doing minute by minute, regardless of how mundane. Fascination is often heighted when the Tweeters are people who have gained recent popular fame. For fans and those who are naturally curious, Twitter can provide a porthole into the life of well-known Tweeter if updates are frequent. For those who aren't famous, Twitter has satiated a need for hyper social butterflies to tell anyone who will listen about the mood that they are in today and what they are thinking at the moment.

As someone who works in the investment industry, the rise of Twitter is not surprising. Beginning with The Wall Street Journal in 1889 and quickly followed by ticker tape machines, investors were extremely early adopters of the fast and relatively constant delivery of mostly mundane information. With the inception of cable TV channels dedicated to financial information and the pervasiveness of financial data and opinion on the internet, the volume of this mostly mundane information has risen to stratospheric heights.

Occasionally financial news and discussion will yield some valuable information. However, one has to be vigilant and look for it while trying to eliminate all the useless data and ill-informed opinions from consideration. There are valuable but costly newsletter subscription services that contain the viewpoints of very credible industry professionals. There are also a couple of extremely expensive electronic sources of information that allow the user to specify exactly what is needed. However, the shorter-term ebb and flow of the markets are not influenced much by these sources. The sizes of those audiences area fraction compared to the audiences of financial TV and newspapers.

With its frenetic pace and wild divergence of opinions based on ever-changing definitions, the modern financial media has spawned a generation of Twitter Bulls and Bears: investment commentators who frequently change their viewpoints based on how they are emotionally feeling about the market. Although they appear on TV or in print as opposed to actually using Twitter, their actions and behaviours strike a very close resemblance to the Tweeters. Twitter Bulls and Bears have great conviction in their current viewpoints, but a track record of alternating back and forth over relatively short periods of time will lead one to question the degree of conviction, or the degree of competence. Guests on financial TV are often invited on the basis of their "sound clip" summaries, their charisma, and the volume of their voice. Producers are not keen for them to present large amounts of validating evidence behind their viewpoints.

The references to "bull" and "bear" markets are most valuable when presented in a strategic context. If a bull market is developing, then there is an opportunity to increase exposure to stocks for a sustained period of time. Within this longer-term strategy, stock picking based on company fundamentals will be the primary source of portfolio activity. Some companies will be replaced by others that either improve their operations or begin to look better on a price-to-value basis. However, giving credence to the Twitter Bulls and Bears implies that we should all be making wholesale shifts in a portfolio's strategic asset allocation every few months.

Since the beginning of the year, we have already gone full circle on the Twitter Bulls and Bears Round-a-bout. Using a modern definition of "bull" and "bear" markets[2], the same contributors in the herd of financial media commentators believe that we have already had a bear market followed by a bull market, all contained within the last five months! Unless timing the market is executed with surgical precision, following their advice would have laid waste to portfolio values. Surgically precise market timing is very unlikely even with the best financial information and analysis. However, the whole effort is completely doomed by the fact that the Twitter Bulls and Bears are as vague as Miss Cleo and her Psychic Friends Network with respect to forecasting.

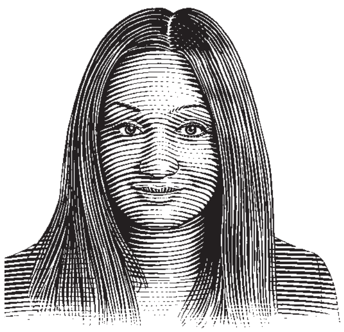
We can't expect the forces of human nature that created Twitter and all the other new methods of socializing and exchanging data to fade away. Continuing technical advances in communication are a certainty and this will increase the presence of electronic media in both on-line and television formats. The Twitter Bulls and Bears are here to stay and may become more impacting in the future. It will be more difficult to separate the noise that they create from the vital factual information needed to build portfolios that maximize return for various levels of risk. Acknowledgement of this challenge is the first step in avoiding the seduction of the frequent and apparently easy answers offered by the Twitter Bulls and Bears.

[1] Web 2.0 is the era where internet users constantly add to cyberspace by blogging, writing letters to editors, creating profiles on social networking and dating websites. In the Web 1.0 era of the mid 1990's, internet users were almost totally limited to retrieving information from the internet (except for those rare types who actually created websites). The term Web 2.0 is used to refer to the evolution of two way traffic on the internet.

[2] One of the modern definitions states that a 20% move up from a bottom constitutes a bull market and a 20% move down from a top is a bear market. Traditional definitions focus on multi-year trends in Price-to-Earnings ratios, Price-to-Sales ratios, and the ability of the market to sustain new highs over long periods of time without receding to multi-year lows.

Good Karma

By Karm Bhatti



A Time for Rational Thinking - A Success!

The event our group hosted "A Time for Rational Thinking" last month at the Vancouver Club was as successful as we hoped it would be. The feedback that we gathered from all those who attended indicated that it was both enjoyable and insightful. We appreciate and thank all of those who were able to attend the evening and we look forward to hosting future events in various capacities. Please keep in mind, that these events are exclusive to our clients and their trusted friends.

RESPs

A Registered Education Savings Plan (RESP) is a special savings plan that can help you or your family 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 updates are listed below:

1. The $4,000 limit on annual RESP contributions was eliminated
2. The lifetime RESP contribution limit was increased to $50,000 from $42,000
3. The maximum annual amount of Basic CESG (Canada Education Savings Grant) that can be paid in any year was increased to $500 from $400 (and to $1,000 from $800 if there is unused grant room from previous years). The lifetime CESG for each child is still $7,200.

Preserve and Protect

By Tricia McIver

Trust Talk

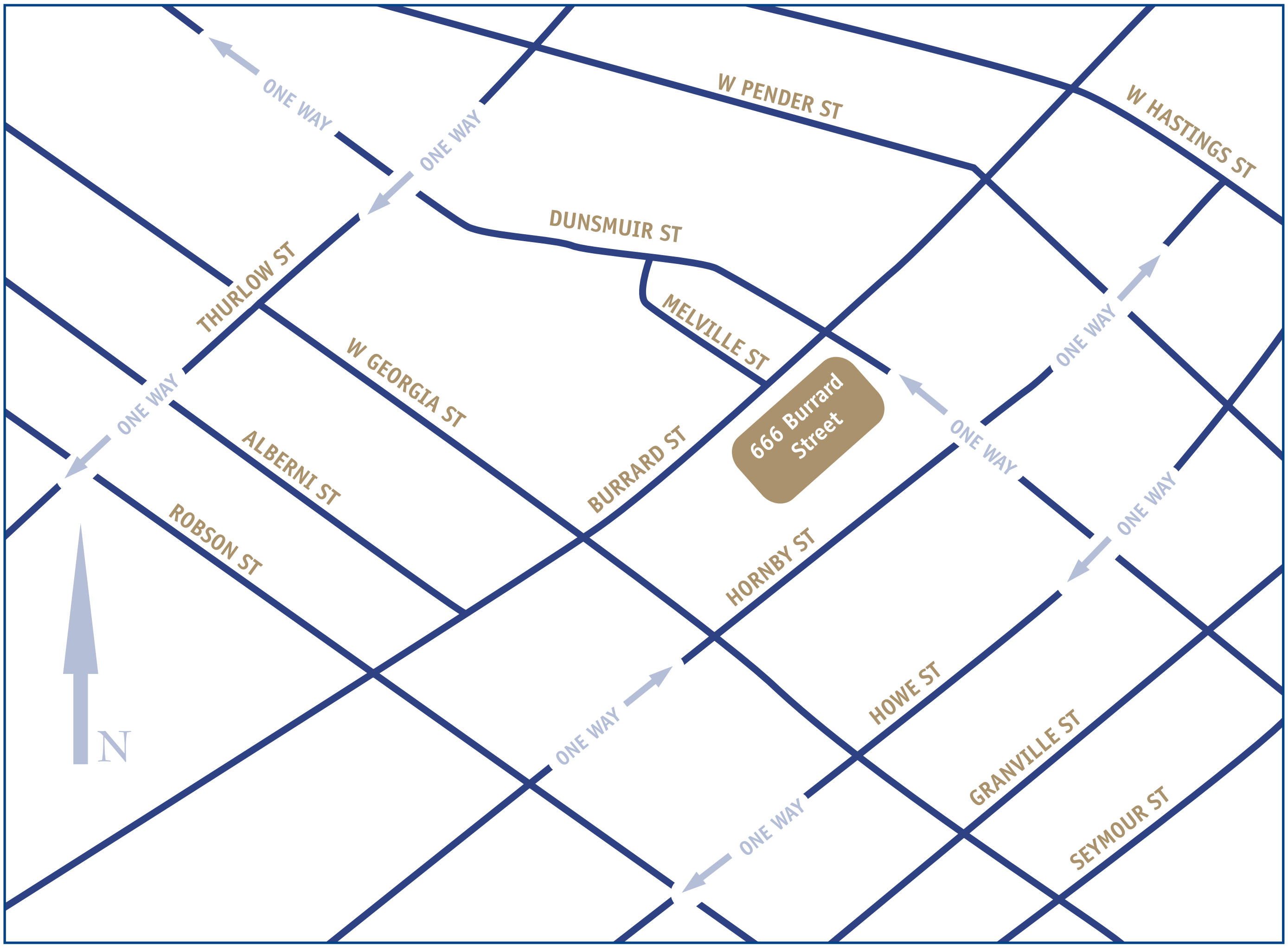
Our role as wealth advisors ensures our overall focus is on preserving and enhancing your wealth - both while you are alive and when your wealth is transitioned to your heirs. We strongly support the notion of helping you create and put in place effective and efficient estate plans that meet your needs and that are sensitive to the needs of your heirs. In prior editions of our High Net Worth Journal (HNWJ) I have spoken to the importance of having a Will – one that reflects your intention with regards to your estate. But often it is difficult to envision ultimate intention and it would be nice to stem the floodwaters and slow the process of transitioning wealth to heirs. Fortunately, we do have the tools and we may accomplish this by using a trust (or series of trusts) to hold wealth on a temporary or permanent basis. This trust may be created during your lifetime (called an inter vivos trust) or on the event of passing away (called a testamentary trust). I will leave the discussion of inter vivos trusts for another edition of the HNWJ.

Testamentary trusts are created through your Will and come into effect at some future time when you pass away. As set out in your Will, some or all of your property is passed into a trust (or trusts) and is thereafter held and managed for the benefit of the beneficiary(ies) named in the Trust. The rational for using a trust is broad and many benefits may be realized:

- **Control of assets:** Your wishes regarding transferred property are reflected in the directions given in the trust document and accordingly will be respected so long as the trust owns the property. The trust document sets out how assets may be used as well as what assets will be distributed, to whom and when (perhaps set on some predetermined time table).
- **Asset management:** A willing, capable and knowledgeable person(s) appointed as trustee(s) may provide ease of mind that assets will be properly managed where heirs have neither the inclination nor abilities to manage the inheritance.
- **Protect assets from heir's creditors:** As the trust, and not the heir, owns the property, your assets transferred into a trust are protected from your heir's creditors until such time as property is distributed to your heir directly.
- **Reduction of tax:** A testamentary trust, like an individual, is subject to the graduated rates of tax. By accessing this newly created low tax rate band and possibly splitting income generated from the trust property amongst beneficiaries under the trust, significant tax savings may be achieved.
- **Privacy:** A probated Will (your Will will likely require Probate) is a public document whereas a trust document is not. As such, your property may be distributed in a confidential manner.

A testamentary trust does provide the ability for you to exercise control over how your property is to be used, who is to benefit and when. The direction provided in the trust document may be used to guide trustees, minimize family disputes and maximize the benefit of your legacy. All good things. As always, please call or email me should you need to discuss this or wish additional information. Have a great summer!

Visit Us in Person or Online!



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