High Net Worth Journal

An Investment Update

Richardson Partners Financial Limited
FAMILY WEALTH MANAGEMENT

Volume IV, Issue IV
May 19, 2009

McIver Wealth Management
CONSULTING GROUP

What's News

By Neil McIver

Losing Less Means Starting With More
Trying to find the right balance when discussing the financial markets with clients can be a daunting task at the best of times. The wild swings in sentiment and price movement over the past 18 months have made that challenge even more pronounced.

The difficulty primarily lies in the fact that most investors naturally want to 'do something' during times of volatility to either protect their assets or later, take advantage of low prices. This 'need' can be restricted by an adherence to a sophisticated and proven portfolio management approach such as Strategic Asset Allocation, which discourages reactively chasing market bottoms and tops. It does so by removing emotion and applying a layer of time tested-techniques to limit downside losses, rebalancing (thereby adding the most out of favour securities) once a low is reached, and remaining invested for the eventual recovery. While this makes perfect sense after the market lows have been established and volatility decreases, the lack of activity during the initial fall can be disconcerting for some.

When discussing the markets, our team needs to accurately evaluate balancing positive and negative aspects, while not encouraging clients to make emotional decisions based upon that outlook.

With this in mind we've made three primary recommendations to clients during this economic storm. The first was to rebalance portfolios in November as the initial lows were reached. Secondly, we encouraged all investors to hold fast and remain invested. Thirdly, since February, we've suggested that those who are capable should add cash to their portfolios and dollar cost, at regular intervals throughout the remainder of 2009.

The result of adhering to our Asset Allocation model while following this advice is in evidence in your portfolio. Although the markets have declined 35% - 40% from a year ago, most client portfolios are down just 15% to 25%, depending on the level of risk upon which the portfolio was constructed. Losing less means starting with more once the recovery begins and is a key ingredient to long term outperformance.

Are We There Yet?
The markets have bounced upward 25% to 32% from the lows set in late February and early March. This upward movement itself has become somewhat of a self fulfilling prophecy, as professional money managers and individuals alike have been pressed into buying the market, lest they be left behind. Markets have a tendency to overshoot to both the downside and the upside. Technical analysis suggests that the equity markets will likely have two more lows (one in July and another in October) before a long term recovery can begin in earnest. Commodities are ahead of the curve and may well have already set their lows.

Because we don't chase bottoms, and this outlook is by no means a certainty, our advice remains the same; if possible add cash to your portfolios and continue to buy the market at regular pre-set intervals. In a few years, everything at these levels will likely seem cheap.

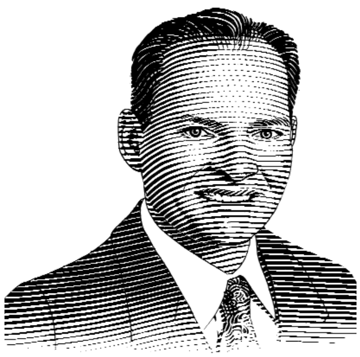
Discretionary Money Management
We have been seeking ways to improve the speed at which we can make changes to your portfolios in order to take advantage of market opportunities as well as to improve the prices of the positions we add to your portfolio. Over the next number of months I will likely be speaking with you regarding changing the nature of our relationship in order to improve the delivery of our core competency – portfolio management.

Welcome Aboard Cara!
For some time we've wanted Karm Bhatti to look after the business development activities of our group but we first needed to find someone as capable as Karm to take over the majority of her administrative duties. Over a number of months we carefully sought a qualified individual who would be the right fit for our high calibre clients and our group.

Please join me in welcoming aboard Cara Dunlop as the newest addition to our team. Cara comes to us from Wood Gundy and has excellent experience in managing the needs of high net worth clients. Cara has slowly been taking over a greater amount of our client administration and will soon be managing the epicentre of our administrative activities. Cara's email is cara.dunlop@rpfl.com and her direct line is 604 678-6564. We look forward to working with Cara for years to come.

On the Mark

By Mark Jasayko



Crowding Out

All college students studying economics are introduced to the concept of "crowding out." This is a phenomenon that occurs when governments ramp up the pace of spending. Existing bureaucracies expand, new ones are formed, and sometimes the government will even take a role in managing businesses and industries. In the absence of such massive spending, it is the private sector that would efficiently allocate capital to the areas that provide the greatest value, or profit. New technologies and business practices are formed when the private sector has an incentive to invest. However, as the government elbows its way in, the private sector begins to retreat. There just is not the potential return on investment when trying to compete with behemoth government-backed organizations.

The last year has seen an unprecedented increase in governments getting involved in various economies, especially in the U.S. Governments have announced plans to dramatically expand infrastructure development, pumped trillions onto the balance sheets of banks, and come to the rescue of various industries, most notably the North American carmakers. At the same time, governments have used roundabout ways of injecting credit into the global financial system which will add to the spending total as they won't get a large portion of this money back.

The tidal wave of government spending and interference appears to be because of the political fear of economic recessions. The economic contraction that is occurring is the first significant fall in economic output in more than a generation. The leaders and policymakers don't have the experience or a good perspective on the situation. Instead, most are aware that it is political suicide to let a correction run its course. Political opponents will be quick to humanize the economic malaise, focusing on the hardships of unemployment. A jobless recovery was enough to sink the re-election plans of the senior George Bush back in 1992.

With the effect of "crowding out" in mind, it is useful to consider how it will affect the economic recovery, especially given that expectations for a quick recovery have begun to permeate the mindset of investors.

Initially, as the government money is spent and inefficient companies from the previous era are propped up, the economy should appear to stabilize. So called "shovel ready" jobs in construction will come onstream to build new highways and community centres etc. As well, banks and auto companies will ease off in terms of reducing payrolls. Politicians and policymakers likely hope that the spending will produce the greatest effects around election time.

However, all of this belies the notion that there is no free lunch in this world. Government money isn't free. It will eventually be a burden for the taxpayer. The historical record with respect to governments spending their way out of recession would indicate this burden can't be avoided.

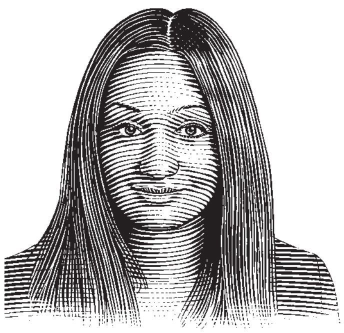
Once the initial dose of spending has been exhausted, we will be left to depend upon the private sector again. However, it is likely that the industries that should have been reformed, downsized, or eliminated will still be large employers but will be unable to maintain their payrolls. Additionally, there will still be too much corporate and consumer debt in the system to allow for significant spending from these critical sources (consumers and private sector industry account for about three-quarters of all spending). In addition, they will have to pay higher taxes at this time in order to pay off the additional government debt created by the massive government stimulus efforts (especially if the foreign appetite for American government bonds continues to diminish). There will also be some inflationary spillover as unproductive liquidity sloshes around. It is a long shot to expect that the rest of the economy will be able to grab the baton after governments have spent their reserves. Again, industry and consumers will be crowded out.

In addition to some latent inflationary effects, there is a strong likelihood that any nascent economic growth will also be accompanied by persistent joblessness. Private sector companies will not be able to employ as many people as they will have a higher tax bill in order to pay for those that the government has hired and will try to keep employed. In addition, if large parts of industry are not able to restructure and re-allocate resources to new products and technologies, the significant contingent of Americans that once worked in something related to real estate will have a tough time re-integrating back into the workforce.

Luckily for us, the investor class, we will be able to pick and choose how to invest in the slow recovery. U.S. financial institutions, automakers, homebuilders, airlines, and U.S. protected industries can easily be avoided. With this, capital can be directed at expanding new technologies, some areas of pharmaceuticals, and companies that are able to pass on inflation in the form of higher prices without hurting the demand for their goods and services.

Good Karma

By Karm Bhatti



"A Time for Rational Thinking"

Our Team, the McIver Wealth Management Consulting Group, will be hosting an evening at the Vancouver Club (915 West Hastings Street) on Thursday May 28th, 2009 at 5 pm. It will be a night of appreciation as well as an evening of insight as to what we can expect in the current and future markets. There will be three speakers to look forward to: Donald Dony (a leading technical analyst), Mark Jasayko (Associate Portfolio Manager) and Neil McIver (First Vice President).

Please keep an eye out in the mail for your personal invite to this special evening and please RSVP by Wednesday, May 20th, 2009 either by email karm.bhatti@rpfl.com or please call me directly at 604-678-6563.

Preserve and Protect

By Tricia McIver

Where there's a Will there's a Way

Over the past months a number of you have called or emailed with questions regarding Wills.

I cannot stress enough the importance of having a Will. Having been to the dark side – I've experienced the problems and headaches encountered where there is a death but no Will and it's a difficult situation for everyone involved.

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Perhaps the single most important component of your estate plan is your Will. It may be very simple or it may be very complex, the degree of complexity is largely dictated by the type of assets you own and the method by which you wish to pass those assets to your heirs. A well drafted Will, containing clear expression of your intentions in precise language, provides a roadmap so to speak for your executor to carry out your wishes. Your Will allows you to:

- Direct where your property will go
- Select who will be entitled to receive your property (your beneficiary(ies))
- Direct when your beneficiaries will be entitled to receive your property (now or at some future time)
- Name a guardian for minor or infirm dependants
- Provide flexibility for tax planning to defer or reduce income tax
- Provide other directives that are important to you.

Like a roadmap, your Will requires updating as changes are encountered. You should review and, where necessary, update your Will every 5 years or on the occurrence of a major life event (for example - a birth or a death, a marriage or divorce, acquisition or sale of a significant asset).

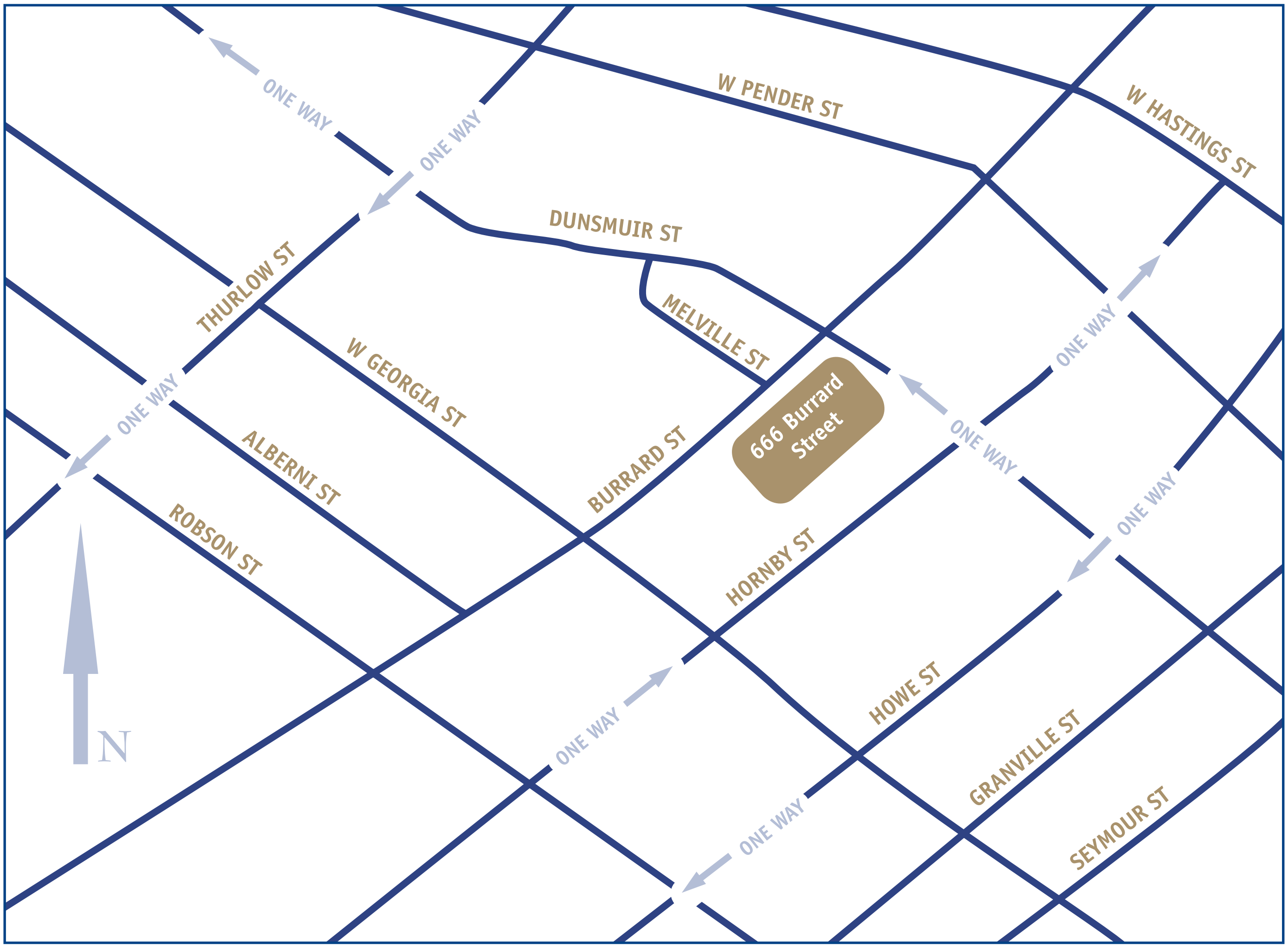
Please note that your Will may not provide directives in respect of all of your property. RRSPs, RRIFs and life insurance policies allow beneficiary designations to be made in their contracts. These assets bypass the Will and flow directly to the beneficiary(ies) as designated in the contract. Direct beneficiary designations are often recommended to avoid Probate costs.

I have written on the topic of Probate costs and Estate (Will) Planning in other issues of our High Net Worth Journal. Please see the October 2006, the December 2007 and the June 2008 issues found on our website www.mciverwealth.com under the "Archives" tab.

So what happens if you do not have a Will? You will have given up your opportunity to manage your final affairs and abdicated your authority to government agencies. An application to the Court must be made to appoint an administrator to manage your estate. Asset division will be based on a prescribed formula (dictated split between spouse and child(ren) as set out in legal statute. Where minor or infirm dependants are involved, the Public Trustee will get involved. We all know the outcome when the government sticks its nose in our affairs – arduous and drawn out processes and lots of red tape. In the end, your testamentary intentions are likely not realized, heirs may not receive the bequests you intended and your heirs may have government agencies involved in their lives for some time to come.

Having a Will is important for your own peace of mind and for that of those who will be left behind. It provides the way in an otherwise stormy time. Please email tricia.mciver@rpfl.com or call me if you would like a recommendation on where best to go to write or update your will.

Visit Us in Person or Online!



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