Welcome to the third edition of Intellectual Property. In this issue we will be presenting Part One of a two part discussion of various investment strategies. We hope that you will find this informative and helpful in making decisions that will maximize the potential of your financial future.

Regards,

Everett Kearley, P.Eng.
Chairman, Millennium III Group of Companies

Did You Know?

Almost 50% of the projects now in operation or under development for the extraction of bitumen from the Alberta Oil Sands utilize underground technology with minimal surface disturbance, and this fraction is increasing. Steam Assisted Gravity Drainage (SAGD) is a big part of this evolution and now Toe to Heel Air Injection (THAI) is coming on, which produces an even smaller carbon footprint than SAGD. Also, several oil sands operations that produce carbon dioxide are working on pooling arrangements for this and then piping it for use in enhanced oil recovery in formerly abandoned oil fields.

A PERSONAL INVESTMENT STRATEGY

Most of us that live in the workaday world would like to retire comfortably at a reasonable age and eventually leave behind some kind of an inheritance for our children and grandchildren.

In order to achieve these aims, we need to develop a Personal Investment Strategy tailored to our investable income, our expectations for a retirement lifestyle and the type of investment vehicles we should employ to bridge the gap between these two. In our Fall 2009 Newsletter, we discussed some of these various classes of investments in general terms. In this, and some future issues of "Intellectual Property", we will discuss these in more detail and what are the best ones and the best ways to utilize them to achieve your financial goals.

Growth

For at lease the past century, we have lived in an inflationary world. With an ever increasing global population and its growing demand for mostly limited resources, it is unlikely that this will change in the foreseeable future. Accordingly, any investment portfolio planning that we do has to provide for a large component of growth in order to keep up with and, in fact, get ahead of, inflation.

GICs

The Morningstar Andex Charts, published annually at www.

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andexcharts.com, are a standard guide to investors with respect to the values of various financial indexes over the years and how they relate to most investment portfolios.

In the latest chart, if we go back 30 years from mid 2009, we find an average annual increase in the Canadian Consumer Price Index (rate of inflation) of 3.6%. This compounds to 188.93% today. In other words, if you invested $10,000.00 in mid-1979, it would need to have grown to $28,893.00 today, just to keep up with inflation. This chart also shows an average annual return of 7.7% for the same 30 year period for 5 year Guaranteed

Our current project

Centre 137, our latest commercial real estate syndication.

Strategically located at one of the principal intersections in northeast Edmonton, this project offers outstanding potential for income and value growth.

For more information, contact your investment advisor, our Saskatoon office, or visit www.millennium3.ca

Investment Certificates (GICs) with interest continuously reinvested. Most of the high-yielding years (the 1980s) that make up this average featured maximum marginal income tax rates of 50% or higher, with taxes on interest paid annually. So we have halved this yield and then compounded it as above. Accordingly, after taxes, your initial $10,000.00 investment in GICs would have grown to $31,060.00 today. The difference over 30 years between the inflation-adjusted value of your initial $10,000.00 investment versus growth of the GICs from compounding interest, is $2,167.00. This might pay for a weekend trip to Las Vegas, but, even multiplied by a much higher initial investment, or a series of investments for that matter, would hardly provide you with a basis for a comfortable retirement.

Mutual Funds

As we move up the same Andex Chart, we come to the S&P/TSE Composite Total Return Index. Although there are many different combinations of Canadian equity mutual funds, the overall S&P/TSX index is a useful proxy for the average return on these funds. This shows a much better annual average return over our 30 year investment comparison period of 9.4%, with dividends reinvested annually or whenever they are paid out. From this return, we have deducted 0.5% for the approximate annual tax on dividends and 2.5% for the average mutual fund management expense ratio. Accordingly, we arrive at a net annual average return to investors of 6.4%. An initial investment of $10,000.00 in a fund mirroring this index, then, when compounded at this rate over 30 years and, after deduction of 22% capital gains tax when the fund is cashed out, results in an after tax return of 423.58%. This means our initial $10,000.00 investment is now worth $52,358.00, $23,465 above the inflation-adjusted value of that initial investment of $28,893.00, as calculated above.

This is a fairly impressive gain on our initial investment. However, it implies that 30 years ago, when we were 25 years old, say, that we had $10,000.00 kicking around for investment purposes that we would never touch for those next thirty years. Also, to reach a minimum retirement nest egg of, say, $500,000.00 today, we would have required about $100,000.00 to invest 30 years ago and the original $100,000.00 would remain part of that nest egg.

It is unlikely that many of us would have had $100,000.00 free and clear for investment purposes 30 years ago. It is far more likely that we would have had to save and invest, on average, $7,000.00 per year over 30 years, to achieve this same minimum half-million dollar retirement goal. This doesn't sound like much today, but 30 years ago it was a big number. It also is worth noting that, if you are retiring at age 55, 30 years after you started saving at age 25, you probably will live at least another 30 years. Unless you have substantial pension or other alternate income, $500,000.00 will not afford you a particularly luxurious retirement, especially in the inflationary times that we are likely to see in the future. As well, if you are just starting your retirement savings program, or are part way through it, you have to remember to adjust all of the base figures we have given you above in order to account for inflation up to this date and in the years to come before you retire.

Leverage

Of course, we also could borrow funds to invest to improve our retirement nest egg as outlined above, and we could write off the interest thereupon. This is known as leveraging. Most of us borrow at interest in the range of prime plus 2% and the Canadian Banks average prime rate over the past 30 years has been 8.62%. Returning to our $10,000.00 in 1979 example, even after a 50% tax return from writing off this interest, we have to reduce our 30 year retirement nest egg by $37,216.00 to pay the interest on the borrowed $10,000.00. This leaves us $15,142.00 for retirement, and we still have to repay the original $10,000.00, so we are only ahead by $5,142.00. Clearly, borrowing to build up a nest egg for retirement is not an advisable strategy.

Sounds gloomy, doesn't it? But, wait; with leverage applied in a different way, in a syndicated commercial real estate investment and tenants paying interest and principal as part of their rent, we still can achieve a substantial retirement income with a minimum initial investment. We also will have some significant income tax deductions working for us. In the next issue of "Intellectual Property", we will explain how this works and how a comfortable retirement may be achieved with commercial real estate assets that keep on paying you while continuing to appreciate in value.

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