

## THE RICH GET POORER

**YOUR** wealthy clients might have more money now, but expect their incomes to decline significantly during their retirement years—at least on a percentage basis compared to those of low-income earners. A new Statistics Canada report says that, on average, 75-year-old Canadians had “family disposable incomes” that were 80% of what they earned when they were 55.

High earners, whom StatsCan defines as workers in the top 20% of income distribution at age 55, replaced 70% of their income in their 70s, while lower earners saw almost no change between their pre-retirement income and the money they have at age 75.

“Essentially, for low-income people, a lot of their income is replaced by the government pension plan,” says Cynthia Kett, CFP, Stewart & Kett Financial.

The survey, which followed retirees from 1983, when they were 55, to 2004, when they were 76, showed families that were still making about \$90,000 a year af-

ter taxes at age 75, got 40% of their income from private pensions or RRSs. Investments and capital gains made up about 28%, while 18% came from public pensions or Old Age Security.

Families that ranked among the poorest 20% of Canadian workers at 55 experienced “little change in their incomes as they aged,” says the report. They were able to maintain almost 100% of their disposable income because their previous earnings were replaced by the Canada Pension Plan, Old Age Security and the Guaranteed Income Supplement. —*Bryan Borzykowski*

## STATS

23%

of Canadians intend to purchase a home within the next two years.

52%

would “buy now” rather than wait until 2009.

Source: RBC Royal Bank's 15th Annual Homeownership Survey, 2008

# FRONT END LOAD

*“We do not believe in economic outpatient care; you are not going to be on the payroll forever. There is not going to be an entitlement mentality.”*

PATRICIA LOVETT-REID,  
TD WATERHOUSE

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## RECESSION RADAR

## DIVERSE PORTFOLIOS

**DESPITE** U.S. recession jitters, a recent poll by Edward Jones suggests a majority of Canadians (57%) with investment portfolios are content to stay the course, while a further 12% plan to up their investments. Though it's positive to see investors staying put during periods of unease, they might consider buying stocks that have declined and represent good value, notes Kate Warne, a Canadian Market Strategist with Edward Jones. “Like a sale at your favourite department store, fears about a recession, and the market declines tied to those worries, can give long-term investors a chance to purchase attractive investments at very reasonable prices.”

However, the same confidence isn't in play for participants in employer-sponsored pension funds. A recent study by Statistics Canada says a downturn in the markets and a rising Canadian dollar are curtailing growth in this arena. Growth in pension plans stalled in the third quarter of 2007. The market value of assets in these pension funds amounted to \$957.2 billion for the three-month period ending September 2007, virtually unchanged from \$956.9 billion in the second quarter.

StatsCan says the failure to grow reflects both the performance of stocks on the TSE and the rise in value of the Canadian dollar, which has hindered gains in foreign stock holdings. —*AE Staff*

# DON'T DO THAT

You'd think after years of reminders from the MFDA, that advisors would stop having clients pre-sign KYC forms and other paperwork—or even, God forbid, tampering with signatures. Although such behaviour is waning because of the development of a standardized

Limited Trading Authorization (LTA), it still happens, says MFDA compliance director Karen McGuinness. Registered persons often assert pre-signed and photocopied forms are kept on file to convenience the client. Further, advisors say they know their clients. But, says McGuinness, the clients they think they know today can become very different people tomorrow if an account loses money. Further warning: “You've got to understand there's a reason why we want an original signature or an LTA with appropriate notes, and that circumventing the requirement can put you in hot water.”

—Philip Porado

## NIT PIX

**BOOK:** *Advisor at Risk*, by Ellen Bessner  
Review by Kanupriya Vashisht

Oftentimes bull markets tend to disguise people's true risk tolerance. And advisors who abet their clients' bullish bravado run the risk of litigation when the bear turns on them and their baffled clients. In *Advisor at Risk*, investment lawyer Ellen Bessner stresses the importance of understanding clients and managing their expectations while developing a solid paper trail which could be used as evidence if a dispute arises.

Much of what Bessner says is probably old hat for the veterans, but it could be used as blueprint for newer advisors—as well as seniors who have chosen to ignore the rules up to now. In her straightforward, anecdotal style she spells out the basics of being a smarter advisor—one who can keep clients in and lawyers out. From the fundamentals of how not to leave your briefcase at a public coat check when stopping on the way home for a drink, to the subtleties of verbal and non-verbal communication—it's all there—painstakingly spelled out. And while you're at it, you might also glean some axiomatic jewels such as “Always under-promise, over-perform.”



## BE THERE

**May 28 to 30, Advisor Group's MGA National Conference**, Taboo Resort, Gravenhurst, Ont., [www.advisorlive.ca](http://www.advisorlive.ca); **June 5 to 6, Compliance Readiness Strategies for Investment Counsel Portfolio Managers**, InterContinental Toronto Centre, Toronto, [www.strategyinstitute.com](http://www.strategyinstitute.com)

## POST-PORTUS

### RECEIVER REMEDIES

**LAST MONTH**, the judge overseeing the bankruptcy of Portus Alternative Asset Management endorsed the 27th report of the receiver in the case. On April 18, Justice Colin Campbell of the Ontario Superior Court of Justice urged all parties to put the interests of investors first and accelerate the process of liquidating the deposit notes held by Portus's receiver, KPMG. The bank that issued the notes, Société Générale (Canada) [SGC] has offered to buy back the notes, but so far the offer price has not met the receiver's expectations.

In its report, receiver KPMG detailed its efforts to recover the \$529.3 million in assets that Portus invested in 15 notes issued by SGC. The receiver has little bargaining power, as it has no legal authority to compel the bank to buy back the notes prior to maturity, but the bank is obligated to provide a secondary market under its initial deal with Portus. “SGC has advised the receiver that Société Générale [Canada Branch] is prepared to purchase the SGC notes prior to maturity and [provided] the terms on which it is prepared to do so,” the report states, but the bank refused to explain how it calculated the repurchase

price, deeming the information proprietary.

KPMG explains that if the sale had taken place on January 18, 2008, the average weighted annual return on the entire portfolio of notes would have been just 2.99%. Over a similar timeline, investors could have earned 4.41% on a zero-coupon Canadian government bond. The receiver calculates that such a sale would have put \$72.7 million into SGC's coffers, for an average annual return of 3.95%. The bank denies this but has not provided KPMG with an estimate of its own.

“The ultimate sale proceeds would be dependent on prevailing market conditions at the time of a sale of an SGC note,” the report cautions. “The market risk in a sale of an SGC note to an affiliate of SGC is borne by the receiver on behalf of the Portus customers—not the affiliate.” The notes derive their value at maturity from the performance of a fund of hedge funds, the Portus Alternative Investment Master Fund (PAIMF).

James Grout, partner at ThorntonGroutFinnigan, and counsel for KPMG as receiver, said though principal-protected, their structure virtually guaranteed investors would never see anything near the full return of PAIMF. Grout stated the notes were a bad investment. “[They] should never have been purchased for 26,000 investors with average investments of under \$30,000.”

—Steven Lamb