

THE networthreport

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STRATEGIES FOR WEALTHY CLIENTS

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**ADVISOR'S EDGE
REPORT**

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Perfect Fit

Global thinking in a specific market

BY HEIDI STASESON

Go big, or go home. That's pretty much the career philosophy of Grant Rasmussen, president and CEO of UBS Wealth Management (Canada). During his 21-year stint in financial services, Rasmussen has only worked for corporations and people that are considered "top dogs." This experience includes seven years with American Express, and a decade at RBC, first as head of marketing, then head of strategy, then head of Action Direct, the bank's online brokerage business.

Choosing work wisely is key for Rasmussen – it's so important that he routinely speaks to MBA students on the subject

of finding the perfect fit. In these lectures he asserts that a company's values should reflect their own personal values and beliefs.

His own professional experience, while following this advice taught him "a lot about being patriotic and [the role of] community involvement and giving back," he explains.

Yet, after spending almost two decades with Amex and RBC, Rasmussen yearned for exposure at a top global company.

At UBS, Rasmussen has learned what it takes to remain top-ranked: Tripling your number of wealth advisors over four



Grant Rasmussen
UBS Wealth Management

years helps. So does doubling your assets under management. But to do that, says Rasmussen, it's about a company spending a ton of time trying to figure out what it is it truly stands for.

For UBS, he says, it's the "absolute obsession" by everyone in the company – particularly at the executive level – to cater to their clients. Even the chairman hops jets regularly to

visit both clients and prospects. "At the very heart of the ethos of UBS... is understanding clients better than anybody else understands them, and then giving them exactly what they want and need," says Rasmussen.

So how do you do that and set yourself apart from your competitors, who wholeheart-

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Sell Your Business to Keep Your Legacy

BY ROMANA KING

Thomas William Deans is an entrepreneur. He is the third generation of a family of business owners – successful entrepreneurs who start, build and then sell their businesses. After years of sharing with other entrepreneurs, Deans finally decided to write a book about his experiences. But the book is not targeted to the business owner; the book is targeted to advisors – the one person Deans believes that can truly help.

Why did you decide on a fictional-style book about business succession planning?

There are other books on succession planning that are technical and, quite frankly, complicated. David Chilton, who wrote the "Wealthy Barber," however, demonstrated that important business issues can be understood when presented in an entertaining and informative way. I chose to use this style because I wanted to celebrate family business, while cautioning family business owners about the perils of preserving wealth. Another question to ask could be: how much of this book is a fictional story and how much represents fact – there is

quite a bit of fact.

This book is written from the perspective of three generations of founders and sellers – we have never, once, passed on a business to the next generation. We always sold the business, crystallized our wealth and made that wealth the legacy. This book is about that experience but it's also an effort to provide advisors with insight of how business owners are losing out on maxi-

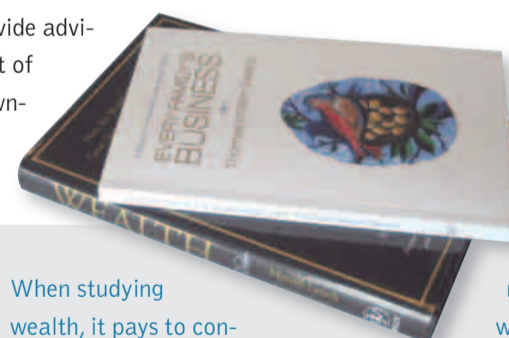
mizing their wealth.

So, what is the basis of your plan, as outlined in "Every Family's Business"?

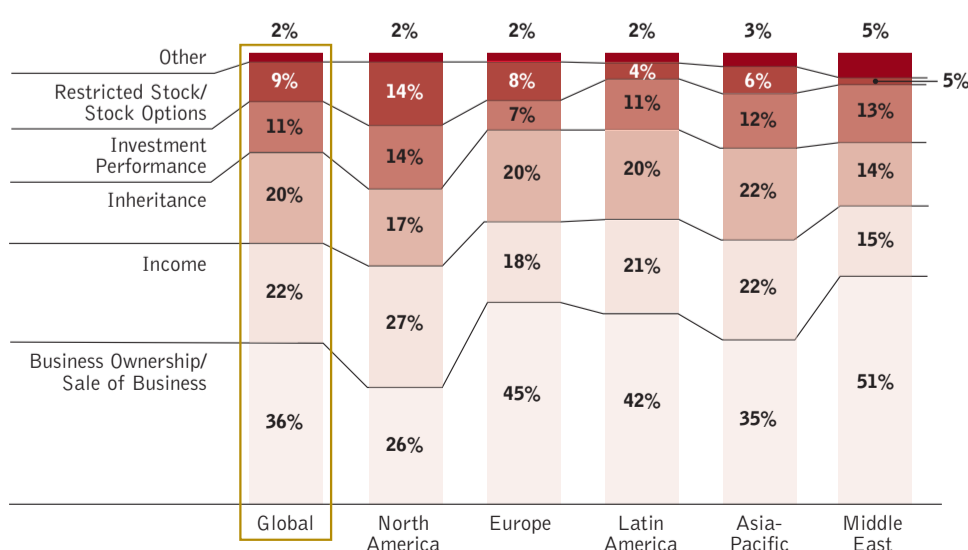
I use the analogy of the watch. If a parent gifts a child a watch, after that parent passes on it becomes virtually impossible for that child to sell that watch. This is because the child has tremendous emotional attachment to the gift. Now, when the gift becomes a business, then the inability to assess the value and the evolution of that business means that the market could pass

the child by. The emotional attachment to the gift takes the sale option off the table due to the child's

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Primary Source of Wealth, Regional Breakdown, 2006



Source: Capgemini/Merrill Lynch Relationship Manager Survey, 2007

When studying wealth, it pays to consider where the wealth comes from. According to the 2007 World Wealth Report, 36% of the world's millionaires derive their wealth from the ownership or sale of a business, 22% from income, 20% from inheritance, 11% from investments, 9% from restricted stock and stock options and 2% from elsewhere. Regional differences show that 45% of European HNWI individuals derive their wealth from business/sale of a business; only 25% derived their wealth from income. In North America, income accounts for 27% of wealth origi-

nation – higher than anywhere else in the world. This tells us that high-net-worth individuals (HNWI) are typically talented at not relying on global economic prosperity to expand their financial holdings through dividends and capital appreciation – which helps in turn to explain why HNWI's returns consistently beat market averages.

– Excerpt taken from "Wealth: How the World's High-Net-Worth Grow, Sustain, and Manage Their Fortunes"; released in May 2008 by the Associates of Merrill Lynch and Capgemini.



edly believe and claim that they're using the exact same tactics?

It's all about the business model, notes Rasmussen, and setting that model up with such rigidity that there's no chance of not being able to deliver. When you say you're all about clients, asserts Rasmussen, then everything has to line up behind that model.

For example, in every market that UBS operates, every advisor is paid on a base plus bonus model, not on a commission model [or a fee for service model].

"If I'm on a commission [model] and I say, 'I've got an idea for you: We can either leave your money in cash or we can go and buy CitiGroup today,' and you say, 'Well, what do you think?'" then I may find myself in a place of real or perceived conflict.

Rasmussen is passionate about avoiding this conflicted model in the financial services business.

"You constantly see businesses, whether it be Enron or anywhere else, where you create an environment where people can do the wrong thing for the wrong reasons and guess what? They do!" The worst part, according to Rasmussen, is "they get rewarded for it."

For that reason he is an adamant supporter of UBS's business model – advice for the client, not simply commissions for the advisor.

Of course, even transparent advice is worthless if it's not the best advice a client can expect.

"There's enough research out



Even transparent advice is worthless if it's not the best advice a client can expect.

there that shows you that you cannot pick stocks in China from Toronto. You cannot pick out what are the best companies and do due diligence on them unless you're located in that market and be able to kind of go and see whether the warehouse is full, whether the trucks are moving, how clean the shop is, how honest the management team is – you need to actually be on the ground," says Rasmussen. As such, he does not believe that the fly-in type of money managers – or "carpet baggers" as he calls them – make sense. To support his assertions, he cites studies from Queen's University and Western, "where they literally evaluated money managers that were offering global research advice, based on whether they had local presence, or whether they were doing global money management by people who flew in and flew out. And sure enough, it was really no surprise that there was better research and advice based on people who were located in that market."

For Rasmussen, then, UBS's global reach with local presence offers their clients the best advice in the market.

However, transparent client-advisor relationships and in-depth market knowledge are not enough to keep a company number one.

Another aspect to consider is

the different models of financial services including, but not limited to, investment banking, wealth management and asset management. Each will have a different focus and you need to know which group needs what particular model, says Rasmussen. It's self-analysis that has been shoddy, at best, among the five Canadian banks, he says.

"All of their research is part of their investment banking group. They don't have a wealth management research group; they don't have an asset management research group. They have purely an investment banking research group, whose research is structured primarily for the institutional side of the business," he observes.

At UBS there are currently 37 advisors servicing their core clients, which make up two segments in the Canadian space: HNW Clients, which have between \$2 million and \$49 million in investable assets and Key Clients, who have \$50 million or more to invest (elsewhere outside of Canada, a third segment exists called Core Affluent, which comprises \$250,000 to \$2 million). By the end of this year there will be 45 advisors servicing these clients.

From working with their clients, Rasmussen has learned that the biggest key to providing effective service is time – another aspect that differentiates UBS from its key competitors and the big banks. "We don't believe that an advisor who's got 300 relationships can possibly [do right by their client.] Roughly 80 to 90% of those people are being underserved," he says.

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ADVISOR'S EDGE REPORT / ADVISOR.CA

Scot Blythe, Editor, AER, Senior Group Editor (416) 764-3810, scot.blythe@advisor.rogers.com
Romana King, Associate Editor (416) 764-3811, romana.king@advisor.rogers.com
Aniko Nicholson, Art Director (416) 764-3850, aniko.nicholson@advisor.rogers.com
Deanne N. Gage, Editor, *Advisor.ca* (416) 764-3803, deanne.gage@advisor.rogers.com
Steven Lamb, Investments Editor (416) 764-3961, steven.lamb@advisor.rogers.com

Kate McCaffery, Practice Management Editor (416) 764-3959, kate.mccaffery@advisor.rogers.com
Bryan Borzykowski, Investment Reporter (416) 764-3814, bryan.borzykowski@advisor.rogers.com
Mark Noble, News Reporter (416) 764-1251, mark.noble@advisor.rogers.com
Marie Atkins, Executive Assistant (416) 764-3847, marie.atkins@rci.rogers.com

ADVISOR'S EDGE

Phillip Porado, Editor, Conference Editor (416) 764-3802, philip.porado@advisor.rogers.com
Heidi Staseson, Associate Editor (416) 764-3804, heidi.staseson@advisor.rogers.com

Kanupriya Vashisht, Associate Editor (416) 764-1342, kanupriya.vashisht@advisor.rogers.com

OBJECTIF CONSEILLER

Yves Bonneau, Editor (514) 843-2142

Christian Benoit-Lapointe, Assistant Editor
James Wagner, Art Designer

Donna Kerry, Publisher, *Advisor's Edge*, *Advisor's Edge Report*, (416) 764-3805, donna.kerry@advisor.rogers.com
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Since each client wealth segment will have fundamentally different needs when it comes to managing wealth, UBS takes the approach of aligning clients with the best set of experts. For example, in the key client group, each advisor will manage, on average, between eight and 12 clients – roughly a billion dollars. Yet, a team approach suits these clients well, he adds. Experts, then, are assigned not simply

because of general tax knowledge, but also because of their expertise in wine or art banking, for example, or aircraft finance.

Another aspect of the UBS experience is their ability to focus on a client's legacy. "It's a whole different degree of wealth... the \$5 million versus the \$75 million [and yet] they [all] want to do some degree of succession planning for their family." ■

▶1 Sell Your Business to Keep Your Legacy

attachment.

In essence, the pursuit of the legacy, narrowly defined as the longevity of a business, as an end unto itself, can be wealth-destroying.

To be truthful, I don't know how this type of thinking has passed for so long. Really, the only sustainable gift you can provide is the knowledge and experience of how to start, run and evaluate a business. The principal lesson to learn is that every business has a beginning, middle and end. Business owners need to learn not to confuse their love for their business with the love for business.

Why write to advisors?

Where I depart from many books and philosophies on succession planning is that I do not promote the gifting of control of the family business to the next generation. Not only that, but I try and show how this one act can be the single greatest destructive force to families and to family wealth.

I know of dozens of family businesses where the parent will buy or build the business. In these families,

the kids think the parents will gift the shares and the parent thinks the child will end up working or paying for those shares. Both sides are operating on completely different expectations and neither side knows how or when to have the conversation – the succession planning conversation. What's tragic is there is usually an event, like a health situation, when all these business issues are brought to the forefront. But during these events, a family can ill afford to ask, answer or implement a succession plan effectively. That's why it's best to put a succession plan into place as soon as possible, and this is where the advisor comes in.

How is your approach?

First, I advocate succession planning now and, if possible, even before the business is started. Second, I advocate revisiting that



The pursuit of the legacy, narrowly defined as the longevity of business, can be wealth-destroying.

succession plan every year.

In my book there are 12 questions that can be asked – not just of the business owner, but of the siblings involved in the business. By asking and answering these questions everyone involved begins to understand who has the desire, the aptitude and the motivation.

If these questions are not asked and a succession plan is not put into place the business owner may end up gifting a business to a child with no real interest in carrying on his or her legacy. This is where real problems can occur. Kids given a business may feel obligated to continue, despite having no aptitude or desire for the work.

On the other hand, any child that is given the opportunity to think and perhaps turn down a chance to take over the family business is left with no regrets or remorse since they had the opportunity to choose their path. It also means the business owner, realizing his children's goals, can also plan on how to crystallize his/her wealth, which has accumulated in the business – whether the purchaser is family or stranger, the business owner should still be rewarded for a successful business.

By following this transparent path of communication, families can create a clear

delineation between family employment and family ownership.

The reality is it's never too late to plan and an advisor can be a great help in this. If a family can start to ask the questions they can start to derive some clarity on the issue of future ownership. It's silence that kills – kills the family and kills family wealth. Really, at the end of the 12 questions, they have the essence of a succession plan – who and when will own the business in the future.

How can advisors help the entrepreneur?

Financial planners are in the best position to help. Examine whether or not the business owner is under-insured – they usually are – or whether or not they have kept their retained earnings in the business.

Because of the emotional issues surrounding family, business and succession planning are so profound and complex, many entrepreneurs choose to ignore it. Advisors that can engage on that emotional level are the ones that can begin to protect those family business owners and help preserve wealth. Financial planners are able to take a holistic view and help these entrepreneurs diversify their risk. ■

Leveraging Loans

High incomes required to get tax break, and Ottawa may change its mind

BY AL EMID

Taking advantage of every available tax deduction has become part of an advisor's responsibilities to clients. But that tax-minimizing strategy comes with risks, suggests Ashley Crozier, President of Toronto-based Crozier Consultants Inc., an independent actuarial consulting company.

Crozier points to the 10/8 leveraged loan strategy offered by several insurers as something that requires handling with care. This strategy combines tax-deductible interest expense – a loan costing 10% per annum – with non-taxable guaranteed interest income – an investment paying 8%. For a taxpayer in the 45% tax bracket, the 10% interest rate costs roughly 5½% after factoring in the deduction.

"When it works, it works well," he says. "Where it is suitable is for anyone who has the cash flow to pay more and has investment needs and also has annual cash flow income against which they can use the tax deduction." He profiles that client as having \$500,000 or more in taxable income, a threshold that he believes brings with it a level of sophistication, ability to pay for advice and eligibility for the tax deduction.

The policyholder can use loan proceeds in one of three applications: as a business or portfolio investment, to fund the cost of the insurance component of the total insurance premium or as a separate investment sold by the insurer's investment department.

Crozier raises several concerns, some connected to the client's situation and some to Canada Revenue Agency's position on tax deductibility of interest costs. Taken together they make the decision a juggling act between the client's long-term income outlook and tax planning techniques.

Client-specific considerations include whether they will continue having sufficiently high income to be able to utilize the tax deduction. "You've got to have the profit or the taxable income against which to use the tax deduction," he says. "It's not just this year. It's this year and next year and each and every single year" for as long as the client continues the strategy, he argues. An entrepreneur with an uncertain membership in the high net worth bracket may not get full

advantage of the 10/8 strategy. [In such a case] it means that the financial efficacy of the program is reduced," he says, warning that some illustrations come with built-in assumptions of continuing high income.

Industrial-Alliance Insurance and Financial Services Inc. attempts to head off this kind of problem by urging its agents and brokers to check the client's net worth and asset diversification during the sales process, according to Marie-Elaine Gaudreault.

It's important to involve the tax specialist of the client and the accountant to make sure they all agree.

"It's important to involve the tax specialist of the client and the accountant to make sure they all agree," she says.

Other factors in the client's situation may make the 10/8 strategy less desirable, suggests David Brown, a 25-year veteran of insurance brokerage and partner in Toronto-based Al G. Brown & Associates. In one case, a client had

decided to sell his business, meaning that his future taxable income would dramatically decrease, leaving him with a reduced use for the tax deduction. The advisor can avoid this kind of problem by ensuring that a client's other advisors, such as the lawyer and accountant take part in 10/8 discussions. "No one would want to be the only person vetting this for a particular client," he suggests.

For this and other reasons, Industrial Alliance has minimum net worth and income requirements for 10/8 clients, Gaudreault explains.

Outside of client-specific considerations, Crozier sees another concern in whether the CRA continues accepting the tax deductibility of the higher-rate loan. He doesn't think that in-force policies would be completely grandfathered if CRA decides to alter the tax deductibility.

The CRA could continue allowing deductibility of loan interest, but only at the rate for regular policy loans, instead of the higher 10% rate. Crozier suggests that if the CRA does cancel or reduce the deductibility of interest costs, it would likely grandfather existing arrangements but questions whether it would grandfather future costs or changes in policy terms.

At least one insurance executive sees a reduction in tax deductibility as running counter to the current government's apparent outlook. The tax free savings account

unveiled in the recent budget points to the government's continued commitment to bona fide tax-breaks, Gaudreault suggests. "It makes me think that they are not planning to withdraw those kinds of deductibility."

As a product risk, the 10% rate presents another gamble, Brown says, pointing out that this rate is typically guaranteed for 10 years and then comes up for renegotiation. (This varies between versions of the product. Sun Life Financial says it guarantees the 10% rate for the life of the contract. Industrial-Alliance does not guarantee the 10% rate but does guarantee a 2% spread between the loan rate and interest yield.)

Crozier sells 10/8 policies and argues that an advisor's responsibilities include providing full disclosure about risks of this strategy. "The reality is I know that's going to mean fewer sales for you but would you rather get lots of sales and end up with lots of lawsuits?" he asks. Answering his own question, he suggests that some advisors take a 'damn the lawsuits' approach. "The reality is I know some people are going to say 'Damn the lawsuits – let me go ahead – I'll take the big commission today and – ah well, if lawsuits happen I'll be laughing and sitting on a beach somewhere.'" ■

Al Emid, a Toronto-based financial journalist, covers insurance, investing and banking.

Millionaire Row

Rise in pre-tax earnings for families across Canada

BY ROMANA KING

The median family pre-tax income rose by 11.1% between 1980 and 2005, according to a May report from Statistics Canada. The increase was a result of strong economic growth which was fostered by gains in employment, explains StatsCan.

Additional data from the Survey of Labour and Income Dynamics show that a further 2.1% increase in the median pre-tax income occurred between 2005 and 2006. It was during this time that government transfers also increased leading to a simi-

lar increase in after-tax family income.

According to the data:

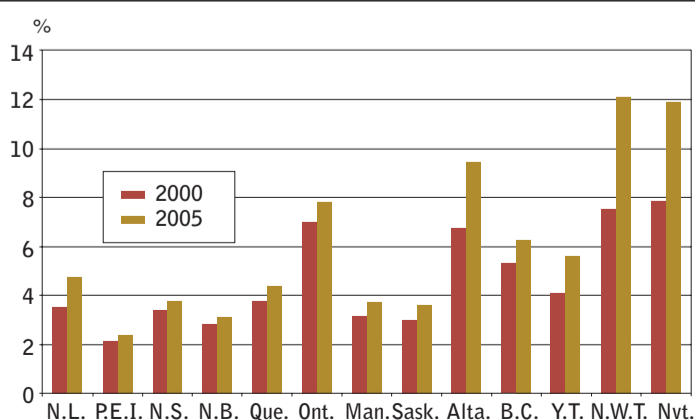
- Between 2000 and 2005, median earnings of economic families in which at least one person, aged between 15 and 64, worked increased 0.6%, to \$63,715. Between 1980 and 2000, median family earnings increased 8.6%.

- Median earnings growth between 2000 and 2005 varied by family type. Working couples with children had the highest median earnings of all family types in 2005, an estimated \$75,997, up 4.2% from 2000. Lone-parent families headed by women, median earnings rose 4.9%, to \$30,598. Their male counterparts had median earnings of \$47,943,

- a gain of only 1.8% from 2000. Among the provinces, income rose fastest among economic families in Alberta (+10.0%) and Newfoundland and Labrador (+7.1%) between 2000 and 2005. Economic families in Alberta also had the highest median incomes provincially, \$76,526, followed by their counterparts in Ontario, at \$72,734. ■

Earning More Than \$100K

Percentage of full-time full-year earners¹ receiving \$100,000 or more



Source: Statistics Canada, consensus of population, 2001 and 2006.

Income Sources

2005- Sources of income of economic families	Total percentage with income source	TOTAL INCOME QUINTILE				
		first	second	third	fourth	fifth
Earnings	78.3	37.6	60.9	74.0	83.2	86.6
Investment income	4.2	2.7	2.9	2.8	2.6	5.9
Retirement income	5.9	4.9	10.5	9.3	6.3	3.4
Other income	1.8	3.0	2.1	1.6	1.3	1.9
Government transfer payments	9.9	51.9	23.5	12.4	6.5	2.3
Child benefits	1.6	11.0	3.8	1.8	0.8	0.2
Canada Pension Plan/Quebec Pension Plan	2.8	10.5	7.2	3.9	2.0	0.8
Old Age Security Pension/Guaranteed Income Supplement	2.4	14.1	5.9	2.8	1.3	0.5
Employment Insurance Benefit	1.4	3.7	3.3	2.3	1.4	0.4
Other government transfer payments	1.7	12.6	3.3	1.7	0.9	0.4
Total Income	100.0	100.0	100.0	100.0	100.0	100.0

Source: Statistics Canada, consensus of population, 2001 and 2006.