

SPECIAL ISSUE

A CELEBRATION OF 2010'S MOST UNFORGETTABLE PEOPLE

MACLEAN'S

CANADA'S NATIONAL MAGAZINE

DECEMBER 13, 2010

Business



Wealth management: Nearly 60 per cent of Canadian millionaires say their success comes from focusing on a long-term financial plan

INVESTING

Advice from the rich

There are lessons for average investors in the way millionaires make (and sometimes lose) their money

Investing
after
the fall
PART SIX
OF SIX

ON AN EVENING earlier this year, billionaire investor Michael Lee-Chin stood before an audience of elegantly dressed men and women inside an opulent 32,000-sq.-foot mansion in Oakville, Ont., an affluent town just west of Toronto. He had been invited by a developer to share investing tips with potential buyers in a luxury condo project on the sprawling \$35-million Edgemere Estate, a clever way to attract the type of people able to spend up to \$6.8 million for a single lakefront unit.

Though a contrarian investor (Lee-Chin doesn't believe in broad-based, diversified holdings), many of his insights could have easily been applied to Canadians of any means—buy into a few high-quality businesses, understand what you own, and invest for the long run. But others were clearly aimed at

the well-to-do crowd before him. "When you borrow from the bank, make sure you borrow enough money so when there's a problem, the bank is worried, not you," Lee-Chin said with a loopy grin. The audience, largely tanned and sipping wine, responded with hearty guffaws and knowing nods. He was only half-joking, mind you, having at age 32 convinced a bank manager to loan him \$500,000, which he used to buy a stake in Mackenzie Financial that was eventually parlayed into a personal fortune.

Suffice it to say, it isn't the sort of atmosphere you typically encounter at your local bank branch. But while the world of the wealthy often seems like a different universe, there are actually more similarities than you might expect when it comes to investing and financial planning. And the average Canadian investor would be wise to pay close attention, since most of the country's millionaires didn't

get that way by accident.

In fact, research conducted recently by RBC Wealth Management found that the overwhelming majority of high-net-worth Canadians, defined as those with \$1 million or more in investable assets (that doesn't include their principal residence), are self-made millionaires. And half of them attribute their riches to simple wages and investment gains, or investment gains alone. A more telling statistic: nearly 60 per cent of millionaires said their success resulted from a "diligent" focus on long-term financial security. In other words, they had a plan—something that every financial adviser tells their clients, regardless of their means. "It's always about the plan," says Anthony Maiorino, the head of RBC Wealth Management Services. "And the plan may not have been to get wealthy per se, but to run the best auto dealership, a great restaurant, or build a great consulting firm or legal practice, but all of those things eventually lead to wealth."

When it comes to investing, too, it's commonly assumed that the wealthy have some sort of secret formula. But RBC's research again suggests otherwise. The vast majority of Canada's millionaires invest in stocks, bonds and mutual funds, just like the rest of us. There's also a misconception that rich people didn't get burned by the global downturn.

The truth is many lost vast sums. A similar survey of millionaires done by U.S. Bank recently found that 80 per cent of them have yet to recoup their losses, with more than half estimating it will take them five years to get their portfolios back to 2008 levels. But the key message is that wealthy investors, unlike their less affluent counterparts, didn't get spooked and flee from the markets. Mark Jordahl, president of the U.S. Bank Wealth Management Group, says the study revealed that more than 90 per cent of U.S. millionaires are still in the stock market, although many had recalibrated the risk profile of their portfolios, reducing their exposure to equities and loading up on fixed income assets.

Of course, the well-off also have access to some options that regular Canadians don't. For example, according to RBC, three-quarters of high-net-worth Canadians hold real estate in their portfolios—an asset class that offers stable, long-term returns, but is difficult for average Canadians to get much exposure to beyond their own homes. "A lot of people that can afford to invest in real estate see it as a bit of a hedge," says Marc Hewitt, the developer behind the Edgemere project. "But one of the problems with real estate for the average person is you need money to get involved. When you're dealing with wealthy people who understand the market, they have the ability to jump in when they feel it's the right time."

High-net-worth individuals also have the option of investing through hedge funds and private equity firms, which generally require minimum investments of anywhere from

\$250,000 to several million. Interestingly, however, even in this rarefied world of investing, it's not clear that the wealthy are any smarter about where they park their money. A study earlier this year by researchers at the European School of Management and Technology found that hedge fund investors mostly picked funds based on past performance—the same way regular investors pick mutual funds—as opposed to examining the backgrounds of individual fund managers, their investing

The rich also got burned by the recession—most say it will take them five years to recoup losses



Land grab: Three-quarters of wealthy Canadians hold real estate

styles or even the fund's overall approach. And if you thought the management fees on your mutual funds are bad, consider that most hedge fund managers charge a flat two per cent on the value of assets under management and an additional 20 per cent of any profits. "The fact that investors appear unable to recognize the risks of different styles and chase performance at all costs could leave them vulnerable and unprotected," warned Guillermo Baquero, an assistant professor at the school.

The wealthy also face some unique financial issues. While they tend not to worry much about saving for retirement, according to

RBC's Maiorino, they do spend a lot more time and effort figuring out ways to minimize the amount of tax they pay—in part because they are taxed more heavily than your average individual. Another common headache is dealing with wealth transfers between generations. Parents who have worked hard to build a family fortune often have reservations about leaving massive sums to their children, fearing they will make bad decisions that will squander the fruits of a lifetime's work.

But even these so-called "problems," which are admittedly nice ones to have, and their solutions can also offer insights for the average investor. Many Canadians can and do benefit from a range of tax-avoidance strategies—family trusts, spousal loans and charitable giving are all examples—that were first developed with the rich in mind. And many may also inherit a small fortune at some point in their lives when a parent or other family member dies—and Maiorino says it's usually more than we expect. Whether it's a business or a cottage, a parent's decision to sell a valuable family asset and leave the proceeds to their children can be either a benefit or a curse, depending on how it's handled. In order to ensure a successful transfer, Maiorino says many parents decide to hand over their estate to their children in instalments, or create structures to involve children in the family business or a charitable trust to teach them the value of money. "What that does is acclimatize them to the fact that it's not just about the new fast car or fancy TV, there are things going on in our communities and this money could really do a lot."

The bottom line is that wealthy people are forced to pay attention to their money and plan for the future—otherwise they won't stay rich for long. Managing their wealth becomes part of their job (or at least that of their paid advisers). That's why Hewitt invited Michael Lee-Chin to the Edgemere Estate in Oakville to talk about investing. "The people came for a reason, and it wasn't just to have a glass of wine—it was to learn," he says. "The wealthy seem to do that more than the average investor." **CHRIS SORENSEN**

TONY WOODS/PHOTO DISK



If you're thinking about retirement, these cards could change your life.

DISCOVER YOUR FUTURE BY DESIGN:
Call 1-866-826-3810 or go online
at rbc.com/retirement

Advice you can bank on™

