

PUBLISHED QUARTERLY BY CORPORATE PLANNING ASSOCIATES

ADVANCING ISSUES

Spring 2007 • Vol14, No.2

The Evolution of CPA

By P. Lee Fisher, *President & CEO, Corporate Planning Associates*

As we move through the spring months into the first of the long weekends of the summer, there are constant reminders of what worked in the past and what the movie makers hope will still work in the future. Do we really need another Spiderman movie? Weren't two enough? What about Pirates of the Caribbean? How many times will that one come around? And then there is the newly released "Once". Will it really happen only once or will it come back later as "Once, Again"?

Usually, the sequel doesn't live up to its predecessor. The critics have a field day with comments like "... it feels like a waterlogged shipwreck" and "you've heard all the jokes before; you'll hope there won't be a fourth".

Why do they do it? It's simple; there's a formula that's repeatable and there are enough people in the audience who will go the next time, all the while hoping the entertainment value will be just as good, or better. But, eventually, enough is enough and another sequel would be unsustainable.

In the world of business, sequels just don't cut it. Clients expect that companies will spend a portion of their revenue on forward-thinking; finding out what will be important in the future.

Our fundamental approach to planning has evolved over the years, however, the core of the process has remained the same.

In our thirty-three years, CPA has done a great deal of forward-thinking and much has changed. Believe it or not, our first Cash Flow Projections were done in pencil. All of the tax proformas were calculated manually... so were the tax returns!

We are leaps and bounds beyond those days now but what does the future hold?

Our fundamental approach to planning has evolved over the years, however, the core of the process has remained the same. There is a continuously updated current position (assets, cash flow, tax, etc.) projected out over the next 10 years. We have no plans to change this approach, however, the reports will continue to improve aesthetically.

Over the past 5 years, we have worked very hard to transition out of the world of DSC (deferred sales charge) mutual funds into investment options that provide a much lower fee structure. In addition to the lower fee classes of mutual funds, our clients now have access to individual portfolio managers such as McLean Budden, Scheer Rowlett, Brandywine, and more. So, where do we go from here?

Well, we have always listened to our clients and here is what we're hearing:

1. Alberta is booming and needs more professional planners who understand the needs of senior executives and entrepreneurs;
2. Toronto-based corporations, particularly in the resources sector, have many executives who are stretched to the limit with increasing amounts of international travel; more professional, senior advisors are needed to support these busy people;
3. Montreal has many prospective clients, however, they would like to work with a Montreal-based team rather than a team from another city; a bilingual planning team would also be appreciated;
4. Clients and prospective clients in the Maritimes would like CPA to open an office in Halifax. Searches in Alberta and Toronto are underway for three Senior Vice Presidents. In fact, Nick Slawson has already joined us in Toronto (see Nick's bio on page 4); you can expect to hear more from Nick in the next edition of the newsletter.

... this is no sequel...

CPA is still evolving!!!

...continued on last page

Old Hand with Elite Clients Finds New Energy in Bank Alliance

Corporate Planning Associates has been tailoring financial plans for the wealthy for decades, and now wants more exposure

By Lara Hertel (Reprinted with the permission of *Investment Executive*.)

It has been 33 years since Corporate Planning Associates first hung its shingle. Now it is taking its “family office” concept of financial services across Canada.

The creation of a family office – a term that describes a full range of wealth-management services tailored to the ultra-wealthy – was more of a natural progression than an initial plan for the Toronto-based company.

“We’ve been doing this for so long that we no longer put a label on it,” says Lee Fisher, CPA’s president and CEO.

Today, CPA, the self-appointed “CFO for the family,” has a staff of 31, a modest 250 high net-worth clients and \$450 million in assets under management, with offices in Vancouver, Calgary and Toronto.

Its next move is to take its brand to more Canadian cities.

“There are so many places that don’t have access to services we provide, and we’d like to expand into these areas,” says Fisher.

CPA co-founders John Ross and Brigitte Murphy were approached by a major Canadian company that wanted its top executives to have sound financial plans. The idea was simple: the company wanted a team of professionals to take care of the finances of its top brass so the executives could remain focused on their jobs, not their portfolios.

CPA got these clients’ tax matters in order, drew up their wills and powers of attorney, created net-worth statements and built 10-year financial plans. It then extended its services to the executives’ spouses, and the family office was born.

The fee-based operations have since branched out to accommodate not only corporate executives but also legal and medical professionals and entrepreneurs. A typical client has a net worth of about \$7.5 million, but the company doesn’t close its doors on those whose assets aren’t quite up to snuff. In fact, serving the soon-to-be-wealthy is part of CPA’s business philosophy.

“We call it ‘patience,’” Fisher says with a laugh. “This is a lifelong relationship, and our obligation to them is exactly the same as it would be to someone who had \$10 million. We have long-term plans in mind, and we help them with what eventually will come to them.”

But, with a minimum \$10,000 annual fee, that’s not exactly charity work. And many established clients pay much more.

In a market in which target clients are being courted by slick wealth-management firms and boutique brokerages, CPA prefers to let its actions speak for themselves. “Sometimes, we just have to show people what we can do,” says Fisher.

Aside from an 18-month advertising campaign in select magazines, CPA does virtually no self-promotion. Most of its new business is generated from referrals, although the firm occasionally asks corporate clients for referrals.

Still, Fisher says, the firm is careful about the clients it takes on. Wealthy investors looking to play the market need not apply.

“First and foremost, we do planning,” she says. “We believe that’s the first and most important step. So, a client wouldn’t ask us to buy the hottest company, because we wouldn’t do it. We’re not in the business of following stocks.”

CPA doesn’t have portfolio managers on staff. The firm has what it calls a “due diligence manager,” Toronto-based **Perimeter Capital Management Inc.**, which finds and hires individual managers. The client, however, deals only with one of CPA’s senior vice presidents, who leads a team of support staff and ultimately is responsible for all planning and investments.

The business model works so well that **Bank of Nova Scotia** bought a 51% interest in the firm last May. It’s a relationship that Fisher calls an “alliance” that allows CPA to do what it has always done, albeit with the added perks of bank-owned products and services – particularly in the area of strategic philanthropy, CPA’s fastest growing line of business.

‘Family office’ is a popular term these days, but firms that truly provide those services are few and far between,” says James McPhedran, head of Scotiabank’s private client group. “From our perspective, focusing on this segment of the market made a lot of sense.”

CPA had previously turned down acquisition offers, but, Fisher says, Scotiabank proved a comfortable fit. With CPA’s track record of bringing in high net-worth clients and Scotiabank’s private-client offerings, it was a match.

McPhedran and Fisher have come up with one- and three-year growth plans. They won’t give details, but say they will keep CPA relatively small.

“We did the deal with CPA for the quality and expertise it brings,” McPhedran says, “so we won’t allow that to be diminished.”

Is There Life After Insurance...?

By **Harris Abro**, Senior Vice President, Corporate Planning Associates

Most people see life insurance as a “necessary evil”, something required to protect family income, in the case of an unforeseen tragedy. But it can be a useful vehicle at all times, including post-retirement.

Here are a few reasons to reconsider insurance as an effective planning tool:

ESTATE PRESERVATION

It’s hard to imagine the effects of “final taxes” on an estate. Despite having no “estate duties” in Canada, the government still requires its fair share of tax revenue on the demise of a taxpayer. Assets are deemed to be immediately disposed of, often triggering significant capital gains and income taxes on RRSP’s and RRIF’s. Consider too the consequence of assets that are subject to U.S. estate taxes.

Fortunately for spouses most of this liability can be deferred until the death of the survivor. The effect however is often more damaging, as assets can increase in value and taxes consequently increase as well.

There are obviously many alternate planning solutions to consider. In any planning exercise however, consideration should be given to using a life insurance solution to lessen the effect of a diminished estate value. See it as funding an inevitable “wealth surcharge” that the government is going to levy. Pre-paying the surcharge with today’s dollars can often end up costing a fraction of the price that it will ultimately cost the estate, beneficiaries and/or any designated institutions.

CHARITABLE GIFTING

Many individuals will consider charitable gifting, whether by way of specific legacy or the creation of a charitable foundation. Sometimes this gifting is contemplated in a taxpayer’s will or often it can be done during the taxpayer’s lifetime. Either way, life insurance can significantly increase the ultimate amount of the charitable donation, with some very effective tax reducing advantages as well.

A life insurance policy can be assigned to a charity/foundation at inception, therefore making annual premiums tax deductible in the taxpayer’s lifetime. The net result is annual tax savings that should significantly increase the ultimate donation to the charity/foundation. Alternatively, nominating a charity / foundation as

...continued on last page

CPA’s GoldLeaf Due Diligence Manager

By **Duncan McEachran**, Senior Vice President, Corporate Planning Associates

The term due diligence means the performance of an investigation with a certain standard of care, of a particular object. In the case of CPA’s due diligence manager, they are charged with the investigation of many different investment managers, to ensure those selected for our investing clients help mitigate manager selection risk. As I’m sure everyone has heard many times before, past performance is not necessarily indicative of future performance, so how can anyone ensure the best investment managers are selected? Proper due diligence can significantly improve the odds of success.

Perimeter Capital Management Inc. (PCMI) is the name familiar to many of our investing clients from their quarterly

investment statements. They are registered as an Investment Counselor and Portfolio Manager in all provinces, and specialize in investment manager research and due diligence. They are backed by a team of principals, each averaging over 25 years of investment experience dealing with institutional and retail plan sponsors. PCMI works very closely with CPA to ensure those investment managers chosen to be a part of our clients’ investment portfolios are the best available.

They do this through a rigorous process that includes both quantitative and qualitative analysis, and the use of a proprietary scoring system to rank each investment manager’s performance. Only the very best are chosen to be included on our GoldLeaf Investment

Platform. Over 40 different indicators are measured in determining a particular manager’s overall score. These indicators cover 5 different categories for both absolute and relative scores – Reward, Risk, Consistency, Productivity and Trend, which combined in a particular weighting determine the overall score for each of their absolute and relative performance. The key area of Productivity for example, uses a variety of indicators to measure the “manufacturing strength” of the particular manager, or how well they perform on a risk/reward basis. The other key area of Reward measures how well the particular manager performs on an outright basis and on a value-added basis.

...continued on last page

Life After Insurance...?

...continued from page 3

the beneficiary of a life insurance policy can provide tax advantages to the estate of a deceased taxpayer as well.

INSURANCE TRUSTS

Proceeds of life insurance policies can be paid to a trust established in a testator's will or trust declaration. This allows the trustee discretion to manage and deal with insurance proceeds in the best interests of trust beneficiaries. An additional advantage is that the insurance trust is deemed a "testamentary trust" and is taxed at graduated marginal tax rates, as opposed to the top marginal tax rate.

FIXED INCOME ALTERNATIVES

Bonds and GIC's can provide a "safe haven" for hard-earned investment dollars. However, after considering the net after tax, and inflation adjusted returns, they often barely preserve capital. For investors over the age of 60, an alternative solution could be the purchase of a life annuity. Issued by insurance companies, life annuities offer a tax efficient, guaranteed lifetime income stream. This provides peace of mind, with tremendous tax advantages.

As part of an effective planning strategy, life insurance can be used to replace the capital used to purchase an annuity. The net result is an improved after tax return on investment and possibly a larger estate distribution for survivors or designated beneficiaries.

THE GOLDEN RULE

Assuming the need for life insurance is identified post retirement, (which is most likely to occur in any creative planning scenario), consider being pro-active sooner than later. Insurers reward prudent investors, who start planning early, when health and age are still at a premium.

Consider too that if a need for insurance is established, permanent life insurance policies can offer very effective tax sheltered investment options. Income earned is tax exempt and with simple planning it can be passed on to beneficiaries, completely tax-free.

CPA's GoldLeaf Due Diligence Manager

...continued from page 3

The key is to understand why a manager performed in a particular way – that is, to separate the key attributes of the market, their style, their skill, and their random luck. For example, an investment manager's skill can't always overcome the effects of the markets in general. We do need to know, however, how much of their return is affected by the markets, how much by their particular investment style, how much was a result of their investment skills and how much was through sheer luck. PCMI looks for those investment managers who exhibit strong rigour and a systematic process involving experienced people, who ultimately produce the investment performance.

PCMI meets with the Investment Committee of CPA on a quarterly basis to provide an updated analysis on all managers, using their proprietary scoring system. Included in their analysis is a compliance check to ensure the managers are operating within their job descriptions, including holdings and investment style. They provide us with a very complete, detailed and voluminous review of all the managers. Ask to have a look at it sometime – you'll be amazed at the information provided! It is through the use of our due diligence manager that CPA is confident we have the very best managers available to build successful investment portfolios for our clients.

The Evolution of CPA

...continued from page 1



Nick Slawson
Senior Vice President, Consulting

Bachelor of Commerce, Queen's University; Masters of Business Administration, York University; Canadian Securities Institute; Canadian Securities Course; Branch Managers Course; Partners, Directors and Officers.

Nick joined CPA in 2007 having spent more than 25 years in various capacities in the financial services industry. He has extensive experience in managing all aspects of the financial service industry for both start-up and established companies. Most recently, Nick was the Branch Manager of Assante Capital Management's largest office. There he worked with senior management to establish regulatory guidelines for Financial Advisors nationally. Nick's overall emphasis has been on comprehensive financial planning and wealth management.

Nick leads one of the firms planning teams and is responsible for marketing CPA's services to professionals and corporations.

Nick is a Toronto native and his interests include travelling, golf and junior hockey

in Ontario where he has been instrumental in assisting many young men to move on to hockey opportunities in the NCAA.

Published by

Corporate Planning Associates
Suite 1700, 320 Bay Street
Toronto, Ontario, M5H 4A6

Tel: (416) 364-7898

Fax: (416) 364-6438

Managing Editor: Sitara de Gagne

While we make every effort to ensure the accuracy of information contained in *Advancing Issues*, we cannot guarantee its accuracy or completeness. Readers are advised to seek professional advice to determine the applicability of the information to their own circumstances. Reproduction, in whole or in part, without written permission is forbidden.

Subscription price: \$100 per year