



CPA SECURITIES INC.



CORPORATE PLANNING  
ASSOCIATES

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I S S U E S

## Today, A New Beginning...?

By P. Lee Fisher, *President and CEO*

BEFORE YOU READ THIS, I WANT YOU TO GET A PIECE OF PAPER AND A PENCIL.

Now, about 2 inches from the left-hand side of the page, draw a vertical line. In the area to the left of the line, write down some events that have happened in the last few weeks or months. If you need some help, here are a few suggestions: stock markets decline; stock markets rebound; jobs cut; skills training centres opened; bailouts made; bonuses paid, etc. .... These all happened and are now indisputable facts.

To the right of the line is a much bigger area (if you selected an 8.5" x 11" piece of paper, there should be about 6.5 inches). There are no facts yet for the timeframe represented by the right side of the paper – only opportunities.

Regardless of where we find ourselves at the moment, we must look toward the future through the fresh eyes that a new beginning gives us. That is not to say we should ignore the lessons of the past, but it is unlikely we will see opportunities for the future until we clear away the clouds of the past.

Every one of our clients has a Ten Year Plan; it is a road map for the future. In our meetings, it is being “refreshed” to capture the new starting point the markets have brought us. Through the discipline of monitoring and updating this plan, we are identifying opportunities for the future.

Later in this issue, you will read an article by Bryan Monchamp called “Investing for Beginners”. It is directed at young people starting their investment program; it embraces the fresh enthusiasm that naturally comes with youth but is equally applicable to more mature individuals.

Also in this issue, Duncan McEachran provides us with his comments on and insights into the Malcolm Gladwell book, “Outliers: The Story of Success”. Mr. Gladwell is a Canadian who already has two international bestsellers to his name.

And, lastly, we are including for our Ontario readers, an enlightening piece on the potential impact of the proposed harmonized taxes (P.S.T. and G.S.T.) on your investment returns. What are the consequences of this tax, and is it too late to stop?

In closing, we believe we must acknowledge yesterday and its lessons, but we cannot dwell on it. If we do, we will miss the opportunities of today and tomorrow. Where we are now, is a new beginning. And, we have 6.5 inches of blank paper waiting for our new opportunities to become realities.

## Guiding Principles

By Bryan Monchamp, *Senior Vice President*

At Corporate Planning Associates, our clients are the leaders of corporate Canada, communities, and families. Clients tell us that they are frequently asked for financial advice. These requests usually take the form of, “How do I achieve the success you have enjoyed?” Answering that question may not be easy. You have told us that much of your financial success was driven by the education you chose, hard work and the opportunities that materialized through your career. However, what others really want to know is what financial best practices have you relied upon. In writing this article we hope to provide you with information that you can share with those for whom you care. It is also an outline of the basic principles everyone can apply.

### EDUCATE YOURSELF

Personal finances are not the favourite topic of most Canadians. However, it is invaluable to learn the basics of investing, including impact of economic events on publicly traded investments. The Canadian Securities course provides a great base of knowledge. Without significant knowledge, time and experience, investors seek

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## Book Review:

# Outliers – The Story of Success, by Malcolm Gladwell

By Duncan McEachran, *Senior Vice President*

In this easy and fascinating read, Malcolm Gladwell looks at why some people succeed more than others and how these outliers, people he describes as those whose achievements fall outside normal experience, got there. He argues we need to look around these people and see how they were shaped by a host of influences, not by simply looking at these people. It is more than simply individual merit, it is the opportunity these outliers were given that Gladwell says most significantly affects their success. He suggests that these opportunities arise from a variety of sources, including birthdate and birthplace among others. I strongly encourage you to read the book, to fully appreciate the pervasiveness of his ideas.

In one of his early stories, Gladwell points out that currently a Canadian child's chance of success at being an elite hockey player is most likely determined by their birthdate. He mentions in any elite groups of hockey players, 40% were born sometime in January through March. In Canada currently, the cut-off age for hockey programs is January 1<sup>st</sup>. Early in life, children born early in the year can have significant physical maturity differences, compared to children born late in the calendar year. He argues this maturity difference is mistaken for ability difference, and as a result these early-year children are noticed and selected for the more elite programs. Gladwell argues these differences don't go away, rather, they persist. Those born early in the year get into programs where they get the opportunity of more practice, and the ability gap continues to widen. He cites these same differences for other sports where the cut-off dates are different, but the vast majority of players at an elite level are those with birthdates in the 3 months immediately following the particular cut-off date.

This ability gap, Gladwell argues, is also prevalent in schools, something many parents will agree with; he suggests classes be divided by birthdate, to level the playing field and provide an equal opportunity for all.

One of the key attributes, however, that Gladwell suggests is most important when one has the opportunity, is practice and hard work. He points out "The 10,000 – Hour Rule", and refers to neurologist Dr. David Levitin who says "the emerging picture... is that ten thousand hours of practice is required to achieve the level of mastery associated with being a world-class expert – in

anything". Gladwell cites several examples of outliers, who became world-class, given they had the opportunity to achieve this level of practice. He points out they don't just work hard, or much harder than anyone else, they work much, much harder than anyone else does.

Bill Gates and The Beatles are a couple of examples Gladwell presents; reading the book will tell you their individual circumstances at the time, and show you some patterns of which you may not have been aware.

Gladwell goes on to cite some very interesting examples of how IQ alone is not the strong predictor of outlier status it was once thought to be. He lists the schools from which the last 25 Americans to receive the Nobel Prize for medicine graduated. We might expect the list to only include the best of the best schools; however, it contains a very broad list of good schools. He argues there is merely a "good enough threshold" which is much broader than high IQ alone, and that "practical intelligence" is a much more important predictor. He cites this as something obtained from having the opportunity to learn social savvy, which he argues, is largely determined by your family upbringing. You may not agree with all of his examples, however, Gladwell presents some pretty compelling logic.

He also cites these cultural differences as explanations for some recognized differences across success in various areas. How does the Asian numbering system help young Chinese children become better at math than their North American counterparts at an early age? Is this the explanation for their substantial outperformance in mathematics, or are there other cultural differences?

Gladwell summarizes his thoughts by saying, "...success follows a predictable course. It is not the brightest who succeed. Outliers are those who have been given opportunities – and who have had the strength and presence of mind to seize them. His wish is "we need to replace the patchwork of lucky breaks and arbitrary advantages that today determine success – the fortunate birth dates and the happy accidents of history – with a society that provides opportunity for all." In the closing chapter Gladwell cites a personal example of a story that, were it not for including the many opportunities and importance of her cultural legacy, could simply be presented as straightforward triumph over victimhood for his mother.

# Unintended Consequences of Public Policy

## Comments from EdgePoint Wealth Management

The recent Ontario budget contains a massive tax grab of which our Investment Partners should be aware. The McGuinty government is proposing the harmonization of Ontario's provincial sales tax with the federal GST. The decision to jam an additional 8% tax on the management expense ratios (MER) of your investment products is shockingly unwise and dangerous.

The vast majority of Canadian families appreciate the importance of saving for their retirement. In the face of this, the Ontario government has decided to levy an incremental tax on people who decide to invest a portion of their hard-earned savings to secure a better future for themselves and their families. To be clear, this tax will impact everything from your RESP's to your RSP's and RRIF's.

Is this logical? Is this responsible? Won't this add a disincentive for people to save at a time when fiscal prudence is of paramount importance? Hasn't the government been trying to promote savings?

Most of us have seen ill-advised public policy implemented during our lifetimes. Often, we just shake our heads and drive on. However, before you do so, let's look at how it will affect you.

Let's assume you are 45 years old, you invest \$20,000 in a mutual fund inside your RSP, and this investment grows at 10% per annum (before this recent tax grab). Unfortunately, fees in Canada are among the highest in the world but we'll be generous and assume you only pay a 2.75% MER (before the GST of course) on your mutual fund investment. The harmonized sales tax (HST) would add approximately 22 basis points (0.22%) to the MER.

By the end of year one, your \$20,000 would have been worth \$22,000 before the tax grab. But, with the tax, you have only \$21,956. A seemingly tiny \$44 difference, thus increasing the likelihood the government slides in this tax without much of a fuss.

Interestingly, by the end of year two, you now only have \$24,103 versus \$24,200 (without the tax grab). That's a bigger difference of \$97. Why isn't the difference  $\$44 + \$44 = \$88$ ? Because your investments are growing and the government is taking the same 8% from your expanding pie.

By year 10, you are 55 years old. Luckily, the \$20,000 you put in that mutual fund 10 years ago has grown to \$50,847. You're content, but unaware that without the tax, you would have had \$51,875...\$1,028 more! The magic of compounding interest is starting to take hold. The \$1,028 is now 5.1% of your initial \$20,000 investment.

By year 20, you are 65 years old. Your initial investment has grown to a value of \$129,269. Without the tax harmonization, you would have had \$134,550...\$5,281 more or 26.4% of your initial \$20,000 investment!

Einstein once wrote that the 8th wonder of the world is compound interest. We have trouble debating him on that issue, especially if we consider the next 20 years.

You are now 75 years old. That \$20,000 contribution to your RSP is now worth \$328,645. Little did you know that it could have been \$348,988 without the 2009 tax harmonization... a difference of \$20,343 or 102% of your initial investment! The government has taken over 100% of your initial investment away from you.

By year 40, you are 85 years old. Your \$20,000 has grown to \$835,524. Without the new tax, you would have had \$905,185... a difference of \$69,661 or 3.5 times your initial investment! The government has collected \$69,661 from your initial \$20,000 investment for a 350% tax rate. What could you have done with that extra \$69,661? Could that have made a difference in your life?

Sometimes public policy has unintended consequences. We are not sure whether the current administration understands the materiality of this decision and how it could negatively impact the average person's retirement savings. The important question is, "Can we stop this?"

We are worried that the various interests of industry participants will detract from the real issue at hand. Rather, arguments may be focused on potential financial job losses in Ontario due to the tax, or the inequality of the harmonization of the tax on mutual funds, or the timing of the tax given the weak markets rather than the ultimate cost of the tax to investors over the long run.

The reality is that this tax affects you much more than it affects mutual fund executives or mutual fund company shareholders. Politicians would gladly tax additional financial services and investment products to make this tax more equitable. They would be more than happy to stage this tax in. None of this helps you. We would hope the government would not want to take 350% of your initial investment if they truly understood the consequence of this tax. We're not sure that they do.

A simple message needs to be delivered to the government, and we plan on delivering it. Quite simply, they must be made aware that this tax is bad for you, the investor. As such, we have requested a meeting with Premier McGuinty to share our thoughts.

Because this affects you, our investment partners, take the time to help the government understand the consequences of this unintended tax grab by writing or calling your Member of the Legislative Assembly (MLA) today.

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## Guiding Principles ...continued from page 1

professionals to help them identify appropriate financial strategies. Seeking advice may include engaging a financial planner, stock broker, or investment counselor. In all cases the investor is paying a professional to develop a portfolio that will meet their goals for growth, income and risk.

### SET GOALS

Setting goals is critical regardless of whether they are modest or a stretch, short and/or long term. Identifying objectives that matter in our lives allows us to make choices with confidence. For example, people may have to choose between taking a trip and saving for a down payment on a home.

### LIVE WITHIN YOUR MEANS

It is a truism in life that people either control their money or it controls them. Money is a means to an end to achieve experiences that may contribute to our quality of life; however, money itself will never lead to satisfaction. The first step to controlling one's financial future is to realize that money pales in comparison to quality relationships and the contribution we make and receive in life. Once we come to this understanding we can master our finances.

The first step towards financial independence is to understand family spending and to create and execute a cash flow strategy that will help achieve long-term goals. Spending can be tracked using bank and credit card statements. Once this is complete, it will be clear what expenses are fixed, which are discretionary and which can be reduced. Developing and tracking your cash flow will also help to build an understanding of the true cost of debt. Bad debt is debt that is taken on to purchase things that will depreciate, such as cars, clothing, etc. Debt may be positive when it is used to purchase assets that are likely to appreciate or produce income (a portfolio of investments, commercial real estate, etc.).

### PAY YOURSELF FIRST

Once goals are set and excess funds are identified, it is a good idea to put money aside for savings before making discretionary purchases. In life we often place ourselves and our finances behind other priorities. Paying ourselves first, builds a sense of accomplishment and empowers us to achieve our objectives.

### YOUR BEST INVESTMENT

The best investment one can make is to buy a home. This investment becomes better when you pay for it quickly. Take the time to understand what options for early repayments are

available on mortgages. Paying bi-weekly can save years of payments (and thus interest) vs. paying a mortgage monthly. Your home becomes an exceptional investment when others help you pay for it. Many homes have rental suites in the basement or above the garage.

### IF AN INVESTMENT LOOKS TOO GOOD TO BE TRUE IT PROBABLY IS

Despite continuous stories of fraud, "amazing opportunities" generally have no trouble finding investors. Beware of investments that offer unusually high returns, in particular when the amount invested is small and the length of time the investment is made is short.

### DIVERSIFICATION

Diversification is best described as not placing all your eggs in one basket. It is making intelligent investment decisions but not counting on one single decision. If you take this view you will spread your investments between different asset classes, countries, sectors, and companies. The result is overall reduced risk while maintaining the growth potential of your investments.

### SEEK OUT A GUIDE

Even the best athletes use coaches. Having an advisor whom you trust will encourage productive debate regarding financial strategies and the markets in general.

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## Unintended Consequences of Public Policy

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We have provided the contact information for the Premier and Minister of Finance below.

Sincerely,

Your Investment Partners at EdgePoint

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