

## Survival tips for your family business

### Succession in a recession

“Chance favours the prepared mind” is an especially apt motto for family business owners planning to hand the company reins over to their children in the next few years.

With recession clouds hanging over businesses everywhere, pulling your family business succession plan together can seem both urgent and extra complex. Even in a roaring economy, more than 70 per cent of family-owned companies don’t survive the transition from founder to second generation.

“Creating or updating a succession plan now can help ensure your company is still standing once the economy picks up,” says James Wong, Director of Succession Planning, BMO Harris Private Banking. The goal of an exit plan is to lay the groundwork for a seamless handover that won’t negatively affect the value or operations of the business.

“The quicker you react to the downturn, the quicker you clean up your balance sheet and reduce costs, the quicker you could return to profitability. Therefore, your exit


strategy can hopefully hold firm. That’s a message for everybody, but in particular for owners looking to transition within two to three years.”

After the downturn is over, buyers will be searching for lean and recession-tested acquisitions. While there’s no magic defence against economic downturns, owners can assert control to keep their businesses strong, James says. As value investor Warren Buffett wrote in the Berkshire Hathaway 2001 Chairman’s Letter, “you only find out who is swimming naked when the tide goes out.” With nowhere to hide, operational efficiency becomes paramount.

Since last fall, James has been fielding many calls from concerned clients. For some, the joy of ownership has diminished; leaving the business seems like an attractive option.

“Even the best companies did not expect this recession to hit with such severity and speed. Indecision around what to do has cost some of my clients valuable reaction time. We can’t afford the luxury of a wait-and-see attitude.”

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In reality, taxes or family discord, not recessions, are the leading causes of transition failures. (See our sidebar story on how to avoid family conflict.)

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*“When it’s time to act,  
you’ll be ready.”*

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As for taxes, the recession actually delivers good news from an estate planning perspective for owners whose businesses have lost value says Sean Foran, Vice President, Succession Planning at BMO Harris Private Banking.

“An economic downturn is a terrible thing to waste. Business owners should take advantage of the opportunity to re-examine the value of their business and, where that value has decreased, lock in the lower value for capital gains tax purposes using an estate freeze or re-freeze.”

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He adds that a good estate plan offers flexibility that can accommodate changes in circumstances. Neither Sean nor James thinks the overall message for family businesses should be gloom and doom.

James says: “We really need to reassure business owners who are planning their exit or succession. A recession just calls for a lot more diligence and patience.”

Given that chance really does favour the prepared mind, as scientist Louis Pasteur observed, owners who plan now will benefit.

James concludes, “When it’s time to act, you’ll be ready.”

*To begin the conversation about a succession plan of action, ask to speak to one of our BMO Harris Private Banking wealth consultants, or your private banker.*



## Five Steps to a Happy Handover

### Quell Conflict, Boost Communication

A breakdown in trust and communication is often the culprit when a family business doesn’t survive the transition to the next generation<sup>1</sup>.

“Transition is a very emotional time on every level, so if there are simmering problems, they will come out. The recession may heighten issues of trust,” says Ruth Steverlynck, Wealth Services Vice President in the BMO Harris Private Banking Vancouver team. “Effective communication is the antidote to conflict.”

A lawyer and mediator with management and ownership experience in her own private, family-owned companies, she now helps families prepare for transition.

“We find the best format is regular family meetings where families can enhance their communication skills and build the strengths they will need to be effective heirs to the business.”

Ruth suggests the following steps to foster harmony in the family room and the boardroom.

#### 1. Never assume

Families tend to communicate based on old assumptions that may no longer be valid. Abandon burdens from the past. Allow individuals to communicate their thoughts as if for the first time.

#### 2. Understand the other perspective

Hearing only what you want to hear is limiting. Showing appreciation for another viewpoint opens the way for appreciation of your viewpoint.

#### 3. Adopt a neutral stance

Remove emotional or value-laden words from discussions on family business, which can seem like battles. Ruth says, “We call this “trench warfare.”

#### 4. Drop the blame game

Focusing on blame hinders problem-solving. To resolve key issues, start with ones that are less central and controversial. This creates confidence and momentum.

#### 5. Problem-solve together

Start by offering options that address each side’s most important concerns. Ask for input. Go back and forth to reach a stronger base from which you can resolve more complex differences.

#### Conclusion

Conflict offers opportunities to be creative and strengthen relationships. Shared problem-solving can produce transformative change for your company and your family.

*To receive a copy of Ruth’s article **Five Steps to Better Communication in Family-Owned Businesses**, which outlines the process for improving family communication, please email Lorelei Canderan at [Lorelei.Canderan@bmo.com](mailto:Lorelei.Canderan@bmo.com) and include “five steps” in the subject line.*

<sup>1</sup> *Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values*, Roy Williams and Vic Preisser, 2003

# Long-term financial security for the disabled

## Registered Disability Savings Plan

**W**idowed Mrs. Baker<sup>2</sup> is 63 and has a 30-year-old daughter, Jill, with paraplegia from a diving accident. Jill lives on her own in shared accommodations and has a part-time job.

Mr. and Mrs. Kane are in their 50s and have four children, including an 18-year-old son, Max, who has Down syndrome. The Kanes are in the top tax bracket.

“These clients are worried about the future for their disabled children,” says Ric Langford, BMO Director of Wealth Services in Metro Vancouver. “Through BMO, they set up Registered Disability Savings Plans [RDSP], whose goal is to help families create long-term financial security for their loved ones with disabilities.”

According to Statistics Canada<sup>3</sup>, approximately 4.4 million Canadians have disabilities. Among children under age 15, 3.7 per cent have a disability; in the 15-to-64 age bracket, 11.5 per cent are disabled.

### BMO first to offer RDSP

In late December 2008, BMO became the first bank to offer Canadians the RDSP. By the end of January, more than 3,000 BMO accounts had been set up. The bank doesn't charge for administering the plans or handling withdrawals.

To qualify, the beneficiary must be a Canadian citizen under the age of 60, and eligible for the federal Disability Tax Credit. The maximum lifetime RDSP contribution limit is \$200,000. Money contributed to the plan is not tax deductible, but earnings grow tax sheltered until they are withdrawn, which can be done at any time, subject to federal clawback restrictions.

The structure is like the Registered Education Savings Plan. The federal



government matches RDSP contributions with the Canada Disability Savings Grant to an annual maximum of \$3,500. Low-income families are also eligible to receive Canada Disability Savings Bonds to a yearly maximum of \$1,000.

### Advice for families

“British Columbia has exempted RDSPs as assets for determining eligibility for provincial disability benefits, which Jill, Mrs. Baker's daughter, is receiving,” he says. “Jill should set up an RDSP herself. Since her annual net income is low, she would be entitled to the annual maximum in federal grants and bonds until she is 49, the age at which this eligibility ends.”

Ric recommended that Mr. and Mrs. Kane open an RDSP before their son turns 19 (the age of majority in B.C.). Once he is no longer a minor, they would have to be appointed his guardians in order to set it up. Max's grants and bonds eligibility would be based on his annual net income, not

his parents' annual income. As the beneficiary, Max could get the maximum lifetime federal support of \$90,000.

“The RDSP is an additional valuable tool that, along with discretionary trusts in a parent's will, helps ensure financial security for a child with a disability.”

While the idea behind the plan is straightforward, most clients appreciate help in understanding and setting up an RDSP, Ric says. There's a wealth of information at [bmo.com/rdsp](http://bmo.com/rdsp) and specially trained representatives at BMO's Investment Call Centre can also assist clients in getting started.

*To speak with a BMO representative who can answer your RDSP questions, please call 1-800-665-7700, or contact your BMO Harris Private Banking client advisor.*

<sup>2</sup> To protect the privacy of BMO Harris Private Banking clients, actual client names have been changed.

<sup>3</sup> [www.mcsc.gov.on.ca/mcsc/english/topics/pop\\_ado\\_stats.htm](http://www.mcsc.gov.on.ca/mcsc/english/topics/pop_ado_stats.htm)



## Market Outlook

# A few hopeful signs

*by Paul Taylor, Chief Investment Officer*

**O**n April 1, The Economist magazine issued a prank news release announcing the creation of a new British theme park called Econoland where visitors could enjoy recession-related attractions such as the Dow Jones rollercoaster and a catch-a-falling-bank competition.

The April Fool's spoof was a brief and light-hearted distraction from hard reality. Extreme volatility within global equity markets and a very weak economic environment marked the first three months of 2009.

That being said, there are some indications that coming quarters will be relatively stronger. The necessary conditions for a recovery include stability in the financial system, creditworthiness beyond the financial services sector, improvement in leading economic indicators, and restoration of confidence in the economy.

Global policy makers remain committed to taking action to help to restore and maintain stability in the financial system and to help ensure the availability of credit to businesses and households in order to stimulate economic growth.

In terms of leading indicators, several data points showed some (slight) signs of improvement by the end of March; while many indicators are still at depressed levels, the pace of deterioration has begun to decelerate somewhat. For example, U.S. retail sales beat consensus analysts' expectations in February. Consumer sentiment, as measured by the University of Michigan Consumer Sentiment Index, rose modestly in March.

### Glimmers of optimism

Such glimmers of optimism were enough to spark recent rallies in the equity markets, which pared losses from earlier in the year. Notably, the 7.8 per cent March rally in the S&P/TSX Total Return Composite Index meant the index was down only 2.0 per cent for Q1, despite breaking through its cyclical low earlier in the first quarter.

Restoration of confidence in the economy is the key to our outlook.

We fundamentally believe that global reflation policy initiatives will eventually be effective, though unlikely before late 2010 or early 2011. This is not a normal cyclical phenomenon, and structural imbalances need to

be righted. If confidence levels rise among consumers, investors, and the corporate sector, then we'll know if these initiatives have been successful.

We are looking for signs that consumers are stepping back into the housing market. Recent improvements in U.S. housing starts are encouraging, as are sales of existing and new homes, but these data points are still at depressed levels. The trend of improving data needs to continue.

At the corporate level, once businesses believe that the deterioration of conditions has stabilized, layoffs will subside and hiring programs will begin at some of the larger players.

### Major obstacles remain

If investors sense that a recovery is in the works, then the massive amount of cash currently sitting on the sidelines should begin to move back into equities.

Overall, the first few months of the year produced a few encouraging signs, but major obstacles are blocking a full turnaround. Like the Econoland theme park, the economy is still a fun-house distortion of a robust recovery.

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