WEALTH
Advisor

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SURVEY OF WEALTHY CANADIANS

Children not ready to handle inheritance, many believe

Just over one in four (27%) of high-net-worth Canadians are concerned about their children's ability to "manage their estate in the future," according to an Ipsos Reid survey conducted this spring on behalf of BMO Harris Private Banking.

The first part of the research was an online survey of 61,809 respondents, which revealed that one quarter of Canadians are concerned about their children's ability to manage an inheritance.

This was followed by a detailed survey of 536 respondents with an estate valued at $500,000 or more who indicated they were worried about the ability of their offspring to manage their future estates. Among this group, 22% said they were "very concerned" and 78% were "somewhat concerned" about how their children will manage their estate.

"As our clients' trusted advisor, we have always known that many families have private concerns that they need our help with during the process of estate planning," says Jean Blacklock, Vice President and Managing Director, Wealth Services, BMO Harris Private Banking.

"But the survey provided us with more specific details on the nature of these worries, and the ways that high-net-worth Canadians are planning to address them."

Jean adds that the children of these families often face unique challenges when it comes to financial management, such as the possibility of taking over a successful family business, or the expectation of involvement in providing oversight on a significant investment portfolio. *(continued on next page)*

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BMO Harris Private Banking®

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Why they're worried

Survey respondents indicated the main reasons for concern were that they believe their children spend money wastefully (38%), were under the influence of someone the parent doesn't trust/regard (16%), were unemployed or underemployed (16%), or too young (14%). Less frequently mentioned concerns included that their children lacked financial experience (8%), had a disability (4%), were addicted to drugs or alcohol (3%), or that the estate would be complex (2%).

Concerns over how their children will manage their estate affect their parents' (the respondents') approach to estate planning. Among those with a concern, 31% included suggestions to their children in their will on how to manage their inheritance, and 43% included trusts for their children in their wills.

Respondents said the bulk of the estate (71%) would go to their spouse or partner, 24% would go to children, with the remainder going to a variety of beneficiaries, including another family member, friends, grandchildren and charities, churches and schools.

Team approach to estate planning

Jean says that helping clients with their estate plan is "what we do" at BMO Harris Private Banking. Our directors of wealth services bring professional expertise to each situation – most are lawyers or accountants – and work closely with clients' own lawyers and accountants, creating the best possible solutions.

"Since we are in the forefront of private banking in Canada, this survey will help us to stay ahead of the curve in understanding client concerns and thus be responsive to clients when it comes to estate planning."

Already in place is one particularly successful innovation – BMO Harris Private Banking's day-long Financial Fluency seminars for the young adult children of clients.

"Each of the nine events we've run across the country over the last two years accommodated about 25 participants, with a waiting list for several of them. We're the only Canadian bank to offer anything like this. These seminars have obviously struck a chord with our high-net-worth clients and their children, and the survey results underscore their importance."

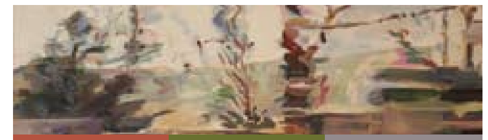
The parent-free events offer a private and no-pressure way for young people to learn about budgeting, investment principles and money management. The course is taught by a facilitator skilled in the subject matter, and adept at ensuring that every participant is made to feel welcome and comfortable enough to ask questions in the friendly setting.

Worried, but not alone

The Ipsos Reid survey confirms that parents who are thinking about their children's ability to manage an estate are definitely not alone.

Reasons for their sleepless nights

Survey respondents indicated they were worried because they believe their children spend money wastefully (38%), were under the influence of someone the parent doesn't trust/regard (16%), were unemployed or underemployed (16%), or too young (14%).



Ipsos Reid survey overview

- 64% of respondents were between the ages of 45 to 64, which corresponds with the baby boom demographic (those born between 1946 and 1964), 23% were 18 to 44, 18% were 65 and over
- 62% were males
- Ontario was the home province for 43%, followed by the West (36), Quebec (11), Manitoba/Saskatchewan (6) and Atlantic (4)
- 35% have estates of $1million or more (with no correlation between estate value and level of concern)
- 80% said they have a will; the likelihood of having a will increased with the size of the estate

"We can reassure our clients that their concerns are valid and normal, and we can help find solutions through good estate planning," Jean says. "We also are prepared to support clients through education of the next generation where that is appropriate."

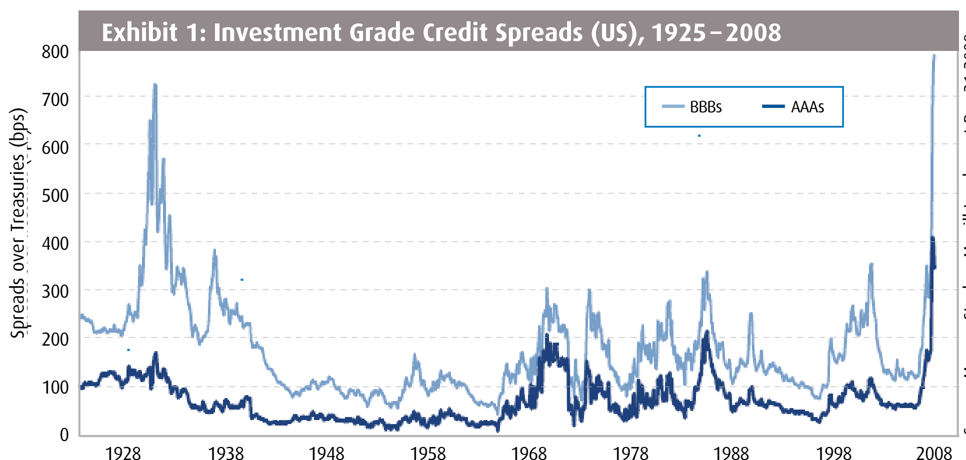
Jean adds, "No matter what is on your mind when you think about your estate plan, your client advisor at BMO Harris Private Banking will work closely with you through the entire process of putting a solid plan in place that addresses your beneficiaries' knowledge and skill levels. Don't hesitate to speak with him or her to help you get started today."

Safety (reconsidered)

The hidden risk in cash and bonds

Radically altering an investment portfolio's mix of stocks, bonds and cash in response to a market meltdown isn't typically a good strategy.

In fact, it's not a strategy at all: it's an emotional reaction that's essentially guessing, says Andrew Osterback, a bond portfolio manager with Jones Heward Investment Counsel (a third-party advisor to BMO Harris Private Banking).



"Professional money managers understand that everything contains some measure of risk," Andrew says. "Government of Canada bonds are often viewed as providing a risk-free return; however, that's not always the case. If you lend the government $100 for five years, although you're almost certain to get it back, there is risk that your $100 will be worth less at the bond's maturity. This is especially true these days when inflation and bond yields are low; 10-year Canadas are currently yielding only about 2.9%. Corporate bonds may offer more attractive yields, but they come with credit risk – in other words, the issuing company might not be able to return your $100 at the end of five years."

Nonetheless, corporate bonds are compelling when their yield is higher than equivalent-maturity government bonds.

"The problem is the widest spreads (the difference between the return offered on government bonds and corporate bonds) come at the moment of most uncertainty. At the end of 2008, these spreads were as wide, if not wider, than they were in the Great Depression. While there was opportunity to add a lot of yield to a bond portfolio, the bond spread showed that the additional yield came at considerable credit risk. Even so, the extra yield made the risk worthwhile." Paul Taylor, Chief Investment Officer with BMO Harris Private Banking, adds that cash and bonds were a great place to be over the fall and spring.

"But that's looking in the rearview mirror. If we get a whiff of inflation going forward, Canadian bond returns will be very weak," he says.

With interest rates in general now at very low levels, their eventual increase is expected to drive down the value of bonds. As well, with governments attempting to mitigate the global recession by injecting enormous amounts of fiscal stimuli into the economy, inflation is expected to creep up and cut into cash and bond investment returns.

Parking on the sidelines may be risky. Warren Buffett says: "Today people who hold cash equivalents feel comfortable. They shouldn't. They have opted for a terrible long-term asset, one that pays virtually nothing and is certain to depreciate in value."*

Looking ahead, Paul and Andrew believe equities are likely to outperform.

"In a volatile situation like this, you might lean one way in terms of your asset mix, but you never give up on the goal of having broad diversification of cash, bonds and equities in your portfolio. The way we manage money is to avoid the extremes," Paul says.

> Professional money managers understand that everything contains some measure of risk.

Maintaining objectivity and following a financial and investment plan are vital to long-term success. Please contact your BMO Harris Private Banking client advisor with questions or feedback about this article.

** Buy American. I Am, Warren Buffett, published October 16, 2008*

Market Outlook

Bear bounce or bull beginning?

by Paul Taylor, Chief Investment Officer

The most pressing question on everyone's mind is whether we're finally coming out of the recession. Historically, a sustainable stock market advance has preceded economic recovery by about six to nine months.

Some observers believe the recent market rally is simply a bear market bounce, or dead cat bounce. This refers to a short-term advance in an overall down market.

Let's examine the evidence.

The S&P/TSX dropped to 7,600 in November, remaining there until March 9, when it fell to 7,500. In hindsight, it looked like the markets were reaching the point of full capitulation and were forming a base on which to mount some sort of healing. By the second week of June, the index reached 10,500.

A pullback to the low 9,000s is still possible, however. The negative conditions that dragged the market down haven't been completely resolved, despite their recent marked improvement.

The rally since March 9 shows that the smallest, least-profitable Canadian stocks provided the strongest returns on a relative basis; large cap stocks provided relatively weaker returns. So far, this is essentially a small cap, junk rally.

To those folks eager to say that happy days are here again, I would add a cautionary note. This junk rally may not be sustainable. It could be a bear market bounce, to be followed by another market pullback. Or, perhaps the junk is clearing out first and the rally will broaden to include the large cap, higher-quality companies. Only time will tell.

A recovery will require stability in the global financial services system, creditworthiness beyond the financial services sector (an increase in commodity prices, for example), and improvement in leading economic indicators.

Progress is visible in the financial system, but the second condition is currently the biggest area of uncertainty: we're looking for visibly stronger, more stable corporate earnings.

Economic indicators are improving, such as job loss numbers, which seem to have reached a plateau – meaning we're starting to turn a corner. More significant are leading indicators such as the U.S. ISM manufacturing index, which rose to 42.8 in May, the fifth consecutive month of gains after reaching a low of 32 last winter. Anything above 50 indicates an expanding economy; anything below indicates a contracting economy or recession.

Finally, when consumers, corporations, and institutional investors get their confidence back, the stars will be aligned to usher in an economic recovery.

Then we'll be able to stop worrying about a bear market bounce.

The necessary conditions for an economic recovery include:

- Stability in the financial system
- Creditworthiness beyond the financial services sector
- Improvement of leading economic indicators

Return of consumer, corporate and investor confidence

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