As featured in

OTTAWA CITIZEN

The wealthy entrepreneur

About 40% of Canada's rich own businesses

By ANDY HOLLOWAY, THE FINANCIAL POST OCTOBER 13, 2010

A new generation of Canadian business owners and entrepreneurs is starting to find out they're wanted by financial planners and institutions that have already tapped the wealthy establishment for business. The reason? They are the new rich.

About 40% of the country's more than 544,000 high-net-worth households own businesses, according to a recent RBC survey. By comparison, just 8% of Canada's millionaires inherited their riches. Those numbers underscore how wealth demographics are shifting to younger age groups and to "earned" wealth rather than inherited wealth.

No wonder the financial industry is turning its attention to managing the wealth of entrepreneurs. And they could use the help.

Not that entrepreneurs are incapable of managing their own affairs, says Michael Nairne, co-founder and chief investmentofficer of Toronto-based Tacita Capital, a fee-only adviser that deals with high-net-worth clients. But he says many of them have too much of their wealth tied up in their businesses's assets. That's not surprising since their businesses are often their life's work, but it's a risky strategy to retain wealth in the long run.

For example, the recent recession was particularly punishing for small manufacturer-owners as business dried up or moved offshore. By contrast, established wealthy households may have a business bucket, but they also have huge assets in what Mr. Nairne calls the portfolio bucket. "They're interested in growth, but their overall goal is one of capital preservation," says Mr. Nairne, who adds it's time entrepreneurs followed suit bydiversifying their assets.

Indeed, most entrepreneurs act less like the rich folk they've become and more like the hoi polloi who take a fragmented approach to managing their financial affairs. They likely have an investment adviser, maybe even three or four of them, and an accountant, as well as a corporate solicitor, auditor and insurer to take care of their business operations. But they're often missing tax-planning opportunities, they duplicate investment mandates and often pay unnecessary interest costs, says Mr. Nairne.

And they typically don't realize any of this until someone close to them has a health scare or dies. The trigger, or groundhog moment, as Anthony Maiorino, vice-president and head of RBC Wealth Management Services, puts it, is less about fixing a particular problem than facing one's own mortality.

Once they realize they don't have a plan, they have plenty of options thanks to a financial industry that is realizing there is untapped potential in what has been the most entrepreneurial generation. "Twenty years ago, it was the mortgage industry where a lot of innovation was happening, because baby boomers were getting houses," says Mr. Maiorino.

There's even a peer-to-peer networking group for really rich entrepreneurs. Called Tiger 21, the New York-based organization was started in 1999 to help entrepreneurs figure out what to do with the proceeds from selling their businesses. Members sit in on monthly daylong meetings where they can learn from other members as well as professional speakers. The club now has 140 members in the United States who collectively manage approximately US$10-billion in assets, and it's moving into Canada. But membership doesn't come cheap: annual dues are $30,000 per person.

But Thane Stenner, managing director of Tiger 21 Canada, says the interest shown so far is high enough that Tiger 21 doesn't expect any problems finding a dozen or so members in each of Montreal, Toronto, Calgary and Vancouver.

There are certainly the numbers to draw from. The Merrill Lynch Capgemini 2010 World Wealth Report states there are more than 30,000 Canadians with more than $10-million in assets, and 4,000 of them with more than $30-million. "A lot of entrepreneurs who have built up successful businesses don't even consider themselves wealthy, even if they have a business worth $20-, $30-, $50-million or even higher," says Mr. Stenner. "The reason is they haven't had their liquidity event."

Once that event happens -- whether it's passing the business on to an heir or selling out to a partner or a third party -- it can be a bit of a shock to realize they're no longer driving an operational business. "They now have one hand on the wheel versus two," says Mr. Stenner, who, prior to joining Tiger 21 was founder of Stenner Investment Partners and a director with wealth-management firm Richardson GMP.

Of course, as the old saying goes, you can take the business owner out of the business, but you can't take the business out of the business owner. Entrepreneurs never really retire, says Mr. Maiorino. But their focus may shift to their investment portfolio or family planning rather than the ongoing business. That's especially true of business owners who often still have a significant amount of wealth stashed in holding companies that are still corporations subject to taxation.

RBC's study reports that high-net-worth families control $1.8-trillion in wealth or 67% of the total wealth in Canada. The secret to managing entrepreneurs' share of that wealth, says Mr. Maiorino, is exactly the same thing that made them successful in the first place: planning.

Fortunately, most entrepreneurs still have plenty of time, something they didn't have much of while building their wealth.