FINANCIAL POST

Saturday, October 17, 2009

Arrival of the deca-millionaire

Michael Nairne, Serious Money

The Thomson family remains the wealthiest Canadian family.
Here, David Thomson with two of his daughters.

Millionaire. The word still has cachet despite decades of inflation debasing its lustre. According to research firm Investor Economics, in 2008 nearly a half million households in Canada were in the enviable position of having at least $1-million in investable assets. The overwhelming majority, nearly 95%, had between $1-million and $10-million.

In the lexicon of the wealth management business, this is the "mass high-net-worth" market. It is dominated by savers, often dual-income professional or career couples, who have religiously contributed to their RRSPs and investment accounts over many years. It also includes former small business owners who have cashed out.

Overwhelmingly, the central concern of people in this group is having sufficient capital to fund their retirement. The bruising losses of 2008 have only added to their anxiety. The problem many face is that their healthy incomes have shaped lifestyles that involve annual spending to the tune of several hundred thousand dollars. But after taxes, the investment returns from a couple of million dollars is not up to the task of funding this level of expenditures for long. More than one Bay Street lawyer has commented to my partner, also a lawyer: "I am going to be practicing until I am at least 65. Who can afford to quit?"

The 21st century has seen the advent of the deca-millionaire, a household with at least $10-million in investable assets. The air is thinner here. Investor Economics estimates there are about 25,000 such households in Canada. The top echelon of Canada's corporate elite, hugely successful entrepreneurs and their respective inheritors tend to dominate this group.

At the lower end of this category, some still worry about lifestyle funding, although this tends to taper off as a family's assets get into the $25-million range. A much more common concern is the adverse impact affluence might have on their children's values and work ethic. No parent wants to see their wealth spawn a lazy fat cat with a gigantic sense of entitlement. In a discussion I had with a family who had just sold their business for tens of millions of dollars, their most urgent issue was determining what allowance to give their daughter who was moving into her own apartment for the first time. Investment and tax planning could wait.

Family issues extend to multigenerational planning. Here the dilemma is determining how much to leave to children and grandchildren, versus philanthropic giving and bequests. Increasingly, the trend is to help children buy their first house and to assist with funding the education of grandchildren. Once that is done, philanthropy becomes the priority. The more wealth families have, the more they worry about thoughtfully giving it away.

A millionaire's age will impact her or his attitude toward investing. Millionaires over 65 tend to be more comfortable with sticking to traditional stock and bond investing and generally take a hands-off approach with their investment managers. Younger millionaires are more collaborative and like to exchange ideas with investment managers. They are also more willing to entertain new areas of investing, such as hedge funds and private equity.

Canadians will have to get used to hearing about its millionaires. More are on the way as Baby Boomers get ready to retire. Investor Economics estimates that by 2018, millionaire households will number over 900,000, with nearly $3-trillion in investable assets. - Michael Nairne, CFP, RFP, CFA, is the president of Tacita Capital Inc., a private family office and investment counselling firm in Toronto.