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Peeling back the covers on Canada's ultra-wealthy

Michael Nairne, Serious Money

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It turns out there are a ton of millionaires in Canada. According to a recent study on global wealth by the Deloitte Center for Financial Services, there are 1,745,000 households in Canada who can boast a net worth of $1-million or more, about one out every seven households. Thank soaring house prices for a good chunk of this wealth.

What is really eye-catching, though, is the number of seriously wealthy. The study estimated there are 182,000 households in Canada worth between $5- and $30-million and 17,000 households in the $30-million plus cohort. Together these constitute a startling one out every 65 households in Canada. Who would have imagined that so many pentamillionaires and decamillionaires live among us?

There are good reasons for the multitude of wealthy here. First, the study was done in U.S. dollars and the soaring loonie has lifted the value of our assets in this currency. Second, unlike many studies of Canada's high net worth, Deloitte included the values of people's homes and private businesses as well as their investments. Third, Canada's real estate and stock markets have prospered, notwithstanding the global credit crisis.

The Deloitte study peeled back the covers on the collective balance sheet of the top 1% of millionaires in Canada, essentially the ultra wealthy worth $30-million or more. Deloitte estimated that one of the ultra-wealthy's largest assets is the equity in their businesses, comprising 28% of their total assets. Clearly, the road to mega-wealth is through entrepreneurship, although the colossal failure rate of new businesses is a reminder that many more stumble on this path than succeed.

The ultra wealthy have a sizeable chunk of their net worth in their homes. Residential real estate makes up 21% of their assets. The skyrocketing luxury home market in Canada's major centres, bolstered by strong foreign interest, has likely lifted this allocation of late. Vancouver had a record 375 houses and condos sell for more than $3-million in 2010. In Toronto's ritzier districts, you can barely navigate some streets because of the bevy of trucks associated with all the house renovations underway.

Investable assets in total comprise just over half of the ultra wealthy's assets. In my experience, the origin of this capital is typically from the sale of a business or the cashing in of options in a public corporation. The often commonly conceived source of mega-wealth — inheritance — ranks further down the list.

The ultra wealthy aren't conservative investors. With 62% of their investable assets allocated to equities, they are clearly looking for growth. However, just like your typical mutual fund investor, they've ploughed most of their money into the Canadian stock market. Domestic stocks comprise nearly two-thirds of their equity holdings while foreign stocks are only one-third.

In fact, around the world, the ultra wealthy prefer to invest in their own countries. The Americans invest 75% of their equities domestically while the Brits are a little more international with a 50% allocation. Even the Japanese prefer their local market – 64% invest domestically despite the appalling losses over the past two decades.

Behavioural finance experts call this propensity to invest in domestic stocks over foreign stocks "home bias." Since modern financial theory and historic results clearly demonstrate that international diversification improves long-term, risk-adjusted returns, "home bias" is just one of the many ways investors' cognitive biases detract from long-term performance.

Proportionately, Canada's ultra wealthy have less of their assets tied up in their homes and much more in businesses than the typical Canadian. Outside of having a few more zeros on their account statements, their investable asset mix is quite similar. Also, the ultra wealthy struggle with the same investment biases as all Canadians — having money doesn't change the fallibility of human nature.

-Michael Nairne, CFP, RFP, CFA, is the president of Tacita Capital Inc., a private family office and investment counselling firm in Toronto.