Responsible investing called lucrative and safe

MERRICK

By PETER MERRICK

Over the last decade I have worked with hundreds of corporations, non-government organizations, families and individuals to help them to invest their money so they can create a better future.

I have learned through experience that in reality, money is something we have chosen to trade our life energy for.

In the last 50 years, money has dematerialized from paper into electrical pulses of 0s and 1s, with trillions of dollars swirling around the world every minute.

The truth is, when we invest our money, we are really casting a vote on the type of future we want to create. When North Americans poured billions into Asian markets in the early 1990's, world attention focused on the potential of the Asian tiger.

In the late 1990s tech was the focus. Perhaps the reasons for the collapse of both those investing fads was that they were based on greed and fear, not long-term sustainable financial planning.

We are living through an exciting, challenging and most critical time in human history. Never before has so much been possible, and never before has so much been at stake. Around us are environmental, social and economic crises, along with extreme geopolitical tensions. It is evident that the roots of these crises lie with us—our materialism, our yearning for power, our love of money—and our fear of each other.

I am an optimist—if I weren't, my wife and I would not have brought four wonderful children into this world. I believe we can do good for society with our investments and do well financially at the same time. Most of us would prefer to invest in companies that share the same values we do, if only we could outpace the S&P 500 or TSX at the same time. Now that goal has become more than an ephemeral New Year's resolution.

Yet the fact is, investing that reflects investors' values is both possible and profitable. Socially responsible investing, once largely dismissed as a novelty for the politically correct, is now considered a smart and lucrative way to make money in the long run.

If you feel this way, you are not alone. Toronto-born Paul Ray, a sociologist, and his wife Sherry Anderson, a psychologist, now living in California, drew upon 13 years of survey research studies on 100,000 adults to find that as at the year 2000, there were 50 million people in the United States and 90 million in the European Union who would identify themselves as culturally creative. According to Ray and Anderson, what makes someone so is being an "individual who cares deeply about ecology and saving the planet, about relationships, peace, social justice, and self-actualization, spirituality and self-expression."

'Hunter's life showed us that each of us can make a difference.'

Such individuals have a burning desire to have their values reflected in their careers, investments and community.

The ranks of cultural creatives have been growing by leaps and bounds over the last 50 years. They want their money managers and financial advisors investment processes to be by any standards rigorous and demanding. But they want one more element put into the mix. They want to invest in responsible companies.

Socially responsible investing is about striking an appropriate balance: finding that golden meaning between a life that neither bows down to money nor neglects financial responsibilities; getting a good return for yourself without forgetting about others.

On May 2, 2005, my good friend and mentor Bob Hunter, one of the founders of Greenpeace died of cancer at the age of 63. You might remember Bob as the quirky guy who used to read the newspaper in his bathrobe on Toronto's City TV Breakfast Television.

Bob's indomitable spirit fired the direct action mode of the environment protection movement and created Greenpeace. In March of 1976, Bob and Paul Watson, co-founder of Greenpeace, stood on an ice floe off the coast of Labrador as a large sealing ship approached them. The ice cracked and split beneath their feet as Watson said to Bob, "when it splits, I'll jump to the left and you to the right."

Bob looked straight ahead and calmly said, "I'm not going anywhere."

Because he stayed, Watson stayed and the two of them brought that seal killing ship to a dead stop.

Bob Hunter's life showed that each of us can make a difference. One way we can do this is by acting on the belief that there is absolutely no conflict between doing what is right by investing in companies that respect the environment, treat their employees well, and conduct their business ethically while earning a good solid return. Plus, this type of investing just feels better.

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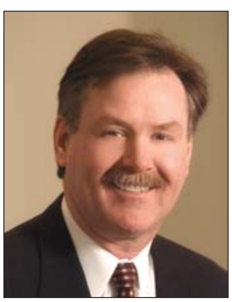
Bonus-down techniques are often ignored



TYRES

By PAUL TYERS

If your practice serves successful, entrepreneurial clients you know that two of their most vital goals are minimizing income tax and planning for their retirements.

Working with a financial advisor, you can offer your clients what they need and want? proactive, customized financial advice that will help them build, manage and preserve their wealth—whether it is personally or corporately owned.

Here's a short case study, based on a real-life situation that demonstrates the value of integrated planning and the cost of delayed advice.

Your client John, aged 60 and married, owns a successful business. After 20 years of building and fine-tuning, it is generating steadily increasing and predictable profits. In the last five years, little of the net cash flow was needed for working capital or for capital improvements. The net result is that the company has been sitting on $3 million in cash for most of the past year with no bank debt, though shareholder loans totalling $300,000 remain.

For the past five years you have been recommending that he bonus down to the small business tax rate. John has followed your advice, as he usually does when you recommend a plan of action, particularly when it involves taxation matters.

Last December John called and said that 2004 looked like another banner year for the company. He also mentioned that he had been talking to one of his friends who told him that he had been using an individual pension plan and retirement compensation arrangement over the past few years to lower his overall tax bill and plan for his retirement and the future sale of his business.

"Do you know anything about these things and whether or not I should be doing the same thing?" asked John.

You tell John that you were often cautious about new concepts like this, but would look into it for him when you had some free time.

By the time you complete the company's financial statements and tax returns in May in time for the necessary tax filings, you see that John's company has indeed had an excellent year with record profits (before his bonus) of $1,200,000, which was reduced by the now normal bonus accrual. Needless to say, John was elated about the record profits, but alarmed to see that he would owe about $400,000 in additional personal income taxes.

Once again, he brought up the idea that his buddy had found a way to shelter a fair bit of his income using an IPP and RCA he set up a few years ago and asked how he could use this to his advantage to lower the $400,000 due? A little sheepishly you mention that you had been very busy and simply not had time to delve into this matter, but would do so for certain this year.

The situation I note above is not uncommon. The client is missing a significant opportunity to save taxes and save for retirement at the same time.

John would be an excellent candidate for an RCA. An RCA is a funded, non-registered pension vehicle. It is subject to a 50 per cent refundable tax payable when funds are contributed. When funds are distributed from the RCA, the tax is refunded. Using the assets of the RCA and the refundable tax as collateral, the company may significantly increase the capital available to the company. In addition, the shareholders can have a well-funded retirement plan. An RCA is suitable for:

- Senior executives earning more than $150,000 per year and seeking a means of supplementing their pension.
- Business owners with income over the applicable small business tax rate
- People in both of the former categories who are considering retirement outside of Canada
- Business owners looking to shelter the proceeds of an asset sale before retiring.

The cost of delayed advice

To illustrate the point, John is eligible to put up to $3.7 million into a RCA. If this vehicle had been investigated before year end in 2004, he could have fully offset the personal taxes due for 2004 and in fact these strategies could have been applied for the past five years, but not retroactively.

There are other considerations, such as the cost of set up, accessibility of the refundable taxes due in the RCA. However, by automatically using the method of bonusing down, a significant opportunity to save taxes and fund a retirement plan may have been overlooked.

Clients have a right to expect proactive, integrated financial advice. Whether it is a business client who you have worked with for many years or a personal tax client for whom you have simply prepared and filed their tax returns, the value of your advice is often proven to a client based on tangible results you achieve on their behalf.

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