

Blazing Saddles

Edmond G. Eberts

Chairman

RAPPORT Capital Formation Strategists Inc.



JULY 2007

RAPPORT CAPITAL FORMATION STRATEGISTS INC.

703, 141 Adelaide Street West
Toronto, Ontario M5H 3L5

Telephone: 416-366-9264

Toll free: 800-363-8134

Fax: 416-366-1855

rapporrt@rapporrt.ca

www.rapporrt.ca

Blazing Saddles

Having written about the homeless, those on welfare, and minimum-wage earners, I thought it appropriate to comment – somewhat tongue-in-cheek – about the plight of the filthy rich and famous, who have even farther to fall should they lose their balance. As those familiar with the annual *Forbes* magazine listing of the world's wealthiest individuals will appreciate, fame can be fleeting, infamy a curse lasting beyond one's dying day. A case in point has to do with the senior executives of Enron Corporation, once rich and celebrated and now in jail. Or even our own Lord Conrad Black, whose days as a free man seem to be numbered, disgraced beyond his regal carriage and considerable intellectual prowess.

WHAT'S SO BAD ABOUT BEING RICH?

For most of history, wealth went with political conquest and the control of land. There had been rich merchants, manufactures and bankers, but businessmen did not begin to come into their own until the industrial revolution of the nineteenth century. Relative freedom and an unfettered market system have never guaranteed affluence, but they have given an extraordinary large number of gifted people a shot at being prosperous. In the process, they have offered a good living to those with lesser abilities or drive, and allowed for elaborate welfare systems.

Though the successful have frequently been the object of larcenous envy, capitalist fortunes are the fruit of exceptional talent, not greed and exploitation, much less great crimes. Furthermore, they would never have become so well-to-do had they not offered value to those with whom they did business. That is their most endearing characteristic, not how many yachts and sports teams they own, or how many times they have been divorced.

The really rich simply cannot spend all their money. However, their great achievement does enable philanthropy. Though such giving may be related to a primal desire for public esteem, such is not always the case. Nor is charity amongst the business elite a novelty. Even so, the greatest boon to mankind lays not in their contributions, but in the products, innovations, investments and jobs they create on the way to building their fortune. The basic flaw with the idea of "giving something back" to society is that it implies something has been taken away in the first place. Such is seldom so!

A case in point is Bill Gates of Microsoft Inc. fame. While the press has tended to focus on the U.S.\$44 billion he has contributed to his foundation, and many a man on the street may claim no one person should be allowed to become so wealthy, let me offer another

point of view. As I see it, it is not a matter of the vast amount of money he made and/or gave away, we should, instead, celebrate the incalculable benefits to mankind that came about thanks to his ingenious mind. Not only are his thousands of employees highly paid, think of the many millions of people about the globe who have profited as a result of the products and services offered by his company. The multiplier effect goes far beyond even his imagination. It has effected every one of us in a positive way. Research In Motion Limited and Google Inc. are other roaring success stories in the making.

THE COMPLACENT GENERATION

Today's legions of under-forty year olds seem to be seized by the culture of entitlement. They have so far made little effort to assume the mantle from their baby-boomer parents, and done practically nothing save being idle or go shopping. In large part the blame rests with their forebearers, who christened the culture of consumption, and they who followed in their footsteps lapped it up. Canada is too easy for these insentient youngers. It is too healthy and wealthy and cushioned. It is typecast for breeding of inertia. Turned off politics by corruption, fully three-quarters choose not to vote. Outrage is in short supply. There are few protest songs these days and journalists are tame and pro-system. If we ever to get back in gear, our society must strive to become the model for a globalized world. If we fail to establish a Canadian advantage, the more industrious countries will eat our lunch. We need to develop a sophisticated yet simple set of strategies, and motivate those who bask in their well-being, or Canada will fall further behind those with plenty of up and go. It is not a pretty picture as it now stands.

INHERITED WEALTH COMES WITH STIGMA ATTACHED

Our late mother, God bless her soul, thought wealthy people had drawers full of money at their disposal. All one ever had to do was take what you might need for the day and somehow that amount would be replenished by the time you required more. She also came to the conclusion that it was easy for her six children to do as they wished because they were all entrepreneurs, in business for themselves. So sure was she of her understanding that she opened not one but two absolutely beautiful stores offering exquisite items to those decorating their homes or offices. She was soon to realize there are few shortcuts to success!

Inherited wealth may also not be all it is cracked up to be. It could be tied up in a trust or a collection of businesses, only the dividends readily available to the heirs to allow them to continue living a life of leisure. The good news is that the principal in many instances is relatively safe and secure, and will be passed on to the members of the next generation providing the investment portfolios and enterprises continue to grow and prosper. However, if they should fail, all bets may be off. Whatever the circumstances, capable people must be retained to manage the wealth in an expeditious manner, and that is no easy task. Unfortunately, there are many cases where such was not so and the whole deck of cards eventually came crashing down, the once well-to-do left with little more than the shirt on their back.

If you are unable to sleep knowing a whacking big inheritance will never be yours, you should realize that they almost always come with a stigma attached. Best friends will have an annoying tendency to point out that the only way you ever got to live in the big corner house was because of a generous parent or grandparent, and not your own success in life.

Jealousy can be an almost impossible curse to contend with, as those who have been so challenged will attest. A less contentious way to deal with one's good fortune would be to carry on as you always have. Stay put, rather than build a monstrous abode. Allow yourself the luxury of a business class ticket when you travel, but do not fly *privé*, unless you must, or can hitch a ride. Not only is it very costly and relatively uncomfortable, you never want to be the envy of your peers. Similarly, if you go on an expensive cruise, do so discreetly. The only obvious upgrading should be to assure your offspring get a top-flight education. After all, it is they who must learn to handle money if you do not waste it all away, and they are fortunate enough to inherit what is left when you are dead and buried. Yes, we are all mortal beings and that final day will eventually come regardless of how many miles you jog, or times you touch your toes. By the way, God never counts the days you spend on a golf course, but, then again, it may be too late for you to take up the game. Nor will the editors of *Forbes* ever give you credit for more than inheritance being the foundation of your wealth if such is truly the case.

SHARE CERTIFICATES TELL A TALE

Though many cautious souls leave their money in savings accounts earning a modest return, the rest of us tend to be more venturesome, seeking to do much better than that in the stock market, be it directly or indirectly through mutual funds. Since launching Rapport Capital Formation Strategists Inc. in late 1974, my quest has been to help CEOs understand why one stock may trade at \$10 and a competitor's at \$20, and how to make up the difference as capital is at least 20 percent of the cost of doing business. It is also important to recognize the difference between those who create the share certificates and the others who inherit them, as getting an enterprise up and running is far and away more difficult than carrying on a well-established tradition of success. The one exception occurs when a CEO and partners acquire control of a derelict company, like Al Markin and Murray Edwards did of Canadian National Resources Limited, and turn it into a star performer. Yes, the price of crude oil rose from U.S.\$10 in 2001 to U.S.\$67 today, but that would have made little difference had CNQ management not been as competent as they have proven to be in growing production volumes so dramatically in the interim. Now the outfit is set to make a major statement in the tarsands. There is no telling how much more it will earn in the future!

The lesson to be learned is that inheritors should never try to delude themselves or the public-at-large into thinking nothing ever occurs without their hands-on approval. These sort of mistakes can only lead to trouble for the current and succeeding generations. If there are offspring who demonstrate an ability and interest in getting involved, may I offer that they be encouraged to first prove their mettle by getting a good education, and gain experience by working for another company before ever joining the family business. Also remember that the more outside contacts one develops, the better for everyone, be they a CEO, a manager, an employee or a shareholder. Self-centered spoiled brats will never get the job done right!

The success of both private and public companies is ultimately dependent on the capability of those who man the rudder. In many instances, the ones who inherit their ownership position would be best advised to stay clear and let the seasoned professionals captain the ship. It is also wise to make sure the board of directors is never stacked with friends, or top-heavy with controlling family members. Competent outsiders with a variety

of expertise is always a smarter choice. Should there be an array of families in the ownership group, it may be necessary to establish a forum in which to discuss and settle differences of opinion before they boil over and become a concern to, and the bane of, the corporate or trust management.

ACCOLADES COME IN BUNCHES

Those who hang out their own shingle have a dream, an intuition. They inevitably discover it is a whole lot more work than they otherwise would have had to contend with. As the enterprise grows and begins to prosper, additional capital may be required. Once private sources have been tapped a time or two, going public is likely the next step, hoping to list the shares on the TSX Venture Exchange. Moving to the TSE is often done in conjunction with the raising of still more equity, at which point a few research analysts may take the bait and recommend the stock as a buy. Assuming investor interest expands, margins improve, and the price increases to the point where management options can be exercised at a substantial profit, the hired-hand executives will also be in a position to move into a more comfortable house, join a prestigious golf club, and send their children to private schools.

In time, if all goes according to Hoyle, they, the company and its principal shareholders may attract glowing press coverage, even come to be recognized by *Forbes*. At which point an honorary doctorate degree or two may be in the offing for the founder, even the Order of Canada. Once donations to one's alma mater or another university exceed the many millions of dollars mark, it is quite possible that a campus building will be named in their honour, why even a faculty if they are particularly generous. The very same applies to museums, hospitals, and opera halls. Through it all they must remain true to the business that ultimately put them on the map. For if they fail to do so and earnings suffer, so will their hard-earned reputation and pocketbook.

If you are the heir to a sizable fortune and choose to remain anonymous in your giving, an honorary degree is still possible, as is the Order of Canada. The reason why universities prefer to recognize the major donors in a public way is to encourage other well-heeled souls to follow your fine example. Yes, it is a game of sorts. The stakes are high and every dean plays for keeps striving to improve their faculty's ability to provide a top-tier education to every student who signs on in the hope of graduating cum laude, and getting a well-paying job when they do. Whatever, the fact that donations of securities are now exempt of the capital gains tax is likely to result in many more large endowments. If you do the arithmetic properly, it is possible to wiggle your way out of paying the tax on the sale of the balance of your holding. Your accountants can show you how such can be done.

Though there are many ways to recognize those who are successful in business and generous when it comes to philanthropy, discretion will always be the better part of valour. No matter what, you never want to be known as being nouveau riche, nothing more than a flash in the pan!

NANNIES AND NUTCASES

Children brought up never asked to do chores, or required to earn their pocket money, are out of touch with reality. As are those whose university tuition is provided for, rather than having to take on a summer job and repay student loans upon graduation. Nor is it surprising they have the annoying habit of raising their voice or stamping their feet when seeking attention. It is but a reflection of what their caretakers and parents did when at

their wits end.

Whereas those who have earned their keep and are justifiably proud of their achievement tend to be relatively quiet and self-assured, those born with a silver spoon in their mouth and given everything they could possibly ask for, often have a nasty habit of trying to dominate a conversation. They speak disparagingly about those who refuse to agree with their point of view and, rather than figure out a way to be complimentary, are prone to talk down to subordinates. They also have an annoying habit of trying to boss people about. The wealthier they are the more belligerent they can be.

Then there is a case of a man of considerable means who decides to divorce the mother of his children and goes racing through town in an expensive sports car looking to snare a trophy wife half his age. Once trapped, they move into a beautiful house in a trendy neighbourhood and go about setting the world on fire. Soon enough a second family is on the way. His liberty is vastly reduced, to the point where he would not dare be caught stepping out of line for fear of the embarrassment of being dumped, and having to share the remainder of his fortune if she-who-must-be-obeyed ever decided to pack up and leave with the kids. This is one of the reasons why they tend to hire nannies and also spend a whole lot more time attending to the day-to-day needs of the new set of children than they ever felt to be necessary with the first crop. You have got to wonder why otherwise successful men could turn out to be such nutcases. The very same applies to women who have been successful in their own right, heiresses and wealthy divorcees who go trolling for a boy toy only to discover that a much younger man will never ever be their match in a social or intellectual sense. People love to talk and gossip, and most stares and finger pointing will be in disbelief, seldom a sign of approval.

The discarded spouses are often a winning card in another mate's hand, as those who have been trumped are usually perfectly capable of standing up for themselves. They are prepared to pay their own way, the offspring provided for or up and out of the house, the delight of each other's grandchildren to be added to the mix in due time. All of which seems to make a whole lot more sense than those who allowed their hormones to rule the day. Maybe one would be better off not being filthy rich and famous, and risk being tossed from a blazing saddle!