

Stop Living a Life of Lies

Edmond G. Eberts

Chairman

RAPPORT Capital Formation Strategists Inc.



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

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Ladies and gentlemen, mesdames, mesdemoiselles, messieurs – thank you for inviting me to address the Ontario FEIsters. I look forward to crunching a few of your numbers before I am through for the day.

This opportunity reminds me of another I was once told about. It had to do with an infamous mayor of Montreal named Camillien Houde who, in 1939, when the King and Queen of England's paid a visit to his city, was reported to have said in part, and I quote: "Your Majesty, I t'ank you from the bottom of my heart, and my wife t'anks you from her bottom too!" Needless to suggest, he knew exactly what he was saying and the citizens of that great city knew precisely what he meant. I only hope you will feel the same way about me once I have said my piece!

AS I READ THE TAROT CARDS

As difficult as it may seem to believe, all too many Canadians are living a life of lies. Be they involved in sports, politics or business, very few seem willing to fess up, come clean and tell the truth, the whole truth and nothing but. They much prefer to hide their heads, rather than stand tall. As a result, there are few great leaders amongst us these days. Nor is it surprising that our performance as a people and as a nation is now but average at best.

Fortunately, it need not be so if only we would commit to doing what should and must be done to rectify the situation. Let me explain how we can turn over a new maple leaf, to the benefit of all Canadians.

THE GAME OF HOCKEY HAS LOST ITS WAY

All of us have known from a very early age that hockey is our national game. With the benefit of artificial ice, it is now played year round. Those of you who took the time to read the rash of editorials in *The Globe and Mail* this past spring will know of what I am about to say, though the emphasis may be somewhat different.

Canada's game was once the world's fastest and most exciting. Unfortunately, the NHL has allowed the worst elements to smother the best. It is now in desperate need of repair. It has reached the tipping point, from speedy offensive rushes to plodding defensive systems, from great skill to brute force. The impact is felt all the way down to the very junior ranks in Canada, and elsewhere.

Coincidentally, the NHL no longer has a raft of super stars. Nor is any single team able to put its stamp on the league. While hockey has gone global, a pall of uniformity has settled over the game. To my way of thinking, the league executives and its players' union have demonstrated a total lack of *savoir faire*.

To be true to hockey's traditions is to permit change and innovation, within a framework that allows for aggression, as well as speed and ingenuity. Rather than continue to permit the game to be ruled by the thugs, the truly skilled players must be encouraged to once again strut their stuff, as they did during the recent World Cup games. Fighting, vicious stick work and blind-side cross-checking must be abolished, backed up by heavier penalties, longer suspensions and bigger fines. It is the only way for the NHL to ever regain its lost season ticket holders and rekindle its television audience. In order to make ticket prices more competitive, player salaries must be restrained. If it takes a protracted strike to do so, so be it.

Whatever, the owners need to have a better handle on costs. The fans want to watch a more exciting game. Many NHL teams will not survive for much longer if these sort of changes are not instituted in short order. It is time that everyone involved stopped living a life of lies!

MOST POLITICIANS ARE NOT WORTH ELECTING

I would never dare to suggest that only the crooks amongst us ever run for elective office. That would be somewhat of an overstatement, as many start off as well-intentioned candidates. However, once in office, there is hardly a sitting member of the House of Commons, a provincial legislator or a city councillor who does not soon try to put their hand in the public till, hoping to get away with a cache of money to spend on some trumped up programme, striving to secure their position amongst the riding faithful. How else can one explain why so much of the taxpayers' money is wasted on so many worthless causes!

Although political scandals may make front page news from time to time, few really amount to much more than a hill of beans in the context of the total spending budget. Then again the word budget is a misnomer. After all, in most instances, it is nothing much more than a starting point for a growing sum of money to be squandered in support of a whole host of ill-conceived and petty election promises.

The really scary part is that very few politicians truly have or even aspire to gain a realistic understanding of the bigger picture. Their sense of vision is unclear and short-sighted at best. Rather than sit back and collect their thoughts on how to make Canada, their province or city a better place, they go pussyfooting about hoping to be appointed to yet another waste-of-time-and-effort committee or commission, aspiring to someday become a front bencher as a thank you for having adhered closely to the party line. Very few really give a damn about you and me, or the exorbitant tax rates we must pay in Canada.

All too often the next federal, provincial or civic party leader is but the best of a basket of bad apples. Very few are clean cut, up to the task or in any way inspirational, the very kind of people needed to spearhead what really must be done. The current crop is no exception. Rather, they seem to be content to just carry on living a life of lies!

CEOs HAVE A LOT TO LEARN

Whether or not one is a founder, inherits the mantle, earns the right, or is hired to be the CEO, no one moves into the corner office with the full set of skills required to do an outstanding job. Most have a lot to learn and all need to retain competent outside advisors.

That is why many a CEO has recently been called on the carpet to atone for having come up short on a wide variety of measures. Though those who made honest mistakes may in time be forgiven, it will be many years, if ever, before the more deceitful offenders are let off the hook. It will also be a long time before the securities commissions and stock exchanges, the investment bankers and research analysts, the mutual, pension and insurance fund managers, the auditing and legal firms, are ever again held in high regard, having failed to live up to their responsibilities, and investor expectations. Unfortunately, many of these poor souls are still carrying on as though nothing untoward had ever happened. They are unrepentant, despite the carnage they have caused investors. It should come as no surprise that corporate executives and their cosy coterie of directors are being raked over the coals as never before. The Conrad Black *et al* story is proof of what I speak.

I do not believe the solution to be more rules and regulations. What is needed instead is swift and severe punishment for those who cross the line. It would also help if CEOs tried to put themselves in an investor's shoes before making major decisions. If the outcome is not in the best interests of the all owners of the business, in terms of having a positive impact on real earnings and cash flow, as well as the dividend policy and security prices longer term, management should not proceed.

Time must also be spent to make certain that the research analysts, the financial press and the investors, large and small, fully understand the rationale for, and the benefits of, any new investment, acquisition or disposition decision. If the CEO is successful in this regard, he or she will be well on their way to the promised land. Those who fail to do so should be sent packing.

Although it may take another five to ten years to wring all the excesses, the questionable and fraudulent practices of the past bull market out of the system, for their very own good, CEOs must stop living a life of lies!

A CASE IN POINT

When I left McGill University in 1959 to join Union Carbide Canada Limited as a technical sales representative, an outfit by the name of Northern Electric Company Limited was the biggest buyer of Canadian-made polyethylene resins, used for coating electrical and telephone cables. Specifications were particular and delivery schedules tight. If your products did not live up to expectations they were returned for a full refund. When Bell Canada eventually saw fit to take its largest subsidiary public, it was a number of years before it became a darling on Bay and Wall Streets as Nortel Networks Corp. Now both companies are up to their asses in alligators!

Over time, Nortel's board of directors, the outside auditors and legal advisors, the all-mighty investment bankers, and the plethora of high-powered research analysts living off the avails of the shareholders, all morphed into little more than a bunch of giddy cheerleaders, driving the stock's price to an all-time record of \$124.50 per share by early

2000. Four and a half years later it is trading furiously at about \$4.25 per share. Not wishing to be left in Nasdaq's high-flying wake, the Toronto Stock Exchange allowed Nortel to come to represent fully 35 percent of its benchmark TSX Composite Index, despite the fact that anyone of a right mind would know never to hold more than a 5 percent weighting in any one of the nearly 300 stocks.

As a consequence, it is little wonder many of the culprits are going to court, seeking to gain immunity from a blizzard of lawsuits that are being filed in the hope of recovering the vast sums of money investors have lost in the stock market. Furthermore, there remains the question of what may happen to Nortel longer term, which has yet to properly account for its coming and goings in 2001 through 2003, and year to date in 2004! Meanwhile, one of its past CEOs continues to reside in the Canadian Business Hall of Fame, sleeping soundly on a bed of more than \$100 million gained through exercising a rack of stock options, at the expense of unsuspecting Nortel shareholders.

Similarly, very few of the incompetent research analysts, the ever-greedy underwriters, the see-no-evil auditors and loopholing lawyers appear to feel any remorse for their many and varied misdeeds. Very few have had to move to a smaller house in a less trendy district, or give up their lakeside cottage or prestigious golf club membership to make ends meet. At least, not so far. Fortunately the number of lawsuits is mounting and will continue to do so for some time to come. I have no doubt the parade of disgraced executives and outside advisors will be long, the legal process slow and tedious. However, I am confident that the judges will eventually get many of the culprits behind bars. In so doing, they will scare the hell out of a lot of others who may possibly be thinking about screwing investors in the foreseeable future.

While it is highly unlikely that the long-suffering Nortel investors will live long enough to regain their lost fortunes, they too have learned a very valuable lesson. One would hope that they will do a great deal more homework before plunging back into the stock market, as there is little reason to believe that the powers that be at the TSX and its member firms will ever really side with investors, be they large or small. It is, simply put, not their game. It never has been and never will be!

If anyone needs more convincing, they should try to get a handle on the goo surrounding Google Inc.'s very recent IPO. Choosing a rather unique Dutch-auction-style process, a number of Wall Street's mightiest firms decided to give the underwriting opportunity a pass, given as they could not control the pricing, nor allocate large blocks of stock to their favourite institutional investors, and friends. Many even went so far as to bad mouth the issuer's intent to treat all investors as equals. The founders' infamous interview with *Playboy* magazine fueled their fire! My only concern had to do with the pricing of the issue. I think they would have been better advised to come public at US\$25 to \$30 per share, in keeping with Microsoft's current trading range, which is already a well-accepted benchmark for investors in these sort of enterprises.

In any event, rather than raising a rumoured US\$3.3 to \$3.6 billion at US\$108 to \$135 per share, the scaled back offering amounted to US\$1.86 billion at US\$85 per share. Still the largest IPO ever for a technology company. Judging by the ticket size of the aftermarket transactions on Nasdaq, it was retail investors rather than the coddled institutional types who drove the share price up a further 27 percent, to close out the first week of trading at US\$108.31, dead on the lower end of the original IPO target price range. Within six weeks it was changing hands at better than the most optimistic IPO price, though very few of the

big boys have yet to buy the stock. All of which leads me to reiterate a gut feeling of mine, to the effect that it will be longer-term investors like you and me who will be the more influential shareholders in the years to come, not the short-fused institutional portfolio managers whose days seem to be numbered for failing to keep in stride with the performance of the TSX Composite – or on any other measure, for that matter!

The very first step in this process will be a dramatic consolidation of the number of mutual funds offered for sale to the public. As it now stands, nobody can make head nor tail of the page upon page of quotations in daily newspapers. It is time the managers stopped living a life of lies in suggesting they can and do. They can't, and don't!

IN CLOSING

With that said, I thank you for allowing me to vent a few of my heartfelt thoughts about sports figures, politicians, CEOs and assorted members of the investment community, many of whom have disappointed us by living a life of lies. May I also leave you these other inimitable words, attributed to the aforementioned mayor of Montreal who, when invited to participate in the ceremonial kickoff preceding the first game of the post World War II Alouette football team's CFL season is alleged to have said, and I quote: "It gives me great pleasure to 'ave the hoppers to kick off the first ball. I 'ope I get the hoppers to come back and kick off more of your balls!"

Thank you and good afternoon.