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PERSPECTIVES ON BUSINESS & WEALTH MANAGEMENT

the Capital Partner

Protecting Capital, Preserving Dreams, Creating Legacies

Canada Boasts Lowest Tax Rate in G7 on New Business Investment in 2010

ON JANUARY 2, 2010, Minister of Finance**, Jim Flaherty**, was focused on Canada's tax rates and how they compared with rates on new business investment in the G7 industrialized countries.

"Canada has created an internationally competitive tax climate for new business investment," said Minister Flaherty."

"Early actions taken by our government, as well as the measures included in Canada's Economic Action Plan, are positioning Canadian businesses to emerge stronger and better equipped to compete globally as the economy recovers."

In addition to the lowest overall tax rate on new business investment in the G7, Canada is on track to having the lowest statutory corporate income tax rate in the G7 by 2012.

By 2012, Canada will also have an overall tax rate on new business investment that is lower than the average of the Organization for Economic Co-operation and Development.

Key tax measures to support competitiveness include:

- Substantial, broad-based tax reductions that are lowering the federal general corporate income tax rate from 22.12 % (including the corporate surtax) in 2007 to 15% in 2012. These tax reductions include the elimination of the corporate surtax in 2008 for all corporations and a reduction in the federal general corporate income tax rate to 18% as of Jan. 1, 2010.
- A reduction of the federal income tax rate applying to qualifying small business income to 11% in 2008, and an increase in the amount of income eligible for this rate to $500,000 in 2009.
- Alignment of capital cost allowance rates for a number of assets to better reflect their useful life—this both reduces the tax burden on investment and ensures neutral tax treatment of different capital assets, encouraging investment to flow to its most productive uses.

Elimination in 2006 of the federal capital tax, and the introduction in 2007 of a temporary financial incentive to encourage provinces to eliminate their general capital taxes and to eliminate or replace their capital taxes on financial institutions with a minimum tax. All provincial general capital taxes will be eliminated by 2012.

"The competitiveness of our business tax system encourages new investment in Canada, including direct investment from abroad," said Minister Flaherty. "A competitive business tax system is essential for encouraging investment, growth and job creation."

Since 2006, the Government of Canada has introduced significant tax relief for Canadian businesses, including measures in Canada's Economic Action Plan, that total more than $60 billion over 2008–09 and the following five fiscal years. ❍

GORDO'S CAPITAL COMMENT

The Perils of Cheap Money

FOR DECADES, central banks have been fighting economic downturns by lowering interest rates.

This, the theory suggests, stimulates economic activity and returns the economy to more balanced growth. When rates are lowered, borrowers from all stripes - governments, corporations, consumers, home owners, are encouraged to build, buy or binge. Currency is circulated. Greater activity is generated and the economy grows.

Be careful what you wish for.

Ten years ago, after 9/11 and the dot.com bubble (remember investors doling out money for internet companies with no plants, no earnings, no revenues, etc.?), the Federal Reserve, the Bank of Canada and other central banks attempted to spur the economy by lowering rates.

Rates stayed relatively low and the availability of cheap money became the impetus for sub-prime mortgages, the greatest housing boom in North America as well as the proliferation of hedge funds whose managers were able to borrow and leverage unit holders money.

It was a heck of a party and as most people know, the severity of the hangover is often proportionate to the binge. Our economy may require more sleep and a few more aspirins.

Bank of Canada Governor, **Mark Carney** has been vowing to raise interest rates in mid 2010 and there's little reason to believe he won't. This is will be painful and it's not certain how much room he'll have to maneuver. The economy is still fragile and raising rates quickly could grind the economy to a halt.

Consider this. Floating rate mortgages are being charged 3.5% on outstanding balances. Five year fixed rate mortgages are available for 4%.

According to StatsCan, the median income for Canadian families (2 income) is approx. $70,400. That income should service a (maximum) mortgage payment of $1,410 per month. At current rates, it can service roughly $270,000 of debt.

Increase the lending rate by 100 bps (i.e. 1%) and the maximum amount available for mortgage is $242,500.

Increase the rates by 200 bps (i.e. 2%) to 6% and the $1,410 per month can only service a maximum mortgage of $220,000.

In other words, the average Canadian family won't be able to afford as much house. We'll need to build cheaper homes or watch home values decline.

Further, as rates rise, governments holding debt will spend a greater portion of their budgets on interest costs and less on services. Tax increases anyone?

So, the days of cheap money may be at an end. Pity the central bankers who have to figure a way to paint the economy out of this corner. ❍

***the* Capital Partner**

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This publication includes ideas, perspectives & presentations by accounting professionals, lawyers, portfolio managers & business owners & executives.

The Capital Partner promotes the values, & principles practiced by:

Warren Buffett & Charles Munger
of Berkshire Hathaway Inc.

These principles suggest partners:

- consider taxes & fees when investing
- avoid speculation or market timing
- focus on sustainable growth
- seek competitive advantages
- hire managers who are honest, capable & think like business owners
- consider long term strategies and succession plans

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Cheques, questions, comments, criticisms & submissions are encouraged.

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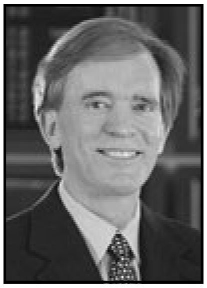


Anything But .01% by Bill Gross

Bill Gross manages one of the world's largest bond funds at Pacific Investment Management (PIMCO) - a firm managing nearly a trillion dollars of assets. Gross has been called, "the nation's most prominent bond investor," by the New York Times and he's authored two popular books, *Bill Gross on Investing* & *Everything You've Heard About Investing Is Wrong.*

His article is presented here because he offers some advice on keeping investments parked in cash and why investors should moderate expectations in the "new normal." Re-printed with permission.

"I'm not so concerned about the return on my money as the return of my money."

Will Rogers, 1933

TOOTHPICKED, straw-hatted **Will Rogers** was a journalists' dream, combining common sense with a sense of humor that could trump any newsman of his day, an era that was characterized more by its hopeless and helpless ennui, than its promise for a better tomorrow.

During the Great Depression, just breaking even by stuffing your money in a mattress was considered to be a triumph of conservative investment.

Likewise, during the past 18 months there have been similar "Will Rogers" moments. Perhaps remarkably, during the week surrounding the Lehman crisis in September of 2008, yours truly frantically called my wife Sue to empty our two local bank accounts into apparently safer Treasury bills. I was not the only PIMCO professional to do so. Preserving principal as opposed to making it grow was the priority of the day – digging a foxhole instead of charging enemy lines seemed paramount.

My how things have changed! With the global financial system apparently stabilized, returns "on" your money are back in vogue, and conservative investors who perhaps appropriately donned a Will Rogers mask nary a fortmonth ago are suddenly waking up to the opportunity cost of 0% cash versus appreciated assets at renewed double-digit annual rates. That 0% yield is not a joke. Almost all money market accounts – totaling over $4 trillion dollars, shown in Chart 1 *(next page)* – yield close to nothing, so close to nothing that I mistakenly did a double take when reviewing my monthly portfolio statement. "Yield on cash," read the buried line on page 15 of the report, ".01%."

Well now, I say to myself, this is very interesting from a number of different angles. If I was hoping to double my money, it would take approximately 6,932 years to get there at that rate! Somehow, that wouldn't satisfy even Will Rogers, who might be choking on his toothpick or at least eating his straw hat in amazement. Secondly, being a savvy professional investor and all, I knew that money market funds actually earned 20 basis points or so on my money, but in this case were allocating a paltry one basis point to me. The words of the Beatles' "Taxman" immediately popped into mind: "That's one for you, nineteen for me – TAXMAN!" Ah yes, but in this case it was the Fed and Wall Street that were passing the collection plate. Whether it was really "God's work," as Goldman's **Lloyd Blankfein** asserted, I wasn't quite sure. If there was a "temple" in the vicinity I was thinking that God should be driv-

(Continued on page 4)

(Continued from page 3)

ing the moneychangers out as opposed to inviting them in for a pep talk.

Ah, but this is not a vindictive diatribe, although to me, money changers resemble Mammon more than archangels, and they all make too much money, including PIMCO. My point is to recognize, and to hope that you recognize, that an effective zero percent interest rate, as a price for hiding in a foxhole, is prohibitive. Like the American doughboys near France's future Maginot line in WWI – slumping day after day in a muddy, rat-infested pit – when the battalion commander finally blew his whistle to charge the enemy lines, it probably was accompanied by some sense of relief; anything, anything but this! Anything but .01%!

> ***"...an effective zero percent interest rate, as a price for hiding in a foxhole, is prohibitive.***

Recently, approximately $20 billion a week has been exiting those payless, seemingly godless funds in search of a higher-yielding Nirvana. Yet, as Will Rogers knew, and Lehman Brothers demonstrated to another generation, the pain of the foxhole can immediately transition to the dodging of real bullets on the investment battlefield. Moving out on the risk asset spectrum has worked wonders since March of this year, but it comes with the risk of principal loss – failing to receive the return of your money. When viewed from 30,000 feet, there is even a systemic risk that new asset bubbles are in the formative stages – perhaps because of the .01%. Gold at $1,130 an ounce, global equity markets up 60-70% from their 2009 lows, a cascading dollar now 15% lower against a basket of global currencies just 12 months ago, oil at 80 bucks, mortgage rates at 4% thanks to a $1 trillion dollar credit card from the Fed; the list goes on. The legitimate question of the day is, "Is a 0% funds rate creating the next financial bubble, and if so, will the Fed and other central banks raise rates proactively – even in the face of double-digit unemployment?" As Chicago Fed President **Charles Evans** said in a recent speech, "This notion is often described as an imperative to 'lean against a bubble,' meaning that a central bank should act to lower asset prices that by historical standards seem unusually high."

No Pain/No Gain

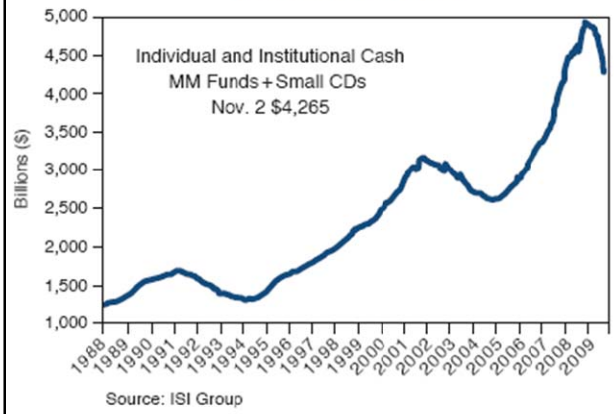


Chart 1

Yet even if the Fed and others are becoming sensitized to the dangers of up as opposed to exclusively down asset prices, it would seem that now is not the time to be affirming their bipolarity. Asset price rebounds (aside from the historic highs in gold) have followed even more dramatic slumps. A 60% rise in the stock market does not compensate for a 60% decline. Strangely enough, investors are still out 36% of their money once this down elevator/up elevator example plays out. And the simple analysis is that the private sector has still not taken the baton from government policymakers: There has been no public/private sector handoff. Bank lending is still contracting in the U.S. and weak in most other G-10 countries. Unemployment is still rising and approaching historic (ex-Depression) cyclical peaks.

Raise interest rates with 15 million jobless and 25 million part-time working Americans? All because gold is above $1,100? You must be joking or smoking – something. We will need another 12 months of 4-5% nominal GDP growth before Bernanke and company dare lift their heads out of the 0% foxhole – mini-bubbles or not. Instead, the heavy lifting or the charging of enemy lines in the case of this metaphor will likely be done by other central banks – already in Australia and Norway.

In addition, and importantly, China may abandon its dollar peg within six months' time and with it, its own easy monetary policy that has fostered more significant mini-bubbles of lending and asset appreciation on the Chinese mainland. With renewed upward appreciation of the yuan may come potentially volatile global asset price reactions to the downside – higher Treasury yields, and lower stock prices – which the Fed must surely be leery of before making any upward move, of its own, and before moving on, let me state the obvious, but often forgotten bold-face fact: The Fed is trying to reflate the U.S. economy. The process of reflation involves lowering short-term rates to such a painful level that investors are forced or enticed to term out their short-term cash into higher-risk bonds or stocks. Once your cash has recapitalized and revitalized corporate America and homeowners, well, then the Fed will start to be concerned about **inflation – not until.** To date that transition is incomplete, mainly because mortgage refinancing and the purchase of new homes is being thwarted by significant changes in down payment requirements. The Treasury as well, has a significant average life extension of its own debt to foist on investors before the Fed can raise short-term Fed Funds.

OK, so where does that leave you, the individual investor, the small saver who is paying the price of the .01%? Damned if you do, damned if you don't. Do you buy the investment grade bond market with its average yield of 3.75% (less than 3% after up-front fees and annual expenses at most run-of-the-mill bond funds)? Do you buy high yield bonds at 8% and assume the risk of default bullets whizzing at you? Or 2% yielding stocks that have already appreciated 65% from the recent bottom, which according to some estimates are now well above their long-term PE average on a cyclically adjusted basis? Two suggestions. First, as emphasized in prior *Investment Outlooks*, the New Normal is likely to be a significantly lower-returning world.

Diminished growth, deleveraging, and increased government involvement will temper profits and their eventual distribution to investors in the form of dividends and interest. As banks, auto companies and other corporate models become more regulated and therefore more like utilities and less like Boardwalk and Park Place, they will return less.

Which brings up the second point. If companies are going to move toward a utility model, why suffer the transformational revaluation risk of equities with such a low 2% dividend return? Granted, **Warren Buffet** went all-in with the Burlington Northern, but in doing so he admitted it was a 100-year bet with a modest potential return.

Still, Warren had to do something with his money; the .01% was eating a hole in his pocket too. Let me tell you what I'm doing. I don't have the long-term investment objectives of Berkshire Hathaway, so I'm sort of closer to an average investor in that regard. If that's the case, I figure, why not just buy utilities if that's what the future American capitalistic model is likely to resemble. Pricewise, they're only half-way between their 2007 peaks and 2008 lows – 25% off the top, 25% from the bottom. Their growth in earnings should mimic the U.S. economy as they always have, and most importantly they yield 5-6% not .01%! In a low growth environment, it seems to me that a company's stock should yield more than its less risky debt, and many utilities provide just that opportunity. Utilities and even quasi-utility telecommunication companies now yield between 5 and 6%, whereas their 10- and 30-year bonds yield less and at a higher tax rate to you the investor.

> ***"If I was hoping to double my money, it would take approximately 6,932 years to get there at that rate!***

So come on you frustrated Will Rogers lookalikes. Join the wimp who pulled his money out of the bank just 14 months ago. Look at your monthly statement, zero in on that .01% yield and say to yourself, "I'm as mad as hell, and I'm just not going to take this anymore!" You can't buy the Burlington Northern – Warren Buffett has scooped that up – and most other choices offer tempting returns, but potential bullets as well. Buy some utilities. It may not be as much fun as running a railroad, but at least you'll know who to call if the lights go out. ❍

THE CAPITAL PARTNER INTERVIEW...

Growth Projections... The John Byland Interview

On February 9, I met with John Byland- Owner & Operator of Bylands Nursery - one of the largest nurseries in Canada. Under his direction, the business has grown into a sophisticated family enterprise that serves retail outlets across Western Canada & parts of the northwest U.S. In this interview, we discussed the challenges facing a family business.

C.P. Some 28 years ago, you were a university student at U.B.C. when circumstances led you to step into the family business.

JB: My dad was the founder of the business and I received a phone call from my mom that he had been diagnosed with cancer and he was going to be in Vancouver for treatment.

Over the next few weeks I made a point of going to see him after classes. It was February and I knew he wasn't going to be in any condition to face the rigors of Spring in the nursery business.

I offered to withdraw from school with the assumption that he would get his health back and I would return to school after that occurred. Unfortunately, my dad never got better, and he passed away 18 months later. At that point, I took the business over.

CP: But, you didn't originally plan to take over the business, is that right?

JB: No, my initial thought was to become a lawyer. I had an opportunity to work in Azusa, California at a large nursery. They had this program for university students and you'd work in propagation, marketing, sales, production in different areas, you'd work the loading dock, making deliveries, you got a full experience during that 10 week period.

At the end of that I decided that's what I wanted to do. It was sort of the tipping point for me.

CP: How does present operation compare? Did you have the wholesaling division then, or was it strictly retail?

JB: My dad started the business in the mid 50's. He started by growing a few plants and then selling them door to door in Kelowna. At that time, there wasn't a bridge.

He purchased our home property in 1958. It was in the middle of nowhere then. Now, it's in the middle of everything.

We started to retail here when the bridge was built and the Kelowna crowd would start to come over more frequently.

We grew plants and most of them were retailed to people at the door. We also grew fruit trees for the local orchard industry which was really the primary business of the day.

In the mid 60's, the Roger's Pass was built so suddenly it was a lot more convenient to ship product to Alberta.

Because of our favourable climate, we could now look at a large relatively untapped market. We started to grow more product for the Alberta market which is where we now do over half of our business. At that point, the wholesale growing operation eclipsed the retail end and became our primary business.

CP: When you took over, you appointed an advisory council. How did you know to do that?

JB: I was quite young and didn't really have a mentor. I wanted experienced people who I could bounce ideas off, that would help with difficult business decisions and that would provide the experience that life teaches you that isn't necessarily available to young people.

We had gone to a convention a few years earlier when my dad was still alive and listened to a presentation from this famous family business advisor named **Leon Danko**. He talked about the importance of having outside advisors or a board of directors for family businesses. So I thought, "that's a great idea for us."

With my dad there, of course, it was less important. But, when we lost him, I really had no mentor. But, even if my dad would have been alive and we had been working together, it still would have been a good idea to have. Obviously, it became more important with his demise.

After dad passed away, I didn't know where to start, so I started with the Federal Business Development Bank. They had advisors who would come out and would have specific skill sets. If you wanted to do expansion to a retail store, they would try to give you a retail expert. If you were in agriculture, they would try and get somebody in agriculture.

In my case, we were very lucky to have two people come out to advise us.

One of them was a local businessman who had successfully operated a chain of auto parts stores named **Allan Mitchell**. The other individual was **Stu McKenzie**. He'd been Plant Manager with ALCAN in Kitimat for many years.

They both brought a lot of discipline to decision making and reporting. They were helpful in providing that structure of support and guidance that I needed.

We still have a board in place and we meet quarterly. There are three outside advisors on that board from slightly different backgrounds.

The selection of a board is very important. It takes a lot of thought and a lot of research to figure out who will work out the best for you.

CP: How do you select board members?

JB: That's a challenge. First you have a pool of people that you know and trust. I was lucky enough to develop a number of such contacts over time.

I would talk to these people and say, "this is what we're planning on doing and we'd like to have a person on this board. Is there anybody you would recommend?"

So, you just start asking questions and doing some fishing. That's really the process that we went through.

Most of them were acquaintances that had a good business background and probably shared the same values. That's important, sometimes people wouldn't necessarily be a good fit for a family business. In our case we were able to get good people.

CP: There's a story about you wanting to buy a new tractor and you had to prove to the board it was needed for the business. Is that true?

JB: Yes, they put discipline on decision making.

CP: Do they still impose discipline? I assume you can buy tractors now without going to the board.

We've evolved obviously and now there is a capital budget which is approved and those things are included in the budget. If there's an issue along the way, I would make that kind of a discretionary decision. We've made the board more strategic.

We also hold weekly managers meetings. All the senior managers get together on a Friday morning and a those types of decisions - like purchases, are made up to a certain limit.

CP: You're in a business where inventory takes time to develop. It's not a factory w/ a quick turn around. If you plant an acorn, it's taking 5 - 10 years before you have an oak tree. How do you go anticipate what the market is going to demand in 5 years?

JB: It's something we spend an a lot of time at.

Part of it is experience. Part of it is getting feedback from customers. Looking at trends. Maybe yards are getting smaller so therefore you should be producing smaller plants. Perhaps there's a trend for people liking certain colours or types of foliage that you try to incorporate into your plans. But, really it's experience.

And, you're right, one of the most difficult things we do is plan our production that far out. Our production planning document takes us two weeks to do and we do this every year. Not only do want to make sure that you're producing the right things, but sometimes you have crop failures and you have holes that need to be filled in.

One of the things our customers have come to rely on us for is a very stable production. They want the complete selection of plants, so if we don't have something we will often have to make alternate plans and try and figure out how to fill that particular hole - which is a real challenge.

We also get information from multiple sources like trade shows, conventions, reading trade journals, feedback from customers, feedback from your sales staff.

At the end of the day, we have to be able to grow these things profitably, too.

Your customers may want something and of course, you either can't grow it because of the climate or you don't have the skill set in place. All these things get thrown into the pot. It gets stirred around and made into a soup of production. It's as much art as it is science.

CP: Sometimes it's just experience?

JB: You'll also know what the market is doing by knowing what others are doing. You try to keep your ear to the ground as to which players are expanding and where.

But, these movements are gradual. We won't suddenly cut products right out. We'll phase it out over time. It's quite unusual for us to chop something overnight.

Sometimes those things hit the market really hot and heavy and then fizzle out quickly. There too, it's a challenge to plan production because knowing when to reign it in is difficult.

CP: Do you farm out to third parties if there's something you don't have in supply?

JB: Yes and no. We don't have the right growing conditions for certain plants, so we have growers that grow those products for us every year - Rock Daphne, for example.

We don't grow our own blueberry plants because again, there are people that specialize in that. When you have a diversified product line like ours, it's very unusual for the nursery to grow absolutely everything themselves. We tend to stick with well established quality growers, even though at times we can get better pricing from other growers We don't go for those "better deals" because we want a good product and stability. We're not always about the lowest price. That's not what we do.

CP: How do you go about branding a plant, a tree or a shrub? How do you get someone to say, "I'm happy to pay a premium for a Byland plant?"

JB: Well, that's a great question and one that we've really struggled with.

The reality is the nursery businesses aren't really big enough and they often don't have the economic clout to put forth a branding program.

We may be a brand here, locally. People may come here and think they get something better than at a Wal-Mart or another supplier. But, for me to tell you that we have the same level of recognition in other markets, I'd have to say no.

We are working with a marketing company. We're trying to evolve a brand, but this takes a long time.

Right now we're doing it through good labeling and through a bit of consumer advertising. We want to develop a great web page where we are identified so if you googled "hardy plants," or "landscape plants," we would come up and people would go to their retail stores and specify our products. We're not there, yet.

Again, we're a very segmented industry. There are a lot of nurseries and there isn't a lot of consolidation.

The largest nursery business might have 1 or 2 per cent of the entire North American market. That's how fragmented the industry is. The largest nursery, the one I worked at, tried branding and they have not been entirely successful.

We heard a statistic about the ***Proven Winners*** products we grow. Proven Winners is probably the most recognizable plant brand in North America. But, they have an unaided recognition factor of less than 2-3 per cent, whereas 95-100 per cent of the people would recognize Coca-Cola or MacDonald's. The biggest brand in North America only has an unaided recognition factor of less than 2-3 per cent. That's how far we have to go.

CP: Your market has been Western Canada. You've got a good foothold there obviously. Have you got plans to expand stateside?

JB: We do ship into the states. It's not a large part of our market right now and with the Canadian dollar being virtually at par it's difficult to penetrate the market on the basis of price. We have an advantage with the hardy plants we grow. They do fairly well in places like Montana, Alaska and the colder plain states. So, that's where we have a bit of a toe hold into the market.

The American market is huge. But, they have suffered over the last couple of years because there was this huge expansion that occurred in the nursery business. I would go to these nurseries, primarily Oregon, and be astounded at the increased production.

Well, they've had a bit of a reality check over the last couple of years. There's been a lot of consolidation and downsizing. Nurseries are going out of business so now it's difficult to find opportunity in the states.

CP: Bylands has great working relationships with Loblaws & Canadian Tire, etc. It's almost like you've got a lock on the big box stores.

JB: It's a very competitive business and you need to be efficient. A lot of people can't look at that business because they don't have the ability to ship the product to market quickly. We've streamlined our shipping process and we can put out a lot of product in a short period of time.

If you want to deal with an organization like Canadian Tire or Loblaws, you have to be able to ship 250 stores in 3 or 4 days. We had a time last year where we shipped 43 trucks to one of those customers in a 3 day period of time. Of course, you have your other business that you have to maintain. There are only a couple of us in Western Canada that can actually sustain that kind of business.

CP: Distribution is key.

JB: With those guys it's absolutely imperative because when they have a flyer that goes out they have to have the product at the stores at that time.

But our shipping infrastructure is what has really separated us from the pack because we can get that type of volume out. We've done some very innovative things so we can crank out a lot of product in a short period of time.

CP: You're family has been deliberate about keeping the family business. How do you keep the next generation interested in succession?

JB: Succession is a journey not a destination. It is never really over and there are many components to it.

You may have family members that are involved in the business and members who are not. How do you balance those interests off and at the same time, look after the interests of your employees and customers, your community?

If you go to these family business conferences all the issues tend to be quite similar. You change the names and that, but you'd be surprised how consistent they are. What we've tried to do is set up governance structures for our family business.

We have a council which every

family member participates where we talk about our relationships with the family business.

We have a board of directors which provides strategic governance, oversight and the accountability that a business requires.

Then of course, you have management group and these are the people actually working in the business on a day to day business making everything happen. All of these groups have their roles and they all work together but, they're also independent of each other.

I happen to be in all three of those circles. Sometimes you have someone who is in one or two of them. Our daughter is doing her Master's degree at University of Toronto and we have roughly three family meetings a year. Obviously, she's not here on a daily basis and doesn't work in the business

> ***"Succession is a journey not a destination. It is never really over and there are many components to it."***

but, she's still family. It's meant to engage her in the process.

All of the meetings are facilitated by professionals. We've been deliberate about this. It maintains the integrity of the organization and it keeps things moving forward.

Sometimes you may introduce an idea at a certain level or even at the family level and it might take a couple of years before it sort of kicks out as a completed resolution or a document that everyone is onside with and understands. There are a whole lot of discussions, soul searching and facilitation that goes on in between. So, that's worked for us. Sometimes people say I'm thinking about retiring next year, so I better get on with this. Man, you should have started five years ago if you had wanted an exit plan.

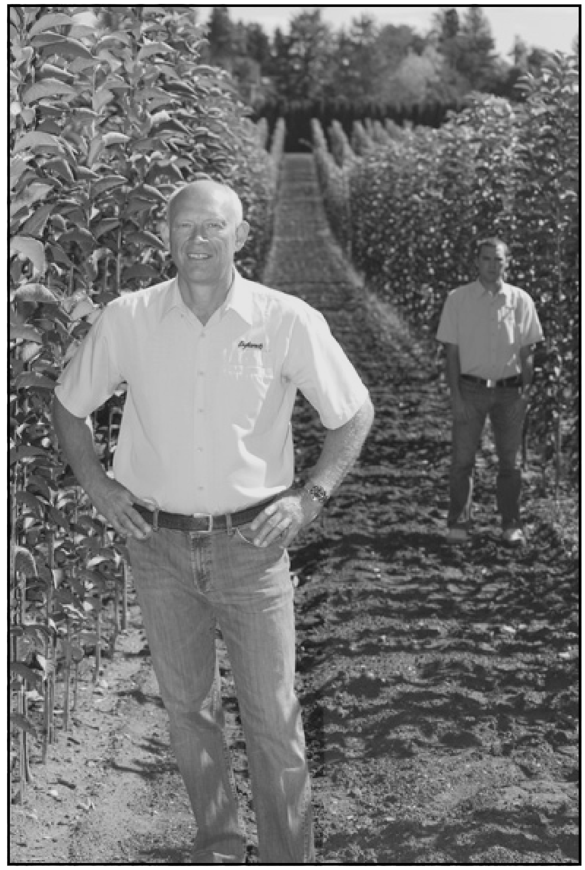
If you were a CEO and you wanted to go through this planning process with your family and all the stakeholders, you really need to allow 5 years for this. It doesn't happen overnight.

CP: *You're members of the Canadian Association of Family Enterprise?*

JB: Yes we are.

CP: *And, they provide support?*

JB: They do. It's a great organization and we belong to a great chapter even though it's not large. They have meetings on a variety of topics that pertain to family business and we're lucky to have many local qualified business advisors.



CP: *Do you see interest picking up in that at all? Are people getting third party advice for their family business?*

JB: Well, if they're not, they should be. Fear and apathy surface because people have to deal with some uncomfortable issues. But, it's not meant to be negative.

What you want to do is go through baby steps and at the end have a happy family and a successful business. If you put it off too long, it's harder than if you work on it all the way through. It takes time build the trust and the governance structures. You don't walk into your advisor's office one day and say "We need a succession plan."

It sounds like the governance model leverages the business. If I was competing against you in business, what else would I need to know?

JB: We're very capital intensive. To get into a business like ours, the barrier to entry is significant. If you set out to build a business like this from scratch, the return would not be attractive. Because we've bought properties through the years, it's worked for us.

We've also been told we have one of the best nurseries in Canada because of our environmental initiatives, the broad product range that we grow, the team of people that we have in place. That whole package puts us in a very small group of nurseries in Canada.

It's a complex business and we have good people with a lot of experience. But it's not for the faint of heart.

CP *Thanks, John. Best of luck with this year's operations.* ❍

The RULE of LAW by Stanley Rule

Smith vs. Smith: Competing Claims of Children vs. Grandchildren

How do you balance a parent's obligation to children with their wishes to care for grandchildren?

IN NOVEMBER 2006, Carol Sue Smith was diagnosed with cancer. She was married to **Arthur Smith**. She had an adult son **Douglas Smith**, and two five-year old grandchildren (Douglas Smith's children).

At the time she was diagnosed with cancer, she held her house and other assets in a joint tenancy with her husband, such that on her death those assets would pass to him as the surviving joint tenant. Her husband was, at that time, also the named beneficiary of her Registered Retirement Savings Plan that held over $200,000.

About the Grandchildren

Carol Smith decided she wanted to leave an inheritance to her grandchildren. She signed a will on July 9, 2007, creating a trust with the residue of her estate for her grandchildren.

The terms of the trust allowed her trustees to use the funds for the benefit of the grandchildren until they attained the age of 30, at which time they would receive what remained in their trusts. She named her husband, her sister and her son as the trustees.

In order for there to be some assets to go into the trust, she changed the beneficiary of the Registered Retirement Savings Plans to her estate, and also had some jointly owned mutual funds transferred into her sole name.

> ***"Religion was important to Douglas Smith, while his mother had a more secular view"***

Post Humus Changes

After her death on July 15, 2009, Douglas Smith renounced his position as a trustee, and brought a claim to vary his mother's will under British Columbia's *Wills Variation Act.*

At trial, his mother's estate was worth about $230,000, without taken into account taxes (which I suspect might be substantial given that most of the assets consisted of a registered retirement saving plan), executor's fees and expenses and legal costs.

Douglas Smith argued that he had been disinherited by his mother. She had a moral obligation to him. He was providing for his children, and her objectives would be met by varying the will to leave the entire estate to him.

Douglas Smith's circumstances were that he earned about $60,000 per year, but his wife had health problems. They owned a home in Richmond, B.C. with a substantial mortgage.

The Court Rules

In Smith v. Smith, 2009 BCSC 1737, **Mr. Justice Williams** found that Douglas Smith was a loving and respectful son and a good provider for his family.

Religion was important to Douglas Smith, while his mother had a more secular view. The will indicated that Carol Smith wanted the trustees to prefer secular over religious educational and cultural pursuits.

There were some differences between them, but these were minor. There were no serious disputes. Mr. Justice Williams found that Carol Smith did not have a rational and valid reason for disinheriting her son.

But Mr. Justice Williams did not agree that the will should be varied to leave the entire estate to Douglas Smith. Carol Smith's desire to set up a trust for her grandchildren should also be recognized.

Accordingly, Mr. Justice Williams varied the will to provide one-half of the estate to Douglas Smith, with the other half held in trust for his two children. ❍

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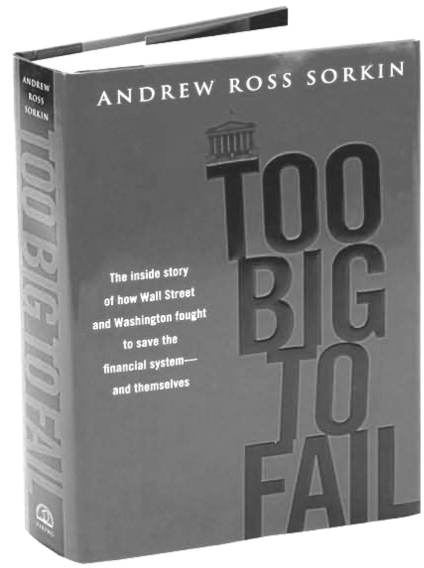
THE CAPITAL PARTNER BOOK REVIEW

Too Big to Fail, Too Good to Miss



Too Big to Fail: The Inside Story of How Wall Street & Washington Fought to Save the Financial System - and Themselves

By Andrew Ross Sorkin
Viking; 600 pp.

HAD SHAKESPEARE been alive during the financial crisis of 2008, it may have become a backdrop for one of his plays.

It had all the high drama elements that make for a great story: personality clashes, intrigue, treason, deals gone bad, betrayal, deception, loyalty, ambition, lost ideals, etc.

But don't despair. The high drama and great stories emerge when reading **Andrew Sorkin's** book, "*Too Big to Fail*."

Sorkin has done a formidable job of tracing the events and the figures who played leading roles in the greatest financial disaster of our generation. He's also well qualified to do so. For years, he's worked as a New York Times reporter covering the merger and acquisitions beat. He knows the players, the politics and the protocols.

This is really a remarkable bit of work. At 500 pages plus, it's thorough and comprehensive but always accessible and readable.

It's informative without being patronizing, overly simple or fraught with the political baggage that seems to permeate so much of the public dialogue or the media coverage.

The book starts with the bankruptcy of Bear Stearns and takes the reader through the events that led to the collapse of financial behemoths like Lehman Brothers, AIG Insurance, Fannie Mae, Freddie Mac and the near failure of Merrill Lynch.

Readers get a detailed account of character's histories, reasoning, motives and flaws. Some emerge as tragic heroes, some as visionaries, but all are propelled and constrained by their quarks and nature.

For instance, Treasury Secretary **Hank Paulson** is portrayed as a tireless work horse with a cel phone glued to his ear. So focused on preventing a financial apocalypse that he communicates with the bathroom door ajar or he refuses to let his Treasury staff have water when offered by his wife in their home.

The way **Dick Fuld** is represented contrasts his popular media exposure and his testimony before Congress. Here, he's seen as someone fiercely loyal and someone you'd want working in your corner.

He's devastated when he has to fire a long term friend and colleague of 30 years. His entrenched loyalties affect his judgment and ultimately his ability to run the firm. Still, Fuld's efforts to save Lehman Bros. are given balanced attention with this narrative. It's a compelling read.

As financial reforms are introduced over the next few years, keep a copy of *Too Big to Fail* by the night stand.

It's a great reference as markets gyrate, bankers lobby and financial reform surfaces in public discourse. And, you won't have to brush up on your iambic pentameter. ❍

GIC Rate Comparison - March 30, 2010.

	1 yr	1.5 yr	2 yr	2.5 yr	3 yr	3.5 yr	4 yr	5 yr	10yr
Empire Life	.75%	.75%	1.30%	1.30%	1.95%	1.95%	2.35%	3.25%	3.50%
Canada Life	.75%	N/A	1.70%	N/A	2.00%	N/A	2.45%	3.25%	3.50%
Manufacturer's Life	.50%	1.40%	1.40%	2.00%	2.00%	2.45%	2.45%	3.30%	3.30%
Bank of Montreal	.75%	1.05%	1.15%	1.15%	1.45%	N/A	1.60%	2.00%	N/A
Scotiabank	.40%	.40%	1.15%	1.15%	1.45%	1.45%	1.60%	2.00%	2.30%
CIBC Mortgage Co	.40%	.75%	1.15%	1.15%	1.45%	1.45%	1.60%	2.00%	2.30%
Royal Bank	.75%	1.05%	1.20%	1.20%	1.30%	1.30%	1.65%	2.00%	N/A
TD Bank	.40%	.40%	1.15%	1.15%	1.45%	1.45%	1.60%	2.00%	2.30%
Manulife Bank	.75%	N/A	1.90%	N/A	2.55%	N/A	2.95%	3.35%	N/A

Annual effective rates for contracts $25, 000. Subject to change. E & E.O.

The Capital Partner Businesses

Business Briefs...

Canadian Banks & Financials

For the first quarter ended January 31, 2010, **BMO Financial Group** reported net income of $657 million or $1.12 per share. BMO announced a second quarter dividend of $0.70 per common share, unchanged from the preceding quarter and equivalent to an annual dividend of $2.80 per common share.

Scotiabank recorded first quarter net income of $988 million, up $146 million or 17% from the same period last year. Diluted net earnings per share were $0.91 compared to $0.80 in the same period a year earlier. ROE was 17.4% compared to 16.2% last year.

Royal Bank of Canada reported net income of $1,497 million for the first quarter ended January 31, 2010, up $387 million or 35% from last year and up $260 million or 21% from last quarter.

TD Bank Financial Group - For the first quarter ended January 31, 2010, net income was $1,297 million compared with $653 million from the same quarter last year. Net earnings per share (diluted) were $1.44 compared with $0.75 a year earlier.

For the 12 months ended December 31, 2009, **Great West Lifeco** reported $1,627 million of net income attributable to common shareholders, compared to $2,018 million a year ago. On a per common share basis, this represents $1.722 per common share for 12 months ended December 31, 2009, compared to $2.255 per common share for 2008.

On February 12, 2010, **IGM Financial Inc.** announced adjusted net income for the year ended December 31, 2009, was $621.9 million compared to adjusted net income of $766.11 million in 2008. Adjusted earnings per share were $2.35 in 2009 compared to adjusted earnings per share of $2.89 in 2008.

On February 11, 2010, **Manulife Financial** reported full year net income attributed to shareholders of $1,402 million compared to $517 million in 2008, or $0.82 per share versus $0.32 per share in the prior year.

Canadian Utilities Results

Fortis Inc. delivered net earnings applicable to common shares of $262 million in 2009, up $17 million from earnings of $245 million in 2008. Earnings per common share were $1.54 compared to $1.56 in 2008.

Shaw Communications Inc. announced results for Q-1 ended November 30, 2010. Fund flows from operations were $339 million for the quarter compared to $312 million in the same period last year.

Other Canadian Corporations

Ritchie Bros. Auctioneers Incorporated, the world's largest auctioneer of industrial equipment, announced adjusted net earnings for the year ended December 31, 2009 of $92.0 million, or $0.87 per diluted share compared to adjusted net earnings of $85.5 million, or $0.81 per diluted share, for the year ended December 31, 2008.

US Blue Chips

Coca Cola reported 4th quarter EPS of $0.66. Full year reported EPS was $2.93, up 18%.

Johnson & Johnson reported net earnings of $2.2 billion or $0.79 per share (diluted) for the 4th quarter of 2009. Net earnings and diluted earnings per share for the full 2009 year were $12.3 billion or $4.40.

General Electric announced Q-4 earnings from continuing operations of $3.0 billion or $0.28 per share. Annual earnings for 2009 were $11.2 billion or $1.03 per share.

On January 28, 2010, **Procter & Gamble** reported net earnings of $3.1 billion or 1.01 per share for the second fiscal quarter, up 13%. ❍

SAMPLE ANNUITY RATES

Rates are as of March 29 2010. Based on a $100,000 premium deposit. Payments are Guaranteed for LIFE and include a 10 year guarantee payment stream (i.e. balance paid to beneficiaries). Rates change daily, please request a personal quote. E & O.E.

Age & Sex	Empire Life	Payment as % of Principal	Manulife Financial	Payment as % of Principal
60 Yr Male	$ 585.84	7.030 %	$ 604.82	7.257 %
60 Yr Female	$ 543.83	6.526 %	$ 557.80	6.694 %
60 Yr Joint	$ 498.33	5.980 %	$ 517.02	6.204 %
65 Yr Male	$ 653.06	7.836 %	$ 660.71	7.928 %
65 Yr Female	$ 599.80	7.120 %	$ 611.66	7.339 %
65 Yr Joint	$ 543.57	6.523 %	$ 554.63	6.655 %
70 Year Male	$ 723.71	8.684 %	$ 725.10	8.701 %
70 Yr Female	$ 665.24	7.983 %	$ 667.76	8.013 %
70 Year Joint	$ 600.35	7.204 %	$ 603.60	7.243 %
75 Yr Male	$ 792.58	9.511 %	$ 798.47	9.582 %
75 Yr Female	$ 740.09	8.881 %	$ 741.87	8.902 %
75 Yr Joint	$ 671.27	8.055 %	$ 674.31	8.092 %