

## Keeping it in the family

Tax-structured wealth management is the key to relative financial planning Malcom Ross tells the Sun's Michael Kane

Michael Kane  
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"Measure your wealth not by the things that you have but by the things which you have that money cannot buy."

- Abraham Lincoln

Abe's wisdom might seem an unlikely motto for a financial planning firm, but it resonates with family business owners and others who have built wealth. At the end of the day, it is not how much money you have but how it can be put to best use.

Typically that means finding different strokes for different folks that serve the over-all needs of the family, says Malcolm Ross of Vancouver's Invest-A-Flex Financial Strategies Ltd.

"Our focus is on tax-structured wealth management and we like the term wealth management as opposed to financial planning," Ross said.

"Lincoln's concept of wealth is not how big do we make the pile of chips, but how do we use the pile of chips to achieve the objectives of the family."

Ross emphasizes tax effectiveness because tax is the largest ongoing expense for most Canadians and the most predictable investment risk.

The first order of business, however, is to understand people's real objectives and then to help them manage their affairs so that they can continue to fulfil those objectives in the face of change.

"Change has never been more evident than it is now because of the uncertainty of the economic climate," Ross said. "People don't want to create structures or investment plans which are inflexible."

Ross was recently named B.C. Advisor of the Year by Advisor's Edge, an industry trade magazine, for a complex financial plan developed to deal with the succession of a B.C.-based family technology business grossing about \$10 million in annual sales.

In financial planning terms, key areas covered by the plan included personal tax structuring, corporate tax structuring, investment planning, business management considerations and family estate planning.



CREDIT: Ian Smith,  
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Life can be like a game of golf, says Malcom Ross of Invest-A-Flex, as you start off when you're young using a driver and finish off with a putter.

In everyday English:

? The needs of three generations were taken into account.

? Annual tax savings of more than \$200,000 were achieved.

? Disparate investing needs were served by building a customized portfolio.

? The tax liability of the company's founders was frozen and is being eroded through structured gifting to charity now equal to \$400,000 annually.

? Potential inter-generational conflicts were avoided.

Ross says his team took the time to find out what was important to the family and the result was a flexible, tax-effective structure that enables all concerned to achieve their objectives without sacrificing control.

"Our focus was to create an environment for dad to pass on the future growth of the business to family members so that his tax bill was frozen," he said.

"In the process, we came to understand the second generation's objectives and created a structure that met their needs as well."

In the event of a family rift or a death, documents such as shareholder's agreements, trust structures and corporate structures were put in place to protect each member of the family.

"In the event of all of them continuing to work fabulously together," Ross added, "the company's growth will be fully appropriated and the second generation can contemplate accommodating the needs of their children in 15 or 20 years' time."

Substantial charitable giving, a key goal of the company's founders for their estate, was achieved without apparent loss to their heirs and beneficiaries through the use of life insurance that provides a tax-free death benefit.

Ross stresses that no two family situations are the same and it is essential that family business owners get financial advice tailored to their needs rather than off the rack.

When it comes to investing, for example, most advisers will consider the client's asset base, their objectives, their risk tolerance and their time horizon.

"They don't really focus on the historical knowledge or interest of the investor," he says. "And they frequently don't consider the income-tax position of the investor, which is so important. Any financial plan that doesn't fully factor the consequences of tax is deficient."

Ross and his colleagues look at all six elements to develop individual investor profiles and then try to integrate them in ways that will serve the needs of the family in the most tax-advantageous way.

For example, where there are two investors, one aggressive and one conservative, they might create a portfolio that is defensive at its core with additional layers of strategic and speculative investments tailored to the needs of the bolder investor.

Ross likens the portfolio-building process to taking a shopping cart to the supermarket. First you put in the milk and the bread and the meat. Those are core staples that should be there. Then you pick up the fine cheese and a bottle of wine to enhance the dining experience. Those are strategic investments. And then you get to the checkout counter for a scratch-and-win ticket. That's the speculative investment.

After that comes diversification by asset class and by style so that some of the fixed income investments are guaranteed and some are variable, and some of the equities are value-oriented -- "buy low, sell high" -- and some are growth-oriented -- "buy high, sell higher." There is also room for neutral assets, which could be index mutual funds, hedge funds or funds that seek growth at a reasonable price.

The end result is a personalized portfolio that is cost-competitive with wrap accounts offered by leading investment firms, but does not pigeonhole the investor with a more-or-less appropriate asset mix, or subject the portfolio to automatic rebalancing which is not always tax-effective.

"We rebalance where necessary but we try to avoid triggering additional tax costs," Ross says.

According to the UBC Business Family Centre, 75 per cent of small business owners will retire in the next 15 years. Experience shows that only one out of three businesses passes successfully to the next generation.

To try to improve those numbers, Ross will present a planning workshop for business owners, their families and advisers Jan. 18 at the Holiday Inn on Howe Street. Speakers will include David Bentall, whose family business helped shape the skyline of Vancouver for three generations. Bentall is chair of the advisory board for the UBC Business Family Centre.

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