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Canada's Definitive Guide to Fine Living

Survey Says

A tabulation of wealthy investors.

Let me tell you about the very rich. They are different from you and me.
—F. Scott Fitzgerald

Life as a wealthy individual certainly has its advantages. Flying to Paris for a light lunch on your private jet. Revving up the Ferrari for a trip to the grocery store. Lighting your cigars with $100 bills.

Or so we are led to believe. In reality, the lifestyles of the rich and famous rarely live up to the hype. Lack of privacy, family squabbles, security concerns—all are among the burdens of wealth. To say nothing of the ongoing struggle to care for one's family, to leave a meaningful legacy, and actually finding the time to enjoy the wealth one has amassed. Champagne wishes and caviar dreams—maybe on TV, but not in real life.

To those who make their living serving the wealthy—bankers, brokers, lawyers, accountants—this disjuncture between the fact and the fiction of wealth is old news. Over the past decade, Citigroup, U.S. Trust, Merrill Lynch/CapGemini, Goldman Sachs, and other Wall Street firms have all issued detailed studies of the ultra-affluent population in America and around the globe. All have confirmed that being rich is a lot more difficult than it looks. Sure, there are privileges and perks, but there are also worries and anxieties, both from a financial and a family perspective.

Until now, the Canadian ultra-affluent population has largely escaped such scrutiny—mostly because they are so difficult to reach. But in December of 2005, The T. Stenner Group of CIBC Wood Gundy in Vancouver set out to change that. Drawing on its extensive relationships within the ultra-affluent population (the group offers private family office wealth management and financial planning services to those with a minimum net worth of $10 million), the group discreetly asked wealthy individuals from around the country

about what it's really like to be very, very rich.

The T. Stenner Group's sterling reputation as one of the country's top advisors to the ultra-affluent helped secure candid answers to a variety of both financial and personal topics, from investment selection to charitable giving to hobbies and collecting. The survey also asked respondents to list their worries and anxieties: what do they like most about being wealthy? What concerns keep them up at night? The answers were then confidentially compiled and analyzed by Sensus Research, in consultation with Irving + Company, and published as the T. Stenner Group 2006 TrueWealth Report.

WHO ARE THE RICH?

First things first: when we talk about the "ultra-affluent", who exactly are we talking about? Unsurprisingly, a sizable majority are male (77%), and most are married (78%). But they are perhaps a little less grey than you might expect: 41% identify themselves as between 40 and 55 years old, while another 32% are between 56 and 65.

As for wealth, they have it in spades. Almost 85% of respondents report their net worth as over $10 million; 45% report their net worth as over $25 million. And growing. Fully 70% of respondents report their annual income is greater than $1 million.

Most of them work hard for it. More than half (51%) identify a privately held business (one they still own, or one they have sold) as the primary source of their wealth. Fifteen per cent trace their wealth to their positions as executives. The vast majority of these people still work, either full-time (51%) or part-time (30%).

PASSIONS AND INTERESTS

Of course, all work and no play makes for a dull life. Not to worry: if data from this exclusive survey are any indication, the rich know how to live it up just fine.

Example: travel. Some 53% of respondents identify travel as one of their favourite hobbies or activities; London, New York, and Paris are their top three travel destinations. While on the road, they have a distinct preference for the finer things: 44% say they are most likely to reserve hotel space at Four Seasons properties. A further 22% prefers to stay with Ritz-Carlton.

When they get behind the wheel, most of Canada's ultra-high-net-worth population are getting behind German cars: 53% of respondents own a Mercedes, 44% a BMW, and 33% a Porsche.

When they're not on the move, Canada's ultra-rich are busy pursuing a wide range of interests. Most are avid collectors of art (collected by 90% of respondents), antiques (72%), and wine (69%).

WORRIES AND ANXIETIES

But for all its benefits, the wealthy life is by no means a simple one. In fact, fully 60% of survey respondents "strongly disagree" with the assertion that managing wealth is easy. When asked if managing that wealth could be characterized as a "burden on your time," 80% agree, either strongly (23%), or somewhat (57%).

Asked to identify the top three wealth-related issues that cause them concern, 75% of respondents admit they worry about their ability to maintain their current lifestyle. Another major concern is their children—specifically whether the kids will be less motivated to succeed because of growing up in a wealthy household (noted by 57% of respondents).

When asked to identify the top three "challenges" of wealth, respondents again focused on their children. The difficulty in maintaining a strong work ethic and sense of social values in the family was identified by 71% of respondents as being a top concern—noted more than twice as often as any other.

This focus on family is evident in questions about the benefits of wealth. According to survey respondents, the real plus about being wealthy isn't the private jet or the luxury yacht—it's peace of mind (noted by 36% of respondents) and the advantages it brings for one's family (noted by 30%). No surprise that when asked to identify their primary motivation for investing, some 49% of respondents identify "taking care of family" as their primary objective.

BUILDING AND PROTECTING WEALTH

Building wealth is one thing; protecting it quite another. And here, most of Canada's ultra-affluent individuals are realistic in their expectations. Fifty-five per cent of respondents expect an average annual return of 7%-8% before tax over the next five years. An additional 16% expect even less than that.

Not surprisingly, they use sophisticated strategies and investment products to protect those gains. Some 75% of respondents say they use a family trust to protect their wealth, while 68% use a corporate holding company and 59% use a custom-built insurance structure.

The survey asks some interesting questions about real estate, whose performance has given reason for many property owners to celebrate over the past several years. But Canada's ultra-rich seem intent on leaving the party early: 62% of respondents who own property have sold some of it in the past 12 months, specifically to lock in profits. Fully 89% view Canadian real estate prices as either "expensive" (45%) or "somewhat expensive" (44%), and 67% believe the real estate market is likely to suffer a downturn in the near future.

Even more telling is the fact that most of Canada's ultra-rich feel the best time to invest in real estate was yesterday. When asked where they would likely invest were they required to allocate 20% of their net worth tomorrow, only 12% of respondents chose real estate. By contrast, 49% chose the stock market.

PHILANTHROPY AND VALUES

Canada's ultra-affluent are a generous group. Fully 87% of respondents plan to leave a substantial portion of their estate to charitable causes and/or religious groups; 37% of survey respondents plan to leave between 21 and 30% of their estates while a further 38% plan to leave between 11% an 20% of their estates.

But charities also need money in the here and now. Not a problem: Canada's well-heeled seem more than willing to do their share. Fully 70% of survey respondents say they have made a donation of more than $100,000 in the past twelve months. Most of that money has been funneled to a few specific areas. For example, 70% of respondents say they are most committed to supporting charities or causes that assist children. Causes involving the arts are next, with 55% of respondents noting their commitment. Religious causes (42%) and health care (38%) are other popular choices.

As for why they give, the survey presented respondents with a number of possibilities. Asked to select the three they most closely identified with, 60% of respondents chose the personal tax and estate benefits that come with charitable giving—but a mere 7% ranked it as the primary reason for giving. By contrast, 50% identified an obligation to support people less fortunate, with 23% ranking it as their primary reason.

To some, these findings will be nothing more than fodder for the next game of Trivial Pursuit. But there is a deeper truth here. Ultimately, the most interesting revelation from the 2006 TrueWealth Report is the discrepancy between what being wealthy is really like, and what society makes it out to be. As it turns out, the rich are indeed different from you and me. But not in the ways we might expect.

For more information on the T. Stenner Group 2006 TrueWealth Report, or to download your complimentary copy of the full report, go to www.truewealthreport.com