THE TYLER GROUP Financial Services

Sound Advice

Why We Choose to be an Independent Company - *Al's Story*

In the previous edition of sound advice Rod spoke about why he and The Tyler Group have chosen to maintain an independent financial advisory firm, even when the financial incentives to do otherwise are constantly present. In this second part of the story, Rod interviews Al Kimber to hear his reasons for becoming a business owner and why he chose to become an independent financial advisor.

ROD: Al, you have often spoken about your family, your early upbringing and your personal history as all seeming to be part of a larger script that almost predetermined your decision to become a financial advisor. Can you tell us about some of those early influences?

AL: Yes, when I think about my early life as a kid growing up on the farm in southwestern Saskatchewan, I can see how I was influenced by the independence and resilience that is so much part of rural life. Our farm consisted of my father and his two brothers, together with all of our combined families, working together to operate a mixed farming operation of cattle, sheep and grain. Everyone had to do their part. From seeding, haying, combining, and the storage and distribution of all of the required feedstock for the animals it was a 12 month activity for sure. We had to shear the sheep, oversee the lambing and calving in the spring and

through it all protect against all predators – think sheep vs. coyotes!! Coyotes were to sheep what income taxes are to a financial plan – certain to be there and too many bites can cause an early death!

In either case you had a flock or herd that was dependent upon our resilience and determination.

ROD: Could it be that your new flock is the clients you serve?

AL: Yes, I guess you might say that's true.

ROD: You also mentioned that your mother's profession may have had a significant influence on you as well. Can you tell us about that?

AL: Yes, well mom was a nurse and by all reports, a very respected one as well. After we left the farm, she was head nurse of the long-term care home. So I will say that I admired my mother's ability to care for others, while making recommendations to patients that, at the time, may have seemed challenging or difficult for them to understand, until later when they realized she always had their best interests in mind. Very similar, I find, to offering investment and planning advice to my clients.

ROD: If I remember correctly, you attended Luther College during high school and then went to the University of Saskatchewan to complete a bachelor of commerce. Can you tell us why you chose that program of study?

AL: Well I had an idea that I wanted to learn about business. I also was aware that I would prefer to be an independent business person, but those ideas became even more obvious to me as I progressed through university. By the time graduation appeared on the horizon, many of my fellow students were ready to enter the world of the larger corporations, but I had other ideas. By the time I graduated, I was easily convinced to go to work at an independent financial firm, TWC, in Radville, Saskatchewan. From that vantage point, it was a short and natural progression to go into business myself as a financial advisor in Weyburn.

I loved the opportunity to run my own business. 28 years later nothing about that feeling has changed, other than I now have a whole team that surrounds me and I am able to work with.

ROD: On behalf of The Tyler Group I compliment you for your dedication to independence. Your unique abilities as a financial planner are truly appreciated by everyone at The Tyler Group and Weyburn area.

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"Are You Really Richer Than You Think?"

Or: How To Avoid the Fate of Olympia and York

By Rod Tyler, CFP, R. F. P. , CLU

By now almost everyone in Canada has been repeatedly told by the advertising campaign of a large Canadian bank that **"You are richer than you think."** The success of this kind of advertising is very well understood by the advertising world. Think of this message as the modern equivalent of the advertising scripts written by all those characters in the popular television series, "*Mad Men*".

The idea that "**You are richer than you think**" is predicated on a simple idea. Home prices in Canada have been rising rather dramatically for almost 20 years. If you can convince the public to borrow money for purchases they really want, or feel they now deserve, then all you need to do is to convince them to borrow against their strongest asset, their home. Almost no one wants to lose their home, so homes represent the security for all those mortgages and lines of credit. The question you have to ask yourself is **"Am I really richer than I think?"** Or am I just the willing accomplice to the bank's insatiable need to lend money? Does it really make sense to borrow money against your home, or is there a smarter approach to manage your financial affairs? Knowing the answer to this question is the key to making smart decisions about your finances.

You can ask yourself this question. Is the money I am borrowing really going to a fundamentally and financially worthwhile purpose, or am I just indulging myself in something I want?

It is a matter of that age old dilemma, **want** versus **need**. That is the question, and the answer will lead you to the right choice. This is often a good question to ask your trusted financial advisor. He or she is likely to help you determine the answer for yourself, and usually by referring you back to your original financial goals, as contained in your written financial plan.

So with that thought in mind, I would like to take you back in time to share a story of a family business who did try to prove that they were richer then we all thought.

First Canadian Place, Toronto

Olympia and York, or **O & Y** for short, was a major Canadian property developer in the 1970s and 1980s. Founded in the 1950s by the Reichmann brothers, Paul, Albert, and Ralph, as a flooring and tiling business, the company first began developing properties in a booming Toronto economy. In the 1970's they built the flagship financial property, First Canadian Place, but only after surviving an early local political attempt to prevent the project's completion. First Canadian Place now represents the epicentre of the financial district in Toronto, housing the Bank of Montréal's main operations.

In the 1980's, **Olympia and York** continued a torrid rate of expansion. **O & Y** bought $300 million worth of property in the depressed New York property market of the early 1980's that soon spiraled upward to be worth $3.5 billion. Fuelled by this success, the 3 brothers expanded **O & Y's** worldwide holdings in the 1980s and early 1990s. They bought Gulf Canada Resources, an oil company, through which they were able to claim multi-million-dollar tax breaks, the result of the oil boom and bust of the late 1970's. They acquired controlling interest in a large number of Canadian companies such as Brinco, Abitibi Price, and a significant ownership stake in Royal Trust. They also acquired a British property company that would lead **O & Y** to the infamous Canary Wharf property development in London England. And just for good measure they also acquired a controlling interest in Hiram Walker, a distiller with numerous well-known brands, such as Canadian Club. Despite their voracious appetite for growth and acquisition, the Reichmann

Canary Wharf, London

brothers lived rather modestly. It was a unique situation in the world of high powered finance for these newly powerful businessmen to live such a simple personal life.

By the late 1980s the Reichmann brothers seemed invincible. They began their most ambitious property undertaking, the redevelopment of the vast Canary Wharf property. It was to become the new financial centre for British finance, intended to alleviate the overcrowded City of London financial district. It was a huge undertaking with huge buildings, such as One Canada Square, even now the second tallest building in Britain.

In 1994 my brother and I made a pilgrimage to the virtually uninhabited development at Canary Wharf just to personally witness the folly of this outsized development scheme. It was worth all the trouble to take a long taxi ride to view these virtual ghost buildings and to consider what had went wrong.

The Reichmann's had always used financial leverage (translation - borrowing against existing assets) to build and buy bigger and bigger properties. For Olympia and York, this worked very well as interest rates began a long descent from the peak in 1981, right through until the early 90s. Then suddenly, interest rates began a temporary rise. It was then that the brothers learned a tough lesson, the risk of borrowing at rising short-term interest rates for a long-term development. It would be almost 20 more years before the British financial community would embrace the Canary Wharf development concept. Eventually, and too late for the Reichmans, the London and British government extended the critical underground subway access to Canary Wharf. Higher interest rates, declining property values and an economic recession all proved too much for the high flying **O & Y**. The company collapsed in bankruptcy, owing more than $20 Billion. Over time, the brothers were able to rebuild a small portion of their former empire, but by then **O & Y** was no longer the powerhouse of its earlier years. The Reichmann's were partially vindicated by the eventual success of Canary Wharf, but mainly as onlookers, not as the principal owners.

So why am I relating this story to you? The answer is simple. It is a well documented fact that Canadians have continued to borrow against the rise in their home values. I am reminding clients that it is very possible, that for periods of time, home values can actually decline.

Just ask some of our American neighbors if that is true. It is also true that in life, couples may have to live on one income, that maternity leaves may be extended for good reason, and that sometimes for unforseen reasons, stuff happens. Just think layoffs, early retirement, or a health crisis. That is when paying off loans can become very stressful. Finally, the ultra low interest rates of today will eventually be replaced by higher rates. All those situations and other possibilities could severely effect a sound financial future.

If you are borrowing money then it is much better if you understand it is for something helpful and fulfils your own financial plan. (Translation – need) If you simply want something, take a breath and decide a day later if it really makes sense to borrow that money. If not, it usually just because we want something.

Second, be aware the risk of rising interest rates and declining property values. These two ingredients are potentially lethal to your financial stability. Even the financially savvy Reichmann's overlooked this distinct and ultimate possibility.

Finally speak to your trusted financial advisor if you're considering borrowing money. He or she will help you make a smart financial decision. And finally, when you are borrowing money, make sure that the advice you are getting is not just from someone working for the bank. As you can appreciate, they have a much different agenda than you. Just ask the Reichmann brothers.

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