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Financial Services

Sound Advice

Innovation and a Tale of Three Companies

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

There is a popular catch phrase you may have heard recently in the media. The phrase is the "Lost Decade." What this phrase suggests is that the period from 2000 to 2010 was a lost decade in which investment returns were minimal. It further suggests that this is especially true if you were the owner of the shares of great global companies, especially if those were companies headquartered in the U.S. or Europe. This "Lost Decade" theory suggests that this situation is likely to be true for the foreseeable future, mostly because of a recession based mainly in the U.S. and Europe.

So is the "Lost Decade" theory true or false? And what about the next decade? Should we all accept the popular notion put forth by this theory that the only things worth owning are real estate, gold, commodities and government bonds?

As you read this article you will see examples of three companies that either support or debunk this theory.

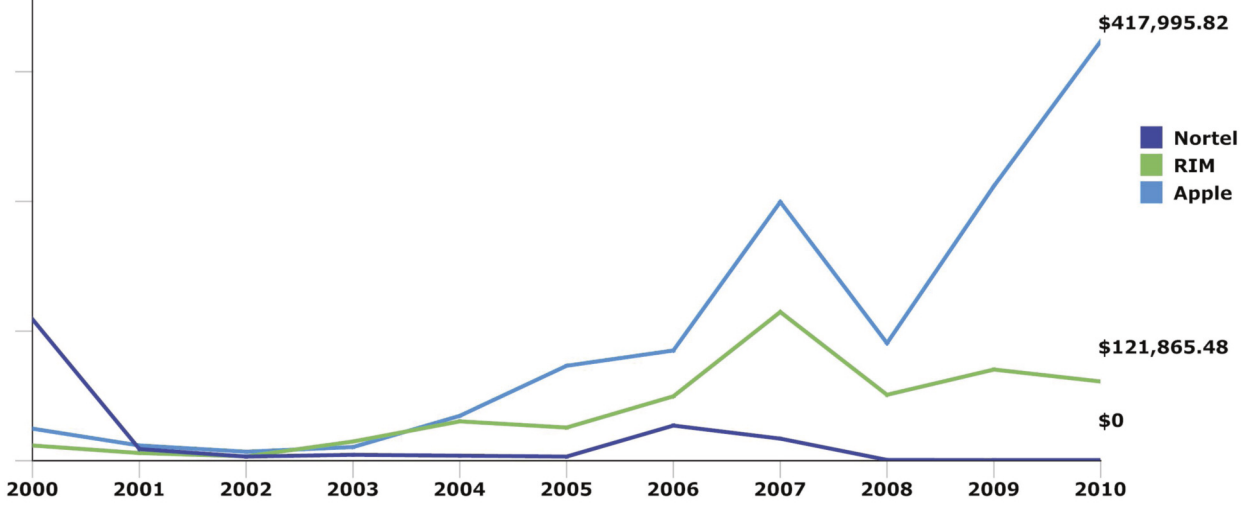
Company #1

At the beginning of this decade Nortel could do no wrong. Its share price reached $144.19 by March 1, 2000. A feature article in the Globe and Mail's section, Report on Business, was entitled "Priced for Perfection." This headline turned out to be somewhat of an omen. In a well-documented corporate debacle, Nortel went from being the single largest company in the Toronto Stock Index to the ultimate humiliation of bankruptcy and liquidation. Nortel managed to squander some of the most promising technologies available by virtue of multiple corporate mismanagement decisions and accounting irregularities. To further punctuate this corporate travesty, Nortel's 6000 valuable patents were recently sold at auction to a consortium of other companies for the astonishing price of some $4billion plus. The auction marked the end of the once mighty Nortel which at its peak was valued at over $250 billion and employed 90,000 people. Score one for the "Lost Decade" crowd.

Company #2

Ask yourself whether you and your children, and even grandchildren, were carrying a cell phone ten years ago. If you were, what did it look like? Did it offer email and instant messaging? Now you may need to think for a minute, but I will suggest that ten years ago very few of us had a telephone that was portable. Fewer still enjoyed instant messaging or text messaging. That revolution was started by another Canadian company, Research in Motion, whose wonderful innovation is called the BlackBerry. Research in Motion, or RIM for short, has gone on to capture about 18% of the world's market for these new cell phones or, as they are called, smart phones. There is no doubt that RIM faces considerable challenges if it wishes to continue its success. I am not going to predict how that future will ultimately unfold, but despite recent setbacks, it is likely to continue to participate in the market for cell phones. That market is expected to

A Tale of Three Companies - A Theoretical Investment



The chart represents a theoretical investment of $33,333 in each of the three companies - Nortel, RIM and Apple at January 4, 2000 through December 31, 2010. Any dividends paid have been excluded.

Source: Google Finance

expand by four times in the next five years. As a prologue, RIM was part of the consortium that recently purchased Nortel's 6,000 valuable patents. Score one for innovation and the rewards that follow.

Source: Google & Yahoo Finance

Company #3

The leader of this company has achieved cult status for his ability to imagine a future that makes technology serve the needs of the everyday person, without all the usual hassle. This same leader has also successfully built four world-class companies and come back to save the one that was most important to him. His name is Steve Jobs, and the company he has led is Apple. You'll recognize the Apple name on everything from McIntosh and Apple Computers, to iPods, iTunes, iPhones and iPads. But stop for a moment to consider that at the beginning of this decade, Apple Computer was just beginning to rebuild its presence and its brand, having suffered the embarrassment of having to accept a $150 million investment from is main competitor, Microsoft, to survive. Consider also that, of all the devices mentioned above, none other than the Apple computer even existed on January 1, 2000. All innovative devices were created during the "Lost Decade". The result was the astounding performance of Apple and, of course, its stock price.

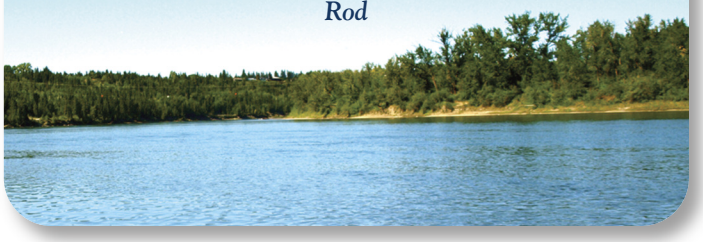
So the question I ask is, was it really a "Lost Decade," or is that simply the result of negative media stories? And will the next decade really be that disappointing, or will it be very rewarding because we embrace the next wave of innovation? Finally, what is the best way to profit from what could be one of the most innovative periods of human history? Will it be to buy shares in the most popular company, after its share price has risen dramatically? I suggest the best and safest way to participate will be to own a diversified portfolio of great, professionally chosen and managed companies that are producing goods and services that people want and need and are willing to pay for. And finally to choose portfolio managers who can identify all of the potential referred to above, and then buy those companies at attractive prices. I suggest that this choice of investment will turn out to be more successful for more people than most of the alternatives.

I will be pleased to discuss and assist you in developing a portfolio of investments that will enable you to participate in the next decade of innovation.

GONE FISHING

I will be away for the month of August.
If you need assistance with your account, any one of our team members will be pleased to help.

See you in September!
Rod



Team Member Profile

Evelyn Wu

We'd like to introduce our newest team member Evelyn Wu. Evelyn is a student at the University of Regina in the Biochemistry program.

Evelyn is assisting us over the summer months with data entry and various other tasks around the office. She plans to continue to be a member of our team on a part time basis during the school year.

Evelyn moved to Regina in 2005 as an exchange student and attended Luther College High School. She then decided to stay in Regina and continue her studies at the University. Her home city is Kaohsiung in Southern Taiwan. Kaohsiung is the second largest city in Taiwan, with a population around 2.9 million. It is a center for manufacturing, refining, shipbuilding, and other light and heavy industries. Kaohsiung is a major port city, through which passes most of Taiwan's marine imports and exports.

Kaohsiung, Taiwan

Evelyn has many hobbies and interests. In her spare time Evelyn enjoys playing softball in a recreational league. Evelyn is also a collector of Winnie the Pooh memorabilia. Movie watching is something else she likes to do, and is looking forward to the new animated Winnie the Pooh feature film that will be released in theatres this summer. We are very pleased to have Evelyn as the newest member of the Tyler & Associates team.

Speaking of Innovation

In the lead article in this issue of *Sound Advice*, I suggested that you could benefit from the wave of technological innovation that will continue to dominate the next decade. But perhaps more importantly to you, you are benefitting even now. How, you may ask? Well, you may notice the attached quarterly portfolio statement is somewhat different from those mailed to you in the past. The new statements are part of a huge upgrade to our technology. In the coming months we expect you will see even more benefits of this technology makeover. For example, we will be able to send you much more detailed information about your investment performance. We also will be inviting you to go online to set up access to your accounts at PEAK Online.

In the meantime, your patience with this major makeover is truly appreciated. You can count on our whole team to continue working on getting your information to you in a timely manner. In the next issue of *Sound Advice*, I will share with you some of these improvements, and how can benefit.

Estate Planning Failures

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

The Hardest Working Man in Show Business

In this instalment of Great Estate Planning Failures, we are going to look at the Godfather of Soul and the self-proclaimed "hardest working man in show business." For those of us who are rhythm and blues aficionados, the music of James Brown is well known and loved. For those who are not familiar with his music, his life is a compelling tale of rags to riches. Besides recounting the colourful life of this icon of American music, the estate of James Brown has valuable lessons for those of us less musically talented mortals.

James Brown was born into, and lived in, extreme poverty in South Carolina and later, Georgia. His parents separated when he was only two years old, and so began a challenging life living on the very edge of mainstream society. During his early childhood, James Brown earned money shining shoes, sweeping out stores, selling and trading in old stamps, washing cars and dishes, and singing in talent contests.

Predictably this tumultuous early life exacted a price on the young James Brown. As a teenager he was involved in committing numerous petty crimes in and around Augusta, Georgia. At age 16 he was convicted of armed robbery and sent to a juvenile detention centre. In reform school he met a future R&B legend, Bobby Byrd, who admired Brown's singing and performing. This connection and subsequent friendship would further encourage the young aspiring musician to pursue a career as a performer. And that he did, until his passing in 2006 at 73 years of age. He probably did deserve the title of the "hardest working man in show business," even if it was self-proclaimed. He often performed 300 times a year. His many early shows were marked by a lot of acrobatic dance routines, often over two-hour performances. Although his music initially appealed mainly to a Southern African American audience, that soon expanded in the 1960s and later, to a much wider audience of rhythm and blues listeners. His musical influence extends, even today, to much of the modern music era.

As the "hardest working man in show business," James Brown was able to accumulate a significant amount of wealth. I can imagine that Brown's experience with extreme poverty and deprivation made working hard a very natural response. At the time of his death, his estate was valued at $80 million, but it also included substantial debt. Depending on the eventual value and interest of his music royalties, that number may expand, if those rights are well protected and managed. That chapter remains to be written.

James Brown's legendary energy and charm also made itself known in other life pursuits. Brown was "officially" married four times, during which time he fathered six children. There are also three other children who may, or may not, have been fathered by Brown. Finally, Brown's last marriage to Tomi Rae Hynie occurred at the time when she was still technically married in a marriage of convenience intended to yield a green card to Hynie. While that marriage was eventually annulled, Brown was very unhappy to hear of this and made no provision for Hynie or her son, James Brown II. So predictably, when Brown died, there was a great deal of potential for his various descendants to challenge the estate.

To his credit, Brown did have an estate plan for his beneficiaries, even if it excluded his last wife and child.

Six years before his death, in 2000, he created a will covering his personal property. Then he used a different estate planning attorney to create an irrevocable living trust to pass his musical legacy, image rights, businesses, and his South Carolina Island estate to charity to benefit underprivileged students.

At the time his estate plans were officially revealed, some of his numerous children were not happy. Some wanted his legacy honoured. Others were unhappy with so much of his estate transferring to charity. Of course, there was a challenge that the estate administrators were improperly managing his affairs. Finally there was a challenge to where he was to be buried. A temporary compromise solution resulted in his burial at one of his daughter's homes until the estate is settled and a permanent mausoleum is constructed in his memory.

As you can appreciate, there are enough disputes to keep the estate litigation and probate lawyers busy for quite a while. So the question is, "What can we learn from the James Brown estate debacle?" Here are two observations.

I suggest the first thing to remember is that, in law, an estate exists as a distinct legal person, similar to a corporation. Like a corporation, it continues to exist until its affairs are settled and wound up. If legal disputes arise, it must defend itself in the ultimate interest of its beneficiaries. Therefore, the proper legal drafting of a will that clearly directs property to the intended beneficiaries, while observing the multiple legal statutes that govern an estate settlement, is the most important consideration. And of course you only need one trusted and experienced estate lawyer!

Secondly, planning for the beneficiaries of a will can be easily accomplished in a properly written will. It will avoid a lot of estate litigation and subsequent costs to the estate. Hopefully it will also avoid a lot of family feuds.

Listening to James Brown's stories of growing up in such poverty and experiencing the sting of racial prejudice should make any person be grateful for their own good fortune. Likewise, we can easily appreciate Brown's own wish to assist underprivileged students. We can only hope his estate will finally be settled before all of it is eroded by the legal battles of the beneficiaries.

As always, I am available to you if you wish to discuss some aspect of your own estate planning. I can assist you to articulate your own wishes and then refer you to a lawyer who specializes in estate planning to properly draft your will. Call me at your convenience.

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At Tyler & Associates we accept new clients on a referral basis. If you know a colleague, friend, or family member who could benefit from our advice, please call us.