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HIDDEN MILLIONAIRES

Eric Mercier leaves no stone unturned when looking for high-net-worth clients. Discover how he prospects successfully in unusual places—and how you can, too.

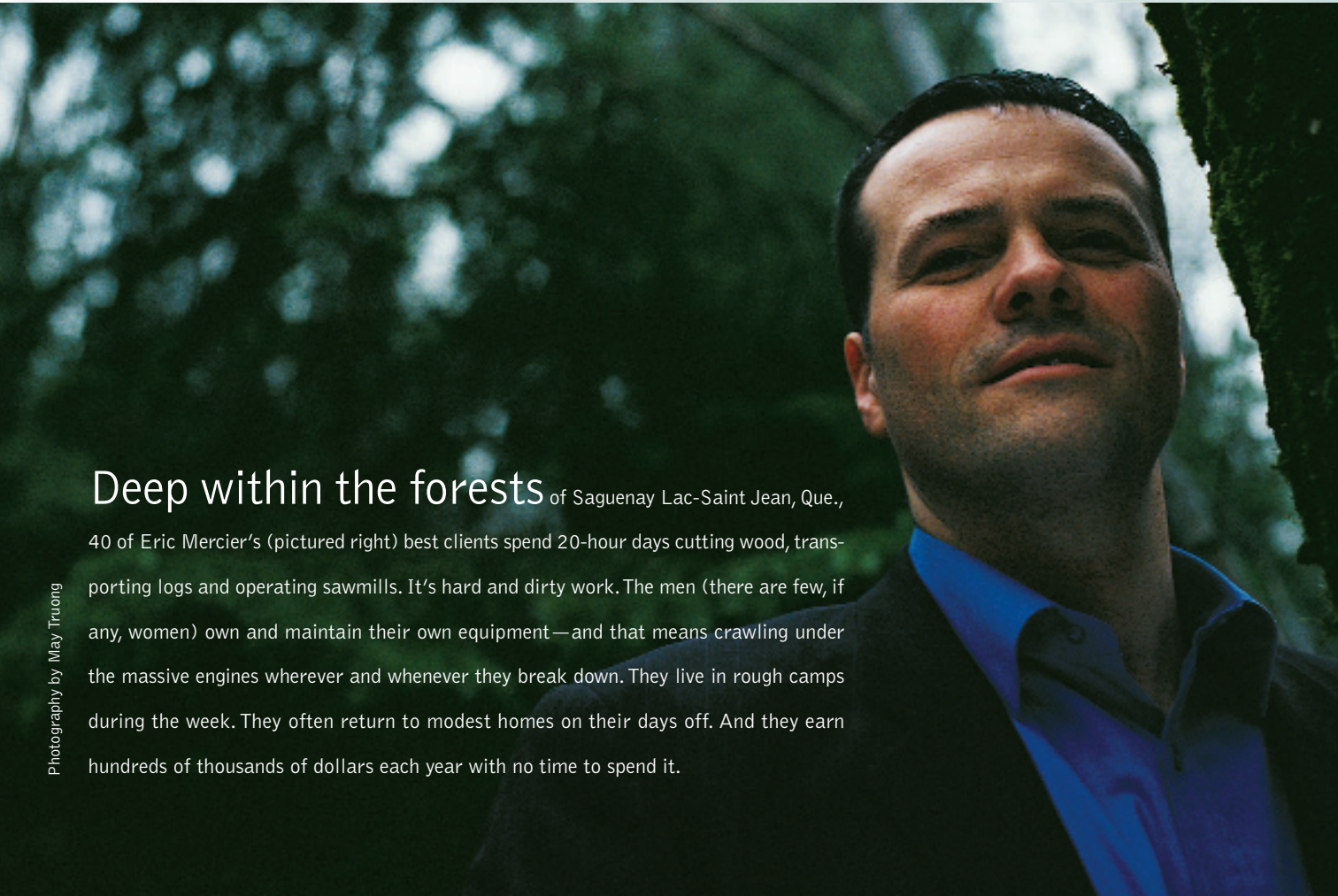
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HIDDEN MILLIONAIRES

They're everywhere, the numbers are growing, and the market is virtually untapped. Now the trick is to find these affluent yet inconspicuous savers.

By Alison MacAlpine

A photograph of a man with dark hair, wearing a blue button-down shirt and a dark jacket, looking upwards with a slight smile. He is standing in a forest with green trees and foliage in the background. The lighting is soft, suggesting an overcast day.

Deep within the forests of Saguenay Lac-Saint Jean, Que., 40 of Eric Mercier's (pictured right) best clients spend 20-hour days cutting wood, transporting logs and operating sawmills. It's hard and dirty work. The men (there are few, if any, women) own and maintain their own equipment—and that means crawling under the massive engines wherever and whenever they break down. They live in rough camps during the week. They often return to modest homes on their days off. And they earn hundreds of thousands of dollars each year with no time to spend it.

Advisors, take note: This is the hidden high-net-worth (HNW) market. They don't have the usual accessories, like posh addresses, luxury cars and country club memberships. They don't wear the expensive suits and professional lab coats of the corporate executives,

years to build a million-dollar nest egg. Others are well-paid small-scale entrepreneurs like Mercier's foresters.

How can you capitalize on this? How do you find the millionaires next door—or in the woods? Louise Diotte, a CFP with Investors Group in Ottawa,

upon this niche market almost by accident. Back in the fall of 1996, he received a referral to a forestry worker from an advisor who lacked comprehensive financial planning knowledge. "I realized that this new client was making a good living," Mercier recalls. "He was living in a little house, not even worth \$100,000, and his bank account was full. I started to get interested in what these people were doing, how they got paid and what their dangers, opportunities and strengths were."

He attended trade shows to see the wood-cutting engines in action, and he learned the specific challenges of the foresters—the chief one being that they all dream of retiring early but have trouble finding young workers willing to take over and buy their equipment, which costs anywhere from \$1.5 million to \$2.5 million.

Mercier's first forestry client obviously appreciated his efforts to understand the business because he made sure word spread in the dormitories and cafeterias of the camps. Today, thanks to referrals, nearly one in six of Mercier's clients work in this industry.

Mercier has found hidden millionaires in agriculture as well. He represents several potato farmers who have been earning upward of \$1 million annually over the past couple of years and sell their produce around the world.

These entrepreneurial businesses should be targeted by advisors, according to Keith Sjögren, leader of the wealth management practice at the Taddingstone Consulting Group. Entrepreneurs, he says, are "the fastest-growing sector of the millionaire community." He points first to high-

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MILLION-DOLLAR FACTS

Compelling stats about Canada's affluent community

- Their average age is 61.5.
- They maintain an average net worth of \$3.2 million*.
- 31% own a business.
- 35% have annual household incomes below \$100,000.
- 34% have annual household incomes between \$100,000 and \$150,000.
- 57% are retired.
- 66% use the Internet for financial information*.

Source: Ipsos-Reid *Affluent Canadians Report, 2004*;

*Wealth Market Overview: Canada, 2004

utives, lawyers, accountants, doctors, dentists and veterinarians that advisors traditionally target when they go looking for wealthy prospects. They could be teachers, librarians, civil servants, construction workers—or, just about any profession that affords a diligent saver the opportunity to set money aside over several decades. Many of them have never worked with a financial professional like you before.

As the number of millionaires increases annually in Canada—up 9% in 2002 over 2001, according to the Merrill Lynch/Cap Gemini Ernst & Young 2003 World Wealth Report, and headed to 900,000 by 2010—it's becoming clear that a significant number of our wealthiest citizens don't fit the traditional profile. Some are quiet retirees who saved gradually over the

describes the problem nicely: "In my 25 years in business, I've never met anybody who walks around with a T-shirt that says 'I've got money! Talk to me!'"

"They don't live in high-priced areas like Rockcliffe Park," adds David McGruer, a CFP with Cartier Partners Financial Services in Ottawa. "They don't drive a BMW, Audi or Porsche. They accumulated wealth mostly because they worked hard and saved hard. Their financial planning needs are actually much like those of their neighbours—just on a larger scale. Many of them accumulated a high net worth before they had a financial planner, but they can do better with a planner and these days more of them are recognizing this fact."

Mercier, who runs Mercier Services Financiers in Quebec City, stumbled

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profile industries such as biotechnology, technology and communications as HNW centres, but also acknowledges that less “glamorous” areas of the economy, including forestry, construction and oil and gas, are home to many wealthy small business owners.

“If I were an advisor,” Sjögren says, “I would look at the family-owned businesses. These people are generating tremendous wealth. I would want to know where the entrepreneurs hang out. You need to become one of them. You need to be seen as a peer.”

That jives with Mercier’s take on his foresters and farmers. “Most of these people are also looking for a friend, for somebody to understand their problems and give them ideas and ways to improve their situation,” Mercier says. “They need someone they can rely on, someone they can trust.”

Building Relationships

Across the country from Mercier, in Edmonton, David Hunt, a CFP with Multiplan Financial Group, has launched a campaign to target the owners of construction companies—often plumbers, electricians and drywallers with an entrepreneurial streak who built their private practices into successful

businesses. Eighteen months ago, Hunt hired a telemarketing firm to conduct a telephone survey that “qualified” construction-company heads by asking them if they were interested in specific financial planning services, and if they would like to be contacted by Multiplan. “Quite a number responded positively,” Hunt notes. Five have already become clients—and one of them is turning into a significant income-generator.

Hunt has also made some inroads into Alberta’s oil and gas industry, with a few clients who operate drilling rigs. “That is a market we want to go after more,” he says.

Like Mercier, Hunt places a high value on the power of referrals. In fact, he takes networking so seriously that he founded the Alberta Business Network, a group of professionals that meets regularly for the purpose of generating business referrals. The group includes accountants, lawyers, realtors, architects, management consultants and mortgage brokers. Professional relationships, he believes, are the key to finding Canada’s hidden millionaires.

Hunt’s advice dovetails nicely with a March 2004 Ipsos-Reid study of Canadian millionaires, which revealed that nearly one in three (31%) own a busi-

Eighty-seven per cent of millionaires intend to donate to charity while more than half plan to volunteer their time.

ness, like Mercier’s foresters and Hunt’s construction workers, more than half (57%) are retired, and nine in 10 (87%) intend to donate to charity or to a local organization while more than half (52%) plan to volunteer their time.

That high level of commitment to giving back doesn’t surprise Diotte at

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A CUT ABOVE

What products and services attract millionaires?

Merrill Lynch and Cap Gemini Ernst & Young recently released some preliminary findings from their 2004 World Wealth Report, due out in June. Their research suggests that high-net-worth (HNW) investors are attracted to advisors who offer sophisticated investment strategies, including managed products, real estate, "investments of passion" (art, wine, antiques and collectibles), precious metals and alternative investments such as derivatives, managed futures and hedge funds.

Robert Nesbitt, a portfolio manager and investment advisor with RBC Dominion Securities in Ottawa, has his wealthy clients answer a detailed questionnaire. From there, he builds an investment policy statement that identifies an investor's time horizon and need for liquidity. "What my HNW clients are looking for is personalized portfolio management, where I'm their personal portfolio manager," he says.

Nesbitt also manages a number of endowment funds that have

a similar goal of maintaining and growing a pool of capital that will generate income in perpetuity for charities and scholarship funds. The process for these specialized products, he says, is similar to the process for an individual HNW client—though the objectives are completely different. In both cases, he adds, the protection of capital is a priority.

Michael Dorfman, a senior vice-president and managing director with BMO Nesbitt Burns in Toronto, says that using sophisticated products should be a means to an end. He believes that alternative investments may be becoming more popular "not necessarily because clients are demanding them but because advisors are discovering and recommending them." And he cautions that these structures may be saddled with liquidity and complexity challenges. "HNW individuals tend to have more complicated issues," he points out. "Those issues need to be addressed in a very integrated fashion. Typically, they're not solvable by a specific product or a specific service. It's not a question of a tool—it's a question of approach. Everything has to be evaluated on a case-by-case basis." —A.M.

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all. She has made many valuable contacts with HNW investors through her work as a board member of the Canadian Association of Gift Planners and its Leave a Legacy program. "A lot of people who don't necessarily define themselves by their wallet—or what's in it—like to help out their communities," she explains. "But you don't join a charity to meet these HNW people, you join because you believe in the cause."

Diotte adds she has attracted HNW clients through offering full financial planning services. The 2003 *Taddingstone Survey of the Affluent* confirms the importance of financial planning: 75% of those surveyed believe it's necessary to take a planned approach to their financial affairs.

From Student to Client

Some of the investors who will build your share of the HNW market are rich today. Others have "HNW potential"—they're young Canadians who have committed to a long-term saving strategy and who will become wealthy down the road.

One of McGruer's best clients, Maureen, 55, fits into the first category. A retired teacher, she has accumulated more than \$1 million in investable assets. Another, Alice, just 26, is what McGruer describes as the "millionaire of the future."

He met both of them when they attended his night classes about investing. Each was sufficiently impressed to call him up and schedule a consultation. "I felt that he was honest," Maureen recalls. "He wasn't pushy. He listened.

He looked at my background situation and then he gave me a financial plan—and there was no charge. We met three or four times before I decided to go with him."

Some of their early meetings were at Maureen's house. "That was very beneficial at the time because I was very stressed at my job and had papers everywhere," she says.

Leery of mutual funds when she first started working with McGruer, Maureen has learned to take a longer-term perspective on investing. She credits her advisor with keeping her in the markets over the last couple of years, when all her instincts were telling her to get out. She also values the comfort and reassurance McGruer has given her that, with her generous teachers' pension and substantial savings, she will never be

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It's not enough to go after hidden millionaires in any kind of half-hearted way. Become extremely familiar with what drives these individuals.

able to spend all her money. But she admits she still can't stop saving.

If old habits die hard, young habits need nurturing. Alice is a lab technician with Health Canada, and her small portfolio wouldn't attract the notice of most advisors who want to cultivate HNW clients. However, when she approached McGruer in July 2002, he took her on immediately.

"Those are the opportunities I get most excited about," he explains. "Someone who shows the willingness to actually phone me up and ask to talk—who starts thinking like that in their early 20s—is going to be in the top 5% of their age group all the way through."

Alice says simply, "I was reaching the age of 25 and thought I should do something with my money. It was my second year of working after I graduated and I had accumulated some savings, but I had only been using bank

savings accounts and GICs and they were earning very little interest. This, for me, is the best time to save."

McGruer encourages the Maureens and Alices in his client base to refer him to others just like themselves with a small thank-you gift and an invitation to his annual client appreciation dinner. "The dinner has created a club of my disciples," he says. "It's the single best marketing effort that I've made."

Not a Hobby

Sjögren believes it's not enough to go after hidden millionaires in any kind of half-hearted way. "There are only about 330,000 millionaires in Canada," he says. "If you assume there are 50,000 advisors, there's not a lot to go around. The people who are going to win are the people who devote themselves to the wealthy and become extremely familiar with what drives these individuals."

If you're up for the challenge,

Canada's hidden wealthy can be an attractive—and lucrative—market. So the next time you pass a construction worker on the street or hear an axe fall in the woods, pause for a moment and think to yourself, "Millionaire?" **AE**

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