INVESTMENT EXECUTIVE
CANADA'S NEWSPAPER FOR FINANCIAL ADVISORS

The rapidly rising cost of luxury goods

Demand for über-expensive indulgences has never been higher

By Wendy Cuthbert

Mid-February 2008

With the rise in the spending power of the wealthy, demand for a wide array of luxury products has climbed over the past few years. Waiting lists are long and some manufacturers are having trouble keeping up with demand. It seems the quest for über-luxury has never been as intense as it is now.

Even the maker of Ferrari sports cars — which can range up to US$1 million — is feeling the pressure. The company announced last year that it is increasing the number of cars it produces each year to alleviate the two-year waiting list, a move it has long resisted.

So, what else are the wealthy — or those who like to appear wealthy — buying this year? The list ranges from hyper-expensive fashions to alarmingly expensive foods.

Take handbags. A Hermes Kelly bag, at slightly more than US$6,000, is positively economical compared to the handbags with five-digit price-tags that are now *de rigueur* for those flaunting their money. Last year's "it" bag, from Chanel, cost $25,000-$55,000. According to Christina McDowell, image consultant and national spokesperson for **Holt Renfrew & Co. Ltd**. in Toronto, there were more than 30 people on the waiting list for the Chanel handbag at Holt Renfrew's Bloor Street store.

Chanel also has broken the six-figure price point on handbags, with the launch of an exclusive bag made of white alligator and encrusted with diamonds set in gold. The cost? A mere US$260,000.

Patronage by the wealthy can also provoke copycat behaviour in the non-wealthy when it comes to smaller items. Crème de la Mer's face cream boasts a price point, depending on size, of $500-$1,000. There are often waiting lists for it, says McDowell, thanks to media reports that certain Hollywood stars apparently use it.

There are even special services to ease the inconvenience of waiting lists. Holt Renfrew's second-floor suites, complete with a private elevator, target the rich and famous who prefer to shop in comfort and privacy. And if they're hungry, they can nibble on sandwiches made from bread flown in fresh three times a week from the famous Poilane bakery in Paris.

Travel is another big draw for the ultra-rich. Cynthia Pickering, founder of **Time is Money Exec-utive Concierge Inc.** in Calgary, is often asked to arrange excursions on private jets — to enjoy a round of golf in Kelowna, B.C., or some nightlife in Las Vegas, for instance. Last year, one of Pickering's clients planned an outing on a private yacht in Italy with four of her closest friends, each of whom would have her own on-board porter. Pickering also helped the client shop for appropriate cruisewear.

For a nation of long-haul drivers, however, Canadians are relatively modest when it comes to cars. The vast majority of high net-worth individuals in Canada buy premium cars — Acura, BMW 3-Series — rather than high-end luxury vehicles, says Dennis DesRosiers, auto industry analyst at **DesRosiers Automotive Consultants Inc.** in Richmond Hill, Ont. Only about 5% of the marketplace bother with the true luxury cars, he adds.

Wealthy Canadians may be out of step with high net-worth people in other countries in this regard. Ferrari sold 61 cars in Canada in 2007, but sold 1,700 in the U.S. And, for the truly wealthy, a Ferrari off the showroom floor might not do. In a move that had car enthusiasts salivating in 2006, hedge fund manager Jim Glickenhaus of New York took his Ferrari Enzo (a US$1-million car) to Italy to have it remodelled by the Italian carmaker into a one-off model — still bearing that important Ferrari symbol — which reportedly cost US$4 million.

Every year, *Forbes* magazine publishes the "cost of living extremely well index," and the latest one proves that those Americans with luxury tastes have to deal with inflation rates that are higher than those for other goods.

The 2007 CLEWI, based on a basket of 40, mostly American luxury items, climbed 6%, twice as much as the U.S. consumer price index. A few of the items — caviar, facelifts and private helicopters — rose by a solid 10% or higher.

Meanwhile, Toronto might boast $300 steaks and $50 hamburgers (thank the exclusivity of Japanese Kobe beef), but it was white truffles — which, this past fall, cost $3,000-$4,000 a pound, double that of last year — that had wealthy foodies signing on to waiting lists around the country. Some upscale restaurants had to remove the item altogether from their menus.

The truffle shortage also has led to an interesting example of conspicuous consumption in New York City, the $1,000 bagel. The Westin Hotel in Times Square offers the edible status symbol, topped with white-truffle cream cheese, for those with the wherewithal to order it 24 hours in advance. **IE**

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Good advice means knowing your clients' spending habits

High-income earners may be spending all their money and not accumulating any wealth. How to spot them

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It may not be immediately obvious — much like wealth itself — but advisors who deal with high-income individuals and their families can greatly boost their usefulness to those clients by becoming sensitive to the clients' consumption styles.

That doesn't mean finding out whether they prefer a Porsche to a BMW. Rather, you need to know what percentage of their incomes they usually spend and how those spending habits are likely to affect their long-term financial health. And there is no better way to find out what their money means to them than by asking them.

Of course, it's important to keep in mind that income and high net worth may be very different. (See page 16.) The high-income earners may have very different consumptions styles than high net-worth individuals who could have incomes on the low side.

"There are a whole lot of people who earn a lot of money who aren't very wealthy because they spend as much as they earn," says Keith Sjogren, director of strategy consulting for research firm **Investor Economics Inc.** in Toronto. "You'd think people earning $750,000 a year would build up a portfolio quite quickly. But if you are spending it on cottage properties, you have a jumbo mortgage, you fly first-class and your wife can hardly lift up her arms for the jewellery, you're not going to have a lot left over."

For some clients, in fact, it may be necessary to illustrate clearly how spending patterns are standing in the way of wealth accumulation. Those who spend a high percentage of their available income, in particular, may not be aware of the long-term consequences for building their overall wealth and, by implication, the lifestyles they wish for themselves and their families.

Surfaces can be deceptive, and no more so than in this area. For many of the conservative-spending wealthy, not broadcasting their financial status is an art at which they excel. Advisors, then, need to be aware of the spending habits of their wealthy clients and avoid being swayed by appearances.

When it comes to that assessment, it's sometimes useful to take notice of what your clients are spending money on. Typically, more conservative spenders will place value over image, such as passing up expensive logo-laden fashion in favour of high-quality gear that doesn't sing out its name but lasts over several seasons.

According to Cynthia Pickering, founder of **Time is Money Executive Concierge Inc.** in Calgary, this emphasis on value over bling can make the quietly wealthy difficult to spot at first glance. "You wouldn't know it if you saw them on the street," she says.

So, if one of your quietly wealthy clients isn't advertising his or her wealth by making flashy purchases, take the direct approach: sit down with the client and talk about what is important to him or her.

When it comes to the answers, it would be a mistake to assume that there are only two standard types: spenders and savers. The wealthy, after all, are looking for highly individualized service and are likely to resist being pigeonholed as one thing or another. It's important to refine the picture; the aim is not to alter personalities but to help your clients achieve their goals with respect to the balance between lifestyle and wealth accumulation.

The central problem is that too much spending can put enthusiastic consumers at serious risk. Consider that the annual consumption rate of conservative spenders tends to be 2%-4% of their net worth, in line with inflation for the general population. The burn rate of the flashy wealthy family or individual is somewhere in the 6%-12% range.

"The bottom line is that if somebody is consuming between 6%-12% of his or her capital and investments earn 5%-8%, guess what? That person is dipping into capital," says Thane Stenner, managing director of Stenner Investment Partners, which is affiliated with **GMP Private Client LP** in Vancouver.

Making that equation plain is one of the ways in which advisors can improve the long-term outlook for the excessive spenders. Unfortunately, advisors often fail to do so. "Advisors tend to overlook the importance of cash-flow management," says Sjogren, "in favour of asset management."

But many wealthy Canadians need advice about their spending habits. He recommends advi-sors ask for a client's tax return as a simple way to begin the business of understanding their income and spending habits.

Stenner suggests drawing the connection between disciplined spending and continued enjoyment of the clients' passions, be they wine, cars or travel. That way clients will take the lesson to heart, he says: "You have to draw a link to whatever you're doing for them back to their consumption." **IE** http://www.investmentexecutive.com/client/en/News/DetailNews.asp?IdPub=160&Id=43291&cat=30&IdSection=30&PageMem=&nbNews=

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