Family Trusts — Still in Style!!
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Brent Banda is a marketing and sales strategy consultant and author. Banda Marketing Group was founded in 1997. Brent has established himself by working with owner-managed companies that are launching new products, entering new markets, or adjusting to a changing competitive environment.

Brent assists companies in making marketing strategy decisions such as selecting a target market, setting prices, developing the company’s brand strategy, establishing distribution networks, developing products or services, and defining how the company’s advertising and promotional effort will support growth plans. He also provides assistance with sales management decisions such as determining the nature of sales positions, defining the sales process, determining compensation structure, establishing territories, developing training programs, and developing sales aids that can help improve salesperson effectiveness.

Guest Contributor: Frontline Industrial Solutions

Founded in 2005, and becoming a component company of PIC Investment Group in June of 2015, Frontline Industrial Solutions provides professional engineering, project management and business consulting to corporations, entrepreneurs and business owners.

Having historically been a professional placement firm focussed on the industrial mining sector in Saskatchewan, FIS has diversified its service offerings to become a more comprehensive project and business consulting firm. With expertise in engineering, project management, finance and human resources, we continue to operate with intentions of delivering value with our professional placement services, while including offerings with a more focussed business management support and project solutions service model.

Our Mission is simple. Focussed by our values of Integrity, Respect, Transparency and Innovation, the only objective of our highly skilled group of professionals is to guide our client’s projects to successful completion.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP in Saskatoon includes a Private Company Services practice representing some 85 per cent of its business and which services over 850 corporate and 2,500 individual clients. With this experience, PwC understands the environment owners operate in, and the issues they face.

PwC’s role is to help clients spot opportunities for growth, identify risk, realize savings, create value and help put the pieces together for business of all sizes, in all industries. It’s also about you and that is why they provide advice on your personal taxation, finances, succession and retirement planning. They focus on helping you.

Stevenson Hood Thornton Beaubier LLP

Stevenson Hood Thornton Beaubier LLP is a Saskatchewan law firm with 40 years of experience. Its clients include many of Saskatchewan’s most successful owner-managed businesses. The firm provides extensive services to its business clients including business ownership structuring, succession planning, and advising on mergers and acquisitions.

SHTB’s main practice areas are corporate and commercial law, estate planning, tax law, employment law, and civil litigation. In addition, the firm has assisted many of its clients in specialty areas such as tax litigation, pension law, and provided advice in insolvency-related matters.

Westcap Mgt. Ltd.

Westcap Mgt. Ltd. is a Saskatchewan venture capital and private equity Fund Manager, with over half a billion dollars under management, providing a wide range of investment banking activities to a diversified client base including institutions, retail investors, governments and high-net-worth individuals. Founded in 1991, Westcap has an uncompromising vision to build long term value for investors in a broad range of investment funds.

Westcap’s funds under management include Golden Opportunities Fund Inc., Saskatchewan’s first provincial labour-sponsored investment fund. Golden Opportunities Fund has been recognized as one of the top performing funds of its kind in Canada and was honoured as the inaugural recipient of the Canadian Labour Fund of the Year award at the Canadian Investment Awards. Investors in the Fund receive a 35 per cent tax credit on their investment of up to $5,000 per taxation year.

Assante Wealth Management

Our team at Assante works closely with owner operated businesses in Saskatchewan to help them make smart financial decisions about their money.

The three partners Dale Berg of Assante Financial Management, Ltd., Jason Sirman and Daryn Form of Assante Capital Management Ltd. have a combined professional financial career span of almost 75 years. We have worked hard to develop a breadth of experience and knowledge in wealth management, portfolio construction, and advanced financial planning. Our experience, combined with our scientific, process-driven approach to investing, is a key factor in helping clients achieve their personal goals. To further help our clients make smart financial decisions, we have helped develop and implement investment strategies built for high net worth families through one of the world’s leading private money managers.

We strive for a deep understanding of the Saskatoon business marketplace. We aim to help you make smart decisions about the wealth you have created in your business. By developing a plan that best utilizes that wealth through your lifetime, you can enjoy peace of mind knowing it will last for generations.
The Age of Education

BY BRENT BANDA

Do you remember when salespeople used to put their home phone number on their business card? Rarely did a customer phone them at home, but it was a sign that the salesperson was always available. Instead of phoning salespeople for information, customers now search the Internet. Customers in all industries now expect to connect at some level 24 hours a day, 7 days a week, 365 days a year. So businesses must always be accessible.

As consumers, we are spoiled. An auto dealership website that allows customers to book service appointments online at 3:00 AM would be viewed as progressive. Companies in a business-to-business industry may not be expected to take a phone call in the middle of the night, but it is entirely possible for an entrepreneur to be searching at 3:00 AM for information on software systems to manage production on the shop floor. By the time the software system vendors are open for business, that entrepreneur may have finalized a short list of companies to call.

In addition to search engines, customers often have a list of go-to websites for ideas or information on products and services. Some are fairly well known, such as houzz.com for home renovations. Others are obscure but have loyal followers in a niche community. A great example is DCrainmaker.com for products used in the sport of triathlon. This is an information-heavy site operated by an engineer and triathlon enthusiast. Both these sites influence consumer buying decisions.
The Internet has provided transparency to buyers. As customers, we don't even have to speak to a salesperson to find information such as which companies provide a certain service, the price, and differences related to features. More customers are well informed before entering the sales process.

Even in industries where companies do not post price information online, such as commercial construction, competitors have to be more transparent than in the past. It's entirely possible that a potential customer will review construction company websites to learn what type of work those companies have done and who they have worked for and to get a feel for their competency before contacting a short list for quotes or to be included on the bid list. It's not that a construction company will necessarily be selected based on its website, but an online information search is now ingrained in the way people make purchasing decisions.

Let's also examine how social media may have a role in our commercial construction example. A more progressive construction company may post photos of high-profile projects on social media sites such as Twitter, Facebook, or Instagram. Few potential customers for commercial buildings will see these feeds. But some will.

This type of information provides a window into the company culture. It adds a human touch to the company's brand, essentially its reputation in the marketplace. Visit Instagram.com/stratadevelopment for an example.

So what are the implications on strategy? Consumers are emboldened by having greater access to information. They are able to make better-informed decisions and to increase their demands on suppliers. The following are a few considerations for adjusting strategy to suit changing consumer behaviour patterns and an evolving competitive landscape.

**Know how your customers buy**

Listen to your customers and understand what they want and how they buy. Let's examine a retail example. A common term used these days is "omnichannel" marketing. A clothing retailer, for example, may sell through a traditional bricks-and-mortar channel and also through an online channel. But the customer just flips back and forth, perhaps viewing products on the website and then walking into the retail store to try the clothing on and make the purchase. In this case, the online store had a crucial role in the purchase decision, despite the fact that the product was purchased through the traditional retail store.

**Be the expert**

In a world where too much information is available online, customers are overwhelmed and gravitate to brands they trust. Customers want to connect with a servant-leader. They respect subject matter experts that provide resource information to the market at no charge. Education builds trust, which leads to a purchase, repeat purchases, and loyalty. For example, companies that sell water purification equipment for remote locations typically offer product information sheets. But customers do not want detailed product information early in the process. A background document on the various forms of purification methods available to customers would be more valuable and would position the company that authored the document as an industry expert.

**Interact with the customer**

Have a dialogue. In some situations, that means a genuine personal conversation. At other times, it means the customer reads your content or interacts with your website and brand. They may never actually speak to a person, but interacting with the website or with the brand in a retail store can be similar to forming a relationship. For example, Allen Edmonds is a respected shoe manufacturer in the US. The company has a loyal following, partly because it offers a variety of widths and models that ensure a good fit. Customers can get extensive product information, including help with sizing, from the website. Customers can also provide reviews directly on the site. Although few customers ever speak to an Allen Edmonds employee, customer comments provide the feeling of a dialogue.

**Predict the customer's next move**

If you understand the purchase process, and a customer behaves like they're in a certain stage of the process, you can predict what their next steps might be. Consider the example of a home painting company. A customer who subscribes to an e-newsletter featuring design ideas has a high likelihood of taking on a painting project within the next few years. If they download a document titled "10 Considerations When Hiring a Painting Contractor" you can bet they are further into the buying cycle. That knowledge might encourage you to work more closely with these active leads. If your document suggests that one of the steps is to visually confirm that the contractor's paint sample suits the decor of the home, your document could mention that a paint sample can be ordered online from your website and mailed to the customer's home. That final step takes them one step closer to a purchase.

We can expect to see companies continue to build their marketing and sales strategies around the needs of their customers. Company strategies are centring on delivering relevant products and services, providing useful information before engaging in the sales process, and nurturing customer relationships rather than just closing the sale. All of this is good news for customers.

**CONSUMERS ARE EMBOLDENED BY HAVING GREATER ACCESS TO INFORMATION. THEY ARE ABLE TO MAKE BETTER-INFORMED DECISIONS AND TO INCREASE THEIR DEMANDS ON SUPPLIERS.**

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A partial casualty of July 18, 2017

During the summer of 2017, it was difficult for accountants and tax lawyers to stop talking about the July 18, 2017, release from the Department of Finance entitled “Tax Planning Using Private Corporations,” which has targeted private companies and family businesses alike. However, it is not the intent of this article to address these measures directly (our esteemed legal author has most ably done that) but rather to point out some continuing virtues of one of the Department’s frequent casualties – the family trust.

Some background on the family trust

As a point of background, many private companies, particularly family businesses, have had a family trust in place to hold the common shares of the company. The common shares of the company are the shares that hold and accrue growth in the residual value of the company. This structure allowed for a number of tax planning measures, such as allocating a company’s dividends to adult family members and multiplying access to the capital gains exemption in the case of a sale of the private company. It is these measures that are rightly getting all the attention because they, along with other measures, are being curtailed by the government. As a result, it is understandable that many business owners would not only lament the elimination of these tax planning advantages but also question the continuing value of the family trust and more specifically, question whether there are any remaining advantages of the family trust continuing to hold the common shares of a private company.

The plain and simple answer to this inevitable concern is yes. Yes, there are still some important advantages to either maintaining or establishing a family trust to hold the common shares of a private company. The purpose of this article is not to precisely point out the specific technical support surrounding these advantages but rather to express, in general terms, what those continuing advantages are in our post-July 18 world.
Continuing advantages of the family trust

1. Estate planning
As you may know, when an individual dies there is generally a deemed disposition of their assets at fair market value for income tax purposes on their date of death. Minimizing the income tax payable on death that results from this deemed disposition (sometime referred to as the “death tax”) is at the root of the tax advisor community seeking to provide estate tax planning advice to our clients. Minimizing this tax is not always an easy task, particularly for private company owners who have lots of value locked up in their businesses. In addition, the recent release has taken measures to minimize the capital gains exemption opportunities in these situations and to ensure that higher dividend tax rates apply.

However, when a family trust has owned the common shares of the private company and consequently, in many cases, has held a substantial component of the company’s economic value, the family trust continues to own those common shares and that value is not taxable upon the death of an individual beneficiary who controls or operates the company. Remember that the family trust is a separate taxpayer distinct from any of the beneficiaries of the trust. As a result, there is no “death tax” on the value of the common shares of the company in cases where a family trust owns the common shares. The extent of this advantage will depend on the amount of death tax that is deferred (and allowed to remain in the business) but it’s safe to say that the family trust structure continues to be a key advantage in the estate tax planning field.

2. Transferring the business to the next generation
We have many clients who will say to us that they are ready to slow down or retire and would like to sell or transfer their business to their child but want to avoid having to pay income tax because of it. If it is the family trust that owns the common shares of the company there is no need to worry about either an intergenerational sale or a transfer of the company or income taxes that need to be minimized on that sale or transfer. That is because the family trust owns the common shares of the company and it will continue to hold those shares regardless of whether or not there has been an intergenerational transfer of the company. More precisely, that means that an intergenerational transfer of the company, in this context, is tax deferred. Clearly, the family trust continues to have value in these situations.

3. Ongoing purification of the company
After July 18, 2017 (and at the date of this article), the capital gains exemption on the sale of qualifying small business corporation shares still exists. This exemption remains an advantageous provision in the private company tax planning world and an incentive to own and benefit, on sale, from the growth in a private company’s value. However, for a Canadian controlled private company to meet the definition of a qualifying small business corporation it needs to ensure that at least 90% of the value of its assets is used in an active business carried on in Canada. For private companies that generate profits over time, this can be a challenging task. The key to remaining at 90% or more is to distribute this excess cash out of the company. However, while that is easy to do by declaring a dividend it is not easy to avoid taxes to the shareholders on those dividend distributions.

Family trusts with a corporate beneficiary provide a mechanism to minimize corporate income taxes when those dividends are passed through to the corporate beneficiary. The dividends are declared on those common shares to the family trust and the family trust allocates those dividends to its corporate beneficiary (what is sometimes referred to as the sister company or side company of the operating private company). This structure allows for the business to keep itself “pure” while avoiding or minimizing another layer of taxes as the excess monies flow from the operating company through the family trust to the sister company.

Concluding comments
As you can see, there continues to be significant advantages to the family trust structure – and by no means did this article highlight all of the continuing advantages. Simply put, the family trust is still an effective way of maintaining and optimizing family wealth!

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In my last article, I commented on the fact that the federal government was thinking about changing the tax rules that permit income splitting among shareholders of privately held family corporations (CCPCs). Presently, CCPCs can pay dividends on shares owned by family members or through a trust to the beneficiaries who are family members on a tax effective basis, provided that the particular family member is an adult (18 years of age or older) resident in Canada. On July 18, 2017, the Minister of Finance (Finance) formally announced that changes would be made to these tax rules starting in 2018.

The new rules are designed to (a) prevent dividend and capital gains sprinkling, and (b) eliminate planning that converts dividends into capital gains. As well, Finance is contemplating a new regime that is designed to penalize the accumulation of passive investment assets in private corporations. With respect to this last point, no draft legislation has been published nor do we know when these new rules may take effect.

Finance appears to be of the view that it is “fair” to have self-employed entrepreneurs treated the same way as salaried employees under our tax system. One would have thought that the risk/reward philosophy, which is a well-known investment principle, should carry over to tax policy. In other words, if entrepreneurs take greater risks with respect to their businesses (which, among other things, employ many Canadians), one would think that tax rewards should be provided to those entrepreneurs. This in fact has been the case since at least the time of the 1972 tax reform. Apparently, that is not the way Finance currently views the business world in Canada.

Interestingly, Finance has framed the discussion as looking to put in place rules to ensure we all pay our “fair share” of taxes.
They wish to close “loopholes that result in tax advantages for some at the expense of others.” Finance is considering “what actions should be taken to ensure that high-income individuals cannot use strategies involving private corporations to gain unfair tax advantages.” It is most unfortunate that Finance is framing this as an attack against upper-income Canadians. The very rules that Finance proposes to change are not tax loopholes at all. Tax rules permitting income sprinkling (discussed below) have been part of our tax system for decades and have long been accepted as fair and appropriate by Finance.

Nonetheless, we are now faced with a Liberal government that is intent on changing many of the tax rules that deal with the taxation of dividend distributions from CCPCs to their shareholders. Most of these proposed rules will take effect starting in 2018. Of significance, the following should be noted:

In 2017, the “kiddie tax,” or tax on split income (TOSI), applies to dividend income received by a child (generally under age 18) from a CCPC. (This is a simplified description of the rules.) If the minor child has split income, the child pays income tax at the highest personal tax rate on that income. This is the case even if the child’s “normal” tax rate would be far less.

Starting in 2018, the application of TOSI will be expanded. Not only will it apply to children under age 18, it will also apply to any individual resident in Canada (regardless of age) who receives split income derived from a business of a related individual who resides in Canada. At the heart of these new tax rules is the philosophy that unless you have “earned” your dividends (or taxable capital gains from a disposition of shares of a CCPC) as a result of your own personal contribution, whether by labour, capital, or risk, to the business in question, such income will be considered split income and subject to TOSI at the highest marginal income tax rate.

To put this another way, if two spouses are equal shareholders in an active business corporation, and one of them works in the business while the other does not, dividends paid to the spouse who does not work in the business will be subject to TOSI at the highest marginal income tax rate. This will be so even if that spouse has little or no other income in the year and would have had a very low (or non-existent) tax rate.

In 2017, if a discretionary family trust owns shares of a qualified small business corporation and disposes of those shares, the trust can pay out the taxable capital gain to individual beneficiaries who are resident in Canada. Those individuals, in turn, can claim the capital gains exemption to reduce the tax on the taxable capital gain paid out to them.

Starting in 2018, new rules apply. Any capital gain accrued in the hands of the discretionary family trust will no longer be eligible for capital gains exemption treatment in the hands of the trust’s beneficiaries. While a transitional rule is proposed, it is of little assistance after 2018.

One of the hallmarks of the Canadian tax system for decades has been integration. The theory of integration is that if a dollar is earned directly by an individual, the amount of income tax paid should be roughly the same as if the dollar had been earned directly by a corporation and ultimately flowed out to the individual as a taxable dividend. While the timing of changes is not yet known, Finance is considering the elimination of this integration on passive investment income earned by CCPCs. In some circumstances where a CCPC earns passive investment income and thereafter pays it out to the shareholders as a dividend, the effective tax rates could increase by more than 30%. It should be noted that the government is considering some sort of “grandfathering” for existing investment holdings in CCPCs. How that is ultimately going to work is not yet clear.

It is beyond the scope of this article to describe in detail the full extent of the proposed tax changes. Suffice it to say that the flexibility that has been permitted for many years in terms of income splitting with members of a family through a CCPC is proposed to come to an end starting in 2018. Given these developments, serious consideration should be given to planning that will take effect before the end of 2017 and the expiration of the existing rules.

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Over the years a variety of deal structures have evolved in different industries. These various structures have evolved out of necessity as parties innovate to share risk at acceptable levels to close transactions. Tools such as licensing arrangements, co-development deals, options, convertible securities, earn-outs, and vendor take-backs have become prevalent in certain industry sectors. As our economic environment changes, successful investors are beginning to recognize that structures born in one industry sector are beginning to translate to others in a melting pot of flexible investment options to balance risk between business buyers and sellers.

Typical deal structure in an industry like real estate would consist of transferring ownership of assets such as income-producing real property. In these cases, deals are structured in which sellers receive a large up-front payment and have no ongoing ownership or risk and no ongoing residual payment stream. When real estate is sold, the buyer writes a cheque to the seller and the buyer holds all the risk after closing.

A common misconception is that selling a business is like a real estate transaction. However, selling a business is becoming more complicated and parties demand more flexible structures to balance the risk between buyer and seller. In response, private equity investors look to other industries for more creative ways to share risk in order to close deals.

The life sciences deal
The life sciences industry is characterized by long project lifespans with large development budgets offset by the potential for exceptional returns. This recipe for a high-risk investment has been a breeding ground for unique deal structures.

A company developing a newly discovered compound must follow a daunting, arduous, and costly path to obtain enough positive data to have the drug approved for sale by the relevant authorities. The entire process requires millions of dollars and often over a decade to complete, with no guarantee that a drug will make it through the process. The Biotechnology Innovation Organization reported that of 9,985 new drugs in development from 2006 to

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2015, only 9.6% were approved for sale. So why would anyone in their right mind invest in new drug development? The reason is that if successful, a new drug may be worth billions of dollars.

How do life sciences companies raise capital, then? Early-stage life sciences companies will often obtain new investment in forms that promote risk sharing. To better illustrate how this works, start with the supposition that the new investors would be willing to pay large sums to acquire new, efficacious drugs approved for sale that could generate billions in revenue. A buyer signs an agreement to acquire a currently early-stage drug for cash and a royalty that is payable if the drug successfully reaches the end of its development. The buyer will make smaller cash payments up front and upon successful completion of development milestones. These funds can be used to finance clinical trials to complete the drug’s development over the next five to 10 years, after which the buyer finally acquires the drug.

The result of this process is that when an early-stage life sciences company is “sold,” the buyer and seller share the risk, with much still riding on the seller’s ability to achieve success. Deals such as these may be in the form of licensing, co-development, or option agreements and may be combined with equity investment.

Between real and intangible
Consider a common business sale with respect to the principle of risk sharing. An owner of an SME (small and medium size enterprise), for example, approaches a private equity investor offering to sell his or her shares. There is no clear succession plan in place. The seller also indicates that the market will improve and current earnings are considered lower than they will be in two years. In this case the seller wants to be paid for what they know the business can achieve in the future but the buyer will want to pay only for what the business currently earns. It seems like an impasse – until the concept of risk sharing is introduced.

 Normally, an offer to acquire this business might include an up-front one-time cash payment based on current earnings. However, the price paid for the business can be sweetened by introducing the concept of milestone-based payments in the future, which the purchaser will be happy to pay because the business is performing; the seller will be confident that they will receive the payments based on confidence that the business will perform. These milestone-based payments are often referred to as earn-outs.

Without a succession plan, any buyer will have to replace management and will require the seller to remain with the business during the transition. During this time, it is reasonable for a buyer to offer the seller incentives using an earn-out or bonus that would pay only with a successful transition. This is not unlike the buyer of a new drug paying cash on completion of development milestones. The SME seller is also seeking a higher valuation based on future growth. The buyer would be willing to pay the higher price if, in fact, the company can achieve the projected earnings. Again, this is like buying a new drug at a higher value only when the drug can be sold and generate profits.

While the SME case is less extreme than that of a drug currently in the early stages of development, the risk-sharing principle behind the two is the same. The up-front cash payment secures the buyer’s right to complete the acquisition at a higher valuation, which is achieved with the additional milestone payments when the company is genuinely worth more.

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Monkeying Around!

In Burton G. Malkiel's book *A Random Walk Down Wall Street*, an amusing comparison is made between the performance of professional money managers and that of hypothetical monkeys selecting stocks by throwing darts at the listings in the financial pages of the newspaper. In fact, there is a well-researched reason why the monkeys might actually do quite well in this scenario: they accidentally tap into some drivers of expected returns that professional money managers may not take into consideration.

Consider the graphic titled “US Stocks Sized By Market Capitalization” which represents components of a proxy for the US stock market (the Russell 3000 Index). Categories of stocks are represented by surface area on the target based on market capitalizations (share price multiplied by shares outstanding). Investors holding an overweight position in a stock (relative to its market cap weighting) are balanced by those who are underweight in that same stock. Therefore, in aggregate, the average dollar invested holds a portfolio that looks like the overall market, where large value and large growth stocks dominate.

In contrast, the following graphic “US Stocks Sized Equally” sizes all stocks equally, as they would be in a printed listing of stocks in the financial pages. If our monkeys were to use this version as their dart board, you can see that the majority of their darts would probably end up in the aqua area, which covers most of the chart. Therefore, small-cap value stocks would dominate the monkeys' portfolio.
Historical research is on the monkeys’ side, because over time, stocks of small companies have had greater returns than stocks of large companies have. Also, value (or low relative price) stocks have had better returns relative to growth (or high relative price) stocks. The monkeys’ randomly selected stocks therefore have a better chance of having higher returns than the market.

That said, we are certainly not advocating this haphazard approach to investing. Even a straightforward strategy, such as holding every stock in the Russell 3000 at an equal weight, would require frequent (and costly) rebalancing to maintain the equal weighting as stock prices change.

Fortunately, academic research has uncovered some drivers of higher expected returns and lays the groundwork for strategies that take advantage of the complexities of the market, without having to outguess market prices. A properly constructed portfolio takes into account a sufficient level of diversification, how to appropriately rebalance, and how to manage the costs associated with implementing your strategy. Most of all, a well-constructed portfolio is one that meets your needs over the long term and can ride out the inevitable rough periods in the markets.

Illustrations include constituents of the Russell 3000 Index as of December 31, 2016, on a market-cap weighted basis segmented into large value (blue), large growth (green), small value (aqua), and small growth (bright blue). Large cap is defined as the top 90% of market capitalizations; small cap is the bottom 10%. Value is defined as the 50% of market cap of the lowest relative price stocks; growth is the 50% of market cap of the highest relative price stocks. The determinations of large value, large growth, small value, and small growth do not represent any determinations Dimensional Canada may make in assessing any of the securities shown. Source: Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.
A project may be defined as the creation or enhancement of a product, a service, or an outcome such as research knowledge. It may also take the form of hiring key personnel, launching a new product, making an acquisition, or constructing a new office building. Because all projects are, by definition, temporary in nature (some may take days, while others may span years), there will exist a specific beginning and a planned end to meet the project objectives. With ever-increasing business velocity, the “speed to market” of your desired project results may become a significant factor in determining the timeframe available for vigorous project planning.

All too often in the process of considering or planning a new project, this time pressure anxiety is elevated by our passion and excitement for the creation of something new and transcendent, overriding the need to logically and unemotionally assess the opportunity. We as humans are hardwired to solve problems, and sometimes when we have a vision or dream that “we just know” will solve a problem, we follow our gut and dive into something new and begin innovating solutions before ensuring that it is feasible financially, operationally, and practically.

We as entrepreneurs all generate grand visions of the future, grand projects that will change the face of our industries, or simply aspire to drive innovation in areas we perceive as needing updating. Without these visionary outlooks, we would not strive to move forward, seeking new methods and more efficient solutions to propel a healthy and progressive economy. Tethering this optimism to a reality-based project assessment and due diligence process to best capitalize on this energy can lead to powerful results. Experience shows that coupling visionary outlooks to robust planning creates a very powerful formula for project success. Harnessing the energy derived from verifying a vision conceptually will allow you to apply it directly to the actions required to convert that conceptual vision into reality. Think Tesla!

One of the largest challenges a project manager faces is ensuring that optimistic energy is not restrained at the project onset while the required “boring stuff” is sufficiently fleshed out to ensure successful project delivery. But for your project to be effective, guaranteeing your desired results are delivered, you must have an efficient plan. Efficiency is born out of methodically identifying and organizing your project requirements in a manner that will reduce wasted time and money. While this may seem like an overwhelming process that will take far too much time, without a solid foundation to build on, your project will teeter and experience unnecessary risks and costs as you navigate all the pitfalls that a proper project plan would have identified and avoided. Spending the time upfront may cost a “few dimes” initially, but the successful delivery of your project will mean that you’ve minimized costly schedule delays, scope creep, and cost overruns… saving you dollars by the end.
LIKE MANY PROFESSIONAL SERVICE PROVIDERS, PROJECT MANAGEMENT PROFESSIONALS APPLY THEIR EXPERIENCE THROUGH A LOGICALLY THOUGHT OUT FRAMEWORK IN A COMPLEX TASK-BASED ENVIRONMENT.

So, take a deep breath and break out some scrap paper; it’s time to slowly begin to build your project foundation. As Stephen Covey says, “slow is fast, and fast is slow.” Seemingly counterintuitive, but by spending the time up front to develop a well thought out statement of owner requirements (SOR), you are laying the cornerstone for a very strong project foundation. Slowing down now and methodically documenting your project requirements will give you and your project manager a clear roadmap for your project. Once your SOR is complete, the speed of your project delivery will increase substantially as you stay focused and accountable to your plan, versus freewheeling and focusing on avoiding all the pitfalls you didn’t see coming.

The purpose of your SOR is to convert your conceptual vision into a tangible project identity. This information will become the building blocks for your project management plan. Consider the following when crafting an SOR:

1. Project name and definition
2. Opportunity statement, or the purpose for the project
3. Goals, objectives, requirements, and expectations
4. Identity of owners, sponsors, and all other relevant stakeholders
5. Scope of work, budget, and change management procedures
6. Milestones, or stage gates
7. Project closure requirements

Like many professional service providers, project management professionals apply their experience through a logically thought out framework in a complex task-based environment. The Project Management Institute has developed, and continually evolves, the globally recognized standard and guide for project management, along with the globally applicable Project Management Institute Code of Ethics and Professional Conduct. These best practises and guidelines for successful project management are published as The Project Management Body of Knowledge (PMBOK) Guide, which is currently in its fifth edition. In simple terms, the PMBOK states that “Project Management is the application of knowledge, skills, tools, and techniques to project activities to meet the project requirements.”

Upon completion of an SOR, the complexity of project delivery can be segmented into five core project delivery phases, referred to as process groups. The initiation process phase marks the beginning of the ride! It is here that the vision, planning, and hopes are given life.

1. **Initiation Process.** Once the SOR is finalized, the project charter will be created, which will formally evidence the existence of the project and authorize the project manager to begin.

2. **Planning Process.** Defining, preparing, and aggregating all component plans into one comprehensive Project Management Plan.

3. **Executing Process.** Performing the work defined in the Project Management Plan; considering and implementing approved changes.

4. **Monitoring and Controlling Process.** Tracking, reviewing, and reporting project progress against the Project Management Plan.

5. **Closing Process.** Finalizing all the components of the Project Management Plan and formally signing the project over to the owner.

Let’s take a minute to recap what we’ve learned. Project development is an exciting time influenced by highly charged emotional and time-pressured environments. Well intentioned thought, analysis, and order will allow us to create the most effective project delivery model by ensuring we are operating within the most efficient framework. At the outset of a proposed project, hit the brakes, take a deep breath, and truly examine your project with a subjective mind – and remember, slow is fast!

Ensuring that your vision is mated to thorough financial and technical data that supports your project needs will allow you to realistically execute your vision through the best project delivery model available. It should follow that you turn your concept into reality with few surprises… other than being on time and on budget!

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