



# YOUR BUSINESS

NEWS FOR INVESTORS & ENTREPRENEURS

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## savvy investor

### Meltdown leads many to look at bonds for a safer financial harbour

TERRY McBRIDE  
CANWEST NEWS SERVICE

**SASKATOON** – Following the credit crisis and the stock market meltdown, investors have been looking at holding bonds and other types of guaranteed investments.

We'll look at real return bonds, corporate bonds and segregated funds with guaranteed minimum withdrawal benefits.

#### Real Return Bonds

RRBs are Government of Canada bonds that pay you a rate of return which is adjusted for inflation. Unlike regular bonds, this indexing feature helps preserve your purchasing power regardless of the rate of inflation.

An RRB pays interest June 1 and Dec. 1 based on an inflation-adjusted principal. At maturity, the RRB repays the face value in inflation-adjusted dollars. If there is deflation, the face value can decrease.

RRB interest is fully taxable as ordinary income as you receive it. Note that the inflation adjustments to the face value are taxed each year as ordinary income, as they accrue. But you won't actually receive this accumulating "inflation compensation" face value component until your RRB bond matures.

Some mutual funds specialize in holding RRBs. Because their management-expense ratios exceed 1.5 per cent, you can expect that one-third or more of your returns will be eaten up by fund expenses. By contrast, if you buy an RRB directly from a broker and hold it to maturity, the commission you pay can be amortized over a number of years.

There is an RRB Exchange-Traded Fund that provides the same benefits as a RRB mutual fund but charges an MER of only 0.35 per cent. Check the duration (average maturity) of the RRB ETF because a long duration usually makes the market price more volatile, since it's sensitive to changes in inflation expectations.

Following the market meltdown of 2008, the switch from stocks into the bond markets has driven up bond prices and made it possible for RRBs to achieve reasonably attractive returns. If you buy RRBs, make sure that the current real yield-to-maturity actually meets your needs. Then, plan to hold the RRBs until maturity.

#### Corporate bonds

Some investors are reluctant to invest in bonds because the yields are quite limited, especially for government bonds.

Those who seek higher yields may consider investing in corporate bonds as an alternative to equities. Of course, any time you seek a higher reward, you must be willing to tolerate a higher degree of risk.

Check the corporation's credit rating. Think of what could happen if the borrower defaults. In the case of corporate bonds, the return of your money becomes just as important as the return on your money.

#### Guaranteed Minimum Withdrawal Benefits

Segregated funds with guaranteed minimum withdrawal benefits have been growing in popularity since they were introduced in Canada in 2006. The GMWB is promoted as an alternative to managing your own portfolio of equity and bond investments.

GMWB investors hand over complete control of their money to a life insurance company in exchange for contracts that provide cash flow, with some modest growth, but without risk. Annual fees range from three to four per cent.

To back their GMWB contracts, life insurance companies are required to hold reserves. Unfortunately for the insurance companies, their equity-oriented reserves have been hit hard by the 2008 stock market meltdown in the crucial early years of GMWB contracts purchased when the market was riding high. The rising cost of GMWB contracts for insurance companies has been proving difficult to sustain.

To stay profitable, insurance companies are considering making changes for future purchases of GMWB contracts. Expect fees to increase. Similarly, guaranteed rates of return and market lock-in frequencies will probably be reduced. As well, to minimize losses, clients may have to make their portfolios more conservative by reducing the equity content and increasing the proportion of bonds held.

Terry McBride is a member of The Financial Advisers Association of Canada and works at Raymond James Ltd.

## the entrepreneurs



Jaycee Abrams, 27, describes herself as a "quick learner." Entering the workforce with a degree in psychology in 2004, she created her own firm, Brooklyn Promotions Inc., a little more than three years later.

SELF-STARTER Jaycee Abrams got her first taste of the business world in 2004 – and by 2007 she was running her own company

# Bridge builder

MIKE KING THE GAZETTE

In her sophomore year as a one-woman marketing machine, Jaycee Abrams is enjoying the results of bridging her psychology training with a natural business savvy to remain successful in this difficult economic climate.

Fittingly, her Brooklyn Promotions Inc. company logo features the iconic New York City span.

"My dad was born in Brooklyn and my grandmother moved there in the 1920s, so that's why I used the bridge," Abrams explained to The Gazette last week.

Not only does she find Gotham great, but also the challenge of growing an enterprise under tough circumstances.

If anything, however, the 27-year-old McGill University psychology major said the state of the economy is working in her favour.

"When the economy is bad, that's the best time to promote and advertise your business," she said from the home office in Côte St. Luc she operates to keep overhead costs low.

After getting her B.A. in psychology from McGill in 2004, Abrams decided she wanted to explore the business world and get experience in it before

returning to school to further her studies.

Once she got a taste and realized "this is what I love doing and I'm good at it," there was no going back to a classroom.

Her first post-studies job, at a Montreal clothing designer, saw Abrams doing everything – including being a fit model – but primarily learning the ins and outs of manufacturing.

"I'm a fast learner and, after a few months, I knew more than the people who trained me," she recalled.

That company would later become one of her first clients.

The next stop was a stint at a local marketing and advertising firm, where, in her first year there, she tied for the silver award for Customer Service Representative of the Year from the 1,700-member Promotional Products Professionals of Canada.

At the end of two years, "I'd gone as far as I could and knew I had the tools necessary to go into business myself."

With a \$10,000 investment from personal savings and financial assistance from her family, Abrams launched Brooklyn Promotions in November 2007 to specialize in product and brand awareness

through the distribution of promotional items.

There were lots of cold calls starting out, and lots of help from friends as well as her father, Gary Abrams.

Not only does the corporate lawyer direct some business clients his daughter's way, he also provides her with what she said is "great legal counsel at a preferential rate."

Her degree in psychology "helps me read people and understand them better" while the early job experience provided her with hands-on knowledge and background in the manufacturing and retail sectors.

"I try to stay ahead of the trends and to find original products that make my clients stand out and do better business," said the tireless Abrams, who often works seven days a week and is always at her customers' disposal.

"I'm constantly on the lookout for new product."

She has a pool of millions of different promotional items to choose from through the 200 Canadian and nearly 1,000 U.S. suppliers she works with.

"When my suppliers are struggling, my clients are reaping the benefits," she said. "I help narrow down selec-

tions for clients and find them the right product at a better price than anyone else."

Sarah Kroll, an executive at a Montreal communications and advertising agency, recalled interviewing Abrams for a job with her firm.

"I wanted to recruit her for our company, then a couple of months later she announced she was starting her own company," Kroll said. "Now she's a preferred supplier for us and a real pleasure to work with."

Jonathan Abelson learned about Abrams through word of mouth and not only uses Brooklyn to provide promotional items and customer give-away gifts at his home-decoration textile company, Abrams has supplied him with uniforms and other clothing items for sports teams he's involved with.

"She's rather young, but quite the performer," Abelson said.

"She has a lot of ideas and different ways of approaching things that I find helpful for me."

**On the Web:**  
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