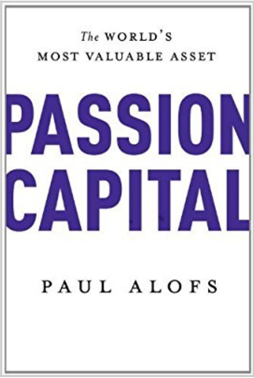

Passion Capital: The World's Most Valuable Asset

By Paul Alofs

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Passion Capital is a revolutionary asset that will completely change your idea of how to build long-term success for your career, company, or cause.

Ask leaders in any country this essential question: “What is your most valuable asset?” and they may suggest one of three traditional forms of capital – financial, human, or intellectual. These are intelligent, well-meaning answers but they are also completely wrong. More valuable than money, human resources, and intellectual property, **Passion Capital** is what separates leaders from followers, and innovators from imitators. It is the foundation upon which all other forms of capital are built. Passion is an emotion, but **Passion Capital** is tangible. It is the energy, intensity, and sustainability leaders use to build lasting value and competitive advantage.

Organizations that possess **Passion Capital** – Apple, Johnson & Johnson, Four Seasons Hotels, the Montreal Canadiens, among others – lead their sectors, while those that rely on established forms of capital may get stuck in neutral and fail to achieve their full potential.

Passion Capital presents seven principles for growing and investing in this new asset class and includes over fifty insightful stories drawn from business, not-for-profit, the arts sector, and politics. In this groundbreaking book, veteran business leader Paul Alofs ushers in a whole new way of thinking about the very definition of success and reveals how to acquire the world’s most valuable asset and apply it to your career, company, or cause.

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Passion Capital: The World's Most Valuable Asset By Paul Alofs Bibliography

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Editorial Review

Review
"Inspiring and powerful -- now this is a 'must read' for retailers! I could not put the book down....*Passion Capital* is today's business bible for success." Diane J. Brisebois, president & CEO, Retail Council of Canada

About the Author
PAUL ALOFS is an award-winning innovator who has run the 500 North American Disney stores while based in Los Angeles as well as HMV Music Stores and BMG Music while based in Toronto. Since 2003, he has been the CEO of The Princess Margaret Hospital Foundation and has helped raise over $550 million for one of the world's top five cancer research centres. Paul has been named Innovative Retailer of the Year, Music Industry Executive of the Year, and was an inaugural inductee into the Marketing Hall of Legends. *Passion Capital* is his first book. The author lives in Toronto.

Introduction

“The rich are different: they are more ruthless.” —economist Sam Khater

“Fuck my victims.” —Bernie Madoff, Ponzi swindler

“M y God, that’s disgusting,” said Alice Campbell, wiping away a tear. “That just blows me away, it really does. There’s no justification, there’s no justification for that. The greed—it’s unbelievable.”

“You think that’s what it is—greed?” asked Gillian Findlay.

“Yes, I believe that. It’s total greed. That’s all it is,” replied Campbell.

It was November 2009 and Findlay, a veteran television reporter with the Canadian Broadcasting Corporation (CBC), was interviewing Campbell at her one-storey home in the bedroom community of Georgetown, Ontario. A sixty-year-old grandmother and former plant worker at Nortel Networks Corp., Campbell was immobilized due to botched back surgery she had undergone in 1987 and was in desperately poor health when Findlay and I visited that fall. She had diabetes and a weak heart, and needed oxygen from a portable tank. The ventilator and a kaleidoscope of pills for her various ailments were costing her $8oo a month.

Nortel had gone bankrupt the previous winter and Campbell was one of the 400 former Nortel employees in Canada whose long-term disability income-which in her case amounted to $1,100 a month was going to disappear as a result. Adding to her woes was management's removal of$103 million from the company’s health and welfare fund, which meant her pension would be woefully inadequate. Campbell and her retired husband faced a daunting future: even with the disability income, they were barely scraping by.

But insult was about to be added to the former plant worker’s injury.

As a producer with the CBC’s Investigative Unit, I’d been leaked an internal document which revealed that seventy-two executives and managers still employed by Nortel had quietly awarded themselves US$7.5

million in bonuses, and that was on top of US$45 million in bonuses promised to the company’s managers earlier that year. Nortel had gone bust, losing tens of billions of investors’ dollars and laying off most of its staff, and now the bosses appeared to be rewarding their own failure. When we showed Campbell the document, she was understandably outraged: her once-proud employer had gone to the dogs, in her view, and left people like her to the wolves.

With annual revenues of $9 billion and shares selling at $120, by the mid-199os Nortel had become Canada’s pre-eminent high-tech multinational, praised as a paragon of innovation and a surefire investment, and few forward-thinking Canadian investors didn't hold Nortel stock. The corporation was the talk of the town on Toronto’s Bay Street, Vancouver's Howe Street, in the financial districts of Montreal and Calgary, and at Tim Hortons outlets across the country. Later in the decade, however, Nortel's senior management began messing with the books, giving investors a fraudulent picture of the company's financial health. While this manipulation of numbers fattened executives' bonuses and stock option plans, it would eventually engulf the company in scandal and send it into a fatal tailspin. By
2007, the Ontario Securities Commission (OSC), the U.S. Securities and Exchange Commission (SEC) and the RCMP had charged eight of Nortel's former top executives, including one CEO and a chief financial officer, for fraud and the company was forced to pay nearly $3 billion to settle investors' lawsuits. It would not recover.

The demise of Nortel was but one more outbreak in a widespread epidemic of executives enriching themselves at the expense of investors and employees. In case after case, companies had cooked their books, falsified quarterly reports and inflated share prices; then, after the firms went bust, bankruptcy receivers moved in and sold off the pieces, usually to foreign bidders who, in turn, moved key research and development and management jobs offshore. The worst of this corporate culture caused the 2007-2009 credit crisis and the near total meltdown of the global financial system, a debacle initiated by bankers and traders and hedge fund managers who peddled bogus investment products to unsuspecting investors. Banks and brokerages in the United States and across Europe collapsed or required government bailouts, and by 2012 the value of total write downs and losses resulting from the global crash had surpassed $4 trillion.

The credit crisis exposed the moral turpitude of a financial industry more than happy to sell products that would destroy its own business and ruin its customers along the way. If it wasn't short sellers driving up oil prices by as much as $6o a barrel in 2co8 (as they would again in 2ou), exacerbating the post-crash recession and causing food shortages in some parts of the world, it was revelations about the world's most powerful investment bank, Goldman Sachs Group Inc., that “great vampire squid wrapped around the face of humanity relentlessly jamming its blood funnel into anything that smells like money;” as *Rolling Stone* described it. Goldman grew adept at selling securities to investors based on pools of mortgage debt. They would then conspire with hedge funds who shorted those very same pools: that is, Goldman was betting that its own lousy product would collapse so they and the hedge funds could cash in on their investors' losses.

While this house of cards was tumbling down in the United States, Canada’s $6.3 trillion financial sector (which is the total value of our capital markets) seemed to be weathering the storm. The nation's chartered banks and brokerage houses had remained solvent and some important people noticed. As Andrew Coyne remarked in *Maclean’s* magazine in 2009, “One of the odder turns in the financial crisis has been the emergence of what can only be described as a worldwide cult of the Canadian banks.”

The *Financial Times* called Canada's banks “the envy of the world,” and no less than U.S. president Barack Obama, former Federal Reserve chairman Paul Volcker and *Newsweek* editor Fareek Zakaria piled on the praise. Even Nobel Prize-winning economist Paul Krugman, under the headline GOOD AND BORING, added to the hype in his *New York Times* column: “We need to learn from those countries that evidently did it right. And leading that list is our neighbor to the north. Right now, Canada is a very important role model."

Had Canada truly got right what its southern neighbour had allowed to go so catastrophically wrong? I've been reporting business stories since the late 198os and have interviewed countless CEOs, and despite the time I've spent in that world, the banking and brokerage industry has always remained an arcane and mysterious landscape for me. This view changed after I began researching the credit crisis for the CBC and was able to inch back the curtain on this little-understood industry and reveal a much darker reality beneath. The hype about Canada's financial business, it appeared, was just that.

For one thing, the federal government *had* bailed out Canada's banks. In October2oo8, Prime Minister Stephen Harper's Conservative government created a program to move tens of billions of dollars in assets off the banks' balance sheets in order to free them up to continue lending. For another thing, overwhelming evidence revealed that Canada was actually a premier haven for investment fraud, a country where white-collar criminals faced little fear of being caught or seriously punished for their crimes. Over the quarter century leading up to 2012, fewer than twenty Canadian white-collar criminals had actually gone to jail. Yet the damage caused by these crooks and others like them was reflected in the nearly $15 billion worth of losses due to securities fraud that plaintiffs were pursuing in lawsuits during 2010 alone.

Court actions like theirs were proliferating. In 2005, with the credit crisis unravelling and rampant corporate malfeasance coming to light north of the border, investors filed a record nine new securities class action lawsuits in Canada-a 125 percent increase over the previous year. Over the two decades leading up to the crisis, the number of investment fraud stories had indeed been piling up-from Bre-X to Conrad Black, Nortel, YBM Magnex, Portus, Norshield, Livent, asset-backed commercial paper (ABCP), income trusts, and rogue brokers including Ian Thaw and Harry Migirdic, just to name a few-and investors were taking notice. Above all else, they were astonished by the lack of action on the part of market regulators and law enforcement agencies, the very institutions they expected to control and punish those who had swindled them. And therein lies another story, one particular to Canada.

VIRTUALLY ALL CANADIANS are affected by investment fraud, because we are all investors. Every pension plan, RRSP, mutual fund, insurance contract, mortgage, car loan, commercial lease, bank loan and dollar worth of credit card debt ends up in the financial markets as a direct investment or as debt that's turned into an investment product. For this reason, when the credit crisis struck, it produced a widespread domino effect that has continued knocking down victims over the ensuing years and touched nearly all of us in some way.

If Alice Campbell's situation opened my eyes to how corporations can remorselessly gorge themselves at their investors' and employees' expense, even after being proven guilty of criminal wrongdoing, a more personal story shows how the financial industry not only harbours fraud but has changed into a system that encourages it-or, in cases you'll read about later, even requires it. As I look back at what I've learned about this business, I see that, like the experiences of so many Canadian families, those of my own serve as a microcosm of how investment fraud became so widespread.

In the 1980s, just as they were about to retire, my parents sank their savings into the Principal Group, an Edmonton-based investment company. They did so on the recommendation of their accountant, who happened to be the father of a good friend of mine. In 1987, Principal collapsed amidst charges of fraud and $457 million of investors' money, including my parents' savings, vanished. Provincial governments across Canada had to step in and bail out Principal's investors. My parents, who fortunately got most of their retirement money back, had trusted my friend's father, who in turn had trusted Principal's owners, who had convinced regulators that they were running a legitimate company, which they were not. This is a pattern

I've seen repeated time and time again while researching this book.

Years later, in 2007, I took the advice of a Bank of Montreal (BMO) investment adviser and parked my CBC pension monies in an RRSP made up of mutual funds. There were two things I didn't know when I did this: one, banks skim sizable fees even from simple investment products like mutual funds, and I would be looking forward to a substantially more comfortable retirement if I had left the cash in the pension plan; two, the credit crisis's first tidal wave was about to crash over the markets. Of course, my investments tanked. Then, throughout 2oo8, my retired and ailing mother (my father passed away in 1992) failed to recognize that her portfolio had plummeted by $130,000 as a result of the global financial crisis. This was money she could ill afford to lose as we, her children, contemplated moving her into assisted living.

As I was both witnessing the all-encompassing power of the financial industry and feeling its impact on my own life, I also understood something fundamental about the way Bay Street had come to operate. The financial industry has drifted far from its original purpose, which had been-and which most of us presume remains-to raise money to help companies grow and to enrich investors willing to risk money in those businesses. Instead, it has morphed into a wealth destroyer, a parasitic reaper of money from the middle and working classes, transferring it to the very people who run the financial industry and Canada's wealthiest citizens. In 2011, our richest 1 percent made 14 percent of the nation's total income (that figure approached 24 percent in the United States), a share that has doubled since the 1970s. One-third of all income gains across Canada since 1997 have gone to that lucky group. For the very rich (those who average $1.5 million per annum), their share of national income has more than doubled in that time to 5.5 percent. In 2010, bonuses paid by the Big Six banks reached $8.9 billion, the highest ever before jumping to $9.5 billion in 2011. Meanwhile, the top federal marginal income tax rates dropped from 43 percent in 1981 to 29 percent in 2010.

But this reaping of riches has come at a terrible cost. In Canada, while the rich got richer, middle-class incomes stagnated. The median family income in 1980 was $58,000. By 2006 it had actually fallen to $57,700 as expressed in 2005 dollars when inflation is taken into consideration. Unable to make ends meet, Canadians have increasingly tapped into the easy credit the financial industry offers. In fact, Canadian household debt has soared at a rate of 9 percent a year. A study released by the Vanier Institute of the Family, an Ottawa based independent research organization, said that Canadian households had an average debt load of$1oo,ooo in 2011, or 150 percent of income, meaning that for every $1,000 in income people earned, they owed $1,500. (The Certified General Accountants Association of Canada, using a slightly different yardstick, said that if household debt was spread evenly across all Canadians, a family in 2011 with two children was carrying about $176,000 in debt, which included mortgages.) The bulk of this $1.5 trillion in consumer debt is owed to the financial industry.

This pauperization of the middle and working classes is the main reason the credit crisis occurred in the first place, and why the subsequent recession has lingered. Saddled with debt and earning less income than in the past, consumers no longer have the disposable income to buy goods and services or, in too many cases, to pay down their mortgages. This latter shortfall triggered the collapse of the U.S. subprime mortgage market in 2007, which in turn led to the entire financial industry's deep tumble into the abyss. As Nouriel Roubini, the New York University economist known as "Dr. Doom" (because he predicted the credit crisis), told *The Wall Street Journal* in 2011, capitalism risks destroying itself because "you cannot keep on shifting income from labour to capital without having an excess capacity and a lack of aggregate demand. That's what has happened. We thought that markets worked. They're not working.... Every firm wants to survive and thrive, thus slashing labour costs even more. But my labour costs are someone else's income and consumption. That's why it's a self-destructive process."

Moreover, bankers and brokers once raised money to bankroll manufacturers, but as Canada has deindustrialized, this role has declined enormously. Leading up to the crash, manufacturing as a vital sector was on the wane, with hundreds of thousands of often well-paying jobs lost. Employment had been growing instead in the "financial services industry," part of the paper economy of virtual wealth. It's as if Canada was (and still is) getting out of the value added business and returning to its colonial status as drawers of water and hewers of wood -and, of course, extractors of minerals and hydrocarbons. Overlaying all of this was a financial sector that was becoming "too big to fail." And that financial sector was making money less by investing in manufacturing and more by playing on the markets, often with synthetically created products that had no real economic purpose.

The accumulation of wealth by a small percentage of the population and the imaginary quality of our financial sector are not specific to Canadians, but worsening the situation here is the fact that neither of these trends have been mitigated by regulators or government oversight. With the exception of Bosnia-Herzegovina, Canada is the only nation of the more than one hundred countries that make up the International Organization of Securities Commissions (IOSCO) that does not have a national securities regulator. In place of such a crucial body sit thirteen largely ineffectual provincial and territorial securities commissions. Whether it’s for want of a strong regulatory arm or a more general unwillingness to police a financial industry run amok, the federal government habitually allows financiers to walk away with dollars that rightfully belong in public coffers. Former RCMP fraud inspector Bill Majcher told me about an investigation he once participated in that uncovered a massive tax scam engineered by the financial industry through “dividend swaps”-basically a way to avoid paying non-resident taxes on dividends that cross the border. The practice was found to be commonplace on Bay Street, he said, but the federal government had no interest in doing anything to stop it. Says Majcher: “The Canadian government is being ripped off by billions of dollars.” Strangely enough, it doesn't seem to care.

Diane Urquhart, who spent two decades working on Bay Street as a financial analyst for the big brokerage houses, estimates Canadians lose roughly $2o billion a year because of investment fraud and related scams. One survey says that more than one million Canadians have lost money at some point in their lives to this type of crime.

Which invites the question: why has Canada become a sanctuary for this behaviour? The answer might stem from the nature of the Canadian establishment. Modelled on the Family Compact-that sclerotic group of officials who dominated the legislative bodies, top bureaucratic positions and judiciary of Upper Canada as an incestuous pseudo-aristocracy up until the 184os-today’s establishment coalesces in clubby fiefdoms in Halifax, Montreal, Toronto, Winnipeg, Calgary and Vancouver, where they live and work together, protecting each other's interests. “Canada is dominated by business oligopolies and the consumer is fucked!” one former high-ranking (and very wealthy) banker told me on condition of anonymity. And yet the consequences of financial fraud suffered by Canadian consumers are huge. International investors are leery of putting their money into countries where there is poor regulation of capital markets and little punishment for those who commit securities fraud; why would they risk their money in such nations? Thus, rampant fraud in our capital markets means less investment in Canada's economy and stunted growth overall. For victims, especially senior citizens, it also might mean the loss of a lifetime's worth of hard-earned savings.

As I began researching fraud on Bay Street and in the rest of Canada's financial industry, I was constantly amazed by how many financiers would steal from clients, widows, friends and even their own families, without remorse. I saw how banks and investment houses manipulate the system so that once they control your money, it's almost impossible to get it back-even if you're blatantly robbed. American Ponzi schemer Bernie Madoffs remark to a cellmate “Fuck my victims”-could serve as an epithet to be carved on the porticoes of Canada's financial institutions.

AND WHAT BECAME OF ALICE CAMPBELL? She didn't live to see the final pillaging of Nortel, during which the company’s rich technological heritage was sold off piecemeal to foreign companies.
Alice passed away in April 2010, and undoubtedly hastening her decline was the stress of knowing she was about to lose her disability income. In that conversation with Gillian Findlay, she summed up the feelings of everyone affected by investment fraud: "They don't care about the little man. They want to have the whole world to themselves. They are taking our share and it's not right."

“Good and Boring;” as Paul Krugman declared? I don’t think so. “Hear no evil, speak no evil,” is more like it. This book sets out to reveal why Canada has become a popular place for investment fraud and thievery, and what the consequences are-and not just for the Alice Campbells of this country, those small investors who can lose a lifetime of savings with one wrong turn. It will examine how bankers and brokers and the very wealthy rob from investors and companies, and how our vaunted financial institutions peddle dangerous investment products and contributed to the U.S. subprime mortgage crisis, the reverberations of which are threatening entire national economies. It's about the ways that credit rating agencies, underwriters, analysts and lawyers enable fraud, and how regulators and law enforcement sit on the sidelines and do little to stop the fiascos from unfolding. If, like so many of us, you've bought the line that Canada’s financial industry is safe and sound and worthy of your respect, prepare to be robbed of something yourself: your faith.

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