

COMMENT

On trusts and greedy media

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Roughly 25 new income trust offerings have lost more than half their value in the past few years after being sold mostly to retail investors. The common reason behind the \$2.1-billion in losses is clear: pure, unmitigated greed. Greed by investors, greed by underwriters, lawyers, and accountants, and greed by the media.

We should focus on that last cohort first, because without the greed of the media, investors wouldn't have been burned as badly as they were by income trust investments over the past few years.

It seems investors have forgotten that the media are businesses too. They survive on advertising dollars, and they rely on content to fill their pages and airtime. In the case of income trusts, the two frequently went hand in hand. Both national newspapers ran several insert sections dedicated solely to income trusts. Pages of lucrative advertising dollars were accompanied by puff pieces on income trust investing.

I had to laugh recently when that other newspaper's television station renamed itself, partly because it didn't like people referring to it as "rob" TV. After all, what could have been a more telling name during the past few years, considering the parade of shills that regularly circuited through the station, misleading investors about the risks of income trust investing?

However, it's not just greed for money that has infected the

media, it's also greed of ego that is doing investors a serious disservice. Lately, it's a couple of regular business columnists who seem to be hell bent on ignoring plain facts so they can bask in the attention they get from being mouthpieces for pro-trust lobbying efforts.

It's hard to pinpoint exactly when the entire income trust mess got out of hand. But, when small-cap cyclical companies started being pawned off directly onto retail investors (instead of via institutional fund managers), it became clear that things were going to end badly for some people. And without the media acting as the great lubricators of mental insouciance, it never could have gotten as far as it did.

Those who understood the risks of income trusts did quite well, by recognizing the opportunity to invest in good businesses early, and to disregard or even short poor-quality trusts as the calibre of new offerings declined. Two investment management firms in particular, Gluskin Sheff + Associates and Leith Wheeler Investment Counsel, showed significant prescience in this area.

Leith Wheeler has been publicly referring to some income trusts as mere Ponzi schemes as far back as the summer of 2004. In May, 2005, Gluskin Sheff set up its Income Trust Hedge Fund to take advantage of clear overvaluations in the trust sector for its clients.

Of course, that's been the story of the trusts all along. A bifurcation of quality that was squarely understood by certain institutional investors, but roundly misunderstood by the media.

Company	Last Price	Change
Cisco Systems Inc	24.40	+0.27
Cognos Inc	40.33	-0.57
Various other stocks

SIMON HAYTER / NATIONAL POST FILE PHOTO

The problem with trusts is that too many investors ignored basic market fundamentals.

All of the risks that investors have encountered along the way (including the taxing of trusts last October) could have been foreseen if not for the media wrapping a blanket of invulnerability around the trust sector.

Last September, well before the so-called income trust massacre, Leith Wheeler correctly predicted in its quarterly outlook letter that changes to income trust tax policy were simply "inevitable." Not surprisingly, the media missed picking up on that gem (before and after the fact).

So call it greed or sheer laziness, but the media seem more guilty than not of serving up investors to get roasted much of the time. The simple reality is that, as the media remained largely silent, underwriters not only promoted high-risk trusts at exaggerated prices, but they stressed non-existent safety, and misleading yield figures.

Many income trusts were the opposite of safe and high yielding, as has been pointed out many times in this column.

Whereas the evidence is overwhelming that financial reporting chicanery abounds in our

prosecution-free country, we choose to our detriment to pretend otherwise. Instead of being able to name 25 recent Canadian fiascos, most Canadian investors can refer only to U.S. examples. The home-grown disasters are simply not registering in our collective consciousness, and our national media are a significant reason for that.

Instead of referencing Canadian misfortunes such as Bre-X, Livent, YBM Magnex, Castor Holdings, Nortel, Royal Group, Biovail, Hollinger, Atlas Cold Storage, Heating Oil Partners, FMF Capital, Specialty Foods and others, our media use U.S. examples like Enron and Worldcom.

The media leave the impression that Canada is largely free of any major financial reporting dust-ups, leaving an investing public that is naive, overly trusting, and all too ripe for the next scam.

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