

Global Entrepreneur Indicator

from the Entrepreneurs' Organization

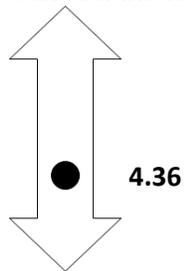
Canada Entrepreneur Alternative Asset Class Predictions

Interim Report Two: October 2010
Dr Sally Ernst

Summary of Findings

The majority of Canadian entrepreneurs hired full-time employees in the last year, and three-quarters plan to hire in the coming year, which is the biggest change in sentiment found by this Indicator series. After the Asia Pacific region, Canada is the next highest in reporting improved profits and expectations of increased net profits in the near future. Entrepreneurs in Canada plan further reductions in long-term debt in the coming 12 months. The great majority of entrepreneurs in Canada predict both commercial and residential property prices will fall and the price of gold will rise. Canada's entrepreneurs are the least likely to conduct business outside of their own country. They predict interest rates will rise and access to credit will improve in the coming quarter.

Canada: Interim Findings – Second Survey (October, 2010)



With an Indicator benchmark of 4.36 (out of a possible 10), Canadian entrepreneurs have a neutral but slightly negative outlook on alternative asset class performance.

The majority of entrepreneurs in Canada hired full-time employees in the last year, and three-quarters plan to hire in the coming year, the biggest change in sentiment found by this survey.

At about half, the proportion of entrepreneurs in Canada that have hired additional full-time persons in their businesses over the last 12 months is in line with the global average (52%). Asia Pacific has the highest proportion (60%) of hiring across all regions. The predicted change in hiring for the coming 12 months in Canada is very significant. Three-quarters (75%) of Canadian entrepreneurs plan to hire more full-time employees in the coming year, which is not far behind Asia Pacific (79%). Conversely, entrepreneurs in Canada are neutral when it comes to hiring part-time and contract staff.

After the Asia Pacific region, Canada is the next highest to report improved profits and the expectation of increased net profits in the near future— a dramatic improvement from the last Indicator.

While profits increased across all regions in the last quarter, a majority (60%) of Canadian entrepreneurs experienced an increase in profits, compared with the 24% reporting an increase in the May 2010 Indicator. After entrepreneurs in the Asia Pacific region, Canada had the next largest proportion of those with increased profits. The Latin America-Caribbean (LAC) region had the lowest reported rise in profits. Entrepreneurs in all regions are predicting net profits to increase in the coming three months. In the Asia Pacific region, the vast majority of entrepreneurs (83%) expect profits to increase, followed by Canada (74%), Europe-Middle East-Africa (EMEA) (73%), the US (71%) and LAC (65%).

Entrepreneurs in Canada plan further reductions in long-term debt in the coming 12 months and report that it is not difficult to access capital from banks, although other sources of capital remain difficult to access.

All regions have been reducing long-term debt in the past 12 months, and almost two-thirds (65%) of entrepreneurs in Canada plan further debt reduction. Only the US region has a greater proportion of entrepreneurs planning long-term debt reduction (68%).

Asia Pacific and Canada are the only regions reporting a low level of difficulty accessing capital from banks. Both regions have a clear majority who say it is not difficult to borrow from banks. All other sources of capital remain difficult to access for these business owners: angel investment, venture capital, government loans, friends and family.

The great majority of entrepreneurs in Canada expect both commercial and residential property prices to fall.

In all regions except Asia Pacific, property prices are expected to fall. Only a small number of entrepreneurs in Canada (30%) are predicting a rise in property prices in the coming year, a significant decrease compared to the previous survey in which almost two-thirds (63%) predicted an increase. Asia Pacific entrepreneurs expect property prices to rise in the next 12 months (70%).

The majority of Canada-based entrepreneurs predict the price of gold will rise.

There is a global consensus that the price of gold will rise in the next 12 months. Well more than half (58%) of entrepreneurs based in Canada believe the price of gold will rise, which is similar to the EMEA region (59%). Moreover, Canada outranked the US (50%) which has the lowest number of entrepreneurs expecting a rise in the price of gold.

Canada's entrepreneurs expect interest rates to rise and access to credit lines to improve in the coming quarter.

Entrepreneurs in Asia Pacific (56%) and Canada (50%) expect that access to lines of credit will improve and interest rates will rise (63% and 64% respectively). All other regions expect lines of credit to be limited and interest rates to fall, especially in LAC where a majority (60%) of entrepreneurs predict interest rates will fall.

Entrepreneurs in Canada are the least likely to conduct business outside of their own country. The US is by far the most popular country for doing business.

Entrepreneurs in Canada are the least likely to conduct business outside of their own country. Nearly all Canadian entrepreneurs (97%) conduct business within their own region. When doing business outside of Canada, more than half (58%) conduct business in the United States and 19% conduct business in Western Europe. With the exception of Latin America (8%) and North East Asia (6%), the other sub-regions attract less than 5% of entrepreneurs from Canada.

Entrepreneurs in Canada predict that Asia Pacific currencies will appreciate against the US dollar and euro.

There is no clear global consensus on rates of return on managed futures and hedge funds. A similar picture exists for currency exchange rate predictions, although there is some data that suggests that entrepreneurs in Canada expect the Canadian dollar to appreciate against the US dollar and the euro.

Canadian entrepreneurs favor using accountants and tax advisors as their primary source of financial advice.

Entrepreneurs in Canada are the most likely entrepreneurs of all regions to use the services of an accountant or tax advisor for financial advice (84%). Canadian entrepreneurs also rely heavily on business partners and associates (79%) for this advice. Canadian entrepreneurs are less likely than most other regions to go to family and friends for financial advice (53%). Like their US counterparts, entrepreneurs in Canada have the highest reported usage of print and on-line sources for financial advice (49%).

Of all the regions, Canada has the highest percentage of entrepreneurs invested in personal retirement accounts, as well as oil and gas.

Outside of their own businesses, Canadian entrepreneurs have investments in personal retirement accounts (81%), stocks/bonds (63%), residential real estate (67%), mutual funds (55%), commercial real estate (27%), art (15%), private equity (13%) and oil (10%).

Regionally, Canada has the highest percentage of entrepreneurs invested in personal retirement accounts, just ahead of the United States (80%). Canadian entrepreneurs invest in stocks/bonds and mutual hedge funds in the same proportion as in the US. Entrepreneurs in Canada have the highest percentage invested in oil (10%) and gas (8%).

In the coming 12 months, the top three alternative asset classes that entrepreneurs in Canada intend to invest in are personal retirement accounts (42%), stocks/bonds (39%) and residential real estate. As with their current investments, entrepreneurs in Canada have the highest percentage by region looking to invest in stocks/bonds, mutual funds (30%) and oil (8%).

Canadian entrepreneurs have the third highest expectations of growth among all the regions, selecting environmental/recycling/green energy as the fastest growing industry in the next 12 months.

The predictions of Canadian entrepreneurs of growth industries in the coming 12 months came to an aggregate average score of 6.1 out of 10, making their outlook on the growth of business overall slightly positive. The region's entrepreneurs gave the following industries as their top five picks for the highest growth in the coming year:

- | | |
|---|-----|
| 1. Environmental/recycling/green energy | 7.3 |
| 2. Health/medical | 6.8 |
| 3. Pharmaceuticals | 6.8 |
| 4. Biotech | 6.7 |
| 5. Oil/gas/energy/mining | 6.7 |

About the Research

This report is part of the Global Economic Indicator research program conducted by the Entrepreneurs' Organization in partnership with The Standard Chartered Private Bank. This research program began in May of 2010 and consists of a five-year series of quarterly surveys of Entrepreneurs' Organization members. The full report and findings are available at: <http://www.entrepreneurindicator.com/>.

The significance and uniqueness of this global research program lies in the very tight definition of a successful entrepreneur represented by the Entrepreneurs' Organization's membership base. All those surveyed have successfully founded a business grossing more than US\$1 million in revenue annually. Overall, EO members average US\$18.4 million in revenue per year. Between them, these entrepreneurs employ more than 1.3 million workers, with an average of 191 employees per entrepreneur. The average age of the entrepreneurs surveyed is 40. This group is generally very difficult to gain access to and poll. However, the Entrepreneurs' Organization holds a member base fitting these criteria that are captive to the organization, providing the ability to gain an entree to this highly important sample of the successful entrepreneur population.

This initial research surveyed more than 7,300 entrepreneurs in 42 countries from the Entrepreneurs Organization, achieving a response rate of 20% based on a minimum reach of 7,300.

Global Entrepreneur Indicator: Alternative Asset Classes

This is the second report providing readers the interim findings of a series of research activities over an intended period of five years being undertaken by Entrepreneurs' Organization (EO) in partnership with Standard Chartered Private Bank. At the time of writing, The Global Entrepreneur Indicator for Alternative Asset Classes is the first of its kind globally, which measures entrepreneurs' predictions on Alternative Asset Class performance.

Six versions of the Alternative Asset Class indicator have been produced:

- Global Indicator – aggregate of all respondents globally
- Country and Regional Indicators – aggregate for each country with a discrete response rate above 50. For this survey, the countries and regions include:
 - US
 - Latin America and the Caribbean (LAC)
 - Canada
 - Asia Pacific region (ASAP)
 - Europe-Middle East-Africa (EMEA)

Detailed Interim Research and Regional reports will appear at <http://www.entrepreneurindicator.com/>.

Acknowledgements

Dr Sally Ernst would like to recognize both Research Associate Stephen Oregan and Research Assistant Richard Fernandez for their efforts in the preparation of this Indicator report.

Method

Survey

The survey incorporates elements of cited Alternative Asset Class investments as described in the research report literature scan below. The test for the choice of key indicators for the purposes of this research is that they are later measurable against actual asset class performance.

There are seven categories measured in the indicator:

- Currency
- Residential real estate
- Commercial real estate
- Precious metals
- Managed futures
- Hedge funds
- Selves/own businesses

Some additional questions of interest to Entrepreneurs' Organization about their members' opinions, which are not used in the calculation of the Indicator, have also been included in the Indicator survey. These, as well as data from Indicator questions, may be used in the Alternative Asset Class Indicator or other Entrepreneurs' Organization Indicators.

The Indicator is calculated as the category score, or averaged upper end and neutral percentages divided by 10, which are then averaged across all category scores with equal weighting to give the final Indicator benchmark out of 10.

Limitations

- Not all respondents may have received the email
- Over 50% surveyed were based in the US and represented 58% of respondents.
- Some regional Indicators have a small response rate relative to their size. These reports can perhaps be used in the context of the longitudinal data as a benchmark made richer over time
- There may be anomalies in the membership data, such as an owner or major shareholder rather than founder may be included in respondents or other anomalies.
- There may be anomalies caused by technology in the process from data extraction, to survey delivery, to responses, to first stage analysis. While noted as a limitation, this is for probity as these are estimated to be minimal.
- Per the below statistics, most of the membership base is categorized as founder or cofounder, however, more founders and cofounders could be included in the owner and major shareholder categories. Members in these additional categories could potentially be categorized as entrepreneurs, dependent on the nature of intent to innovate or innovation.

Founder or Co-Founder	53%
Owner	34%
Controlling Shareholder	9%
Other	4%

Response Rates Summary

ASAP	237
Canada	118
EMEA	85
LAC	55
US	712
Global	1207

Background to Alternative Asset Classes

Entrepreneurs are a special group, given their ability to assimilate the information available to the general population differently to generate opportunity and create new things. This group continues to be a generally understudied population at scale.

There is some evidence that alternative asset classes may improve investment returns as part of a portfolio. While loose and broad, the definition of alternative asset classes may exclude stocks, bonds and cash.

For the purposes of the Global Entrepreneur Indicator, alternative asset classes were defined as either tangible or intangible goods that have a proven economic value but are not typically included in standard investment portfolios. Investors may look to alternative asset classes to diversify their portfolios. Due to their nature, it can be difficult to arrive at an objective valuation of alternative asset classes.

Bonds, stock and cash are generally excluded from the definition of alternative asset classes, as they represent, in most cases, the fundamental constituents of portfolios.

About Alternative Asset Classes

Given its broad definition, the Global Entrepreneur Indicator carves out the alternative asset classes and/or components of alternative asset classes that are most easily measurable for their return and are subjectively perceived to be more accessible, attractive and/or applicable to entrepreneurs. They have then been ordered by the alternative asset class' ability to be consistently and clearly valued and measured.

For example, Private Equity has been excluded for the purposes of the research, as these investments are usually relatively large, available to qualified investors only and may not be applicable to the majority of entrepreneurs. Another example is philanthropy, which may not be clearly valued or measured. In the case of education, it has been excluded because the risk is not easy to assess. Even though education is perceived by some as an investment with a high return—higher even than bonds or gold—it is difficult to quantify when considered against 'conventional' assets such as bonds or equity for which return is justified by risk (Judd, 2000).

Hedge Funds

Hedge Funds became popular as an investment vehicle in the late 1990s as an alternative to stocks, which were then characterized by high prices and low returns (Edwards & Liew, 1999). According to HFR (2010) hedge-funds have recovered in the first quarter of 2010 from the low values reached in early 2009. Globally, hedge funds now manage USD \$1.67 trillion of assets. During the first quarter of 2010, hedge funds have recorded an average return of 2.56%. Relative-value funds have recorded higher values, returning on average 3.58% in the first quarter of this year (Jones, 2010; HFR, 2010).

Natural Resources/Commodities

The Bloomberg Global Poll of investors, traders and analysts conducted on 19 January 2010, revealed that after stocks, commodities were considered as the most promising asset class (Dorning & Dodge, 2010). Commodities may be perceived by some to be an attractive investment as, being strongly linked to supply and demand, this alternative asset class has the advantage of potentially protecting portfolios from inflation (Bloemker, 2010). Examples of investible commodities are:

- Gas
- Oil
- Corn
- Cotton
- Copper
- Soybean
- Precious metals (Platinum, Gold, Silver)

According to the Halifax Assetwatch press release published 6 March, 2010, precious metals overall increased in value by 242% in the decade December 1999 to December 2009. Respectively, gold registered an annual average increase in price of 14.2%, platinum of 12.7% and silver of 12.6% (Halifax Assetwatch, 2010).

Managed Future Accounts

Managed future accounts are investment vehicles managed by Commodity Trading Advisors (CTAs) (Investopedia, 2010a). CTAs trade a portfolio of futures, forwards or options in global currency, interest rate, metal, energy and agricultural markets (Morgan Stanley Smith Barney, 2009). Although the strategies that CTAs employ on their portfolios can vary greatly, these managers all trade highly liquid and regulated financial products (Barclay Hedge, 2010).

Investors may perceive managed futures as an attractive way to diversify their portfolio due to their potential non-correlation to stocks and bonds (Barclay Hedge, 2010). Successful managers generally use modern portfolio theory to pick assets that will maximize returns against the level of risk they have chosen to take (Investopedia 2010b). Since their introduction in 1980, according to the CASAM CISDM CTA Equal Weighted Index, managed futures had a compound average return of 14.52%, almost double the return of U.S. stocks over the same period (based on the S&P 500 total return index).

Real Estate

Investment in real estate can be directed to the purchase of any of the following categories of estates and may be perceived by investors as a hedge against inflation (Skidmore, 2010):

- Commercial real estate
- Residential real estate

In the UK, returns on residential and commercial properties respectively recorded an average 11.1% and 5.8% return between December 1999 and December 2009. However, in 2009 alone residential properties recorded a return of 8.7%, and commercial properties recorded a return of -1.4% (Halifax, 2010).

Even though real estate is often considered an alternative asset class, it is sometimes considered an 'additional' asset class to stock, bonds and cash. One reason is that before the emergence of stocks and bonds, real estate was the preferred asset class. Upon the invention of stock and bonds, these were considered alternative asset classes to real estate. Additionally, real estate is often considered as a fundamental and indispensable component of a well-diversified portfolio (Anson, 2006).

Microfinance

Socially Responsible Investments ("SRIs") are investments aimed to generate financial return and social, environmental and ethical improvements. Of all SRIs, microfinance is currently the sector that attracts the largest number of investors.

Microfinance is a term that describes the provision of financial services to poor parts of the population that otherwise would not have access to banking services. Micro-loans are aimed at poor individuals who are able to engage in a productive entrepreneurial activity. Examples of micro-borrowers are street vendors, small farmers and fishermen.

According to a study conducted by The MIX on a sample of around 704 microfinance institutions, for the year 2007, the leading 176 MFIs recorded a RoE of 17.2% (The MIX, 2006). Investments in microfinance are expected to rise to around USD 20bn by 2015 (Deutsche Bank Research, 2007).

Wine

Wine investment has registered steady growth since the early 1990s, with an average annual growth rate of 17.64%. Compared to other alternative asset classes, wine investment has some perceived advantages: wine is easy to store, is likely to increase in quality with time, is not subject to fashions and may be shown to increase value with rarity. Increasing global demand and the existence of professional investment advice services appear to be making wine an interesting investment opportunity (Golding, 2009).

Collectibles and Luxury Items

Categories of goods that can be included in the collectibles and luxury items alternative asset class are:

- Art (produced by famous artists and emerging artists)
- Photography
- Stamps and coins
- Antiques
- Classic cars and motorbikes
- Vintage watches
- Yachts
- Designer fashion
- Sport and music memorabilia and autographs
- Toys

Let's take the example of art. Even if the return is almost impossible to measure accurately, it appears an increasing number of investors perceive art as an interesting alternative investment opportunity. Bernard Duffy, manager of the "Emotional Assets" fund, which invests in art and other collectibles, thinks investors can make a 15% profit per year (Papworth & Collinson, 2009). However, art may be perceived as a long-term investment that is likely difficult to value, and may be unlikely to guarantee immediate liquidity. On the other hand, art may also be considered by some as a hedge against inflation.

For Further Information about the Research:

Research Contact:
 Dr. Sally Ernst
 Entinno
 +44.777.8510.397
sal@entinno.com

Media Contact:
 Ryan Meyer
 Entrepreneurs' Organization
 +1.571.481.2427
rmeyer@eonetnetwork.org

References and Further Reading

1. Anson M.J.P.(2006), 'Handbook of alternative assets', John Wiley & Sons, Inc., Hoboken, New Jersey.
2. Barclay Hedge (2010), 'Managed Futures Overview', URL: <http://www.barclayhedge.com/research/educational-articles/managed-futures-articles/managed-futures-overview.html>, <<last accessed on 24.04/2010>>.
3. Bloemker R.(2010), 'Beyond stocks and bonds: Absolute return investing and alternative asset classes', *Absolute Return Blog*, (01/02/2010) URL: <http://www.absolutereturnblog.com/2010/02/beyond-stocks-and-bonds-absolute-return-investing-and-alternative-asset-classes/>, << last accessed on 24.04/2010>>.
4. Cunningham P., Shirley T., Reeder C (2007)., 'Event Marketing: The evolution of sponsorship from Philanthropy to strategic promotion', Queen's University, URL: <http://faculty.quinnipiac.edu/charm/CHARM%20proceedings/CHARM%20article%20archive%20pdf%20format/Volume%206%201993/407%20cunningham%20taylor%20reeder.pdf>, <<last accessed on 24.04/2010>>.
5. Deutsche Bank Research (2007), 'Microfinance: An emerging investment opportunity. Uniting social investment and financial returns', (19/12/2007) URL: http://www.db-research.org/PROD/DBR_INTERNET_DE-PROD/PROD000000000219174.pdf, <<last on 24.04/2010>>.
6. Dorning M., Dodge C.,(2010), 'China Losing to U.S. Among Investments of Choice (Update 1)', (21/01/2010) *Bloomberg.com*, URL: <http://www.bloomberg.com/apps/news?pid=20601068&sid=asETTCYSxifA>, <<last accessed on 24.04/2010>>.
7. Edwards F. R., Liew J.(1999), 'Hedge Funds versus Managed Futures as Asset Classes', *The Journal Of Derivatives*, (summer 1999) URL: http://www0.gsb.columbia.edu/faculty/fedwards/papers/Hedge_Funds_Vs_Managed_Futures.pdf, <<last accessed on 24.04/2010>>.
8. Golding, S. (2009), 'Alternative Investments: Wine is no more the experts' domain', *FT Adviser, Financial Times*, (30/03/2009) URL: <http://www.ftadviser.com/InvestmentAdviser/Investments/AssetClass/AlternativeInvestments/Features/article/20090330/d4cd03da-1544-11de-a6cb-00144f2af8e8/Alternative-Investments-Wine-is-no-more-the-experts-domain.jsp>, <<last accessed on 24.04/2010>>.
9. Halifax (2010) ' Precious metals were the top performing asset class of the 2000s' (06/03/2010), URL: http://www.lloydsbankinggroup.com/media/pdfs/research/2010/060310Decade_of_assetreturnsFINAL.pdf, <<last accessed on 24.04/2010>>.
10. HFR (2010) 'Global Hedge Fund Industry Report' URL: <http://www.hedgefundresearch.com/index.php?fuse=home&1272110222>, <<last accessed on 24.04/2010>>
11. Investopedia (2010a), 'Managed Futures Account', URL: <http://www.investopedia.com/terms/m/managedfuturesaccount.asp>, <<last accessed on 24.04/2010>>.
12. Investopedia (2010b), 'Modern Portfolio Theory', URL: <http://www.investopedia.com/terms/m/modernportfoliotheory.asp>, <<last accessed on 24.04/2010>>.
13. Jones S., (2010), 'Hedge fund assets nudge all-time high', *FT.com, Financial Times*, (21/04/2010) URL: <http://www.ft.com/cms/s/0/73acbb1a-4cdc-11df-9977-00144feab49a.html>, <<last accessed on 24.04/2010>>.
14. Judd K.L., (2000), 'Is Education as Good as Gold?', Hoover Institution, Stanford, CA, URL: <http://www.cepr.org/meets/wkcn/3/3507/papers/judd.pdf>, <<last accessed on 24.04/2010>>.
15. Morgan Stanley Smith Barney (2009), 'Managed Futures', URL: <http://www.morganstanleyindividual.com/investmentproducts/managedfutures>, <<last accessed on 24.04/2010>>.
16. Papworth J., Collinson P.,(2009), 'How alternative investments have performed since 2000', URL: <http://www.guardian.co.uk/money/2009/nov/21/alternative-investments-performance-2000>, << last accessed on 24.04/2010>>.
17. Skidmore G. H., (2010) 'Alternative Asset Classes: An Introduction', *Belray Asset Management*, URL: <http://belrayasset.files.wordpress.com/2010/01/alternative-investments.pdf>, <<last accessed on 24.04/2010>>.
18. The MIX, (2006), *The MicroBanking Bulletin*.

Disclaimer

The information contained in this article and from any communication related to this article is for information purposes only. The author, EO, and/or any entities involved with the project, do not hold itself out as providing any legal, financial or other advice. The author EO, and/or any entities involved with the project, also do not make any recommendation or endorsement as to any investment, advisor or other service or product or to any material submitted by third parties or linked to this article or for this research project. In addition, the author, EO and/or any related entities do not offer any advice regarding the nature, potential value or suitability of any particular investment, security or investment strategy.

The investment and services mentioned in this article may not be suitable for you. If you have any doubts you should contact an independent financial advisor. In particular some of the investments mentioned may not be regulated under the Financial Services Act 1986 or at all and the protection provided to you under this Act will not apply.

The material in this article does not constitute advice and you should not rely on any material in this website to make (or refrain from making) any decision or take (or refrain from making) any action.

This article contains links to other websites and information which are not under the control of and are not maintained by the author or any related entities. The author, EO and/or any other related entities are not responsible for the content of those sites. The author provides these links for your convenience only but does not necessarily endorse the material on these sites.

The author, EO and/or any related entities does not make recommendations for buying or selling any securities or options.