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# If you can't beat 'em, join a family office

Private offices not affordable for most investors

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Tim Fraser/National Post Tom McCullough, president and CEO of Northwood Stephens Private Counsel, says multi-family offices will soon be a full-fledged field in Canada.

For advisors focused on wealthy clients, the trend to the family office and multi-family office can be perceived both as threat and opportunity.

The traditional private or single-family office is a luxury only the very richest families can afford. Typically centred around a family business, they employ a team that may consist of a dedicated inhouse lawyer, accountant and chief investment officer, among others.

But this is not a huge threat to Canadian advisors because so few families possess enough wealth to employ their own inhouse talent around the clock. In the United States, where dedicated family offices are more common, it's been estimated a family would need US$250-million net worth to justify employing such an inhouse team.

Only 7,000 Canadians have investable assets of even $20-million, says Graham Parsons, executive vice-president of BMO Financial Group. But 444,000 have between $1-million and $20-million, and may well want to share the services of a multi-family office. A handful of boutique Canadian firms are branching out from serving a single core family to embrace the MFO model, which means multiple unrelated families can, in effect, share a chief financial officer, legal, trust, tax and insurance professionals.

To the extent the team also includes an investment component, it's the MFO that is more likely to threaten the average high-end financial advisor. If your core business revolves around some key wealthy clients, you may one day have to be able to recommend such a firm to them. Or you may be able to coexist by focusing on investments and building a network of professionals to fill in the gaps. That's in effect what Rob Bell, chairman of Toronto-based RS Bell & Associates Inc., does. He oversees investment management portfolios for clients with at least $10-million in investable assets and, to fill out the services beyond the investment piece, refers clients to Linda Betts at the Toronto-based Heritage Wealth Strategy Group Inc.

Another reason to keep tabs on this trend is that consolidation is underway -- if you can't beat them, you may well end up joining one. Two of the best-known MFOs in Canada are still relatively new. One is the Burlington, Ont.-based WaterStreet Group, cofounded by tax expert and author Tim Cestnick. WaterStreet has one core anchor family and 18 others, all with at least $20-million in net worth. Cestnick says a Canadian family would need net worth of $300 -million to $500-million to justify their own dedicated family office, which would cost $2-million a year to keep going.

WaterStreet has inhouse lawyers, chartered financial analysts, accountants and financial planners. But Cestnick is quick to dispel the notion some may harbour that this is "glamorous" work. On the contrary, "It's extremely labour intensive: bookkeeping, tax preparation and paying bills for clients is monotonous, detailed work, and the margins will be significantly lower than simply maintaining assets."

The other prominent Canadian firm in this space is Northwood Stephens Private Counsel Inc. of Toronto. Founded by Tom McCullough four years ago, it was cited as the best independent family office in Canada by a 2007 private banking survey by Euromoney.

McCullough says some clients view Northwood as their "personal CFO." In an interview, he told me, "I was my own first client," but has since added 17 more families. Mc-Cullough says few Canadians know what a family office is. One prospect once asked him: "Is that like birth control and family counselling?" By contrast, at a recent conference in Miami, every attendee was familiar with the concept.

Those who do know tend to think it targets those 65 or older, but McCullough's typical client is closer to 50. "Many of our clients are still actively involved in their business, or if they've sold them, they're still only 45 or 50 and doing something else."

Some are taking the reins of the family business from the parents/founders; others are widows or divorcees, who discovered that when they lost their husbands, they also lost their advisors.

"In some cases, they've never written a cheque in their lives, so we're perfect for them because we come in and say we'll look after everything. If they can afford it, it's a spectacular service."

Like Cestnick, McCullough naturally prefers his "one-stop" approach to the networked approach that draws together specialists in scattered and separate "silos."

"I think of the silos as the guys who are really expert in their field," McCullough said. "The best guys are out in private practice, but the tax guy will say, 'I don't know insurance or investments or how a trust works.' We're not as knowledgeable about tax as the guy that does 24 hours a day, but we know quite a bit about it. To me, we're a bit like a general contractor."

He predicts MFOs will be a "full-fledged field" in Canada in three to five years.

Northwood charges a fee based on net worth or assets. "Canadians are not good fee payers except for mutual funds," McCullough said. "Americans go, 'Yup, I can make a lot more from my business if I off-load this stuff; Canadians go, 'It's going to cost me money." The reality is that net for most clients, it will be the single best investment decision they ever make -- both in cost savings and the benefits."

For a minimum $20 -million client, fees will be below 1% for the full suite of services, which include custody fees and fees paid to a group of external investment managers. Northwood's share is about 0.5% to 0.6%, plus the external investment management fees, which it has negotiated down on behalf of clients. Many of those fees are also tax-deductible.

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