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THE NORTHWOOD STEPHENS PERSPECTIVE

FALL 2008

President's Message



When we started Northwood five years ago, our goal was to deliver three things to our clients – Direction, Perspective and Confidence. In this environment of fear and upheaval, these elements are more important than ever. In fact, we are gratified to see interest in our family office exploding, as people look for a better, more secure way to manage their financial and family affairs.

Perspective (not coincidentally the moniker of this newsletter) is perhaps one of the most important qualities in times like these, but often the hardest to muster. The pages of this publication will hopefully offer some help in that regard.

But as an introduction, I thought I'd offer a very interesting angle on wealth, compliments of Mark Daniell, an author, consultant and entrepreneur, in his book *Strategy for the Wealthy Family*. He takes us back to the original meaning of wealth and perhaps even a healthier perspective.

The Lost Meaning of Wealth -- "Somehow, over the years, the original and more comprehensive definition of wealth has been lost.

At its essence, wealth is a broad concept of plenty. The true definition of family wealth extends to embrace non-financial aspects of life which include family harmony, individual happiness and a positive contribution to the world beyond the family.

'Wealth' is described in the Merriam-Webster dictionary as deriving from the obsolete word 'weal,' a Middle English word which, in turn, comes from the Old English word 'wela'. 'Weal' means 'a sound, healthy or prosperous state' and is akin to the modern words 'well' and 'wellbeing,' meaning 'in a good overall state.'

True wealth...thus encompasses both tangible and intangible ...attributes of life. Family wealth is thus all about improving the overall state of affairs for a family and creating an abundance of goodwill, good fortune and prosperity across all aspects of family life."

We hope you find this edition of the Northwood Perspective enlightening and enjoyable. Rarely has perspective been as needed as it is right now.


Tom McCullough
President and CEO

Photograph courtesy of Frances Juriansz Photography

Keeping Your Head

Tom McCullough, MBA, CIM, Ch.P.
President and Chief Executive Officer

Unprecedented. Worst ever. Historic.

These and other similarly charged words have been trumpeted from the front pages of international media over the past few months. And rightly so.

As little as six months ago, who would have predicted any of these events?

- The largest bankruptcy in U.S. history (Lehman Brothers, which was founded in 1850)
- The fall of other such storied brands as Bear Stearns, Merrill Lynch and AIG
- Fannie Mae and Freddie Mac taken in by Uncle Sam
- Treasury Secretary Henry Paulson's alma mater, Goldman Sachs, and Morgan Stanley becoming 'commercial bank holding companies' to avoid the fate of their brethren
- All of Washington Mutual and parts of Wachovia auctioned off to chosen bidders
- An almost 50% drop in oil prices from the late summer peak of over \$140, back to the \$80 level where they started 2008.
- The largest declines in many world stock market indices in years.

To be sure, the events are historic and the severity of the impact is unknown. What's a body to do?

It brings to mind the opening lines from the now-famous Rudyard Kipling poem:

*If you can keep your head when all about you
Are losing theirs and blaming it on you,
If you can trust yourself when all men doubt you
But make allowance for their doubting too.*

There are three ways to do that that I can think of when it comes to the financial side of life. And for regular readers of this newsletter, I'm sure they will sound familiar and maybe even comforting.

First, take a long term perspective. There have been many difficult periods before – some of which have lasted a long time and exacted a heavy toll – but there has also been recovery and progress over human history. While it's not to say this crisis won't have some long-lasting effects -- some of them bad, of course, but some of them likely very good, as excesses are once again wrung out of the system -- it is helpful to be able to see past the current environment of fear that crowds out both reason and perspective.

One investment manager we follow closely in Los Angeles recently wrote a piece called the 'anti-bubble' which puts the current panic in context, using another extreme (but opposite) period as a comparison. On the following page is an excerpt:

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NORTHWOOD STEPHENS PRIVATE COUNSEL INC. IS A MULTI-FAMILY OFFICE PROVIDING COMPREHENSIVE NET WORTH MANAGEMENT™ TO WEALTHY FAMILIES AND FOUNDATIONS.

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"In the dot.com era of the late 1990s, every piece of news was good news, every rumor a reason to buy a stock, every statement by company management confirmation of what "everyone" knew - the world had changed and you had better get in before the next billionaire was on the cover of Forbes mocking your attempts to cling to common sense and a rational investing process. Moving forward to the extraordinary financial mess we are living through today, we designate it "the anti-bubble." [...] We seem to be in a horrible and dark vortex in which reality is folding in upon itself, making it impossible for any good news or potential good news to escape and be considered in a balanced fashion. All news is considered bad news, and just as there was no price too high to pay a decade ago, there is now no price too low to sell. [...] We don't know when the pain will end, but we do know it will end as the momentum of fear is merely the polar opposite of the momentum of optimism - the same human flaws are at work."

It is important to remember that the current precipitous decline in stock prices, like the others before it, has been exacerbated by margin calls and forced redemptions as much as it has by investor fear. In other words, an investor who bought securities on margin, will be sold out at virtually any price by his broker, if he can not cover it immediately, even if he would have preferred to 'hang on and ride it out.' Even institutional investors and fund managers who would otherwise like to be buying as prices fall, find themselves on the sell side because the fundholder demands his cash, which can only be funded by selling securities. And so it goes -- until the market stops hyperventilating.

Assuming we get through this crisis with *just* a severe recession (which looks increasingly likely), the current lower value of one's investments (marked to market at panicked levels) may not be the best measure of their long term contribution to funding family lifetime and legacy objectives.

Continuing in this vein, it is also important to take a long-term view, not just on the performance of capital markets, but also on the planned use of the capital and, in particular, when the assets are 'needed'. For many of our clients, the investment planning horizon is 20-50 years, with assets being targeted for charitable purposes and transfers to succeeding generations.

On top of all this, and not surprisingly, some of our investment managers are seeing values among high quality companies that they haven't seen for years.

Second, hold a diversified pool of assets. Not so long ago, a few friends politely pointed out the error of holding a healthy portion of bonds in our clients' portfolios. They felt obliged to draw to our attention that bonds were offering particularly low yields, especially when stock and other markets were soaring. Our view then, as it is now, is that each asset class has a particular job to do. For instance, the job of bonds is 'not to go down' in times like these and ultimately to mature at par. The job of stocks is, over the long-term, to produce dividends and growth.

Other asset classes are called upon to play other roles, not the least of

which is to reduce the volatility of the whole portfolio. Theory and practice both offer ample evidence of the substantial benefits of a diversified asset base.

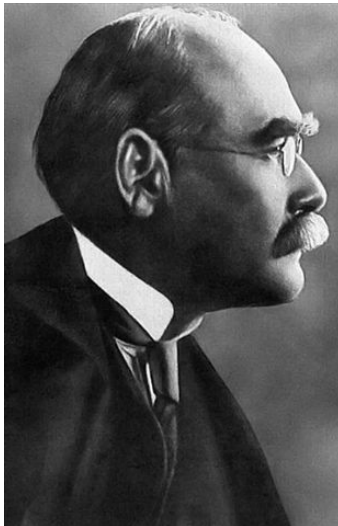
In addition, most of our clients hold 'other assets' which are, for the most part, illiquid. This can include family businesses, real estate investments, private equity investments, homes and collectibles, to mention just a few. These also add to the diversification of their overall net worth and, because they are not priced every day (or every minute, for that matter), clients often take more rational and long term view of their value.

Third, have a sound plan and stick to it. In the words of that famous philosopher and baseball player, Yogi Berra, "You've got to be very careful if you don't know where you're going, because you might not get there." I can not overstate the importance of planning. All of our clients have gone through the process of evaluating and prioritizing the things that are most important to them as a family. The next step has been to determine what they need to do to increase the odds achieving their goals and how much flexibility they might need along the way.

People with excess resources and a thoughtful plan are more likely to have the perspective and the wherewithal to ride out the bumps of market crises than those who try to 'wing it.'

A trusted, competent advisor can also make a big difference in sorting out the emotions from the facts, in crucial times like these. We also like to say that we try to help our clients stick to the original plan they made when they were 'sober and rational' even when all around them seem to be 'drunk and irrational' with fear or greed.

John Bogle, the founder of Vanguard Funds and long term successful investor, encourages people to think (and plan) along three dimensions - return, yes, but also risk and taxes. He would subscribe enthusiastically to the old adage: A little planning goes a long way in terms of maximizing after-tax wealth.



While environments like we have seen in the past 12 months are not pleasant, and will certainly have serious long term consequences, I can't imagine a better way to weather the storm than having a long term perspective, a diversified net worth and a well-thought out plan.

So, with apologies to Rudyard Kipling (pictured above), in difficult periods like these, 'if you can keep your head' it is less likely that 'it will be handed to you.'

For those who would rather this article finish off with a more erudite tone, I offer you a few more stanzas from Mr. Kipling's poem "If."

*If you can dream--and not make dreams your master,
If you can think--and not make thoughts your aim;
If you can meet with Triumph and Disaster
And treat those two impostors just the same;.....
....[Then y]ours is the Earth and everything that's in it,
And--which is more--you'll be a Man, my son!*

Year End Tax Planning

Bryan O'Neill, CA
Northwood Stephens Private Counsel Inc.



As the leaves are beginning to change colour and the kids are now well into the fall term at school, we are reminded that another year is coming to a close. While it is easy to get distracted by the current economic climate and the elections on both sides of the boarder, it is important at this time of the year to pay particular attention to your year end tax planning. In particular, there are a number of tax issues need to be addressed prior to December 31st:

Securities Trading

- Consider realizing losses – this is particularly relevant if you have taxable gains in 2008 or the previous three years that you can offset. A net loss in 2008 can be carried back, to reduce taxable capital gains in any of the previous three years.
- Remember that it is the settlement date that is important for tax purposes. For example if you sell a security to generate a loss in 2008, the transaction has to settle before December 31, 2008. Don't get confused between settlement and process dates.
- Watch out for the superficial loss rules – i.e. sell a security at a loss and reacquire within 30 days, only to have the loss denied.

Investment Expenses

- The following must be paid prior to Dec 31st to be deductible in the current year:
 - Investment management fees
 - Loan interest
 - Safety deposit box fees

Charitable Donations

- These must be made prior to year end. The maximum annual claim is 75% of net income, with any unused amounts carried forward up to five years.
- Note that most charities now enable you to donate online, so it is possible to donate on December 31st if you so desire.

Shareholder Loans

- If a shareholder loan is not repaid before year-end this may result in the full amount of the loan becoming taxable in 2008.

Registered Plans

- The annual contribution limit for 2008 is \$20,000 (up from \$19,000 in 2007), less any Pension Adjustment.
- Your 2007 Notice of Assessment will indicate your allowable contribution limit, along with any unused contribution room from previous years. Remember to always check your Notice of Assessment for accuracy, don't take for granted that it has been calculated correctly.
- Contribute to your RESP(s) no later than Dec 31st to ensure that you are eligible to receive the maximum Canada Education Savings Grant (20% of contribution to a maximum of \$500 per year if the beneficiary is under 18).

While it is easy not to begin to think about your taxes until the RRSP deadline or when your accountant contacts you as the filing deadline approaches, doing so can be costly. Consider the above issues prior to the year-end and you may just end up giving a little bit less to the government this year.

A Different Breed: Characteristics of a Good Family Office Advisor

Scott Hayman, CA, CFP
EVP and Head of Client Service, Northwood Stephens Private Counsel Inc.



We are regularly called upon to answer the question "How exactly is a family office different than other advisors?"

We can certainly cite the range of services we offer, from integrated planning to selection and oversight of investment managers to consolidated reporting (– not to mention the myriad of customized services we undertake to simplify and improve the lives of our clients).

We could also cite the types of clients we serve – typically entrepreneurs and executives with \$5 to \$500 million in net worth.

While both of these explanations provide some level of clarity as to the distinctiveness of a family office, it doesn't tell the whole story. Because the family office is in the business of providing advice to families, so much of 'what we are' is 'who we are'.

I recently came across an article that had a very interesting perspective on what kinds of people are successful family office (or integrated wealth management) advisors. The list of characteristics resonated with me and my partners, and seemed to provide a pretty good insider's view of what makes a family office work and ensure that it serves the needs of our families.

The article suggests that an 'effective integrated advisor' possesses:

- A fundamental drive to solve problems
- A healthy dose of natural curiosity, so that fresh ideas are continually generated
- A broad range of interests, many in the areas commonly touching client families
- Superior listening skills and empathy—integrated wealth management is about the client and doing what is best for him or her
- A good measure of jaundice and a lack of contentment with the status quo
- A willingness to make hard, thoughtful decisions
- A strong sense of self, so that when working as a team member, the adviser can admit to being off-base if necessary
- Can give others credit before himself or herself

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It also goes on to say that these advisors often have:

- A wide range of managerial and professional skills
- Superior organizational skills and detail orientation
- An ability to prioritize the normal daily flow of projects and client needs
- An ability to separate 'issues' from 'problems' when certain bumps in the road are encountered (and bumps are always encountered regardless of how they arise)
- Material levels of competency in key technical areas, including taxation, investment theory and practice, insurance, property laws, and accounting

- Some experience in certain adjunct areas, including family governance, philanthropy, education, and performance reporting
- Useful exposure to the structuring of commercial transactions, the litigation process, dealing with trusts and estates, usually garnered through working with multigenerational families whose circumstances are truly complex.

As you might imagine, no one family office advisor has all of these traits. We work as a team to ensure that the broad base of experience required for this integrated service is there for every single client.

Reference: The "Integration" in Integrated Wealth Management: How Does It Work in Practice? By Miles C. Padgett and Louisa Wright Sellers

First-Ever Canadian Family Office Forum

Eric Weir, CFA, CFP

Northwood Stephens Private Counsel Inc.



Northwood had the privilege of co-chairing the inaugural Canadian Private Family Office conference in Niagara-on-the-Lake, Ontario in September. It was the first-ever gathering of family office professionals in Canada. About 50 people, including single-family office and multi-family offices, were in attendance at this invitation-only event, along with guest speakers.

This was a significant opportunity for information sharing among family offices and content experts, which will ultimately improve the quality of the industry and the way the industry serves its clients.

The topics included:

- An overview of the family office industry and the issues facing families of wealth, by John Benevides, President of the Family Office Exchange
- Young adults and money, with Joanie Bronfman
- Philanthropy across the generations, with Chris Page from the Rockefeller Philanthropy Advisors
- Family office best practices, with Dirk Junge, President of Pitcairn, a long-time family office from the Philadelphia area
- A tax and estate planning panel of Canadian lawyers and tax accountants, dealing with cross-border tax issues, the 21-year trust rule, and the implications of pre-nuptial agreements and marriage breakdown
- A panel, with Llewellyn Smith, from the E. D. Smith family and two Canadian lawyers, discussing family governance
- Effective investment manager due diligence, for both traditional and alternative asset classes
- How to operate a family office efficiently and effectively
- Wealth management from a multi-generational perspective



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