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THE NORTHWOOD PERSPECTIVE

President's Message

Tom McCullough



One of the books I read this summer, *Just Enough*, was written a few years ago by two Harvard professors, Laura Nash and Howard Stevenson. I thought it was quite profound in a simple way, and had all sorts of applications to life, wealth, family and business.

Essentially, they argue that success is not just about excelling at *one thing*; rather, it is about getting 'just enough' from *each* of four categories of life satisfaction - happiness, achievement, significance and legacy.

In today's culture, which seems to venerate material success, the headlines are populated by celebrities. When we hear a report of someone who has achieved great success (eg. in sports, entertainment, wealth, etc.), Nash and Stevenson suggest we ask ourselves 'What is the rest of the story?' Many people who achieve spectacular success in one area leave other parts of their life in shambles.

Some of the questions worth asking *ourselves* include: What is most important to my family and me? How much is enough? How will I know? What are the risks of pushing for the maximum?

The recent credit crisis and ensuing bear market are great examples of the implications of a 'no limits, full throttle' approach. And while it easy to point the finger at bankers and hedge fund managers, how many investors with a singular focus on higher returns were pushing for 'more' in their own portfolios two years ago, regardless of how much they 'needed' or how much they had already 'achieved'? I dare say that, with markets rallying strongly over the past six months, I sense that some of the wisdom gleaned in 2008 is already being lost. If so, that would be too bad.

Just last month, I heard David Breashears, a filmmaker and mountaineer who has scaled Everest five times, speak at a conference in New York City. He reminded the audience that 'getting to the peak' isn't the only goal. In fact, it is only the halfway point. With years of climbing and life experience under his belt, he said "Getting *up* the mountain is optional; getting *back* is mandatory." Food for thought.



The Family Office – A Bit of History

Bryan O'Neill, CA



The first few years of my career were spent at a large public accounting firm (both in Canada and abroad). During this time, whenever someone asked me what I did for a living and I told them I was a 'Chartered Accountant working for Deloitte', there was typically an immediate look of understanding and no further explanation was required.

However, when I'm asked the same question today and I explain that I work for a 'multi-family office', I often get a response like: 'Should I know what a multi-family office is?' or 'Do I admit that I've never heard of it before?' At a recent conference, I answered this very question for someone, who then replied 'So when did the family office concept start?' I made reference to the Rockefeller and Carnegie families, but soon realized I didn't know the details about when the family office concept first emerged. I decided to go away and dig a bit deeper into the history of the family office and below is a brief summary of my findings.

It seems that the earliest predecessors of the family office can be traced back to the early Roman *major domo* (literally, 'head of house') and the Medieval *chief steward*. These individuals were given the responsibility to oversee the family's property and their day-to-day affairs. Over time, the role of these individuals evolved and began to include greater responsibility.

But it was really in the 19th century that the precursor to the modern family office began to emerge. In the early 1800s, a number of very wealthy, primarily U.S. families began to set up private banks and trust companies to help manage their growing wealth.

A few decades later in the mid-1800s, the single-family office (serving one family), as we now know it, began to take shape. During this period many wealthy families identified a need to protect and grow the family wealth for current and future generations. They decided to address this need by assembling a dedicated team of professionals (accountants, lawyers, bankers...) that would serve only their family.

Some claim the modern single family office was a European invention originating in France, Germany or the U.K., while others credit its origins to the early industrial fortunes of American families. Whether it is European, American or another creation, what we do know is that there is a well-documented history of family offices serving prominent North American families.

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In the mid- to late-1800s, prominent American industrial families, such as the Rockefellers and Carnegies, who had amassed large amounts of wealth, established their own family offices. The early forms of many of these family offices often operated within the family’s existing business, taking care of the needs of the growing number of family members.

As time passed, these offices were often spun off from the family business and became a separate legal entity. This evolution of the family office often coincided with the family’s wealth becoming more liquid and a greater focus being placed on managing investments. In many cases, they also took on the role of managing the lives of very busy or financially inexperienced family members.

Over time, families such as the Rockefellers, Phipps (Bessemer Trust) and Pitcairns discovered that they could leverage their knowledge of family office management and provide similar services to other wealthy families. This was the advent of the multi-family office (often referred to as an MFO).

Today, multi-family offices are prevalent across the United States and have begun gaining acceptance and recognition in Canada. Many of the newer multi-family offices did not begin with one founding family and then branch out to serve additional families; rather, they were set up to serve *multiple* families from the outset.

Multi-family offices are growing and continue to do so as the number of business sales and other liquidity events increases. As well, single-family offices can be costly to maintain (for families with less than a billion dollars in net worth), leading many families to seek out a multi-family office alternative.

As the number of wealthy families in Canada and the world continues to expand (via domestic growth and immigration), sustained growth in the multi-family office industry should continue.

Insurance as an Asset Class

Scott Hayman, CA, CFP



“I have enough.”
 “I don’t need any.”
 “Can’t I self-insure?”

These are the typical reactions we hear from wealthy families when the topic of life insurance is raised -- and they are fair comments. Why would someone with a large net worth consider insurance at all? Add to that, the fact that most people have had some kind of negative experience with insurance or insurance brokers at some point during their life, and the reactions make sense.

Insurance as an Asset Class?

But the truth is that insurance, when thought of as an investment (or asset class), can be a useful addition to some client portfolios. Insurance offers a very attractive tax advantage, since it grows tax free and is distributed tax free at death. For the right family under the right circumstances, this tax advantage can create a very compelling investment alternative.

Is It Right For Me?

Obviously not everyone does (or should) think of insurance as an asset class. The people who should are those who:

- Have enough money to fund their lifestyle,
- Have clear estate objectives, and
- Will not have to use the policy for anything other than its investment purpose

How Does It Compare With the Alternatives?

If a person has a certain sum of money to invest, they could invest it in a traditional asset class (such as stocks or bonds) or they could ‘invest it’ (i.e. pay the premium) in an insurance policy. To make the decision, they would (ignoring other factors for the moment) compare the expected *after-tax* returns of the two alternatives.

Consider the following example:

Joe (62) and Jill (61) have a combined family net worth of \$24 million, comprised of approximately \$4 million in personal use real estate and \$20 million in various types of investments. Joe and Jill were intrigued with using insurance as an investment, given that they are planning to pass on much of their wealth to the next generation.

The couple decided to compare investing \$1 million in a portfolio earning 5% versus paying \$1 million in premiums on a life insurance policy.

The chart below shows the after-tax value of their portfolio at various time intervals in the future, assuming they are in the top marginal tax bracket.

Years	Portfolio Value (millions)	After-Tax ROR	Pre-Tax ROR
10	\$1.3	2.7%	5.0%
20	\$1.8	2.7%	5.0%
30	\$2.5	2.7%	5.0%

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CONTINUED FROM PAGE TWO....INSURANCE AS AN ASSET CLASS

The next chart shows the after-tax value of the life insurance policy over the same time intervals.

We have made a reasonable assumption that \$1 million in premiums would be able to purchase a policy that pays a \$5 million death benefit.

Years	Death Benefit (millions)	After-Tax IRR	Pre-Tax IRR
10	\$5.0	15.8%	29.2%
20	\$5.0	8.4%	15.5%
30	\$5.0	5.5%	10.2%

You can see that the insurance option creates a much larger addition to their estate, in all of the time frames measured.

Insurance is not an asset class for everyone, and making the 'asset mix' decision is definitely an art and not just a science. It is important to spend a lot of time discussing this with a qualified advisor, focusing on your goals and objectives and your overall net worth.

It is also very important to ensure that you have (and will have) sufficient available assets to fund the premiums, as you do not want the policy to lapse.

Is it That Easy?

The short answer is no. You have to *qualify* for insurance. In other words, you have to be healthy enough to be insurable. You will need to have lab work and doctors' reports completed and you will be required to provide financial data. All of this must be disclosed to the insurance company who will be issuing the policy. Another factor that must be considered is the creditworthiness of the insurance company. You want to be comfortable that the company will be around and solvent so they can pay the death benefit when the time comes.

Despite the additional hurdles, the significantly higher after-tax returns available are encouraging many families to add insurance to the list of asset class options they are considering for their investment portfolio.

Canadian Citizenship for the Wealthy Global Family: The World's Best-Kept Secret

Tom McCullough, MBA, CIM, Ch.P



Northwood Family Office has recently published a white paper that outlines the many and substantial benefits available to wealthy global families from Canadian citizenship. The 14-page white paper is co-authored by tax lawyers Jonathan Garbutt and David Lesperance, along with Northwood co-founders Scott Hayman and Tom McCullough. A complimentary copy of the white paper is available by emailing mcassidy@northwoodfamilyoffice.com. A summary of the white paper is presented below.

Wealthy global families are becoming increasingly aware of their need for a well thought-out citizenship and residency strategy to protect their wealth and to safeguard their freedom of movement.

In the uncertain world facing us today, prudent families understand the importance of keeping their options open and having multiple passport choices. If your family has a net worth of \$50 million or more, you may already have started to investigate which combination of passports and residency is best adapted to your situation.

Those who have begun to examine this complex subject will have found that the problem is not the lack of options. Rather, it is identifying the right ones, and probably more importantly, avoiding the wrong ones.

For instance, how do you find a place that is safe, stable and free? That is livable, accessible and cosmopolitan? That offers 'first-world' health care, education, culture and services? That is business-friendly, family-friendly and privacy-friendly? That offers tax advantages and the opportunity to preserve family wealth? And, just as important, is likely to retain all these features in the future - both in the near-term and over the many ensuing generations?

For the first time in many years, a confluence of factors is causing many wealthy families to add Canada to the list of countries they are evaluating as part of their citizenship and residency strategy. This paper will review some of the pros and cons of Canada as a destination, but suffice it to say there are three main reasons for giving it serious consideration:

- 1. An appealing destination and passport.** Canada has many of the most positive features of a developed country, with few of the most troublesome drawbacks. It is actively looking to increase the number of immigrants, particularly those who are educated and have high net worth. It takes only three years of residency to earn the right to apply for Canadian citizenship.



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2. **A surprisingly-attractive tax regime for high net worth immigrants.** While historically viewed as a high-tax jurisdiction, Canada actually has a wide range of basic tax rates, no estate or gift taxes and no 'global tax leash' (i.e. permanent taxation based on citizenship). And although not well known, there are tax-reduction structures specifically designed for wealthy families immigrating to Canada that can allow for minimal taxation for the first five years of residency.

As well, there are many attractive planning opportunities that can allow them to obtain a valuable passport with minimal tax consequences.

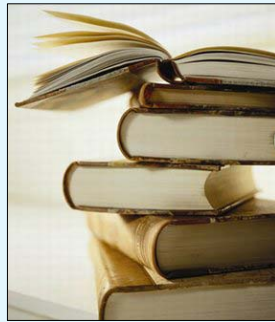
3. **World-class professional services and an ideal home for the family office.** Canada has a world-class professional services and financial infrastructure, making it an ideal location for the family office, particularly in the new 'post-bank secrecy' world.

Christmas Shopping List: Some Captivating Book Ideas

Tom McCullough

If you are thinking about buying books for the ones you love this Christmas, here are some of the recommendations from the speakers at the Fall 2009 Private Family Office conference we chaired. Many of these people are renowned speakers and spend a lot of time on airplanes – presumably reading!

- Showing up for Life: Thoughts on the Gifts of a Lifetime - *Bill Gates Sr. and Mary Ann Mackin*
- Predictably Irrational: The Hidden Forces That Shape Our Decisions - *Dan Ariely*
- How the Mighty Fall and Why Some Companies Never Give In - *Jim Collins*
- Outliers: The Story of Success - *Malcolm Gladwell*
- The Downhill Lie: A Hacker's Return to a Ruinous Sport - *Carl Hiaasen*
- The Match: The Day the Game of Golf Changed Forever - *Mark Frost*

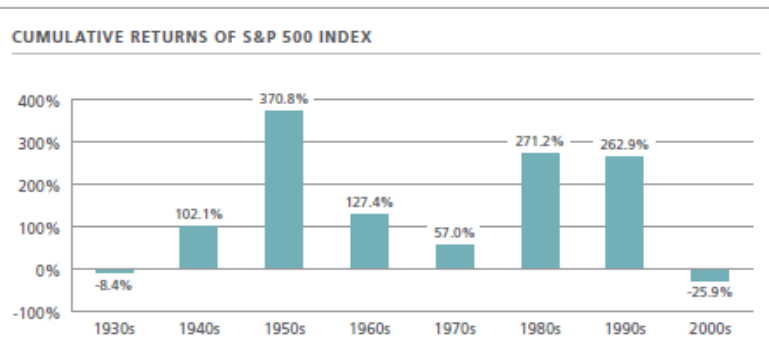


- Family Wealth - Keeping It in the Family: How Family Members and Their Advisers Preserve Human, Intellectual, and Financial Assets for Generations - *Jay Hughes*
- Strokes of Genius: Federer, Nadal and the Greatest Match Ever Played - *Jon Wertheim*
- Just Enough: Tools for Creating Success in your Work and Life - *Laura Nash and Howard Stevenson*
- The Education of an American Dreamer: How a Son of Greek Immigrants Learned His Way from a Nebraska Diner to Washington, Wall Street, and Beyond - *Pete Peterson*
- Champlain's Dream - *David Hackett Fischer*
- Three Cups of Tea: One Man's Mission to Promote Peace . . . One School at a Time - *Greg Mortensen*
- Leaving Microsoft to Change the World - *John Wood*

If you are still short of ideas, check out the Northwood Perspective – Summer 2009 edition, where we listed some book favourites from the Western Canada Private Family Office conference in May 2009. (http://www.northwoodfamilyoffice.com/pdf/Northwood_Newsletter-Summer2009.pdf)

A Disappointing Decade So Far

Eric Weir, CFA, CFP



Source: Neuberger Berman; Callan; IA SBBI. Past performance is not indicative of future results. Data as of June 30, 2009.

Any way you look at it, the first decade of the new millennium has been a disappointment for equity investors. In fact, this chart, courtesy of Neuberger Berman, shows that the current decade is on track (even with the rally from the March lows) to be the worst since reliable records became available in the 1920s. Looking at past cyclical patterns of markets, despite the current set of global worries, there is a good chance that the next ten years will be better.



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