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THE NORTHWOOD PERSPECTIVE

President's Message

Tom McCullough

It has already been a busy spring and early summer at Northwood Family Office!

We have been involved in a number of important conferences and events, including chairing the semi-annual Private Family Office Invitational conference in Banff, AB in early June. It was the fourth semi-annual gathering of the leading practitioners in the family office/ private wealth space from Canada and around the world. The focus of the event is how to continually improve the way we serve the interests of families.



In the second week in June, I delivered an address at an event in London, England (with the enthusiastic support and cooperation of the Canadian High Commission) on the topic of 'Canadian Citizenship as an attractive alternative for global wealthy families'. If you are interested in reading more about the surprising tax (and other) advantages of Canadian citizenship and locating a family office in Canada, see the white paper on our website (www.northwoodfamilyoffice.com).

I also spoke at a conference on compliance and risk management in Toronto in mid-June. My topic was entitled 'Setting the Tone from the Top' and dealt with the important role of a CEO and the senior leadership within investment firms and family offices in building a culture of integrity and regulatory compliance.

We also published a significant white paper called 'The Shoemaker's Children' which is summarized in this newsletter. It outlines the critical role a family office can play in the lives of High Performance Professionals (HPPs). The full version is available on the Northwood website.

Of course, the bulk of our day-to-day activities centre around managing and overseeing the financial and life affairs of our clients, and researching and analyzing the various investment managers and other advisors which are available to them.

Northwood is also continuing to grow. We are pleased to welcome a new addition to our team, Barrett Lyons. Barrett is a Chartered Accountant and joined us in early June from KPMG where he provided advice and technical expertise to family offices, private clients and corporations. He will join the Northwood client service team and will further add to our capabilities in tax and planning advice.

The Shoemaker's Children:

Why smart, successful professionals can benefit from a family office

Tom McCullough



While the traditional single-family office has typically been available only to the wealthiest of families, the multi-family office structure allows families of more modest wealth (including a select group of highly-paid professionals we call HPPs) to receive all the benefits and economies of scale of a family office at a fraction of the cost. Read an excerpt from our just-released white paper. (The full white paper is available on the Northwood Family Office website at www.northwoodfamilyoffice.com.)

A few years ago, I was talking to a lawyer who was lamenting the lack of time and attention she was able to devote to her own family's personal financial affairs. "My personal affairs never make it to the top of my in-basket," she said. While she clearly *wanted* to manage her own affairs well, client issues always seemed more important – and certainly more urgent.

It reminds me of the old Scottish proverb – and its variants in many other languages and cultures – 'the shoemaker's children go barefoot.' The moral of the story is that a busy cobbler is so busy making shoes for his customers that he has no time to make shoes for his own children.



The families of many senior executives, investment bankers, investment managers, consultants and other professionals (– let's call them High Performance Professionals or HPPs) may be euphemistically 'barefoot' when it comes to thoughtful, strategic management of their family's financial affairs.

Some HPPs, like the cobbler, have the expertise to do it well, but simply lack the time. Some have the time, but lack the specific skills to put a coordinated plan in place and manage it consistently. And some, if they are honest, lack both the time and the requisite skills.

HPPs may advise large corporations or even wealthy individuals on their financial, legal, or management strategy. But on the home front they don't have an Investment Policy for their investment portfolios, are not sure if they are over- or under-insured, and don't know exactly how much capital they will need to finally 'hang up the skates'.

'TAKE THE TEST' ON PAGE FOUR

What's in a Name?

How a name can say a lot about you

Scott Hayman, CA, CFP



I find it interesting to know the origin of company names. While it's true they are sometimes just made-up words (like Häagen-Dazs), oftentimes they actually tell you something about the vision of the company (Nike is the name of the Greek goddess of victory), its product and services (Coca-Cola is made from coca leaves and kola nuts), or its key people (Adidas derives from the name of its founder Adolph 'Adi' Dassler).

The name Northwood actually has an interesting origin as well. It is based on the three benefits we want to add to the lives and financial affairs of our client families - direction, perspective and confidence.

Direction. The first part of our name - 'North' - evokes a picture of a compass, with the needle pointing north. Our experience is that if a person knows their 'north point' - in other words, if they have thought through what is most important to them and their family, their principles, their goals, and what they really believe in - they are less likely to get lost on their way there. All other decisions become easier and make more sense when you have truly understood what is 'north' for you. We help our clients do this, and thereby, get *Direction*.




Perspective. The second part of our name evokes a picture of a 'wood' or a forest. Most people's financial lives are made up of a collection of standalone advisors and products, such as tax, investment, insurance, philanthropy, and legal structures, among others. Because these areas are often kept separate, like individual trees in a forest, the clients are often faced with making 'one-off' decisions that don't necessarily fit in with the whole picture. We help our clients avoid missing the proverbial 'forest for the trees', and thereby, gain *Perspective*.



Confidence. A clear understanding of your Direction (knowing what 'north' is for you) and a good sense of Perspective (not missing the 'forest for the trees'), leads to a sense of *Confidence* - the confidence that you have a sensible plan, you have made the best decisions you can, and things are well looked after.



This is our name and our promise! 

The Role of Bonds in a Portfolio

Eric Weir, CFA, CFP



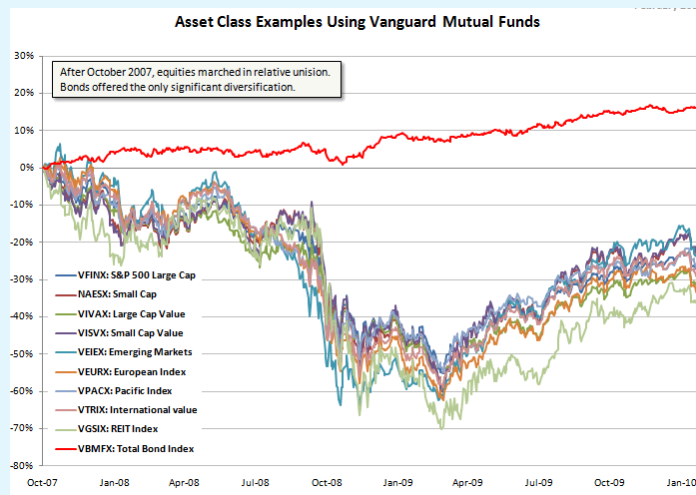
It's hard to get excited about bonds these days. A yield of 2 to 4%, depending on the term and credit, is nothing to write home about. And, on an after-tax basis the news gets worse, since interest is taxed at the highest marginal rate.

And of course on a very long-term basis, all of the statistics show that equities provide exponentially better returns than bonds, if you can stand the ups and downs of the stock market.

It begs the question 'why own bonds at all?'

This chart shows the stabilizing role bonds played over the past 2 1/2 years. While virtually all stock markets in the world plunged and then rallied in unison, boring bonds delivered the consistency they promised. The small positive yield on bonds actually started to look

pretty good compared to the double digit percentage drop in stock prices!



But let's go back to basics for a moment. The first question any investor has to answer is 'what is the money for, and when will you need it?' And there are really only two things you can do with money - you can spend it, or you can give it away (to children or charity, for instance).

If you want to ensure that your money is there when you need it (eg. living expenses, retirement, cash flow buffer etc.) and you don't want to worry about the roller coaster of emotions, high quality bonds are better. You don't get a lot

of return, but you get security and stability.

CONTINUED ON PAGE THREE

If the money is not needed for a long time (eg. estates, philanthropic gifts, optional purchases etc.), you are keen to see it grow, and the associated volatility will not be a significant source of stress, then equities will likely be preferable.

Of course, most investors will want a combination of both equities and bonds (– and other asset classes as well). Our clients, for the most part, have the luxury of *excess* capital. So when possible, we like to ‘immunize’ their living expenses – via bonds, inflation-indexed bonds and conservative dividend-paying stocks – so they never have to think about it again.

The remainder (i.e. total investable assets less capital allocation to fund living expenses) can be invested for a very long time horizon in assets such as equities, private equity, and real estate.

What does this all mean to a high net worth family? It is extremely important to clearly understand your multiple goals (living expenses and estate plans, for instance) and structure your portfolio accordingly.

Although we view bonds as playing a pivotal role in client investment portfolios, we find the current bond market extremely challenging with record low yields (which are likely to rise), limited availability of good corporate bond issues, and bonds trading at very high premiums. As such, Northwood clients’ bonds investments are relatively ‘short’ and are carefully selected to provide a reasonable yield on an after-tax basis.

And, contrary to most perspectives in the investment world, we’re actually looking forward to higher interest rates! 🌲

Summer Reading List

Tom McCullough

In early June 2010, Northwood chaired a Private Family Office conference Banff, Alberta. We asked each of the speakers to mention one of their favorite books, a partial list from which is listed below for your summer reading pleasure.

Fiction

- Shantaram: A Novel, *Gregory Roberts*
- A Reliable Wife, *Robert Goolrick*
- Wolf Hall: A Novel, *Hilary Mante*
- The Historian, *Elizabeth Kostova*

Historical Fiction and Biographies

- Emperor of the North: Sir George Simpson and the Remarkable Story of the Hudson’s Bay Co., *James Raffan*
- Game Change: Obama and the Clintons, McCain and Palin, and the Race of a Lifetime, *John Heilemann and Mark Halperin*
- The Last Thousand Days of the British Empire: Churchill, Roosevelt, and the Birth of the Pax Americana, *Peter Clarke*
- A Little History of the English Country Church, *Roy Strong*
- Richard M. Nixon: A Life in Full, *Conrad Black*



Other Non-Fiction

- Tuesdays with Morrie, *Mitch Albom*
- Heat: An Amateur’s Adventures as Kitchen Slave, Line Cook, Pasta-Maker, and Apprentice to a Dante-Quoting Butcher in Tuscany, *Bill Buford*
- Of All Things Most Yielding, *John Chang McCurdy*
- The Road to Serfdom, *F. A. Hayek*

Business

- E-Myth Re-visited: Why most small businesses don’t work and what to do about it, *Michael Gerber*
- The Big Short: Inside the Doomsday Machine, *Michael Lewis*

- Freakonomics: A Rogue Economist Explores the Hidden Side of Everything, *Steven Levitt and Stephen Dubner*
- The Real Estate Game: The Intelligent Guide to Decision-making and Investment, *William Poorou and Jeffrey Cruikshank*
- Mentally Tough: The Principles of Winning at Sports Applied to Winning in Business, *James Loehr*

Ideas

- Made to Stick: Why Some Ideas Survive and Others Die, *Chip Heath and Dan Heath*
- A Whole New Mind: Why Right Brainers will Rule the Future, *Daniel Pink*
- Drive: The Surprising Truth about What Motivates Us, *Daniel Pink*
- www.TED.com (*Technology, Entertainment, Design*) is a private non-profit foundation best known for its conferences devoted to what it calls ‘ideas worth spreading.’ Its lectures, or ‘TED Talks’, widely disseminated on the Internet, are subject to an 18 minute time limit.

Money

- The Soul of Money: Reclaiming the Wealth of Our Inner Resources, *Lynne Twist and Teresa Barker*
- The Right Side of the Table: Where Do You Sit in the Minds of the Affluent?, *Scott Fithian and Todd Fithian*
- Slow Money: Investing as if food, farms and fertility really mattered, *Woody Tasch*

Families and Wealth

- Stewardship in Your Family Enterprise: Developing Responsible Family Leadership across Generations, *Dennis Jaffe*
- Hold On to Your Kids: Why Parents Need to Matter More Than Peers, *Gordon Neufeld and Gabor Mate*
- Raising Financially Fit Kids, *Joline Godfrey*
- Family, The Compact among Generations: Answers/ Insights from a Lifetime of Helping Families Flourish, *James Hughes*
- Life Is What You Make It: Find Your Own Path to Fulfillment, *Peter Buffett* 🌲

CONTINUED FROM PAGE ONE...THE SHOEMAKER'S CHILDREN

Take the test

The associated self-assessment test is a good place to start. It will help you assess the degree to which you have a handle on your financial affairs, or where you need some help getting and keeping them in good order -- for your own sake and for your family.

The full 31- question version of the quiz is available in the white paper, but we have highlighted a few of the questions in this newsletter to

whet your appetite. Check out the full version of the quiz at http://northwoodfamilyoffice.com/pdf/Shoemakers_Children.pdf and see how you do.

If you answered 'no' or 'not sure' to three or more of the questions below, you are likely missing some significant opportunities to improve your financial situation, and your peace of mind as well. 🌲

SAMPLE QUESTIONS from the....Private Wealth Holder Self-Assessment Test

Yes	Not sure	No	
ORGANIZATION AND PLANNING			
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Our financial affairs are well-organized and in good order.
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Our personal financial situation is straightforward, I enjoy managing it and I feel I am doing a good job.
INVESTMENTS			
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	I am confident that our asset allocation is appropriate.
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Our investment managers have been objectively reviewed recently and I am confident we have the right ones in place and in the right combinations.
RISK MANAGEMENT			
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	I am comfortable that we have the appropriate level of risk in our portfolio.
TAX PLANNING AND STRUCTURING			
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	I am comfortable that we are taking advantage of all the tax efficiencies available to us.
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	I am confident that the tax location of our investment assets is optimal.
ESTATE PLANNING AND SUCCESSION			
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	I have a clear idea of our estate objectives and how much our heirs will receive and when.
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Our wills have been updated in the past three years. We have properly-executed powers of attorney for financial and health care purposes.
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	I feel comfortable that our children are financially well-educated and sufficiently responsible to inherit the assets that are likely to be left to them.
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	I understand all our insurance policies and am confident that they are appropriate and up-to-date.
CASH FLOW MANAGEMENT			
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	I know exactly how much capital I will need to be able to retire and to maintain our standard of living.
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	I have a game plan in place to prepare for a liquidity event, such as retirement, receiving my deferred compensation or cashing in my shares or partnership interests.
FAMILY ISSUES			
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Our family has frequent, open, healthy dialogue about money and financial issues.
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	I'm comfortable that my spouse and children will be able to manage if something happened to me.
ADVISORS			
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	My advisor is proactive and regularly anticipates the key issues that need attention in my life.
			TOTAL



For more information or to set up an appointment, please call Tom McCullough or Scott Hayman at
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