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THE NORTHWOOD PERSPECTIVE

President's Message

Tom McCullough



It is already shaping up to be a busy summer at Northwood Family Office!

I was honoured to chair the Canadian Private Family Office Invitational conference in Banff, Alberta in early June again this year. It was the 6th 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 and it was a great success. In this issue of the Northwood Perspective, we are pleased to continue our annual tradition of summer reading ideas, collected from the speakers at the Banff Family Office Conference.

It has been an active period in financial markets and international developments. So we have been very gratified with the remarkable investment performance generated by the unique combination of money managers we have engaged on behalf of our clients, in virtually all measurement periods (3, 5 and 7 years) and particularly on a risk-adjusted basis. We would be happy to provide more details on these results to anyone who is interested. We are also in the process of significantly expanding our investment research efforts to meet the demands of an increasing number of client families with increasingly diverse needs.

And we are excited to have put the finishing touches on a new portfolio management and reporting system that allows us to provide best-in-class consolidated reporting of public and private investments for our clients, across all their entities and across multiple generations.

We are looking forward to hosting a presentation in the fall of 2011 for our clients and friends of the firm on the topic of 'Kids and Money' - one of the most current and relevant issues facing the families we speak to. More details to follow.

On a personal note, I have a busy travel summer ahead of me. I will be going to Guangzhou, China to participate in an expert panel which reviews candidate presentations for a wealth management designation program. Following that, my family and I head to Rwanda to volunteer with an educational organization that is helping teachers and students adapt to significant changes in their country. Rwanda is switching the language of educational instruction from French to English to boost the country's opportunities for growth and development, however many of the poorest students and even teachers don't speak English. We will be organizing English immersion 'summer camp' experiences for 200 Rwandan teachers. It should be a great experience.

On behalf of all my colleagues at Northwood, I wish you all the best for a wonderful summer.

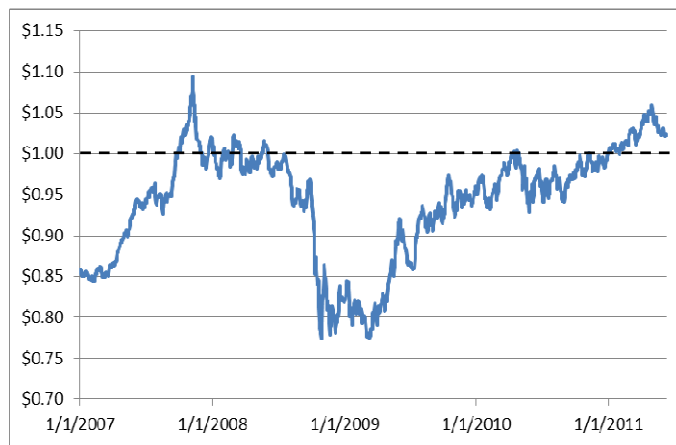
Holding Steady Above Par

The impact of a strong Canadian dollar

Eric Weir, CFA, CFP



For the first time since the 1970s, the Canadian dollar closed above the U.S. dollar on September 28, 2007, hitting a level that was thought of as unimaginable in the early 2000s. Since crossing the magic mark of par back in 2007, Canadians have been on a wild ride when it comes to the U.S. dollar (\$USD) exchange rate. The chart below gives a little history on where the Canadian dollar (\$CAD) has travelled.



A few highlights

- After crossing parity at the end of September 2007, the \$CAD went on a rapid advance, eventually hit US\$1.10 on November 7, 2007, the highest level recorded in modern history.
- The end of 2008 brought a much different story as the collapse of the financial markets took a huge bite of the gains from the previous year, and the \$CAD touched a low of \$0.78, a decline of 32 cents from the high set in the previous year.
- Since the lows in 2008 and 2009, the \$CAD has been on a relatively steady march back to parity, as you can see in the chart above.
- **Up to the middle of June 2011, the \$CAD has traded above parity every day this year except for three, averaging in the \$1.02 range, making this the longest period in modern history that the \$CAD has traded above parity with the \$USD. CONTINUED ON PAGE TWO...**

Our
20th
Edition!

This is the 20th edition of the Northwood *Perspective*. We have been gratified by the enthusiastic response to our articles and ideas over the years. Thanks for all the great input and feedback. All of the back issues are available in the Resources section on our website www.northwoodfamilyoffice.com

CONTINUED FROM PAGE ONE... HOLDING STEADY ABOVE PAR

For the Canadian investor, currency has had dramatic impact on returns over the last few years pushing results on positions held in \$USD dramatically higher or lower depending on the movement in the currency. For example, in 2007 investors experienced a significant loss on \$USD investments due to currency as the \$CAD was trading 19% higher at the end of the year. In the following year (2008), investors experienced significant gains on \$USD investments which took some of the pain out of portfolio losses in one of the worst stock markets on record. Looking at the calendar year movements in currencies (found in the table to the right), you can see in '07, '08, and '09 currency was a major factor in the returns that investors experienced. But, contrast this with the recent experience of '10 and '11 and you can see that currency has become much less of a factor in returns over the past couple of years, contributing only small losses to \$USD positions.

\$CAD Gains & Losses	
2007	19%
2008	-20%
2009	16%
2010	5%
2011 YTD	2%

When looking to the future, currency is one of the most difficult investments to project, however, we do know that we are in one of the highest trading ranges for the \$CAD/\$USD exchange rate in modern history. This leads us to believe that over the longer term the \$CAD will revert to lower levels and contribute positively to Canadian investor returns. When looking at investment opportunities, it is always important to review the associated currency risk as they can be one of the major risks investors face. While in the short term, the \$CAD could spike higher, when investing for the long term we believe it is a good time to look outside our borders as currency gains pose an opportunity to contribute positively to portfolio returns in the long run. 🌲

Summer Reading List

Tom McCullough, MBA, CIM, CSWP



In early June 2011, Northwood once again chaired the Canadian Private Family Office conference in 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.



Communication & Self-Development

- What Happy People Know: How the New Science of Happiness can Change your Life for the Better, *Dan Baker*
- Flourish: A Visionary New Understanding of Happiness and Well-being, *Martin Seligman*
- Fierce Conversations: Achieving Success at Work and in Life, One Conversation at a Time, *Susan Scott*
- The Art of Possibility: Transforming Professional and Personal Life, *Benjamin Zander and Rosamund Stone Zander*
- Money Motto: The Path to Authentic Wealth, *Franco Lombardo*

Business

- Blue Blood and Mutiny: The Fight for the Soul of Morgan Stanley, *Patricia Beard*
- Marketing Warfare, *Al Reis and Jack Trout*
- Strategy, *Liddell Hart*
- The Prize: The Epic Quest for Oil, Money and Power, *Daniel Jurgen*
- Wired for War: The Robotics Revolution and 21st Century Conflict, *P.W. Singer*
- The Sellout: How Three Decades of Wall Street Greed and Government Mismanagement Destroyed the Global Financial System, *Charles Gasparino*
- Unconventional Success: A Fundamental Approach to Personal Investment, *David Swensen*

Ideas

- Made to Stick: Why Some Ideas Survive and Others Die, *Chip Heath and Dan Heath*
- Switch: How to Change Things When Change is Hard, *Chip Heath and Dan Heath*
- Tribes: We Need You to Lead Us, *Seth Godin*
- Fixing the Game: Bubbles, Crashes, and What Capitalism Can Learn from the NFL, *Roger Martin*
- Priceless: The Myth of Fair Value (and How to Take Advantage of it), *William Poundstone*

Families and Wealth

- Generation to Generation: Life Cycles of the Family Business, *John Davis, Kelin Gersick, Marion McCollom Hampton, Ivan Lansberg*
- Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values, *Roy Williams and Vic Preisser*
- The Giving Family: Raising our Children to Help Others, *Susan Price*
- You Can Go Home Again: Reconnecting with your Family, *Monica McGoldrick*

Fiction

- 'Conqueror' series (Genghis Khan), *Conn Iggulden*
- The Count of Monte Cristo, *Alexandre Dumas*
- Birds of Prey, *Wilbur Smith*
- The Plot Against America, *Philip Roth*
- The Story of Edgar Sawtelle, *David Wroblewski*
- Imperium: A Novel of Ancient Rome, *Robert Harris*

Other Non-Fiction

- Mountains Beyond Mountains: The Quest of Dr. Paul Farmer, *Tracy Kidder*
- A Short History of Nearly Everything, *Bill Bryson* 🌲

A Different Breed: The Family Office Advisor

Scott Hayman, CA, CFP



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 our clients’ lives).

We could also cite the types of clients we serve – typically entrepreneurs and executives with \$10 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 wealthy 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 – because it is really all 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 advisor can admit to being off-base if necessary and can give others credit before himself or herself



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
- 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 single 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

Find out if a family office is right for you.

A family office isn’t for everyone. Most Northwood clients have family net worth of \$10+ million. Northwood acts as a ‘Personal CFO’ for successful entrepreneurs and senior executives, coordinating their investments, risk management, tax and estate planning, philanthropy, governance and financial administration.

Take our Self-Assessment Quiz:

<http://northwoodfamilyoffice.com/quiz.asp>

Read *The Shoemaker’s Children*

and discover why smart, successful professionals and entrepreneurs can benefit from a family office:

http://northwoodfamilyoffice.com/pdf/Shoemakers_Children.pdf

2011 Federal Budget Updates

Tax Implications for Canadians from the 2011 Federal Budget

Barrett Lyons, CA



After winning a majority government in May, the Conservative government tabled substantially the same budget as proposed earlier in March that died after the dissolution of Parliament. The following is a summary of the more significant measures proposed that will impact high net worth individual taxpayers:

'Kiddie Tax' on Capital Gains

- Previously, the attribution rules for income earned by minor children did not extend to capital gains. As such, minors could benefit from the use of the \$750,000 capital gains exemption on the disposition of shares of a Canadian private corporation to someone who the minor does not deal at arm's length (i.e. mom and dad).
- Tax on split income (aka 'kiddie tax') are CRA's rules that were put in place to negate the benefit of splitting income earned and distributed by a Canadian private corporation of a related individual. Historically, the rules have applied only to dividend, partnership or trust income.
- The budget includes measures to recharacterize the capital gains on the sale of said shares owned by minors from to capital gains to dividends. Therefore, the income will be subject to 'kiddie tax' at the top marginal rate, and the child will not be able to employ their lifetime capital gains exemption to shelter income on the gain. The rules apply to gains realized on or after March 22, 2011.



End of partnership tax deferrals

- A common planning opportunity for corporations setting up an operating business with a partnership is to select a fiscal year-end for the partnership shortly after that of the corporate partner. The Income Tax Act required that corporations only include partnership income when the partnership year-end falls within the corporate fiscal year and, as such, the corporation could defer the recognition of the partnership's income for up to 364 days. This provides deferral of the income tax but can additionally reduce the tax liability in a climate of falling income tax rates, similar to the current environment.
- The budget measure eliminates the deferral opportunity and requires the corporate partner to accrue income of the partnership for the portion of the stub period that the corporation would not otherwise include in income. This measure eliminates the income deferral opportunity.

Donation of Publicly Listed Flow-Through Shares

- Current income tax legislation allows an individual taxpayer to receive a donation receipt equal to the fair market value of the shares donated and provides that the resulting capital gain on the disposition is exempt from tax. The result for investors donating flow-through shares is that the investor can claim flow-through deductions and credits that would grind down the adjusted cost base of the shares to nil, but donate the shares and receive a tax credit on the full value of the share with no capital gain. The investor benefits from both the tax credit on the full value of the shares as well as the flow-through deduction and credits. As a result, the after-tax cost of the donation to the taxpayer is significantly reduced.
- To eliminate this loophole, the government has amended the rules for the exemption of the capital gain to exempt only appreciation in excess of the original cost of the shares. This essentially puts the donation of the flow-through shares on the same playing field as other publicly listed shares and eliminates the 'double credit' investors were previously receiving. 🌲



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

Main: (416) 502-1245

www.northwoodfamilyoffice.com

Email: tmccullough@northwoodfamilyoffice.com

shayman@northwoodfamilyoffice.com

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