NORTHWOOD STEPHENS
PRIVATE COUNSEL INC.

Best Independent Family Office in Canada
EUROMONEY Private Banking Survey 2007

THE NORTHWOOD STEPHENS **PERSPECTIVE** FALL 2007

President's Message

Welcome to the Fall edition of the Northwood Stephens Perspective. We hope you enjoy it.

As you might imagine, the bulk of our time and energy at Northwood is spent working on the 'practical' and 'numbers-oriented' parts of our clients' lives, such as investment management and estate planning.

However, there is another important part of our practice that underpins almost all of the work we do. Some people call it 'values assessment', but in simplest terms, it is nothing more than helping our clients determine what is most important to them and their families. Values can include such words as control, family closeness, simplicity, responsibility, fairness, growth, etc.

Why do people need help identifying family values? Because sitting down and writing out their goals and objectives is not a common practice in most families and rarely makes it to the top of the priority list. And what happens when families do compile this list? We then use this information as a reference guide for future discussions and decisions. And of course things will change along the way, including priorities, but having a basic foundation like this has proven to be a phenomenally valuable stabilizer and rudder in discussions about money and life in general.

Clarifying family values has all sorts of benefits, not the least of which can be seen in two key areas – (1) raising children in an environment of (at least relative) wealth and privilege, and (2) deciding how we give some of our money away and to whom.

I was reading a book recently by a husband and wife team, Eileen and Jon Gallo, called Silver Spoon Kids. The subtitle is perhaps even more indicative of its contents – 'How Successful parents raise responsible children'. It is very helpful in thinking through the issues of money and how to communicate them to children of all ages. There is a review of this book in this newsletter.

We look forward to your comments and feedback on this issue of the Perspective.

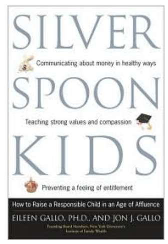
Tom

Tom McCullough
President and CEO

Photograph courtesy of Frances Juriansz Photography

Book Review: "Silver Spoon Kids"

Tom McCullough, MBA, CIM, FCSI, Ch.P.
President and Chief Executive Officer,
Northwood Stephens Private Counsel Inc.



It is natural as parents that we want to give our children the best of everything. And in this age of unprecedented wealth, affluent parents (that probably includes most of us!) can indulge that urge like never before.

At the same time, many of us have become alarmed over the impact this newfound affluence may be having on our children. We fear that through our generosity we risk training our children to be selfish spendthrifts.

The above is an edited version of the description of Silver Spoon Kids, and captures the ideas of the book but also the feelings and concerns I have heard from many of you about raising a generation of kids who we hope will (but we worry won't) have a balanced perspective of money. The subheadings on the front page of the book also give you a hint of the direction it is headed: Communicating about money in healthy ways, Teaching strong values and compassion, and Preventing a feeling of entitlement.

The authors, Jon and Eileen Gallo, are well equipped for the challenge of writing the book. They are affluent, they are parents themselves and they are married, so have wrestled through these thorny money issues together. In addition, Eileen is a psychotherapist who counsels people with money-related emotional problems and Jon is a lawyer specializing in estate planning.

The book has a mix of practical tips, real-life stories, anecdotes and effective advice on how to:

- Talk to your child about money in general--and your money specifically
- Be sure your child doesn't become spoiled
- Use an allowance to teach your child to use money responsibly
- Foster a philanthropic outlook in your child
- Define your family's most important values and communicate them effectively
- Avoid your nightmare of an unmotivated, underachieving, materialistic child

Also included are helpful checklists, self-tests, and Silver Nuggets --brief bits of wisdom and advice -- that you can quickly put to use. In the shaded box on the next page, there is a list of some of the questions that the authors encourage parents to answer for themselves to help develop a 'family money narrative'. I found them very helpful. And if you think the proverbial 'horse has already left the barn' (i.e. that your children are too old and that you've missed your chance), the authors have ideas for 'kids' of all ages, even those that have become adults themselves.

While people will agree these are generally important issues as we all strive to produce the next generation of world and local citizens, it is also very

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CONTINUED FROM FRONT COVER

fundamental in the work we at Northwood do with our family office clients. Thinking through kids and money is usually the first step in estate planning (do we want our kids to inherit, if so when and how much, should it be under the control of a trustee or in their hands directly etc.?). It clearly has a direct impact on decisions about philanthropy and family legacies. And it often leads to plans for family education on money matters when the time is right.

On a personal note, my wife Karen and I have had a charitable giving program and a small family foundation for years. Our kids, while they have sponsored World Vision children since birth and have listened in on many philanthropic and money conversations, have not been involved in any of the specific charitable decisions up to this point. We thought that getting them involved might be a good way to open the door to the inevitable (and welcome) discussions about money in our family.

About a month ago, Karen and I asked our two teenaged children (17 and 14) to join us at a restaurant for lunch. The plan was to discuss the family charitable giving and to begin to involve them in the decision process. We asked them to come with some ideas as to what was important to them and why. For our part, we agreed to start with a blank sheet of paper.

It was a great experience. Everyone had thought about it and was engaged. We were able to agree on our top priorities and, in fact, some of them required more research and those tasks were divided up among us. The next step is to regroup in a few months to actually make the first set of decisions.

There are many ways to engage kids in money discussions. The book Silver Spoon Kids is one source of ideas as are conversations with other families. Also, if you are interested in talking about this further, give me or Scott Hayman a call, we'd be happy to have the conversation.

Sample "Money Relationship" Questions

- What are two of your earliest money memories (eg. the first important purchase you made)?
- What did you learn from your mother about money? Your father?
- How did these parental messages affect you as you grew up?
- What did your father and mother do with their money that you particularly admired? Or found offensive?
- Do your current attitudes and values about money differ from your parents'/ siblings'/ spouse's attitudes and if so how/ why?
- How do you feel about your own affluence?
- What messages about money do you think you are sending to your children?

Is it time to Donate Securities?

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

For many, the Fall season brings about thoughts of closing the cottage, planning the year's winter vacation and deciding how long to put off that holiday shopping. This is also a time when many families are making philanthropic decisions; including how much to donate, which charity should benefit and how best to make the donation.

While the questions of how much and which charity are decisions best left to the individual/family, the preferential tax treatment afforded the donation of appreciated securities along with the continued upward trend of the markets, helps to answers the 'how to'.

In 2006 the Conservative government eliminated capital gains tax on donations of publicly listed securities to charities. In March 2007, the government extended this measure to include donations to private foundations. Usually, one-half of a capital gain is subject to tax. For gifts of publicly-listed securities, that amount is now eliminated when the gift is made to a charitable organization, a public foundation (such as a community foundation) or a private foundation.

To illustrate the tax benefits of gifting appreciated securities to charity, as opposed to selling the security and donating cash, consider the following example. Sue has decided to donate $10,000 to a local charity and her portfolio includes a securities position with a current market value of $10,000 and a tax cost of $1,000.

As shown in the below table, if Sue sold her shares and donated the cash she would have a capital gain of $9,000 and a tax liability of $2,070. Sue's net tax benefit, after factoring in the donation credit of $4,600, would be $2,530. If Sue were to donate the shares directly to her charity of choice, her net tax benefit would be $4,600.

	Donating Securities Directly	Selling Securities and Donating Cash
Fair Market Value of shares	$10,000	$10,000
Cost Base of shares	($1,000)	($1,000)
Capital Gain (fmv less cost basis)	$9,000	$9,000
Taxable Capital Gain	NIL	$4,500
Tax (46% * Taxable Capital Gain) 1	NIL	($2,070)
Donation Tax Credit	$4,600	$4,600
Net tax savings from donation (tax credit less tax liability)	$4,600	$2,530
Tax savings from donating securities directly, rather than selling securities and donating cash	$2,070	

[1] *Assume 46% top marginal tax rate.*

Over the past several years it is likely that you have accumulated a number of appreciated security positions in your portfolio that you can choose from.

Seven World Trends to Watch for

Tom McCullough, MBA, CIM, FCSI, Ch.P.
President and Chief Executive Officer, Northwood Stephens Private Counsel Inc.

I recently attended the Family Firm Institute global conference in Miami, where I was one of the guest speakers on the 'Growing Role of the Family Office'. But I was also privileged to hear a talented group of presenters. Among them was Moises Naim, the Editor-in-Chief of the widely respected magazine, Foreign Policy. *He spoke of seven major global trends he sees from his vantage point as a world traveler, observer and expert commentator, and tried to assess the implications for private companies and individuals. I thought you might be interested in reading a brief summary of his remarks.*

Mr. Naim highlighted seven key trends he sees driving events in the world today.

1. Diffusion of power.

Power is easier to obtain, harder to exert and harder to retain, and, as such, new players are emerging, contesting and in many cases replacing traditional players. This seems to apply in many spheres such as military (Iraqi insurgents vs. the most powerful army the world has ever known), finance (hedge funds vs. central banks) and religion (burgeoning Pentecostals vs. traditional Catholic church in Latin America). Knowledge is another area where this asymmetrical power is evident as Wikipedia has devastated Encyclopedia Britannica (EB) over the past 6 years. Wikipedia is now twelve times larger than EB, is available in 229 languages, is as accurate (162 errors vs. 123 for EB according to *Science* magazine) and it is free. The implications are obvious for traditional power holders, both on the global stage and even in local, owner-managed and other private companies.

2. Information (and communication and transportation) revolution.

The information revolution is transforming expectations in profound and unusual ways. The internet is increasing the demand for transparency in all areas, people are not tolerant of things that are not clear and the ability to access and post knowledge is universal. As such, previously marginalized groups have more opportunities to have their views heard. Some examples include, indigenous tribes can now be seen running countries (eg. Bolivia), weaker religious sects are now flexing their muscles (eg. Shiites) and, even the beleaguered minority shareholder, has now found his voice. This will clearly make secrecy harder and more expensive to achieve.

3. Hypercompetition.

The first two trends (among others) have led to hypercompetition across the globe. The implications of this are shrinking margins, the increasing requirement for every firm to add value to whatever they sell and, not surprisingly in this 'knowledge economy', much more aggressive competition for talent. It means that the hunt for the best people will become more global, and they will be harder to attract and harder to retain.

4. Global finance revolution.

There has been an avalanche of global liquidity and, any way you slice it, that trend is likely to continue. Over the past few decades we have seen the creation of the largest financial markets the world has ever seen and the most innovative, international fast moving in history. We have also seen an influx of new institutions and new tools allowing more people to access financial markets than ever before. A just-released study by consulting firm McKinsey and Co. says there are four new power brokers in global finance – petro dollar investors, Asian central banks, hedge funds and private equity funds – that control $8.5 trillion dollars, three times more than they did just six years ago. In general, these groups have a higher propensity for risk and are 'pushing out the risk/return frontier'. In fact, the scarce resource is no longer capital, but projects to invest that capital in. Locally, the competition for investment targets as well as newly-created financial instruments to create liquidity will continue to tempt business owners to cash out.

5. Womenomics.

If asked 'What is the most important source of economic growth in the world in the last ten years?', you wouldn't be quite right if you answered (a) increased productivity due to technology, or (b) the impact of China and India. The actual answer is (c) the increase in the proportion of the paid labour force that is now accounted for by women. Women are now getting paid, they are more educated, they are working more, and are more entrepreneurial – even more than men. They are a powerful and positive force in the world economies, but the trend is full of paradoxes. Here are a few. Never have women been more in power and at the same time never have more women been in poverty. Also, while women are more educated than men (55% of US college students are women) and the 'glass ceiling' is less of an issue than in the past, women face a 'labyrinth of obligation' that tries to reconcile the 'productive' and 'reproductive 'aspects of life.

6. Global pandemic of crime.

The traditional pandemic spectre – Avian Flu – has killed 186 people in the last five years. A new and as yet unrecognized pandemic - street crime, kidnappings and highjackings - have killed millions around the world in the same period. In the 1990s, crime rates did fall as reported in the press, but that trend has started to reverse, with 2005 showing the largest jump in crime in 15 years. In most emerging market countries, you are no longer able to walk safely on the streets at night. In Russia, crimes rates are twenty times higher than Western Europe. In Boston, crime rates hit an 11 year high. The trend is particularly worrisome for the wealthy as kidnapping is increasingly prevalent and the criminals are increasingly knowledgeable.

7. Fashionable altruism.

There is a boom in philanthropy at all levels of society. Something remarkable happened in the last decade. There is clearly a lot more money around and there is evidence of a 'demonstration effect' as people followed the likes of Bono, Angelina Jolie, Bill Gates and Bill Clinton into philanthropy. In addition the new generation of wealthy individuals are wealthier younger, have amassed larger amounts of wealth and have greener and more socially conscious origins and are asking 'What do I do with all this?' Hong Kong industrialist Lee Kai Shing calls his very active family foundation his 'third son' and is actively encouraging even the wealthy Asian to transcend years of tradition and give money to charities instead of just to their children.

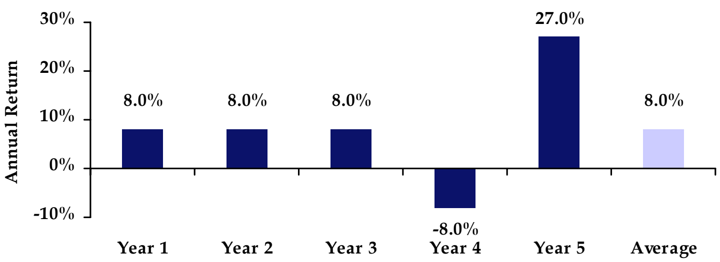
Don't lose money!

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

Warren Buffett, one of the world's most successful investors ever, is famous for the following sage advice. "There are two rules for investing. Rule No.1: Never lose money. Rule No.2: Never forget rule No.1."

While certainly prudent, this suggestion is, of course, easier said than done. Stock and bond markets do both rise and fall based on economic conditions, valuation, investor sentiment and a myriad of other factors, as do individual securities.

Why do losses matter and, if they do, how can we prevent them? The attached chart identifies the surprising reality of trying to recover from a loss year. Assume your goal is wealth preservation and your investment objective is an 8% annualized return over a five-year period. In each of the first three years you make 8%. In year four, however, you lose 8%. What rate of return do you require in year five to achieve your 8% average? The answer is 27% -- a much higher number than many investors would expect.



Investors faced with a loss year often react in non-rational ways. They may move to sidelines out of fear, drastically reducing their portfolio's return potential. Or, they may accept a higher degree of short-term risk in efforts to 'get them back on track'. Both reactions can often be counter productive, taking the investor away from the long term view.

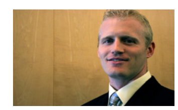
So what is to be done? How can we eliminate the risk of loss? While volatility and the risk of loss cannot be eliminated, they can be reduced through diversification. For example, in falling markets a portfolio of 20 different securities that vary by asset class, geography and investment style is less likely to produce a loss than a single security position. In fact, diversification should apply to all areas of a client's net worth – such as investment portfolios, real estate, currency positions, alternative investments, etc.

If you have a well diversified portfolio, the key is to have the discipline to 'stay the course'. A diversified portfolio with a 'slow and steady wins the race' approach, will typically underperform a more aggressive approach in the good times and outperform in the bad times. A loss year may still happen, but a well diversified portfolio will rarely require a 27% return to get an investor 'back on track'!

Other notable quotes by Warren Buffett:

- Only when the tide goes out do you discover who's been swimming naked.
- You only have to do a very few things right in your life so long as you don't do too many things wrong.
- It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently.

What's New at Northwood Stephens



Eric Weir, CFA, CFP
Northwood Stephens Private Counsel Inc.

We thought we'd give you a flavour of some of the other opportunities we've been investigating for clients.

Recharacterization
We've had discussions with various banks about vehicles that can help clients defer and potentially reduce the taxes paid on long term income earning investments. Although some of these options represent a reduced level of liquidity and involve complicated transactions, the relative benefit can be quite compelling when applied to large portfolios.

Private Equity
In our constant search for reduced risk and higher/diversified returns for clients, we've found a very unique Private Equity Fund of Funds investment in the US that we will be introducing to clients over the next few months. This investment gives clients access to some of the largest and best performing private equity firms in the world and has a very impressive track record.

Speaking
We've been active at a number of conferences and events over the past few months and you may of caught one of us at one of the many we've attended. Tom McCullough has had the opportunity to be a key note speaker at a number of functions, including:

- Family Firm Institute Ontario Chapter – Toronto
- Family Firm Institute Global Conference – Miami
- CFA Institute High Net Worth Conference – Calgary
- "Investor Meets Hedge Fund Manager" Conference – Toronto
- Strategy Institute High Net Worth Conference – Toronto

We're scheduled to speak at a number of engagements over the next few months. If you have a group or an event that you think would like to hear from us please let us know.

NORTHWOOD STEPHENS PRIVATE COUNSEL INC.

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

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