SPRING 2009

NORTHWOOD FAMILY OFFICE

ALSO IN THIS ISSUE:

THE NORTHWOOD PERSPECTIVE

President's Message

Tom McCullough
President and Chief Executive Officer

Spring has always been my favourite season. Winter is over and people start to venture outside. You realize, once again, that you actually do have neighbours!

But it is also about new growth and the promise of things to come. And many of us feel the same way, I'm sure, about the economy and markets. This has been a terrible fall/ winter for most asset classes. We don't know if spring will be better, but at least the month of March was encouraging!

When we step back from the carnage for some perspective, the are at least two observations we can make. The first is that this crisis is clearly one of the biggest and most global tests the world economic system has ever seen. There is no doubt it has had serious ramifications, both in a macro sense and for the individuals and families who have lost jobs, assets and confidence. And it is likely not over yet.

But there is a second observation. We also know that the world (and America in particular, who is widely viewed as both the cause of this fiasco and the ultimate saviour) has been through very difficult times before and has shown a remarkable capacity to deal with them creatively and, ultimately, successfully. The list on page two shows the significant events that the world has 'survived' and there is cause to believe that we will also survive this period.

A 'by now overused analogy' is the Chinese character for 'crisis' which is composed of two other characters – 'danger' and 'opportunity'. (By the way, I recently read a paper that says this is a misinterpretation of the actual meaning of the two root Chinese characters. Too bad. It was such a good story. But the concept still holds water.)

So, while some are wringing their hands and worrying that this might be 'the end of the world', others, particularly those who were prudent enough to have some cash, are buying up what they perceive to be cheap assets. Many historic fortunes have been launched in the depths of economic despair when all the world was looking elsewhere. Many new businesses started. And many new opportunities seized.

Spring is a great reminder that life is good and opportunities abound. As Helen Keller said, "No pessimist ever discovered the secret of the stars or sailed to an uncharted land, or opened a new doorway for the human spirit."

Tom

A New Look for Northwood

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

Northwood is six years old. (In dog years, that's about 42!) So we thought it was time to freshen things up a bit!

The first thing we decided to change was our name. We are now called Northwood Family Office, which better reflects what we do for our clients every day. (You may also continue to see the Northwood Private Counsel Inc. name from time to time, as it is our registered Investment Counsel/ Portfolio Manager affiliate through which we provide management and oversight of client investments.)

Along with the name change, we are pleased to introduce our new website. You can find it at www.northwoodfamilyoffice.com. I encourage you to click on it right now if you are reading this newsletter electronically. It has been redesigned to be easier to read and give you more reasons to come back to it regularly. We would love to have your feedback and suggestions once you have had a look. And feel free to send the link to someone you think could be looking for a family office.

And, of course, we are changing our email addresses, letterhead, business cards and office signage. The old email addresses will forward to the new one for a while, but we would appreciate it if you would make the change in your Contacts. Our direct lines haven't changed, but **our main number and fax number are new.** They are all listed on the next page.

Just as important as telling you the things that *have* changed, is making sure you know the things that *have not* changed.

CONTINUED ON PAGE TWO

CONTINUED FROM PAGE ONE….A New look for Northwood

We are still committed first and foremost to our client families. We appreciate the confidence they have placed in us and we work hard every day to earn that trust.

We remain committed to being an advocate for the family office in Canada as the best possible way to serve wealthy families. The recent market environment has exposed those firms that promised high returns without clearly explaining the possibility of loss, and the ones who sold product without the appropriate context and advice.

And we are still committed to working with other professional to bring a holistic, cross-disciplinary approach to the clients we all serve and continually raise the standards of professionalism and integrity in our industry.

Those things haven't changed. And never will.

Northwood Family Office Contact Numbers

Tom McCullough	(416) 502-6288	tmccullough@northwoodfamilyoffice.com
Scott Hayman	(416) 502-6292	shayman@northwoodfamilyoffice.com
Bryan O'Neill	(416) 502-6284	boneill@northwoodfamilyoffice.com
Eric Weir	(416) 502-6275	eweir@northwoodfamilyoffice.com
Mia Cassidy	(416) 502-6271	mcassidy@northwoodfamilyoffice.com
Main number	(416) 502-1245	**(This is NEW!)**
Fax number	(416) 502-6279	**(This is NEW!)**

CONTINUED FROM PAGE ONE….President's Message

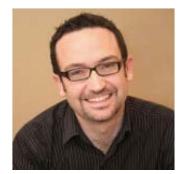
A Look At U.S. History Since 1900

- McKinley assassinated
- San Francisco earthquake/fire
- Panic of 1907
- Titanic sinks
- Spanish flu outbreak
- WWI
- NYSE closed for four months
- Polio epidemic
- Influenza pandemic
- Teapot Dome scandal
- Collapse of German economy
- Black Friday
- Great Depression
- Dust Bowl
- Hindenburg disaster
- Pearl Harbor attack
- WWII
- Cold War
- McCarthy hearings
- Korean War
- Khrushchev: "We will bury you"
- Vietnam War
- Bay of Pigs invasion
- Cuban missile crisis
- J.F.Kennedy assassinated
- Race riots
- M.L.King/R.F.Kennedy assassinated
- Kent State killings
- Wage and price controls
- Watergate scandal
- Nixon resigns
- Inflation reaches 13%
- Iran hostages
- Three Mile Island accident
- Gold hits $850
- Oil shock
- Prime rate of 20.5%
- Unemployment of 10%
- US embassy bombed in Beirut
- Bhopal gas leak
- Chernobyl accident
- Crash of 1987
- Pan Am jet destroyed
- AIDS spreads
- S&L crisis
- Persian Gulf War
- Oklahoma City bombing
- Asian financial crisis
- Russian debt default
- Clinton impeached
- Long Term Capital fails
- Y2K scare
- Dot-com bubble bursts
- 9/11
- Enron and WorldCom collapse
- "Late-trading" fund scandal
- War in Iraq
- Hurricane Katrina
- N. Korean missile tests
- Options backdating scandal

Source: Bessemer Trust

Two Important Tax Updates

Bryan O'Neill, CA



Mortgage interest deductibility strategies quashed in Lipson v. the Queen

In a much anticipated decision, the Supreme Court of Canada (SCC) dismissed the taxpayers' appeals in Lipson v. the Queen.

In the Lipson case, Mrs. Lipson borrowed funds to buy shares in her husband's company. Mr. Lipson then used the money received from his wife to buy the family home. The couple then used the family home as collateral for a loan, which they used to repay the money that Mrs. Lipson had previously borrowed.

The intended income tax consequences of the transactions undertaken by the Lipsons were that Mr. Lipson would use the income attribution rules, per the Income Tax Act (ITA), to enable him to claim the dividend income on Mrs. Lipson's shares and to also deduct the interest on the loan as an expense (since it related to the investment in company shares). In other words, their goal was to make their mortgage interest 'deductible'.

Canada Revenue Agency (CRA) rejected the Lipson's strategy and the case eventually made its way to the SCC. The SCC held (with narrow 4-3 margin) that the general anti-avoidance rule (GAAR) *should* apply and that the taxpayer's attempt to use the attribution rules in the ITA to their advantage put the transaction offside.

GAAR was introduced more than twenty years ago to give CRA the ability to challenge tax planning that it considered abusive. The idea was that it would give the CRA a tool in tax planning situations the ITA may not have anticipated and that CRA found to provide a tax benefit that wasn't consistent with the intent of the law.

For practitioners, the most disappointing aspect of the Lipson decision is the lack of guidance provided regarding what constitutes *abusive* tax avoidance. Therefore both taxpayers and practitioners will have to wait a little longer for further direction that will enable them to distinguish more clearly between what constitutes permissible tax minimization planning verses what constitutes abusive tax avoidance. This will continue to create a degree of uncertainty in tax planning.

Prescribed rate falls to 1% opening up tax planning opportunities

As of April 1st the prescribed interest rate was reduced to 1%, down from the 2% rate set in January 2009 and from 5% in January 2008.

If you have an existing prescribed rate loan with a higher interest rate, you should consider repaying the old loan and re-loaning the funds at the new lower rate. Note that you have to be very careful how you repay the original loan and then re-loan the funds to ensure that you do not put the loan offside and trigger income attribution.

If you currently do not have a prescribed rate loan, you should speak to your tax advisor to discuss whether the drop in the prescribed rate presents a potential income splitting opportunity for your family.

Book Review: The Tao of Warren Buffett

Scott Hayman, CA, CFP
EVP and Head of Client Service

The following article is based on excerpts from …

The Tao of Warren Buffett: Warren Buffett's Words of Wisdom
Quotations and Interpretations to Help Guide you to Billionaire Wealth and Enlightened Business Management
By Mary Buffett and David Clark

In my view, the cover of the book starts with a bold statement that affects the credibility of the book. However, I am not a publisher, so I will only suggest that using quotes and interpretations from anyone and thinking it will guide you to billionaire wealth, is obviously foolish. Maps and GPS are guides to help people get to where they are going, but people still manage to get lost.

Investing like Warren Buffett is extremely difficult, largely because none of us is Warren Buffett, with his experience, resources and position in the investing world today. All that said, the book provides some great information to keep in mind as you build and manage your portfolios. You can use some of his experience to help you. Remember also, that the book is an interpretation of Warren Buffett's quotations, from two people who knew him better than most.

The book is an easy read—comprised of 131 of those quotes and interpretations between 1 and 2 pages each. Below I will outline some of my favourites.

Rule No. 1: Never lose money
Rule No. 2: Never forget rule number 1

This is obviously easier said than done, however the premise is of great importance. The larger the amount of money you lose, the greater the impact on your ability to earn money in the future. Even Warren Buffett lost money last year!

You can't make a good deal with a bad person

The rule is simple in Buffett's mind—"people with integrity are predisposed to perform; people without integrity are predisposed not to perform". There is a big difference between the two and you should never get the two confused.

Anything that can't go on forever will end

Another way to look at this is, if something sounds too good to be true, it probably is. Also, things change, which causes once-great businesses not to be so great anymore.

If a business does well, the stock eventually follows

This quote means that good businesses do well over time—don't confuse their value with their current price.

It is hard to teach a young dog old tricks.

Grey hair matters!! It doesn't mean there are not lots of smart young people out there, but business acumen comes with age and experience.

Wide diversification is only required when investors do not understand what they are doing.

I have mixed views on this one. Buffett's view is that diversification will offer you protection against losing everything but also the likelihood of *average* growth over the long run. Most people who have made great wealth have made it (including Buffett) by having concentrated positions in a business. However, once money has been made, the best way to preserve it is to diversify. To say someone doesn't know what they are doing when they are preserving their wealth and accepting average returns is not necessarily a conclusion I would draw.

When you combine ignorance and borrowed money, the consequences can get interesting.

That pretty much sums up a lot of what happened in 2008. Borrowing money in excess very seldom works out the way people intend it to.

We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful.

This is also a lot easier said than done, but it holds a lot of merit. Understanding your long term goals and objectives can help put this into better focus.

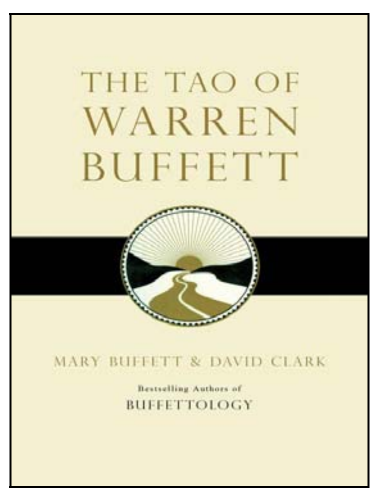
Risk comes from not knowing what you are doing.

Understanding how and why investment managers make decisions is very important to long term success. Facts are important to be able to answer the tough questions, whether it is about a company or how you are going to achieve a goal.

If you understand an idea, you can express it so others can understand it.

This relates to the KISS concept. Buffett has a simple rule for this — if you can't explain it, stay away from it!

Keeping track of all the ideas contained in the book on a daily basis is obviously a difficult thing to do. However reviewing them once in a while may prove a good reminder of some valuable principles. Even following them, as I am sure Buffett does, is no guarantee to billionaire wealth, and even billionaires can lose money!!! Enjoy the book.



Putting Goal-Based Investing to the Test!

Eric Weir, CFA, CFP

Market downturns are the ultimate testing ground for any investment strategy and unfortunately 2008 provided a testing ground for every strategy imaginable. While everyone with equity exposure has experienced losses, investors who implemented goal-based investing strategies have been sleeping well at night knowing they have only experienced losses that are manageable in context of their goals and objectives.

How is it that goal-based investors are sleeping so well at night? By establishing clear purposes for their wealth, investors with a goal-based investment strategy align their portfolios with their life goals – and not the other way around!

Goal-based investing takes a family's goals and objectives and puts them in a framework which helps evaluate investment risk. This allows risk to be managed at a more customized and personal level, and ensures that the assets selected to match these risk levels are appropriate.

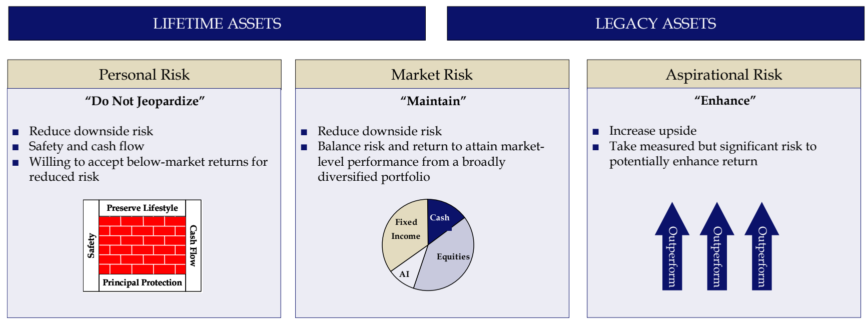
To the right is an example of the goal-based framework we use at Northwood. The example shows a family with three goals:

1. Protect their current standard of living over their lifetime.
2. Maintain their wealth and protect it from inflation, particularly for the estate or legacy value it will provide.
3. Enhance the future value of their estate or legacy assets.

Each of these goals requires a different return and risk equation and, therefore, a different investment portfolio.

When implementing most goal-based strategies, the result is often a reduction in the risk in a wealthy family's overall asset mix. This happens as they understand that their goals can be met without a significant reliance on investment performance. In the most recent market meltdown, the investment performance of most goal-based investing families has been relatively strong, since the majority had substantially reduced the amount of risk in their portfolios.

Although equity markets have plunged by percentages not seen since the Great Depression (-- all world indexes were down by at least 30% in 2008), many goal-based investors watched their assets grow, or only fall by single digits. And while no one is happy to see a loss in their hard-earned net worth, it is comforting for goal-based investors to know that the losses they experienced did not lead them to financial ruin and did not compromise their family's standard of living.



Source: Adapted from "Beyond Markowitz", The Journal of Wealth Management vol. 7, no. 4 (Spring 2005), Ashvin B. Chhabra.

You might then ask the question "Is this a bad time to be shifting my assets to a lower risk or goal-based approach, especially when I've experienced significant losses in my equity portfolio?"

The answer is that it is never the wrong time to properly align your investments with your goals. Although many believe they can predict the direction of equity markets, history has proven that to be a difficult task and certainly not one to rely on to fund your day-to-day living expenses.

A few questions you might ask yourself include:

- Does the portfolio I own allow me to sleep well at night?
- Assuming I was building my portfolio today, would it look the same as my last monthly statement?
- Am I relying on the performance of the stock market to determine my living expenses?
- Do I have a clear strategy that will make sense in any market environment?

It's important to take a fresh look at your goals and how they link to the risk in your portfolio regardless of how your assets are valued now or in the past.

As subscribers to our own style of goal-based investing, Northwood has helped clients build frameworks for investment decisions and has always invested the family's wealth with specific goals in mind.

Although the past year has been challenging for all, we have comfort that our clients have a clear understanding of where they stand and how achievable their goals are. On a relative basis, our combination of goal-based planning and some strong equity manager performance relative to the markets, has allowed our clients to sleep well through one of the most demanding equity environments ever experienced.

NORTHWOOD FAMILY OFFICE

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

Main: (416) 502-1245 Email: tmccullough@northwoodfamilyoffice.com
shayman@northwoodfamilyoffice.com

www.northwoodfamilyoffice.com

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