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## THE NORTHWOOD PERSPECTIVE

### President's Message

#### Windows on the World

Tom McCullough



While markets have been lurching up and down (mostly down!) in the last month or so, I have been watching the events from thousands of miles away in Asia and Africa. And sometimes distance can provide a helpful perspective.

I spent two weeks in China and Hong Kong and two weeks in Rwanda and Congo, with a brief stop in Dubai along the way. Clearly these places represent some of the extremes of today's world. This quarter, in an expanded version of the President's Message, I'd like to offer five observations, using each of the destinations as context for my comments.

1. I was in **Hong Kong** for a few days of business meetings and can report that the city is humming. I was struck by the hundreds and hundreds of cargo ships in Hong Kong harbour and traveling up and down the Pearl River into China. While the global economic slowdown has had an impact in other parts of Asia, the fact that Hong Kong is a key gateway to China has helped it hold up well. Property prices have doubled in the past 3-4 years and hotels and restaurants are packed. (A recent study pegged HK housing prices as the most expensive in the world.) And while corrections are likely (especially in property markets), the high personal savings rate, business-friendly environment and huge intra-Asia trade means that the region is likely to continue its inexorable growth trajectory. The now-familiar adage is true: **If the 1900s belonged to North America, the 2000s are clearly Asia's century.**



various cities in **China**, including Guangzhou, a city of 13 million about 2 hours from HK, where we spent a week listening to Chinese wealth management professionals present their case studies and defend their wealth management advice and recommendations. China is clearly developing a middle class as well as a high net

2. The main reason for my trip to Asia in the first place was that I was asked to be a member of an evaluation panel for the CSWP professional designation. CSWP stands for Chartered Strategic Wealth Professional. The designation program is now being offered in

worth class. In the past, investing for the Chinese has typically involved buying property (– possibly in bubble territory, having doubled in the past three years) and speculating on stocks through brokers (– the stock market is still languishing at half its 2008 highs). But given the maturing of the population of wealth builders/owners, the country now needs to develop the skills to help the newly affluent actually manage this wealth. And that is what they are doing. **While still in its infancy, I was impressed with their progress in wealth management, most of which has happened in the last few years.**

3. I transited through **Dubai** on my way from Asia to Africa, and took an extra day to see the city since I had never been there before. There are three things that strike you in Dubai. The first is the heat. The 45C degree heat make your sunglasses fog up when you walk into any (air conditioned) building. The second is how new the airport and city seem to be and how many new and creatively-designed skyscrapers there are. And the third is the conspicuous wealth and consumption (= malls, hotels, restaurants) which still seems to be the focus of the city. And like many Gulf countries, it also has huge extremes with oil wealth and expats on one end of the spectrum, and migrant workers (eg, Pakistani taxi drivers) far on the other end. Dubai has been hit hard by the global financial crisis and economic slowdown as well as by lower oil prices and dramatic overbuilding. Property prices in Dubai have dropped in half from the peak in 2008. **It is a good example of the dangers of overextending yourself and not managing risk well,** particularly when you only have one main asset (i.e. oil) to rely on.



4. The next stop was **The Democratic Republic of Congo** (formerly Zaire). To no one's surprise, Africa is still very much the poor cousin in today's global economy. With few exceptions, countries in Africa suffer from various combinations of extreme poverty, tribal or guerilla warfare, corrupt leadership and lack of education and

### Northwood's Barrett Lyons achieves nation's top honour in CFP!

We would like to recognize and celebrate the recent achievement of Northwood team member, Barrett Lyons. Barrett recently completed his final CFP exam, and was awarded top honours (President's List) by the governing body for achieving the highest mark in the country out of hundreds of students. Congratulations Barrett!

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infrastructure. DR Congo is a prime example of all of these problems. In fact, a NGO staffer told me that every time he goes to Congo, things seem to be worse. "It appears to be



*de-developing*". I was in Congo to visit and help evaluate projects (such as food security, hospitals and clinics, schools, 'children at risk' programs, and small enterprises to spur economic development among the poor) on behalf of a relief and development organization our family has been involved with over the years. **My observation here is how valuable the rudimentary components of a healthy society are -- such as the rule of law, personal security and basic infrastructure** - and how dysfunctional a country can be without them. It makes me grateful to be a Canadian.

5. The last stop was **Rwanda**. Rwanda is a very poor, densely-populated, land-locked country with very few natural resources. The economy survives on subsistence farming, some exports of tea and coffee, and a small but growing tourism industry. It is also still recovering from the genocide 17 years ago (in which nearly 1 million Tutsis were massacred in a three month period in 1994). Yet, amazingly, there are many reasons for hope in Rwanda. In fact, the country is leaning against Africa's downward trend in a remarkable way. The current government has created a plan for the country called Vision 2020. You can actually feel the sense of hope and resolve to improve their lot in life. They want to transform from a subsistence agriculture economy to a knowledge-based society, with high levels of savings and private investment and are starting to make progress. They have focused on facilitating reconciliation, boosting education, encouraging investment, ensuring stability and safety, and stamping out corruption. (On the anti-corruption front, any public official caught misappropriating public funds, even friends of President Paul Kagame, are not spared prosecution and serve jail term.)

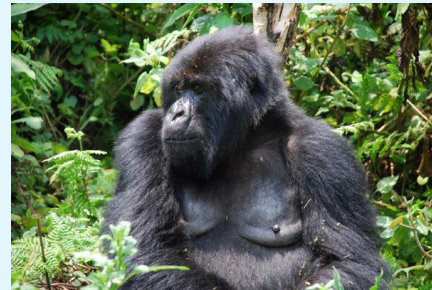


We were in Rwanda to help with English immersion and professional development for some of Rwanda's poorest teachers, who are having a hard time adapting to the government's new mandate to shift the language of instruction from French to English, including all national exams in 2012. **My observation in Rwanda is how valuable a clear vision, consistent execution, and leadership and integrity can be, even for such a battered country.** I met an American of South Korean heritage who runs a microfinance bank in Rwanda which provides

small (\$100-200) loans to poor entrepreneurs. He told us that Rwanda has moved from number 143 (out of 183 countries) to number 70 to number 58 in the world over past three years in the World Bank's (ease of) 'Doing Business' study. He also reminded us that 60 years ago, his homeland of South Korea was the second poorest country in the world and now it is one of the richest. Anything is possible.



While in Rwanda, we went on the mountain gorilla trek, which involves a 2 hour hike up the mountains in northern Rwanda (the country is appropriately called 'The Land of a Thousand Hills') on the



Congo-Uganda-Rwanda border into the forest to find a family of 8-10 mountain gorillas. Visits to the gorillas are very carefully controlled, with professional guides and very limited numbers of people allowed. You have to book at least six months

ahead. We spent an hour with Bwenge (pictured) and his family, watching them in their natural habitat. It was an amazing experience to be 10 feet from such beautiful creatures.

### Home Stretch

It turns out to be tricky to fly between all of these places. (There aren't many direct flights from Hong Kong to Rwanda yet!) So with my 57 hours in the air, not to mention time spent in airports on extended layovers, I had a fair bit of time to reflect. One of the most frequent thoughts was gratitude for the country we live in and the freedom and relative wealth and peace we enjoy. It sounds trite, but a lot of the world would trade places with us if they could. A good thing to remember next time I'm stuck in traffic or can't get through to my cell phone provider right away.

The developing world travel, in particular, has also been a good experience for us as a family. I think it gives kids a better perspective of how most of the rest of the world lives and fuels an attitude of wisdom, gratitude and others orientation. I think it also contributes to them becoming citizens of the world.

And finally, it reminds me how universal the basic principles of life and financial management are, for rich and for poor, for people and countries alike - set out and follow a clear vision, save and invest, don't overspend, diversify, don't chase bubbles, fight for integrity and transparency, invest in good people, be humble and prudent, share your wealth.

It's good to be home.



## Back to School

Time to think about RESPs

Barrett Lyons, CA



### RESPs – The Basics

The registered education savings plan (“RESP”) is a great tool for saving for a child’s education. Not only does it provide for tax-deferred growth, but the government will even help fund a child’s education. The maximum annual assisted contribution for a child is \$2,500 and the government will match 20% of the contribution to a maximum of \$1,000 for any given year (i.e. two years of assisted contributions) as part of a Canada Education Savings Grant (“CESG”).

The lifetime limits for RESP contributions and the government assisted CESGs are \$50,000 and \$7,200 per child, respectively. A \$50,000 contribution can be made to a child’s RESP at age 1, but \$6,200 of CESG would be forfeited. So the question for high net worth parents becomes, is it worth making a lump-sum contribution of \$50,000 that foregoes the full benefit of the annual CESG but maximizes the amount of tax-deferred growth or is it more beneficial to make annual contributions to maximize the CESG received?

### Number Crunching

To help answer this question the chart below summarizes two scenarios where an investor has \$50,000 to invest. Scenario one calculates the ending value of the RESP portfolio of where the funds were invested as a lump-sum of \$50,000. Scenario two calculates the ending value of the RESP portfolio where the investor invested \$50,000 in an unregistered account where income was taxed but each year made a contribution to the RESP that received a CESG in order to achieve the \$7,200 maximum. The scenarios varied the RESP inception for children at age 1, 5 and 10 and ran them until age 18. Rates of return were varied from 0% to 10%. Assumptions include:

1. Income earned outside the RESP is taxed at 46%, and
2. The child will have sufficient education tax credits to shelter all of the income of the RESP after it is distributed.

The results indicate that the breakeven point (the rate of return where it is more beneficial to make a lump-sum contribution) for age 1 is

2.87%, for age 5 is 4.58%, for age 10 is 8.35%. Therefore if a child is age 10 and an investor has \$50,000 to invest, he/she would have to earn an annual return of 8.35% before it would be worth making the lump-sum contribution to the RESP, foregoing the CESG. An 8.35% rate of return may be challenging to achieve in an RESP, so this may not be recommended. However, the breakeven points for age 1 and age 5 are much more achievable so it could be worth making the \$50,000 investment up front.

The difference between making a lump-sum contribution at age 1 versus annual contributions is significant even at a conservative rate of return of 5%. At an annual rate of return of 5% the difference in the ending value of the plans is \$10,112 which in Canada could pay for a year’s tuition. The value in the account at this point would be \$122,738 or \$112,625 – either of which is more than sufficient for a Canadian education in today’s dollars.

In addition to the increased return on your investment, the benefit of a lump-sum contribution is not having to worry about making annual contributions and tracking the grants received; you make a contribution and forget about it. Just review the RESP as part of your overall portfolio performance review.

### Withdrawals

An important point to highlight is how to withdraw the funds from the RESP. After meeting small initial distribution requirements, an investor can choose to withdraw income or capital from the plan. Generally, an investor will want to withdraw accumulated income and grants from the plan before withdrawing capital. The income is included on the child’s tax return and will generally be offset by education tax credits or the basic personal exemption. If there is any balance remaining in the RESP after the education is paid for, the capital contributions of the plan can be withdrawn tax-free. If there is still accumulated income in the plan it can be rolled in to the contributors RRSP (up to \$50,000) to the extent there is contribution room.

### Conclusion

When establishing an RESP it is important to consider all options as part of your strategy for funding your child’s education. The timing of the contributions is an important one and should not be overlooked. If your kids are 10 years old or older continue making annual contributions to maximize the CESG received, but if your kids are under 10, consider making a lump-sum contribution to their RESP. 🌲

	Scenario 1			Scenario 2					
	Ending Value of Lump-Sum Contributions at Age 18			Ending Value of Annual Contributions at Age 18			Difference		
Rate of Return	Age 1	Age 5	Age 10	Age 1	Age 5	Age 10	Age 1	Age 5	Age 10
0%	51,000	51,000	51,000	57,200	57,200	57,200	(6,200)	(6,200)	(6,200)
1%	61,004	58,623	55,778	65,756	64,094	61,699	(4,753)	(5,471)	(5,921)
2%	72,841	67,293	60,950	75,427	71,734	66,491	(2,586)	(4,441)	(5,541)
3%	86,824	77,142	66,543	86,353	80,197	71,594	471	(3,055)	(5,050)
4%	103,317	88,315	72,589	98,693	89,569	77,025	4,624	(1,254)	(4,436)
5%	122,738	100,977	79,118	112,625	99,944	82,803	10,112	1,033	(3,686)
6%	145,571	115,306	86,163	128,350	111,424	88,949	17,221	3,882	(2,786)
7%	172,377	131,505	93,761	146,091	124,123	95,484	26,285	7,382	(1,722)
8%	203,797	149,797	101,949	166,102	138,165	102,428	37,695	11,632	(479)
9%	240,573	170,428	110,767	188,664	153,686	109,806	51,909	16,742	961
10%	283,556	193,672	120,255	214,096	170,836	117,611	69,159	22,837	2,615

## 6 Degrees of Separation

### Understanding the world of business advisor designations

Daniel Gabay



In the wealth management field, there are a number of designations whose acronyms may sound similar, however, the depth and breadth of knowledge acquired as well as the topic areas focused on can vary significantly. What do all these acronyms mean and how do they relate to a family office? Below is a listing of some of the designations that family office advisors might have along with a description of what they are, what is required to attain each designation and how they relate to the family office.

**CA (Chartered Accountant)** – a very comprehensive program to train, test and accredit accounting professionals. Attaining the designation requires successfully completing the extensive education, examinations, and work requirements of the Canadian Institute of Chartered Accountants. In order to continue using the CA designation, individuals are required to complete mandatory continuing education courses. CA's are invaluable in a family office setting as they bring expert knowledge in the area of tax planning which is particularly important for high net worth families.

**CFA (Chartered Financial Analyst)** – a rigorous self-study program which covers topic areas including economics, corporate finance, investments and portfolio management. In addition to passing three levels of examinations, the designation is only awarded when the candidate has a bachelor's degree and has completed 4 years of related work experience. This designation is particularly important in Ontario because the Ontario Securities Commission requires individuals who manage client assets on a discretionary basis to have the CFA designation.

**CFP (Certified Financial Planner)** – a comprehensive self-study program which covers all facets of financial planning, including: investments, estate planning, insurance, tax, retirement planning, and more. In addition to passing the required examinations, the CFP

designation is only awarded after the candidate has acquired 3 years of relevant work experience. There is also a requirement to complete a minimum of 30 hours of continuing education annually. This designation provides an advisor looking to provide holistic wealth management advice a solid foundation from which to build; a base designation for a family office advisor.

**CIM (Canadian Investment Manager)** – a self-study program offered through the Canadian Securities Institute focused on understanding the application of portfolio management and strategies in the context of Canadian markets and regulatory requirements. In order to attain the designation, candidates need to pass three separate exams.

**CSWP (Chartered Strategic Wealth Professional)** – a self-study program offered through the Canadian Securities Institute focused on wealth management for high net worth individuals. The emphasis of the course is on developing comprehensive financial strategies including unique vehicles and structures for high net worth clients. Similar to the CIM, candidates obtain this designation by passing three separate exams.

**CIMA (Certified Investment Management Analyst)** – a concentrated program focusing on the investment management field. The main topic areas covered are the development and recommendation of an investment policy statement, making portfolio recommendations including the selection of asset managers, and performance measurement. The designation is awarded after passing the qualification exam, the education program and the final certification exam. The analysis of asset managers is a topic which is not covered extensively in any of the other designations and this is a focus of the family office.

The material covered by each of the above designations contains some overlap, however, they each have a unique feature which make them valuable in the family office environment. Hopefully this helps in clear up any confusion that may surround all the acronyms you may see on your advisors business cards. 🌲



Focus Area	CA	CFA	CFP	CIM	CSWP	CIMA
Investments		✓	✓	✓	✓	✓
Financial Planning			✓	✓	✓	
Accounting & Tax	✓	✓	✓		✓	
Estate Planning			✓		✓	
Insurance			✓		✓	



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