



THE ARTISAN

Issue: Winter 2013

Quarterly Newsletter by Northland Wealth Management

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...no quick solutions are likely and the debt problem in the U.S. will still exist next year end but progress will be made.

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Brush Strokes: The Art of Collecting



"It was once the yacht, sports car or race horses that marked one as smart, cool and successful. Now it is an art or wine collection."

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...the reality is that both options likely play a role in the make-up of your net worth...

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During the past few months our CEO Arthur Salzer was invited to present at two Institute for Private Investors (IPI) conferences - one held in Boston and the other in Dallas. IPI is part of Campden Wealth, the global association that provides networking and educational resources for ultra-high-net-worth families. While these meetings were conducted in a safe-harbour environment, Arthur was able to impart and more importantly garner views and experiences as to how successful multi-generational families conduct and orchestrate their family offices. These families have been able to preserve not only their financial wealth, but more importantly their family's real wealth - intellectual, social and human.

In today's modern society, avoiding the proverbial "shirtsleeves-to-shirtsleeves in three generations" has become increasingly difficult, but not impossible. Arthur was introduced to, and interacted with, families who demonstrated that the odds can be overcome through commitment and dedication to education, communication and governance.

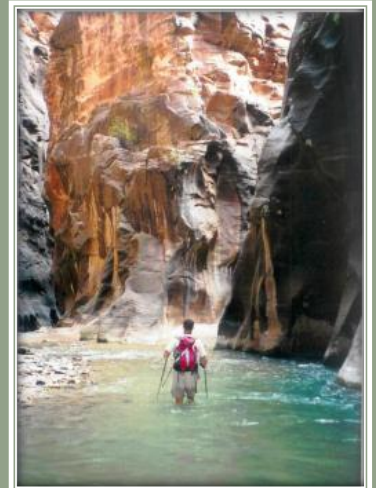
These unique insights, combined with the professional relationships that were formed during these events and over the past year, will allow us to introduce new services. These services will assist in improving family dynamics and provide guidance in areas such as succession planning and philanthropy to enable your family to succeed through multiple generations.

In this and future editions of *The Artisan*, we will delve into greater depth regarding our new services. We will focus on the intellectual, social and human side of a family's wealth, along with our continued emphasis on expanding our open-architecture investment platform in order to bring you the best strategies and solutions for the management of your family's financial wealth.

From all of us at Northland Wealth Management we wish you and your family a healthy, happy and prosperous 2013.

Perspectives: *Adventure is not outside the man; it is within* – David Grayson

Travelling to Florida, Cuba or the Caribbean is now becoming less exclusive. These destinations are now reserved for family vacations, company boondoggles and weddings and they are not always satisfying the travel aspirations of the Baby Boomer generation. Adventure travel is the latest trend, says Erin Broderip of Maritime Travel, "Boomers now want to travel to places you would have



*Life is either a daring adventure
or nothing* – Helen Keller

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NORTHLAND
—WEALTH MANAGEMENT—



What's New: Origins & Understanding



Given the volatility of the public equity markets, the accepted strategy for many in order to provide returns with greater consistency has been to focus on cash-flow, specifically dividend paying stocks and an allocation to interest generating fixed income securities. While this has provided some comfort, more can be done to reduce the issue of inconsistent returns and uncomfortable fluctuations in the market value of an investor's portfolio along with improving the return potential and increasing the likelihood that an investor's goals and objectives are met.

To combat this issue, where appropriate, Northland Wealth has been utilizing "alternative investments" which have the potential to reduce overall portfolio investment risk by providing additional diversification and thus improve portfolio returns. The question becomes "What are Alternative Investments?"

Alternative Investments are essentially investments that *do not* fall into one of the three traditional asset classes (stocks, bonds, and cash). These solutions are favoured mainly because their returns have a low correlation with those of standard asset classes. As a result, many large institutional funds such as the Canada Pension Plan (CPP) as well as private endowment funds such as Harvard & Yale have begun to allocate a significant portion of their portfolios to alternative investments.

The range of alternative investments, while extensive, tends to allow investors to participate in

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The Markets: Update & Outlook

Canadian investors and financial markets spent the last quarter focused on the events unfolding south of the border. The struggle of the U.S. Congress to deal with the self-inflicted "fiscal cliff" legislation dominated the news and stalled financial decision making. The eleventh hour compromise was reached by eliminating the immediate tax increases for the average tax payer and it avoided the strong possibility of recession in 2013 if the tax increases had occurred. Unfortunately the compromise was far from complete and effectively postponed many significant issues for resolution down the road. This ensures that 2013 will see more crisis points as the U.S. Congress and the President deal with further cuts to entitlements, subsidies, and perhaps further tax increases, if the basic excess debt problem is to be solved. The debt ceiling, which has been a point of conflict in the past, will have to be raised in the next several months - so stay tuned for more political battles. On a more positive note a number of new representatives have joined the U.S. Congress. The recent increase in the discontent of American voters with their elected representatives should have some calming effect on some of the more disruptive political elements. The fact that compromise was reached to avoid the "fiscal cliff" hopefully will set a pattern for future decision making.

Looking beyond the distraction of recent U.S. political battles, how has the U.S. economy been progressing? Recently overall growth has been in the 2 1/2% to 3% range which is not bad but not the 4% plus growth

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Implementing Alternative Investments in client portfolios sets Northland Wealth apart from many other Wealth Management solutions. Call us to discuss how your portfolio can be improved.

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needed to soak up the existing levels of unemployed workers. Despite the "fiscal cliff" threat December job numbers showed the U.S. added 155,000 plus jobs. Auto sales were also buoyant and positive retail sales numbers showed consumers were still willing to spend. The U.S. housing sector is also showing signs of recovery as inventories of existing housing continue to decline. The U.S. corporate sector remains in excellent shape with significant cash reserves. The Federal Reserve continues to pump \$40 billion a month into the U.S. economy through its purchases of mortgage backed securities and new security issues. This is helping the U.S. banking system to continue to repair the damage caused by the sub-prime mortgage fiasco and the housing bubble. Interest rates are low and will likely stay low in 2013 which will provide further support for economic growth.

Against this background 2013 looks to be a year of slow growth in Canada and the U.S. similar to that experienced in 2012. The process of controlling and reducing debt will occupy the attention of individuals and governments. A general sales tax in the U.S., similar to the one in Canada, is a solution gaining some attention. No quick solutions are likely and the debt problem in the U.S. will still exist next year end but progress will be made. In Canada our move towards a balanced Federal budget will continue but it is not likely to happen until 2016.

While growth in the U.S. is good for Canada, we face

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Americans were in a generous mood when it came to spending this past December, as they reported spending an average \$83 per day in stores, online, and in restaurants, excluding household bills and a home or car purchase. That is up from \$73 in November and the highest monthly figure Gallup has reported since December 2008.



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strategies that are not available to the general public. However, it is important to keep in mind that while these strategies may offer a higher return potential, or a different return profile, there are some risk factors that must be taken into consideration, such as lack of transparency, less regulation or reduced liquidity versus public market investments.

For these reasons, Northland Wealth Management completes extensive due diligence, to analyze and understand fully all facets of any investment, prior to allocating any portion of a client's portfolio to them.

The following is a brief summary of a few strategies that we are employing currently:

Private Real Estate Investment Trusts (REITs): an investment which offers investors a professionally managed and diversified portfolio of rental apartments in Canada and participation in the profits derived from them. Investment in Private REITs allow for tax-efficient returns, with greater consistency, as compared to the often volatile stock market.

Credit Strategies: actively managed bond portfolios, utilizing advanced credit strategies, that take long and short positions, can provide additional diversification compared to traditional bonds, targeting consistent returns and maintaining an emphasis on capital preservation.

Private Mortgages: a consistent monthly income source secured by a professionally managed portfolio of commercial mortgages which is prudently underwritten to safeguard investor capital.

Alternative investments carry a number of unique advantages and are not necessarily right for everyone. To discuss what role alternative investments should play in your portfolio, please feel free to contact us.

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some specific problems here. A major engine for growth in Canada has been our energy industry. The billions of dollars being spent on the Alberta oil sands development and our exports of oil and gas to the U.S. provide jobs and corporate income for many Canadians. Delays in pipeline construction plus increases in U.S. oil and gas production have reduced oil and gas prices in Canada significantly. Slower growth in this important sector will impact overall Canadian economic growth. Solutions such as shipping by rail and reversing pipeline flows will provide some near term relief. However Canada must expand its ability to export outside of North America as North America moves towards self-sufficiency and perhaps a surplus in fossil fuels. This is an issue that should be monitored closely in 2013.



Canadian housing markets appear vulnerable. More restrictive requirements on mortgage loans have slowed sales and are likely to cause some decline in residential real estate prices. A continuation of low interest rates plus some economic growth should help prevent a real estate crash like the one that occurred in the U.S.

Another potential Canadian problem in 2013 may be our currency. With the U.S. pumping billions in new cash into the U.S. system there is the potential for a weaker U.S. dollar vs. the Canadian dollar. A Canadian dollar at \$1.10 U.S., a level reached in 2007, would obviously be a significant problem for Canadian trade.

What kind of financial markets can we expect in 2013? As in 2012 equity markets will be driven more by psychology than fact. Remember the reaction of markets to the problems in Europe in 2012. The Eurozone was going to collapse and bring down the financial systems in North America. Our equity markets sold off. What happened? Nothing. The Eurozone is still struggling but still there. The unfortunate fact is that in this kind of environment the average investor has lost faith in our unpredictable equity markets. This situation compounded by computer driven trading has put the average investor at an immediate disadvantage. Large investors such as pension funds or university endowment funds are investing in non-market traded investments such as real estate, mortgages, and commodities. At Northland Wealth we are using some of these instruments in our client accounts where appropriate.

Fixed income markets have attracted many investors but returns remain low.

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The Global Landscape:

- Politics in the U.S. – Take press reports and statements by politicians with a grain of salt. The American people are in no mood for further political bickering. Compromise, with the Democrats retaining their edge, will happen.
- China is starting to generate respectable recovery numbers – good news for commodity markets. Interestingly, growth in domestic demand rather than exports is a major part of the recovery story.
- Europe is still struggling but relatively quiet. European financial markets are operating satisfactorily and their banking system is stable for the moment. Europe however is still far from creating the necessary structures to ensure their system can handle the impact of austerity yet to come.
- The Democrats in the U.S. seem to have realized that lower energy costs and displacement of expensive off shore oil imports will have a very positive economic impact on the U.S.. Hopefully we will see pipeline approvals expedited.

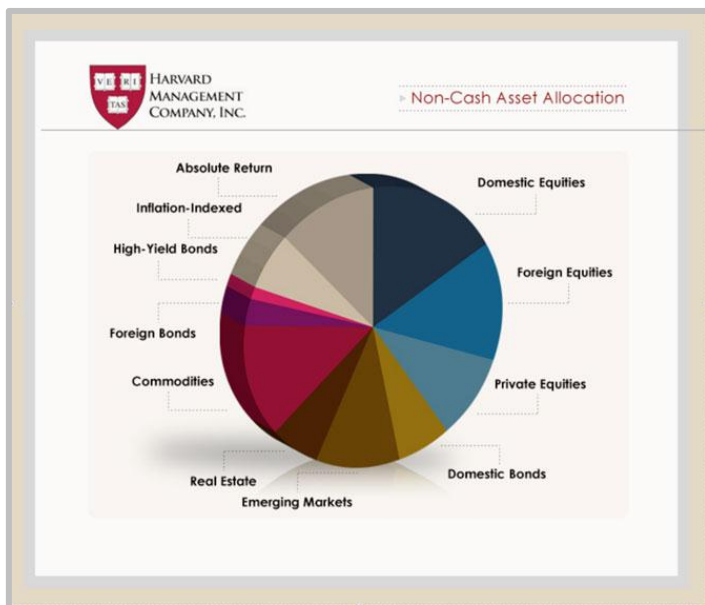
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In past years, fixed income portfolios offered capital gains but with interest rates going sideways or potentially rising, the price appreciation potential has either moderated or been eliminated. Given this backdrop, we have employed an actively managed credit strategy (where suitable) to further reduce portfolio volatility while offering increased return potential from the fixed income sector.

In 2013 we believe that while emphasis should continue to be placed on high quality dividend and interest paying securities, allocations to alternative assets such as private real estate, infrastructure, gold bullion, and absolute return credit strategies should be utilized (when and where appropriate). This will be done with the intent of providing greater portfolio diversification along with improved performance.

David Cockfield, MBA, CFA
Managing Director & Portfolio Manager



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never dreamed of going". India Adventures, African Safaris, Tahiti Trips and Hiking the Inca Trail now lead the list of desired travel destinations.

Adventure travel is defined as a type of tourism involving exploration or travel to remote, exotic and sometimes hostile areas. Adventure tourism is rapidly growing in popularity, as tourists seek a different kind of vacation. According to the Adventure Travel Trade Association, adventure travel may be any tourist activity that includes two of the following three components: a physical activity, a cultural exchange or interaction and engagement with nature.

Adventure tourism gains much of its appeal by enabling its participants to step outside of their comfort zone. This type of travel often entails some degree of culture shock and requires travelers to participate in activities that involve significant effort and some degree of risk and/or physical danger (real or perceived).



Only those who will risk going too far can possibly find out how far one can go – T.S. Elliott

The feeling of the wind in your hair, getting up-close and personal with rare wildlife, the adrenaline kick that can only come from bungee jumping; what is your motivation?

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Important Notice

The RRSP deadline for the 2012 tax year is Friday March 1st, 2013.

You can also take full advantage of RESP and TFSA plans by contributing early in the year or setting up a direct deposit plan.

Planning Files: RRSP vs. TFSA, which is the best solution for you?

Which comes first, your registered retirement savings plan (RRSP) or tax free savings account (TFSA)? With the March 1st deadline looming, many are wondering whether an RRSP or TFSA contribution is the better choice.

There are limits to how much you can contribute to RRSPs and TFSAs alike. Your RRSP contribution limit can be found on your Notice of Assessment that you received from CRA after filing your 2011 tax return. As for your TFSA, you have been able to contribute \$5,000 annually from 2009-2012 and this increases to \$5,500 in 2013 (for a total

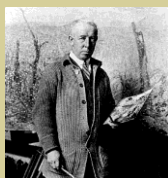
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Red Maple

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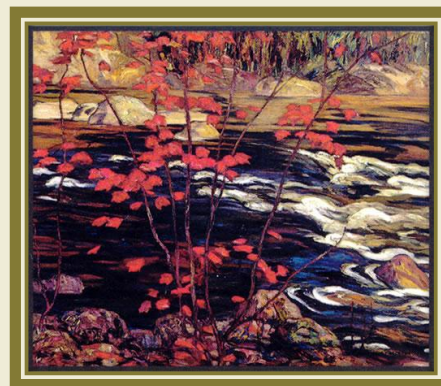
By: A.Y. Jackson
Of The Group of Seven



Painted in his Toronto studio in November 1914, this landscape is based on a sketch from nature produced along the Oxtongue River in Algonquin Park. With its foreground screen of fragile young branches and fluttering red leaves set against a background of churning rapids, this composition captures a distinctive natural phenomenon in Canada.

Brush Strokes The Art of Collecting

Fueled by the rapid expansion of global wealth, the market for fine art and collectibles continues to climb along with prices. However the recent explosion of interest in the art and wine collection market creates new threats and complex challenges.



Red Maple
A.Y. Jackson, *The Group of Seven*

The global collections market continues to grow despite the current economic challenges. The record-breaking sales reported by Christies and Sothebys in 2011 represent a new breed of super-rich collectors from emerging economies such as China, the Middle East and Russia. These new patrons of the arts are often less experienced buyers who are willing to pay inflated prices. This buying behaviour has impacted the valuation of art and increased the risks associated with collecting.

It was once the yacht, sports car or race horses that marked one as smart, cool and successful. Now it is an art or wine collection.

Acquiring collectibles to establish status is not a new phenomenon. However, the inclusion of art, wine or other valuable articles in one's investment portfolio is a newer trend.

Art Collecting: Is it Real or Isn't it ?

Along with less experienced buyers comes greater potential for fraud, theft, and counterfeit sales. In the U.S, The Federal Bureau of Investigations estimates the black market for art to be around \$6 billion per year. Recent art thefts at well-known institutions illustrate the desire to possess works of art that are not available through legitimate avenues.

The black market is also very strong in Canada. There are active Professional Artists re-producing works by several members of "The Group of Seven" and their contemporaries behind the scenes. They will then consign their fakes through reputable Canadian Art auctions. Occasionally these artists are successful in selling their fake paintings for thousands of dollars. Unfortunately, due to advanced technology with respect to the finish on the painting, it is becoming more and more difficult for Professional Art Restorers and Auction House Specialists to spot these fakes.

This is why Provenance (the origin of the painting) is pivotal when a collector is considering spending hundreds if not thousands of dollars on an original piece of artwork.

Building a valued collection can be an exciting and rewarding experience, if one understands and takes the appropriate steps to manage the risks. Whether it is the result of a lifelong passion or simply a means to diversify an investment portfolio, a collection

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There are many articles to be found on the benefits of Adventure travel, however the most common theme arising in them is the life changing experiences and realizations travelers encounter. You may recall our Summer 2012 Edition of *The Artisan*, where we shared Inger Lauritsen's story of her trips to Kathmandu, Nepal and the impact they had on her outlook on life. Moments like these are priceless.

You can judge a good trip by the memories you create and how many hours you can spend talking about it to your friends upon your return. Good trips benefit you long after you get home, and they are a constant source of inspiration to you and other people in your life. Travelling isn't about impressing people when you get back. Instead, it is sharing stories about your adventure that will be sure to entertain your audience!

If adventure tourism is of interest to you, selecting a reputable tour operator that offers a package that is right for you is paramount. This is best done by

consulting a Travel Agent that is well versed in Adventure Travel. Also remember to include travel insurance and vaccinations in your planning.

Happy travels and we look forward to hearing about your life changing travel experiences.



'Own only what you can carry with you; know language, know countries, know people. Let your memory be your travel bag'
Alexander Solzhenitsyn

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needs to be protected with the same focus given to other highly valued assets and investments. Proper diligence, expert advice and close attention to market changes are critical success factors.

Wine Collecting: No Refills

Wine collections can be misrepresented by re-labeling or re-filling bottles. The inclusion of art, wine, or other valuable articles in one's investment portfolio is a newer trend fueled by expanding global wealth.

Wine has also experienced consistent increases in value.

Wine has become another source of enjoyment for collection and consumption as well as the target of fraud.

Counterfeit wine comes in two forms. The first involves re-labeling the bottle to a more desirable vintage. In the second scenario, the authentic bottle is refilled with a lesser wine, re-corked, and foiled. Wine collectors are susceptible to fraud because they often hold bottles in their collection for years before drinking it, thereby making it difficult to locate the perpetrator after the sale. Pride also prevents a collector from admitting, let alone recognizing, that a treasured acquisition is a fake.

To combat this issue the application of tamper proof labels, originally developed for the pharmaceutical industry, is underway, as well as the use of microchips in corks to create winery "signatures" or "fingerprints." Some companies are now using bubble technology in the wine bottle capsule to combat refilling used bottles. If the cork has been removed, a residue is evident making it more difficult to refill the bottle.

While people are looking for alternative investments, they are zeroing in on investments such as art, gold, silver and wine. However, before you consider venturing into any specialized investment strategy, consult with an expert or your Advisor. One wrong move can become quite detrimental.



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contribution room of \$25,500 in 2013 if you haven't made any previous contributions to a TFSA).

Contributions to your RRSP's are tax deductible, however contributions to TFSA's are not. Conversely, withdrawals from a TFSA are tax-free, but withdrawals from your RRSP are fully taxable as income. Any withdrawals from a TFSA can be re-contributed the following calendar year. RRSPs however, do not allow re-contributions. Finally, both RRSPs and TFSAs offer tax-free growth of a variety of investment solutions within the plan.

The general school of thought has been to maximize your RRSP contributions annually, mainly because contribution limits made to TFSA's seem insignificant. Now a couple could contribute in excess of \$50,000 to TFSA's garnering more attention and this resulting debate.

For the majority of investors, the crux of the decision comes down to taxation and the variation between your current marginal tax rate versus the tax rate at some future point in time when you start to draw funds from your savings plan. The simple math concludes that if your marginal tax rate is expected to increase from now to retirement, then TFSA contributions make more sense since you won't face tax on withdrawals later. On the flip side, if you expect your marginal tax rate to be drop by retirement then an RRSP generally makes more sense.

But how does this really play out for your specific situation? If you taxable income is currently low, as with many business owners, or you are on parental leave or on sabbatical, and you expect to earn a higher income in the future, you are a good candidate for a TFSA contribution. Furthermore, the potential RRSP deduction will not have as much impact on taxation

today as it may in the future, so deferring your RRSP contributions may have a greater impact on your overall net worth.

If you receive benefits such as Old Age Security, the Guaranteed Income Supplement, child tax benefits, or GST credits, withdrawals from a TFSA won't affect your income and therefore will preserve your benefits. Withdrawals from an RRSP will impact these benefits therefore a TFSA may be a better option.

Some other factors to consider beyond taxation when contemplating an RRSP or TFSA are one's age and stage of life. TFSAs may be more appealing to seniors since there is no age limit for contributions. The type of investments you are considering for the plan also come into play. If you are expecting "supernormal" rates of return on an investment, a TFSA will be appealing because you won't face taxation on the sale and de-registration of those funds. The timeline of the investment is also a factor. TFSAs are appealing if you do not require the funds to cover income needs as they do not have required withdrawal rates at a certain age, unlike RRSP's when you must convert the plan to a RRIF when you reach age 71 and begin making annual minimum withdrawals the following year. Finally, if you are saving for short-term goal, TFSAs can offer greater flexibility.

RRSPs offer a psychological advantage in that many people are hesitant to make withdrawals due to the tax applied, which could result in greater savings. Generally, individuals are able to contribute more to an RRSP than a TFSA. Confused? The reality is that both options likely play a role in the make-up of your net worth. To truly understand which option is best for you and to what proportion you should utilize it, a comprehensive wealth plan is a necessity. Contact our office to get your planning process started today.



The Lunatic Express: Discovering the World by Carl Hoffman

Whenever he picked up the newspaper, Carl Hoffman noticed those short news bulletins, which seemed about as far from the idea of tourism, travel as the pursuit of pleasure, as it was possible to get. More than just an adventure story, *The Lunatic Express* is a funny, harrowing and insightful look at the world as it is, a planet full of hundreds of millions of people, mostly poor, on the move and seeking their fortunes.

Art Dealer's Field Guide by Ron Davis

Art Dealer's Field Guide is the only book on the market that teaches the "art" of making money in the art world. Ron Davis generously shares his many secrets gleaned from a lifetime dealing in art. A must read for novice and expert alike.



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