

# THE ARTISAN

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...the goal of any founder in the lengthy building process should be to ensure that they never see the last stones laid.



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Coming into a large amount of money might seem like a great excuse to kick back and live the easy life, but with more money can come more problems.

At the *Canadian Wealth Professional Awards* (held in Toronto this past June), during one of the acceptance speeches, a younger advisor, who was employed by her parents at a leading investment dealer, made a comment that when clients ask about her experience and abilities, her reply is, "A baby shark is still a shark". These comments put a chill through our table and reassured us that the creation of Northland Wealth in June of 2011 was needed to protect families from the "sharks" in the industry who see investors as prey.



The vision and founding premise of Northland Wealth was to provide comprehensive investing advice and financial planning to families, while doing so in a transparent way that is free of compensation conflict such as trailer fees, spreads on bonds and underwriting fees.

Our view and unique approach did not go unnoticed that evening and we were again recognized for being a standout in our industry - Northland Wealth was awarded **Portfolio Manager of the Year**.

As Northland Wealth celebrates its 5<sup>th</sup> Anniversary we wish to thank all our client families for the privilege of being able to serve you.



## INCENTIVE TRUSTS

Parents spend a great deal of time educating their

children on a variety of topics. Money management is one of those topics which often proves challenging. From generation to generation, attitudes towards money have changed and will likely continue to change. However, with a significant amount of wealth set to transfer over the next couple of decades, many financially successful families are looking for solutions to ensure their hard earned money is not put to waste. The worry that children and grand-children will not be responsible enough to handle a large inheritance is further complicated by the next generation's concerns that they are not quite ready for the pressures and responsibilities that come with inheriting the wealth.



A solution to this issue which is gaining more and more popularity, is the use of what is informally known as an "Incentive Trust". When properly employed, this type of trust can be an effective tool in promoting success within your family and reinforcing values that matter to you.

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NORTHLAND  
—WEALTH MANAGEMENT—



## ORIGINS AND UNDERSTANDING



### Solving the Concentrated Single Asset Conundrum

Through work, inheritance, entrepreneurship, or for other reasons, individuals may come to hold a large percentage of their net worth in a single asset. Most commonly, concentrated positions come in the form of a publicly traded single-stock position, a privately held business, or a real estate investment. At Northland, we work with clients to sell, or otherwise monetize such assets, while being considerate of illiquidity, tax, legal, and emotional matters.

There are three common objectives when managing concentrated positions. First, to reduce the risk caused by the wealth concentration, followed by generating liquidity to meet diversification or spending needs, and lastly, to optimize tax efficiency to maximize after-tax value.



Reducing concentrated positions is not appropriate for all clients, as there are often specific objectives and constraints to consider. Stock ownership in a public company may be received as part of a compensation package, with company expectations or regulatory requirements that the executive will hold the stock for a length of time. In private businesses, there is often a desire for control. An entrepreneur may assume high risk in expectation of building the value of the business and his or her wealth. The asset may also have other uses, as real estate owned personally could also be a key asset used in the owner's business.

Not everything is about money. Often clients may be reluctant to dispose of a single asset due to cognitive or emotional biases. For example, there may be a feeling of loyalty in retaining employer stock, or a feeling of obligation to hold onto an inherited position.



## UPDATE AND OUTLOOK

### Never a Dull Moment!

Just when things seemed to be settling down, along came Brexit. Once again polls proved to be very wrong in predicting a win for the Remain side. Many market players were also wrong, positioning their portfolios based on a Remain win. In the ensuing panic to unwind positions, equity markets fell sharply, with the TSX falling 442 points in two days. Markets then rebounded, as it became clear that this was not a financial crisis like the one that occurred in 2008, but a longer term uncertainty with a number of potential outcomes.

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Parliament, had not considered the ramifications of winning. There was the mistaken assumption that the E.U. would allow continued access to E.U. markets, while rejecting E.U.'s rules on free movement of individuals across borders. The Leave supporters also seemed surprised at the reaction from Scotland (a strong Remain supporter) to revive the proposal for a Scottish independence with another referendum in the near future. Northern Ireland, also a Remain supporter, is also questioning the advantage of staying in the United Kingdom. London as a financial centre is also threatened with the loss of access to the E.U. markets. The migration of businesses and many highly paid financial employees to other locations would be a major economic shock to England as well as London.

There is some doubt that Brexit will ever take place. The referendum was not legally binding and since there will be a new U.K. prime minister and perhaps even an election before this fall, a new parliament could well not exercise the exit request. The E.U. itself will do everything in its power to avoid the U.K. exit, as it would encourage other E.U. nationalist countries to follow the same course. A new referendum is also a possibility, as there was great complaint that the previous referendum had little detail as to the implications of leaving the E.U. Recent events could well convince many voters for the Leave movement that the cost would be too great.

The unfortunate problem with Brexit is the uncertainty it will cause for months to come. Will there be an election in the U.K.? Will the Remain sentiment rise? If Brexit does happen, what impact will it have on the E.U.? There are already U.S. commentators calling this the beginning of the end for the E.U. Will this cause the Federal Reserve to hold off on its announced intention to raise U.S. interest rates? All these factors will create nervous unpredictable equity, fixed income and foreign exchange markets.

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While financial markets worry about the possible future events, what is happening right now?

All indicators are that the U.S. economy has had an excellent second quarter. Job openings are at record level, while wage growth at 3.5% year over year is

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There are many strategies that can be employed to solve concentrated single-asset positions. The solution can vary with the type of asset (publicly listed, private company, or real estate) and will depend greatly on tax laws and the owner's situation.

When it comes to publicly listed investments, in essence, all strategies fall into one of the following categories: selling, monetizing or hedging the value. Selling the asset will trigger a tax liability. Monetization will result in borrowing against its value and using the loan proceeds to accomplish client objectives. Hedging the asset value is often done using derivatives to limit downside risk.

When managing positions in privately held businesses, owners have greater flexibility. Initially, owners would want to evaluate a sale to a strategic or financial buyer in the form of a private equity firm. Apart from providing liquidity, these buyers can assist in restructuring the business and add value. Another option is the sale to key management employees, or through an employee stock ownership plan (ESOP). Two other popular options include taking a line of credit against the owner's shares, or structuring a sale, or gift to family members, to take advantage of tax benefits.

A single investment in a real estate asset can be large and constitute a significant portion of an investor's assets, creating a high level of property-specific risk. Real estate is generally illiquid and, if held for a long time, may have a significant unrealized taxable gain. A



seller considering sale, or monetization of a property, should consider its current value relative to historical and expected value in the future, taxes, availability of credit, and interest rate levels. Possible strategies include: a sale and leaseback or mortgage refinancing.

Wealth concentrated in a single asset poses significant risks that should be addressed and planned for in advance. At Northland Wealth we have the expertise and experience to evaluate your unique situation and help you determine the best course of action.

**Victor Kuntzevitsky, CAIA**  
Senior Associate





## What Is An Incentive Trust?

An **incentive trust** operates as a sort of “conditional inheritance” for beneficiaries named in the trust, and is designed to encourage or discourage certain behaviours, by using distributions of trust income, or principal, as an incentive. A typical incentive trust might encourage a beneficiary to complete a degree, enter a profession, or abstain from harmful conduct such as substance abuse. The beneficiary might be paid a certain amount of money from the trust upon graduating from college, or the trust might pay a dollar of income from the trust for every dollar the beneficiary earns. In an incentive trust arrangement, the trustee must adhere to specific requirements set out by the grantor, regarding what conditions the trust’s beneficiaries must meet in order to receive funds from the trust.

As with any type of trust, there are costs associated with the development and ongoing administration of an incentive trust. The costs and the time involved in establishing this trust are just two factors you’ll need to consider when deciding whether or not this arrangement is right for you. Next, you’ll need to take into consideration some of the unique advantages and disadvantages of the incentive trust.

Advantages	Disadvantages
• Motivating Positive Behaviour	• Resentment
• Age Restrictions	• Hindering Entrepreneurship
• Encouraging Education	• Setting Unrealistic Goals
• Promoting a Healthy Lifestyle	• Overlooking Other Needs
• Family Business or Employment	• “Controlling Life from the Grave”
• Endorsing Philanthropy	

Those interested in establishing an incentive trust need to know there are limits. The law has evolved to limit how far you may rule from the grave.



Certain conditions may be deemed invalid for public policy reasons. Therefore incentive trusts must be carefully considered and drafted. You may want to consider the soft or emotional side of the equation as well. Efforts to foster what a parent deems good behaviour (or to discourage bad behaviour) could backfire, resulting in rebellion or alienation. Benefactors also need to take into account that money is not the sole, or even the most significant, driver of behaviour. It would be naïve indeed to assume that the promise of a trust fund distribution could be powerful enough to defeat the scourge of addiction, or to transform a less-than-ambitious child into an industrious worker.

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well ahead of inflation. The problem in the U.S. job market appears to be the shortage of properly skilled workers rather than a faltering economy. Retail sales are strong, as is consumer confidence. The housing market continues to recover, but is hampered by the worker shortages.

In Canada, national economic growth continues to be challenged by economic declines in the Alberta economy. Despite recent oil price increases the significant fall in oil prices remains a drag on the Canadian economy. Canadian GDP will likely be flat to down in the second quarter. BC and Ontario continue to show positive growth along with booming real estate markets.

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With financial markets facing turbulent times, Canadian pension plans, who are considered some of the most sophisticated investors in the world, have endorsed alternative asset classes in order to meet the return targets of their funds. While individual investors are not pensions, and each have different needs and objectives, especially in regards to liquidity, some strategies that pensions employ may benefit accredited investors. Strategies which focus on direct lending through mortgages or loans to high-quality companies, can provide much needed yield and cash-flow combined with capital preservation, which compares favourably to traditional fixed income. The addition of income producing real estate can add further diversification while producing cash-flow, with the potential for capital growth over time. In addition, investment in infrastructure and private equity, while having

investment life cycles of up to 20+ years; in the past have greatly exceeded the returns of the public stock markets.

We believe alternative asset classes can be added to a traditional portfolio to improve the overall risk vs. return profile if done in a common sense way. As a recognized leader in wealth management, Northland Wealth has the expertise and experience to determine which alternative strategies can best fit a family's investment portfolio, while providing access to 'best of class' managers in these areas.

Please speak with your Portfolio Manager to better understand how alternative investment strategies can complement your portfolio.

**David Cockfield, MBA, CFA**  
Managing Director & Portfolio Manager



## PERSPECTIVES: (CONTINUED FROM PAGE 4)

The key to the success of an incentive trust is good communication: make sure you discuss the intentions and restrictions of the trust with the trustee (the person or organization managing the trust) and the intended beneficiary.

When used properly, however, an incentive trust can encourage higher education, philanthropy, a strong work ethic, healthy living and sound financial planning, and prevent the misuse of wealth. You can pass on something more valuable than money to your family's younger generations - you can pass on valuable life lessons.

**Jeff Sproul, Hon BBA, PFP, CIM**  
Vice President, Wealth Management  
and Associate Portfolio Manager



## Recapping The 8<sup>th</sup> Annual SkyBridge Alternatives ("SALT") Conference

During the second week of May, Northland Wealth attended the eighth annual SkyBridge Alternatives ("SALT") Conference in Las Vegas. This invite only conference brings together a diverse group of thought leaders from the worlds of finance, economics, politics, entertainment, sports and philanthropy. This year's lineup included esteemed investment titans David Rubenstein and Ken Griffin, prominent business and political figures Michael Bloomberg and John Boehner, and sports and entertainment personalities Kobe Bryant, Caitlyn Jenner and Will Smith, among many others.

The major theme emerging from this year's gathering was the uncertainty and continual evolution of the financial industry and political landscape in the United States, which have both seen significant upheaval in the past several years.

As a result of poor performance for many hedge funds, discussions about the merits of investing in this area and the viability of what could be considered their excessive fee structure, took center stage, at what's been called the Super Bowl of the alternative investment industry. While most managers expect fees to continue falling, a difference

of opinion exists over whether the recent industry contraction is structural or temporary.

While there was a decided pessimism among many of the top hedge fund managers in attendance, it did nothing to keep investment professionals away from SALT, with the number of delegates rising from 1,800 in 2015 to 2,100 this year.

Another prominent theme was the effort by the industry to combat Wall Street's negative reputation. Rubenstein suggested an unusual response to a traditionally secretive industry: public relations. "All of us have an obligation to try to explain ... what the hedge fund industry and the private equity industry does that is useful," Rubenstein said, noting cash-strapped public pension clients, investments that improve companies, and creating jobs. "We shouldn't be upset about what we do. We should be proud." The same theme continued with an interview with John Boehner, the Former Speaker of the House of Representatives. "Don't expect politicians to stop beating up on Wall Street," Boehner said. "If you look at what Wall Street does in terms of job creation and economic growth, you have a great story to tell. But if you don't tell it, no one will."

Michael Bloomberg, the multi-billionaire founder of Bloomberg and former Mayor of New York, left the room, according to one journalist "audibly lamenting his decision to stay out of the 2016 presidential race", which he explained as a simple calculus about the odds of success, or lack thereof, for a third-party candidate. In light of research that 40% of all jobs could be automated within 10 years, he urged both the government and private sector to "find ways to make people as productive as possible and give them the dignity of a job." If we have a singular focus on increasing productivity through automation, people are going to "set up the guillotines" because of the "rich-poor divide."

The conference provided an unprecedented opportunity to listen, learn and network with the brightest minds and investors from around the world. As the only Canadian wealth manager outside of the Canadian pensions attending, we are honored to be invited to this event. The knowledge acquired, and trends observed, continue to influence the method through which we construct portfolios to achieve our client's objectives.



There is nothing like the feeling of sudden wealth infusion. That euphoria is accentuated when the amounts are six, seven, eight digits or more. Of course, every coin has two sides and, typically, the greater the amount you receive, the greater your stress. In fact, there is even a stress-related disorder called "Sudden Wealth Syndrome." Stress can lead the recipients to do things that ultimately threaten their good fortune and may leave them worse off than before they received the money.



We have all heard stories about the lottery winners who went broke, or the former professional athletes or entertainers who struggle to pay rent. For those that have the luxury of time to plan for the wealth infusion that may result from the sale of a company or property, or perhaps a retirement payout, taking the time to plan will help ensure an ideal outcome for your family's future, and tax, estate and succession matters.

### Know the Details

Someone can hold a lot of wealth on paper, but until you can convert that into cash, the opportunities differ in how you can use that wealth. What may appear to be sudden

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Foundation Specialists (BFS). The company traces its roots back to the construction of the CPR railway in the Crows Nest Pass with Peter representing a rare fourth generation leader of the family owned business. Recounting a string of bold business successes and potentially fatal challenges, Peter Bermingham laid out a series of lessons that all family businesses can learn from.

As a sponsor of The Canadian Association of Family Enterprise (CAFE), our firm recently participated in CAFE's annual Family Business Symposium held in Calgary. Over the course of three days, members of several prominent Canadian business families shared their experiences and approach to running a family enterprise. A particularly engaging and often poignant presentation was delivered by Peter Bermingham of Bermingham



**Reputation Means Everything** – BFS has been involved in many of the major infrastructure projects in Canada since the turn of the century (including the war years). The company is particularly known for creating unique solutions to handle complex marine engineering tasks. Its association with a project in 1946 helped BFS secure a major contract in Holland in 2006. It's also important to note, when the company ran into financial problems in the 90's, Patrick Bermingham was able to buy time with suppliers because of the longstanding reputation of the company. Using the patent on its recognized engineering technology as collateral, he was able to secure financing which restored BFS to financial stability.

**Find Innovation In Unexpected Places** – As a boy, Peter regularly accompanied his family to job-sites. His grandfather's adage was that you can learn more from a day at a jobsite than you can learn in a day at school – consequently Peter is ambivalent about school. Nevertheless, he completed his education, but not in engineering, he attended design school to obtain a Bachelor of Fine Arts. Peter actually trained as a sculptor, but within BFS his practical on the job experience, combined with his ability to visualize and design unique equipment has enabled BFS to produce solutions to unforeseen problems that often arise on construction projects. Peter once drew upon his family's military heritage, recalling a scissor bridge design from WWII, which they modified for use on a job in the US.

**Vision Needs A Plan** – Patrick describes himself as a "Firestarter" in that he likes to take on difficult engineering problems and use his vision to solve them. However, firestarters eventually need someone to stoke the fire, and often require a firefighter to douse the flames. His analogy captures a sentiment echoed by other family business leaders, that entrepreneurs eventually have to step out of the business and turn the day to day operations over to a professional manager.



## SUDDEN WEALTH MANAGEMENT

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The manager's job is to understand the founder's vision and in turn harness the right people and necessary resources to turn that vision into reality.

**Make Your Own Definition of Succession** – As a young man Peter somewhat resented that he was destined to work in the family business. However, he took over the company from his father, at a time when it was essentially insolvent, with only a handshake. He did so because he realized his elderly father did not have the fervour to save the company. When he eventually stabilised the business, he sold shares to his employees to tie their fortunes to BFS. Later, as the company returned to profitability, he sold a stake to a private equity firm to finance growth. In a surprising twist, the private equity investor itself went bankrupt and Patrick ended up buying back their stake. While he has always left open the option for his children to join the business, he views the chances of transferring a family business to a fifth generation as “one in a thousand.” As a result, after the company's 100th anniversary his goal became to position Bermingham to last another 100 years and the best way to achieve this he felt was a sale to a division of Vinci, (the largest construction company in the world). He would have been content to walk away with an equity stake that allowed him and his family to pursue their personal ambitions, but today Peter continues on as chairman of BFS.



Ultimately, Patrick Bermingham refers back to his design roots to describe success in building a family business. He compares building a business to building a medieval cathedral. The process can take decades and the goal of any founder in the lengthy building process should be to ensure that they never see the last stones laid.

**Jerry A. Olynuk**, LL.B, CFP, CFA  
Senior Vice-President & Portfolio Manager



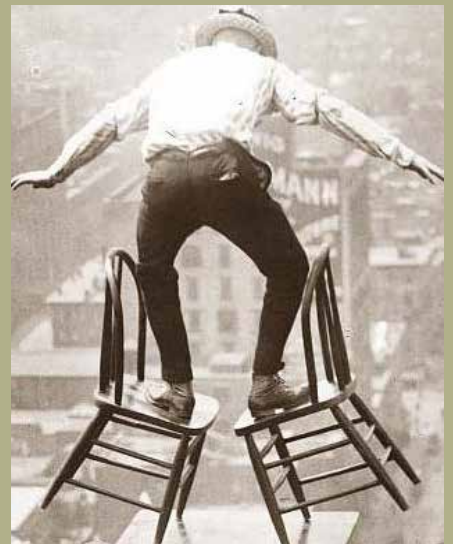
### Old Country Dam (photo on page 6)

By: A.J. Casson Of The Group Of Seven

Alfred was born in Toronto, Ontario, in 1898 to an English Quaker father and a Canadian mother. The first exposure he had to art was at Hamilton Technical School, where he was asked by his teacher to demonstrate for the class. His father sent him to work at age 15

as an apprentice at a Hamilton lithography company. The first public exhibition of his work was at the Canadian National Exhibition, in 1917. Casson developed a painting style with clear colours and background designs. Alfred “retired” in 1957 at age 60, to paint full-time.

wealth require a closer look to truly understand the economics of the transaction. Take the time to dissect the transaction. Sit down with your significant other and read carefully, every piece of paper associated with the windfall. Highlight areas that you don't understand. By doing this, you will be better prepared for the next step.



### New Lifestyle Balancing Act

On the home-front, consider the transaction's likely effect on income, benefits, disability and life insurance, retirement savings, dividends and taxes. Ideally you will have a good understanding of your current situation, as it is best to plan ahead and devise strategies for managing sudden wealth. Regardless of the details around the sudden wealth opportunity, few elements should be a complete surprise, if you have allowed for a range of possibilities and aligned your goals and strategies.

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## SUDDEN WEALTH MANAGEMENT (CONTINUED FROM PAGE 7)

### Develop a Comprehensive Wealth Plan

An in-depth plan that is customized to your unique situation will ensure that all facets of your financial future, including preservation and transition of wealth, are identified. However, it should not be forgotten that your needs come first. The factors are more than just financial measures. You will need to be clear on the amount of income you would like, but also the type of life you want to enjoy and, if applicable, the inheritance or charities you hope to impact. Depending on the amount of wealth, you move from sufficiency thinking to stewardship of the assets.

If you have a solid understanding of your current financial situation, family and goals, and understand potential event outcomes through what-if scenarios you have considered through the Wealth Planning process, then you can respond quickly when such an event occurs.



### Avoid Large Expenditures

Do not make big expenditures until you are satisfied with the advice you have obtained with your new financial position.

Take care of taxes on the gain, pay down debts, take a small vacation, but don't make too many changes at once. Consult with your professional team. If the amount you have received is substantial relative to your prior situation, take the time to consider your good fortune.

Coming into a large amount of money might seem like a great excuse to kick back and live the easy life, but with more money can come more problems. Be sure to use this advice when deciding what to do with your new found wealth.

Jeff Sproul, Hon BBA, PFP, CIM  
Vice President, Wealth Management  
and Associate Portfolio Manager



The information provided in this newsletter is for informational purposes only and should not be used as investment or tax advice. For investment advice tailored to your specific situation and investment objectives, please contact a Northland Wealth Management professional.



### Willing Wisdom

by Thomas William Deans

*Willing Wisdom* is the first book to offer you a process — 7 Questions to ask, family, friends and charities to help guide giving-decisions. For those who already have a Will, the book helps readers confirm whether their giving decisions continue to feel right. The answers to these 7 Questions reveal whether gifts will release potential or destroy it. Only through conversation and the wisdom shared in both directions can anyone begin to know how it will be for their beneficiaries. In a busy world where conversations about life, death and wealth are often avoided, *Willing Wisdom* confidently guides readers in a brave new direction.

### Redefining Success – Still Making Mistakes

by W. Brett Wilson

*Redefining Success* details how W. Brett Wilson was forced to redefine his life, making health and key relationships his first priorities. Through trial and error, he discovered that these simple virtues are foundations for real, enduring success, both in business and in life. Wilson's compelling insights are the basis for *Redefining Success*. Not just for entrepreneurs and business people, the book outlines how we can change our lives for the better by re-evaluating our personal definitions of success, then reworking them into a life plan that is feasible, lasting, and rewarding. Inspirational and paradigm-changing, *Redefining Success* will help you implement and sustain lasting, positive change in your life—and make your world a little more meaningful—every day.



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