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A DEAL AT LAST

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The Sleeping Elephant Awakens

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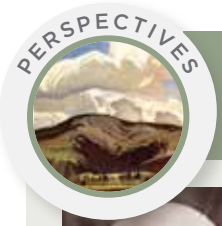
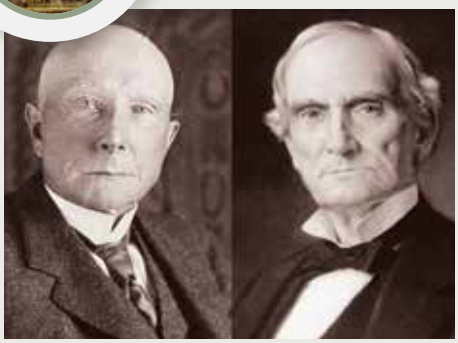
NORTHLAND
—WEALTH MANAGEMENT—

In this edition of The Artisan, our feature story "Family Offices", which originally was published this past spring in the *Financial Post Magazine*, addresses the steps and challenges in creating your own family office to manage wealth. We then travel across the world to India in our article "The Sleeping Elephant Awakens", and examine how Northland Wealth is researching and doing due diligence on this important market. From there we compare and contrast Financial Planning versus Investment Planning to better understand how a comprehensive financial plan is the first and key step to maintaining wealth. Lastly, we share some recent findings on programs regarding municipal taxes for Canadian residents over the age of 65 in our article "Rebates". We hope you enjoy these along with our regular market insights.



FAMILY OFFICES

– ORIGINALLY PUBLISHED IN FP MAGAZINE



FAMILY OFFICES seem to be the rage from a marketing standpoint in the financial industry. Stockbrokers, who called themselves financial advisors for decades, now say they're family offices. So, too, do insurance salespeople, once called financial and estate planners. Unfortunately, this waters down the term family office and begets caveat emptor.

If history is any guide, it is believed Judge Thomas Mellon in Pittsburgh established North America's first true family office in 1868. John D. Rockefeller followed in 1882 with the Rockefeller Family Office. Their objective was to employ a team of professionals that provided the full complement of investment, accounting, legal, educational and concierge services required by complex families to preserve their legacies for future generations. It's a key point of distinction that these employees were solely compensated by the family office and not externally through commissions or payment from a third party such as a bank, trust or insurer. As employees, they were held to the highest standard of care under the law, the fiduciary standard, which ensures that only the family's needs and objectives were considered.

(CONTINUED ON PAGE 4)

WHAT'S NEW

ORIGINS AND UNDERSTANDING

The Sleeping Elephant Awakens

It is difficult to appreciate the economic transformation occurring in Asia unless you've seen it for yourself. In the past 20 years Asia has made tremendous strides in catching up to western living standards, and in the case of public and energy infrastructure, it is exceeding our own standards. For example, North America doesn't have any high-speed 'bullet' trains. Meanwhile, China boasts a network of 27,000 km of railroads capable of ferrying passengers at speeds of 250–350 km per hour (155–217 mph). By 2025 China's high-speed rail network will equal the total distance of all of Canada's motor highways. In another example, in just 1 year after India introduced a mobile 4G/LTE network, it rose from 155th to 1st in broadband subscribers per 100 inhabitants and has overtaken the US and China in mobile data usage. The ability to connect people and move goods quickly and efficiently allows for a more productive and faster growing economy.

As China finishes its construction boom and is pivoting to a service-based economy, India is in the first innings of its own transition. The country is a collection of 29 states and is arguably the most ethnically, and by result, economically diverse nation in the world. To drive change in such a diverse country, governments need a strong mandate for change. The 2014 general election marked the first time in 30 years that a party has won enough seats to govern without the support of other parties. The winning BJP party and its leader, Narendra Modi, used this majority to enact transformational changes, some of which include: a nation-wide harmonized sales tax, a unique electronic identity number for all residents of India, and an overhaul of the country's bankruptcy laws. It's hard to articulate all the changes within the scope of this article, but they culminated in India becoming the fastest growing economy, with the most recent datapoint indicating an 8.2% annual growth.

As a holistic wealth management firm that looks after all aspects of our client's wealth, including investments, we would be remiss if we didn't

(CONTINUED ON PAGE 3)

THE MARKETS

UPDATE AND OUTLOOK

A DEAL AT LAST

After 14 months of intensive negotiation that was at times marked with threats and political posturing, a new trade deal with the U.S., Canada and Mexico was finally reached to replace NAFTA. The lack of an agreement and the long lasting and acrimonious negotiations were a cause of real concern in the corporate sector. Company managements saw the lack of an agreement as an added risk to long term investment decisions in expanding production facilities, adding new branches, or increasing their workforce. The removal of this uncertainty should give the Canadian economy a boost. The new agreement provides certainty in ensuring Canada benefits from the strong growth in the U.S.

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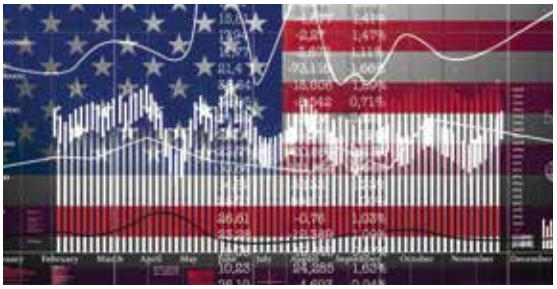
The new U.S., Mexico and Canada trade pact (USMCA) replacing NAFTA can be viewed with mixed emotions. The inexperienced Canadian team who attempted to add social policies to a foreign trade negotiation caused us backlash and were almost frozen out of the deal as the U.S. and Mexico came to an agreement first. Canada was then forced to back step, which fortunately minimized damage, but we took some hits regardless. Parts of our protected and outdated dairy market, which operates under supply management, were opened to U.S. competition; benefiting Canadian consumers through lower food prices. Patent rules in the pharmaceutical area were changed to favour existing drug patents and discourage generic competition. Canada and Mexico

were unable to have the tariffs on steel and aluminum removed. On the positive side Canada managed to dodge several very negative bullets in the U.S. proposals. The dispute resolution system (Chapter 19) was retained rather than replaced by a U.S.-biased proposal. The U.S. initial proposal for a sunset clause of only 5 years for the agreement was dropped and replaced by a 6 year option to make changes or to terminate the deal 10 years later. Corporate reaction to the 5 year proposal was universally negative as 5 years was not long enough to provide a basis for corporate capital spending plans.

> The U.S. economy, stimulated by major tax cuts, regulatory changes and sustained energy production is experiencing a major growth surge.

The U.S. economy, stimulated by major tax cuts, regulatory changes and sustained energy production is experiencing a major growth surge. Unemployment is at an 18 year low. Average hourly earnings have reached a 9 year high and earnings are expected to be up 3% by year end. Consumer confidence is the highest in decades buoyed by rising disposable incomes. U.S. household debt is well below its peak prior to the financial collapse of 2008. Retail sales are strong and expected to grow by 3.5% in 2018. GDP growth in the U.S. is presently running close to 4% - well above recent levels. Coupled with stocks hitting all time highs U.S. consumers are confident in their ability to save and spend.



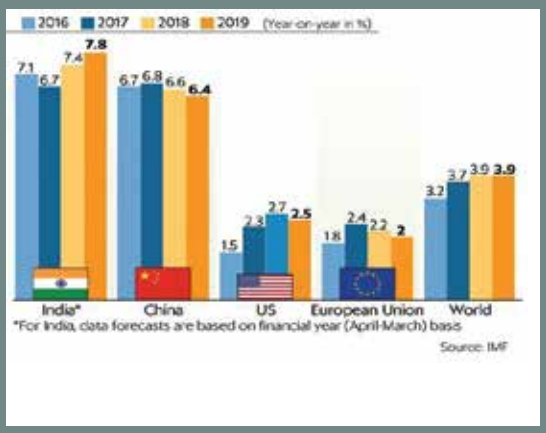
On the Canadian side, the Canadian economy has been surprisingly strong at 2%, which perhaps should not be surprising as strong U.S. growth has been positive for Canada in the past. Canada is not without problems, as our means of exporting our natural gas and oil is limited. The cost of these limitations is in the billions of dollars. Canadian Select, our heavy oil, is selling at a discount of

(CONTINUED ON PAGE 4)

ORIGINS AND UNDERSTANDING

(CONTINUED FROM PAGE 2)

research the opportunity presented by investing in India. In September 2018 a member of NorthlandWealth attended the Invest India Conference hosted by the Canada-India Business Council, the Consulate General of India and Prem Watsa's Fairfax Financial. The event brought together government officials and investors from both countries. It featured candid conversations from the likes of OMERS, Brookfield and University of California who shared their thoughts on the Indian economy, the investment landscape and their approach to investing in India. Each has allocated more than $1B in the country – mostly in the last 3 years.



There are two broad approaches to investing in India. The first is in stocks through the public markets. A significant number of the portfolios Northland Wealth advises on include an allocation to India via an emerging markets exchange traded fund. The second is through investment in private companies and real-estate. Many of the formerly mentioned institutional investors have chosen this approach as it provides greater control in a country still mired in corruption, bureaucracy and inefficiencies. All are building investment portfolios to last a generation; and are therefore chosing highly cyclical industries that will grow as India's middle class grows. We learned that their favoured areas are financials, consumer discretionary and real-estate, focused on offices, malls, and logistics assets.

The attendees acknowledged the many risks that investing in India poses such as currency devaluation, political instability, and effects of changing climate. Investors who converted their US dollars to Indian rupees 30 years ago to invest lost 80% on the currency exchange. That's hard to make up in investment returns.

There is a general election in May 2019 and the current government needs to win another strong mandate to continue its reform policies. If recent global elections taught us anything, it's that there are no sure things. This combined with India's significant impoverished population and underdeveloped infrastructure, major migrations and food shortages can become a large impediment on India's economy due to any natural catastrophe.

Northland's investment team continues to study the global investment landscape and use a measured approach when allocating our clients' monies. We recognize we are stewards of family's capital and take that responsibility seriously.

Victor Kuntzevitsky, CFA, CAIA
VP, Investment & Portfolio Strategy

PERSPECTIVES:
(CONTINUED FROM PAGE 1)

Creating a family office can make sense if a family has sizable assets that are external to their operating business.

Creating a family office can make sense if a family has sizable assets that are external to their operating business. In many cases, a family office begins its life as a small operation with an objective to manage excess liquidity and cash. The people responsible may be the company founder or the current CEO along with a bookkeeper and/or accountant. At this stage, investment ideas come from external advisors who either manufacture or distribute products for the firms they work at. These may include private-equity deals or investment management services at one of the major banks or brokers.

There is nothing wrong with this model, but the lack of transparency and access to an open-architecture investment platform can result in excessive fees and fewer high-quality opportunities for a family to diversify their assets. Over time, that results in a portfolio of patchwork deals generally lacking an overall strategy, due diligence and risk management.

The first step for a family wishing to preserve wealth for the next century is to consider the family itself and not the family office.

The first step for a family wishing to preserve wealth for the next century is to consider the family itself and not the family office. Where does the family want to go? What does the family want to do with their financial, human, cultural and social capital? Once some sense of direction is established, a mission statement is drafted for the family office that provides the roadmap to accomplish the family's goals and objectives.

The next step is to create a business plan, covering such issues as a legal structure, the services the family office will provide, and which functions will be handled internally and which will be outsourced. Part of the business plan relates to the financial budget, detailing matters such as the family office's

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UPDATE AND OUTLOOK
(CONTINUED FROM PAGE 3)

C$50 per barrel to West Texas Oil due to a lack of transportation facilities, which are the result of extreme environmental activism and adverse Federal Government policies.

What is the state of financial markets? In the U.S. the Federal Open Market Committee (FOMC) increased the federal funds rate, which dictates the rate banks lend to each other. The move was fully anticipated by markets which expect a further rate increase in December of this year and further increases in 2019. It should be realized that interest rates are still at historical lows. Inflation is still in the acceptable 2% range and only recently began to show more upward tendencies. The combination of rising wages and tariff-generated price increases could well push inflation higher. Further rate increases by the Federal Reserve will put pressure on new housing sales and consumer debt. This will likely have a slowing effect on U.S. economic growth in the future.

In Canada, given slower growth and low inflation the Bank of Canada has not increased the bank rate.

In Canada, given slower growth and low inflation the Bank of Canada has not increased the bank rate. Recent GDP growth in the 2% range was higher than expected and encouraging in light of the uncertainties facing the Canadian economy because of the then ongoing NAFTA negotiations.

While fixed interest rates in the U.S. and Canada have drifted upwards over the past quarter, U.S. and Canadian equity markets have traced different paths. The S&P/TSX hit a high on July 12, 2018 of 16,561. Recently (Sept 28/18) the TSX traded at 16,073, a decline of 2.9%. In the same period the U.S. S&P 500 rose 4.6%. The underperformance of the TSX can be attributed to a combination of the threat of tariffs, poor NAFTA negotiations combined with the anti-business and energy policies of the federal government. With a successful agreement behind us, it would be reasonable to assume that this performance gap, to some degree, will be eliminated.

While equity markets in some sectors appear fully priced, earnings growth continues to be strong. As long as corporate earnings follow the present upward trends it is hard to see the present bull market ending. There are definitely concerns to consider; rising interest rates, a surge in inflation, an escalation of new tariffs into a full scale trade war, are only a few. At this time however there are no signs of an imminent recession. The economic momentum in the U.S. and Canada seems likely to continue well into 2019. So far this period of growth has shown only a few signs of the excesses that normally precede a recession. However 2020 should be watched closely and may well be the year of retrenchment.

Our strategy in the fixed income asset class has been focused on avoiding exposure to long-term fixed income investments while favouring opportunities that focus on the "real economy" rather than the "financial economy".

Our strategy in the fixed income asset class has been focused on avoiding exposure to long-term fixed income investments while favouring opportunities that focus on the "real economy" rather than the "financial economy". The areas where we see the greatest return versus risk are in the areas of supplying growth capital for companies (private debt), hard asset lending (private mortgages) and critical infrastructure.

In the equity portion of portfolios we have recently reduced exposure in our ETFs to the low volatility sector in order to emphasize greater exposure to broader markets including emerging markets. For investors with long-term horizons and a limited need for liquidity, private equity (both in the growth equity and secondary sectors) has the potential to create value in excess of the public markets over time.

As a complement to fixed income and equity asset classes, we view multi-family real estate as having good potential as strong rent growth should compensate for higher interest rates.

David Cockfield, MBA, CFA
Managing Director & Portfolio Manager

Arthur C. Salzer, CIM, CFA
CEO & Chief Investment Officer

PERSPECTIVES:

(CONTINUED FROM PAGE 4)

operating costs and how they will be allocated among the various family members and related entities such as trusts. Important issues like the location and type of office accommodations will also be determined, as well as the governance structure along with guidelines for financial and investment reporting. Finally, it should say which family members are to be supported and what the consequences are should a family member have a marital breakdown.

Services that are typically kept in-house include: direct investing, bookkeeping and reporting, philanthropy, education of younger generations and oversight of the family business. The most frequent outsourced services include: investment management (chief investment officer), asset custody, tax accounting, estate and trust planning and soft issues such as inter-generational conflict resolution where an objective viewpoint may be very useful.

A family of significant wealth, that wants ultimate privacy and total staff dedication may internalize many or all these functions. However, this can be an expensive endeavour given that a full-time chief investment officer alone will cost in the range of $250,000 to more than a $1 million. A good rule of thumb is that a dedicated, full-service family office typically doesn't make financial sense until the family's net worth is in excess of $500 million.

The extensive overhead necessary to operate a successful stand-alone family office is a big reason why multi-family offices (MFOs) have been developed. These firms are independent and not associated with large financial services firms such as banks, investment dealers, trusts or insurance companies. MFOs operate as a fiduciary to the families they serve and provide great value since operating costs are shared across multiple families.

During a recent lunch in New York, Justin Rockefeller (a great-grandson of John D. Rockefeller) explained to me the advantages of dealing with an independent multi-family office, most notably having an open-architecture investment platform that offers a wide range of impact investing opportunities. It's this appeal to the next generations' heart and mind, as well as having a trusted fiduciary relationship, that may be the winning combination for the longevity of a family and the family office.

Long live the family office, long live the family!

Arthur C. Salzer, CIM, CFA
CEO & Chief Investment Officer

PLANNING FILES

FINANCIAL PLANNING VS INVESTMENT PLANNING

As someone who works in the wealth management industry, it never ceases to amaze me that the first question I usually receive when speaking about my work with potential investors is: "So, what are your returns like?" to which I always reply: "Well, that all depends on what you need."

While this may seem like a straightforward and legitimate question, my response tends to elicit the same type of reply, whether it is a novice investor looking to build their first portfolio, or a seasoned investor looking for someone else to take the reigns and manage their wealth for them. Typically, I am first met with a look of confusion, followed by curiosity that inevitably sparks the same response: "You know I never really thought of that before."

This is a common situation for most investors, they like to hear a hypothetical return and then they decide in their head whether that seems good or bad, often with no context, while chasing the highest return number. In my world this is putting the cart ahead of the horse.

> Before looking at expected returns on investments it is important to first start with a financial plan.

Before looking at expected returns on investments it is important to first start with a financial plan. A financial plan is not just about investing money. A financial plan first seeks to map out

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BRUSH STROKES

IF ONLY THERE WERE REBATES AVAILABLE

There are numerous programs and rebates that have been developed by all levels of government for the benefit of their citizens. However, in many cases, these are not effectively publicized or shared with the constituents.

A perfect example comes from a recent client meeting where it was shared that our local region has put into place a program which allows home owners to defer payment of property tax increases until such time as their home is sold. The only restrictions are that the home is the primary residence and one of the owners is age 65 or older.

Obviously this would be of interest to a number of households and likely financially beneficial. However, there are a couple of things you should be aware of. The client was able to learn about the program by reading the fine print on the back of her property tax bill from the town. Now only a few people are going to be diligent enough to read the print on the back of an invoice. To learn more about the process, I looked at my own tax bill and there was no information on the back page. It was a different town, but the same region, hmm? So I went on a fact finding mission to try and learn more about the program and also find a source that could be shared with others. A search on the internet using obvious key words only produced a long list of programs that would prove beneficial to many, but not the program I was looking for. I then searched our town website and sure enough, up came a notice on the program mentioned above. All the information the client had shared was correct, but the deadline for the program had unfortunately passed by the time of writing this article.

> **It seems that, yes, there are numerous programs, subsidies, rebates and benefits offered by all levels of government that are available to people. However, finding out about these initiatives in a timely manner is not as easy as one would expect.**

So what did I learn from this exercise? It seems that, yes, there are numerous programs, subsidies, rebates and benefits offered by all levels of government that are available to people. However, finding out about these initiatives in a timely manner is not as easy as one would expect.

In an age of information and the speed with which it is supposed to be shared and accessible, it seems that the good old fashioned word of mouth method is the most effective. This, of course, assumes that someone is able to obtain the information in the first place. This leads to the question

of how does one learn about these initiatives? My suggestion is to reach out to your elected officials and ask them. Whether it is your local Member of Parliament (MP), Member of Provincial Parliament (MPP), Town Mayor, or Town Counsellor, they should all have access to this information and be able to provide you with the details required, or direct you to an individual or department who can. Regular contact with these individuals will provide much needed access to information. Once obtained, then word of mouth can take over. Now remember, not all programs are for everyone. There are of course the restrictions or conditions which are outlined in the initiative. But there is also the important question - is this applicable, appropriate and advantageous to me and/or my current situation?

Another way to look at this would be to draw a parallel to the so called "junk mail". We have all had our mail boxes full of flyers and coupons on many occasions. For the most part we consider this to be too much information and a waste of time. However if you take the time to filter through the information, you may find a coupon or deal that could prove beneficial to you. For example, if you were heading to the grocery store to purchase a certain product, and in the pile of papers there is a coupon which saves you a $1.00, would it not be worth using that coupon? You must then consider the time it took you to source the coupon. It is a bit of a catch 22. If you are willing to spend the time you can potentially save money. However your time also has a value. It is a question of which is more valuable.

The key is to find an efficient way to stay informed and weed out the "junk". Time is money, but a good investment of time also has the potential to save you a lot of it.

If you would like to learn more about the Property Tax Increase Deferral Program, please contact your local municipality to see if it might benefit your household.

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

PFP® CIM®

The Entrance to Halifax Harbour

by A.Y. Jackson (photo on page 6)

A.Y. Jackson was sent to Halifax, Nova Scotia, late in January 1919 as his last assignment for the Canadian War Records, but found on his arrival that the large troopships were at that time being diverted to other ports. Finding little worth recording, he went to Bedford with Arthur Lismer to do some sketching for himself. By 15 March he had heard that the large troopships were back on the Halifax run, and so went to Halifax to do sketches of the *Olympic*. On 16 April he returned to Montreal for discharge from the army, and then went on to Toronto to finish the paintings for the War Records. It appears that none of the canvases painted in Canada - all of which were probably finished in Toronto - were purchased for the War Records.

FINANCIAL PLANNING VS INVESTMENT PLANNING

(CONTINUED FROM PAGE 6)

your goals and objectives, followed by developing a plan around all areas of an individual's finances. This includes investment planning and also other areas such as savings, taxes, retirement, inheritance, education, estate planning, risk management and more- all designed to achieve your financial goals and objectives.

Why is this necessary you may ask? A financial plan will reveal gaps in an investment plan that may not provide enough return for goals and objectives. On the flip side, which happens to be more common, is that the current investment plan may be too aggressive in that it is taking more risk than need be taken. If your financial plan reveals that its success only requires a rate of return of 6% but you happen to have a current portfolio with an expected return of 9%, (which would likely entail significant equity exposure) — then you are taking unnecessary risk.

> Remember that if you are willing to take the risk of a 9% expected return then you should be prepared for the potential loss of a magnitude of 9%

Remember that if you are willing to take the risk of a 9% expected return then you should be prepared for the potential loss of a magnitude of 9% (with declines exceeding 50% during the Great Financial Crisis). Unnecessary risks like this can be devastating to

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PLANNING FILES

FINANCIAL PLANNING VS INVESTMENT PLANNING

(CONTINUED FROM PAGE 7)

achieving your goals and objectives — which can take years to recover from.

As wealth managers Northland Wealth not only has the in-house expertise to create comprehensive financial plans for our clients but also the investment plans that go with it. After completion of a financial plan we are able to determine a rate of return that will meet your goals and objectives. We then create a bespoke investment plan/strategy which is targeted to achieving that rate of return and ultimately all of your goals and objectives, while minimizing risk.

At Northland Wealth we encourage all our clients to take the time to go through the process of creating a financial plan. While it may seem like a daunting task at first, it is something that is absolutely necessary if you want to have the greatest success in achieving your financial goals.

If your family does not have a financial plan, or has not updated it in some time, please contact us so that we can work with your family to provide a holistic Wealth Plan.

Grant Dawes, CIM, CFP
Hon BComm, CIM
Associate

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.

RECOMMENDED READING

Rocket Men: The Daring Odyssey of Apollo 8 and the Astronauts Who Made Man's First Journey to the Moon

by Robert Kurson

"In 1968 we sent men to the Moon. They didn't leave boot prints, but it was the first time humans ever left Earth for another destination. That mission was Apollo 8. And Rocket Men, under Robert Kurson's compelling narrative, is that under-told story."

NORTHLAND
—WEALTH MANAGEMENT—

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