

THE ARTISAN

ISSUE: AUTUMN 2016



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... times are changing, but now at a much faster rate than ever imaginable!

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There is a strong argument to not only focus on the financial well-being of those left behind, but also the emotional toll it can take on those who have lost.

In this edition of *The Artisan*, our feature story is "Why Hire an Outsourced Chief Investment Officer?" which focuses on the why Northland Wealth's unconflicted, open-architecture approach has many advantages over regular discretionary investment management. We focus on bettering the family side of wealth though improved communication in the article "Preserving a Loving Connection". Then we look into the future and how technology can improve our lives as we review The Singularity Global Summit in "It's More than Keeping Up with the Joneses". We also review the upcoming changes to taxation of insurance in "Could Your Family be Affected?". All of this, along with our market insights and more.

Lastly, for those looking for additional insight into investing, Northland is proud to have our CEO Arthur Salzer featured as the wealth management columnist in the **Financial Post Magazine** each month.

IT TAKES COURAGE
TO LET GO OF THE FAMILIAR
AND EMBRACE THE NEW.

PERSPECTIVES



WHY HIRE AN OUTSOURCED CHIEF INVESTMENT OFFICER

Within wealth management there is still a lot of confusion with respect to whether or not an investor should have a discretionary or non-discretionary investment portfolio. In other words, should your family manage its investments by itself, or outsource the decisions to an individual or a firm of experienced professionals?



Discretionary investment management services are a popular option for those who lack the investment experience, time or discipline to be involved with day-to-day decision making. However, not all discretionary services offered by banks, broker, or portfolio managers are the same.

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NORTHLAND
—WEALTH MANAGEMENT—



ORIGINS AND UNDERSTANDING



Changes To Insurance Policy Taxation – Could Your Family Be Affected?

The proceeds of Permanent life insurance have historically received preferential tax treatment under Canadian law. Individuals, particularly business owners, through their corporations have often used this advantage to shelter additional savings deposits and investment gains. Much like Registered Retirement Income Funds, changes to the tax treatment of Insurance policies effective January 1, 2017 reflect the fact that Canadians are living longer, increasing retirement needs, and policies are paying out later which delays the collection of tax revenues. Current insurance payouts have been based on a life expectancy of 85 years whereas starting in 2017 that expectancy is increased to age 90. **It is important for clients with existing policies or who are considering tax advantaged strategies to understand the impact of these changes.**



The allowable amount of tax free or exempt savings in a Universal or Whole life policy is governed by a calculation called the Maximum Tax Actuarial Reserve (MTAR). The exempt test compares the savings component of an individual policy to a benchmark MTAR policy which up to now has been a 20 year (premium) pay endowed at age 85. To reflect demographic changes and fiscal policy needs, the Federal budget will change the benchmark policy to an 8 year pay and endowment at age 90. Some of the likely outcomes from these changes will be:



UPDATE AND OUTLOOK

Winds of Change

Canadian economic growth continues to be disappointing due to the serious economic declines in Alberta and Saskatchewan. While seen as our country's economic leader, Ontario's economy has not been built on a stable foundation as much of this growth has been fueled by profligate government spending. To put Ontario's debt levels into perspective, compared to California, which is the highest debt state in the U.S., the province of Ontario has twice the debt level, yet one third of the population. This places Ontario as the dubious leader in debt of any sub-sovereign borrower in the world! While the debt levels are currently serviceable, they would become a significant issue when interest rates begin to normalize.

The U.S. is our largest trading partner and has the largest economic impact on the Canadian economy.



There is better news from our southern neighbour, the United States as it is showing increasing signs of a recovery from the meltdown of 2008. The U.S. is our largest trading partner and has the largest economic impact on the Canadian economy.

U.S. household balance sheets are in improved shape compared to 2008. Debt servicing costs, which include mortgages and credit card debt, are at a record low using data going back to 1980. Mortgage debt costs have been reduced to approximately 4% by refinancing and terms that have been lengthened. U.S. businesses have continued to hoard cash since 2007. Cash flow required to service debt is well below average and 75% of debt has been lengthened in term and locked in at low rates.

The U.S. financial system whose collapse caused the Great Recession has been revamped by regulation to be much less exposed to risk. Capital ratios and liquidity have been improved and risk avoidance emphasized.

Wage growth is accelerating and unfilled positions continue to expand.

U.S. job growth has shown a steady rise since 2009 and unemployment has fallen to levels that have encouraged workers who had left the job market to return. Wage growth is accelerating and unfilled positions continue to expand.

One major source of future growth is U.S. housing. New home sales in the U.S. peaked in 2006 at 1.3 million units and bottomed in 2011 at 300,000 units. While recent sales have reached 600,000 per year, we believe that these levels will improve to better match family formation and population growth. The current challenge is that the housing industry is suffering from a lack of skilled labour, but as wages increase this hurdle will eventually be overcome. The good news is that new home construction and re-sales have a multiplier effect on the economy. Both require the manufacturing of a wide range of products from roofing to stoves, which provide a broad boost to economic growth. All in all, economic growth in the U.S. may reach levels closer to 3% in the second half of 2016 and early 2017.



While there is uncertainty surrounding the upcoming U.S. election, what has been conveyed by the public is that they find the sub-par economic growth over the past 8 years unacceptable and that new policies are desperately needed. While Quantitative

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1. The maximum premiums and deposits to an exempt policy will be reduced.

Based on an 8 year payment schedule, the total amount of premiums as well as “top up” deposits around the MTAR line will simply reduce the accumulated amount in policies available for tax free growth.

2. The “quick pay” period of certain policies will be extended.

The government has moved to restore balance on the exempt test for policies which were “investment” oriented with a single large premium payment up front and declining insurance coverage over time. The disallowance of cancellation fees on these types of policies and lower contributions will again reduce the tax sheltering benefit.

3. The maximum cash value accumulations permissible in exempt policies will be lowered.

For Corporate Owned Life Insurance policies, the strategy was actually to increase the taxable (non-exempt) portion of the accumulated savings since life insurance proceeds are credited to the Capital Dividend Account. On the death of the principal owner, life insurance proceeds payable to the corporation could be paid out as a tax free dividend to shareholding family members. With policy payouts now extended to age 90, the tax benefit that can be flowed through a company will be extended accordingly.

4. The taxable income portion of prescribed annuities will be increased.

By updating its life expectancy calculations, gross payments under an annuity won't likely change to the holder, but the increased number of payments means that the portion returned as capital will decline.

As usual with tax changes, the government is grandfathering existing policies to a large degree. However, clients considering changes to their existing policies or purchasing new policies ahead of the year-end deadline should consult with their Northland advisor to review their situation.

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





PERSPECTIVES: (CONTINUED FROM PAGE 1)

Here are some important factors to consider - does the advisor or firm:

- Have the skill, experience and resources to evaluate and manage assets across public and private markets?
- Only offer a one-size-fits all approach that only utilizes one or few asset classes, such as stocks and bonds? If so, look elsewhere.
- Have the ability to allocate capital without conflict-of-interest, to any independent asset managers from around the world in areas such as direct lending, real estate, private equity and hedge funds? This is known as an "open architecture" approach.
- Have the ability to access "best-in-class" institutional quality traditional and alternative asset managers?
- Provide a culture centered on client relationship management and strong communication?
- Offer robust performance reporting along with relevant custom benchmarks?
- Allow for clients to meet or speak with underlying asset managers?
- Take tax considerations into account to optimize returns on an after-tax basis?

Firms that provide this comprehensive style of discretionary management are called "outsourced Chief Investment Officers", or "OCIOs" for short. These firms should be licensed as a Portfolio Manager with a provincial securities regulator such as the Ontario Securities Commission.



If your family opts for hiring an outsourced CIO, you and the Advising Representative (a registered individual who can provide investment advice

at a Portfolio Manager firm) will start your relationship by discussing and documenting your unique investment objectives and constraints. Topics covered should include how much investment risk you are willing to take, the desired level of return to receive for taking on that risk, liquidity needs, tax considerations, performance reporting and benchmarks,



UPDATE AND OUTLOOK (CONTINUED FROM PAGE 3)

Easing and low interest rates did stabilize the financial system after the credit crisis, the current monetary policy of 0% interest rates is not effective. The root problem is that it transfers wealth from savers to the primary source of borrowers – governments. A low interest rate environment reduces investment and spending by the public and therefore reduces economic activity and growth.

Whatever the outcome of the election, there should be a marked economic improvement under either candidate ...

Whatever the outcome of the election, there should be a marked economic improvement under either candidate as both favour increased spending in "good debt" projects such as infrastructure (roads, bridges, water and sewage, electrical grid, etc.) which are desperately needed in the U.S.. This may also be a positive for many Canadian businesses and families as Canada's Keystone energy pipeline project may finally be approved after it has been stonewalled for almost 8 years by the current U.S. administration. Infrastructure like pipelines are the best way to transport oil and natural gas, as these are significantly safer for the environment and the public than rail.



For Canada, the recovery of the oil industry may be a key element in returning to more normal economic growth. Since the oil price drop, global energy capital expenditures and thus drilling and exploration for oil have also dropped significantly. While inventories are still high, they are declining. U.S. oil production has dropped from 9.2 million to 8.5 million barrels a day. Around the world, natural decline rates and a lack of new wells will reduce future production as world consumption continues to grow. Oil markets are moving towards a balance between demand and supply. However in the \$50 to \$60 range the U.S. shale producers will experience good profit margins and new supply will come onto the market. While we expect Canadian producers to be able to implement cost reductions forced by recent low prices, the significant carbon tax imposed by our Federal government will provide an additional economic drag for these companies and the provinces of Alberta and Saskatchewan.

The Canadian dollar is likely to remain weak, if not weaker, against the U.S. dollar particularly with the expected U.S. Federal Reserve rate increase. This is a definite positive for the Canadian manufacturing sector and will help other industries as well.

While financial markets have performed very well since the Great Recession in 2008, looking ahead we can see challenges to the returns of many asset classes.

While financial markets have performed very well since the Great Recession in 2008, looking ahead we can see challenges to the returns of many asset classes. With interest rates beginning to bottom around the world, any material rate increase would place stress on financial assets such as bonds and stocks as well as on many governments to service their debts. In equities, we continue to emphasize exposure to securities that display lower volatility than the overall market. We especially see risks in mid and long-term bonds, as when interest rates begin to rise, the value of these investments will fall. Thus, we are placing significant emphasis on taking advantage of opportunities in alternative asset classes through the investment with institutional-quality asset managers in areas such as direct lending, hedge funds, private equity and real estate.

David Cockfield, MBA, CFA
Managing Director & Portfolio Manager



and the asset classes and markets you will allow your portfolio to be invested in. A written investment policy statement is then provided as a best practice which documents all of the above.

Your Advising Representative is then authorized to make all of the necessary investment decisions (within the agreed upon guidelines) and will not require consent for individual transactions. This service, which also consists of regular communication through methods which best suit your family, be it in-person meetings, web cam meetings, telephone conversations, emails or newsletters form an important part of the ongoing relationship. What should be understood is that this ongoing relationship is of prime importance as conditions within your family change. The investment objectives and strategy may need to change as well to provide a tailored fit.

Northland Wealth is an internationally recognized multi-award winning wealth manager which provides outsourced CIO and family office services to successful business families and their members. The firm was built with the purpose of advising families in an unconflicted manner on their financial and human capital, with the objective of preserving and growing the wealth over generations.

Thought Leadership

As a thought leader, members of Northland Wealth are invited regularly to speak at industry events around the world to share our insights. Attendance of these invitation only events translate into multiple benefits for our clients as we engage with our global peers through meaningful dialogue to learn their views and share best practices in the management of family wealth. Also, these events provide the opportunity to be introduced to institutional-calibre alternative investment opportunities that are available only to sophisticated institutional investors. This difficult to achieve access to high quality alternative investments and exclusive, unique insight into the management of wealth are just a couple of things that differentiate Northland Wealth and its professionals from typical advisors at bank brokerage and investment counselling firms. Let us share a few of the events we have recently spoken at.

Earlier this month, **Arthur Salzer** presented "Headwinds: The End of the 30 Year Bull Market" at the Global Investment Summit held in Montreux, Switzerland. This exclusive 3 day event was moderated by Todd Benjamin, the former Financial Editor of CNN International. In attendance were Chief Executive Officers and Chief Investment Officers of family offices, pensions and sovereign wealth funds from Europe, Asia, the Middle East and North America.

Later in October, Arthur will share his unique experience and insights along with moderating a panel discussion entitled "Opportunistic Investing with Alternatives" at the **Private Wealth Canada Forum** to be held in Toronto. This flagship event will be attended by many of the leading advisors from private banking, wealth management and family offices from across Canada.

Lastly, Jerry Olynuk, of Northland Wealth's Calgary office will be participating in the lead panel discussion "How to Structure Your Family Office" at the **Family Office and Private Wealth Management Forum** which is held annually in Napa, California. As one of the West Coast's premier events, the forum is attended by many of the top Silicon Valley family offices.

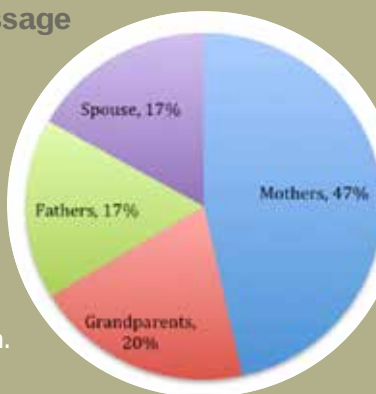
PRESERVING A LOVING CONNECTION

Unfortunately at some point we all have lost, or will lose, someone near and dear to our heart. This is the driving force behind Estate planning, which ensures the effective and efficient transition of wealth from one person to another. However, this planning process often ignores or even forgets about the salient points that we only realize long after the planning and passing has occurred. By nature we all focus on the dollars and cents. There is a strong argument to not only focus on the financial well-being of those left behind, but also the emotional toll it can take on those who have lost.

A recent survey published by Beyond Estate Planning highlighted the need for us to not only ensure we have proper legal documents in place, but also to make sure we convey our thoughts to our loved ones in a personalized manner.

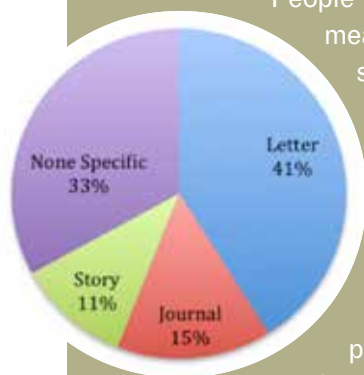
More than half of those surveyed were not looking for a specific personal message from any person.

This makes sense as we usually have multiple people in our lives who hold significant importance. The pie chart shows the distribution from those who did want to hear from a specific person.



Most People were hoping for a letter written directly to them

People emphasized the importance and meaning of having specific messages sent their way via a hand written letter or letters.



Messages that are personalized, as opposed to being general, are much more likely to act as an interpersonal connection that otherwise would have been missed. The fact that people were asking for this speaks to the attachment nature of grief and loss.

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IT'S MORE THAN KEEPING UP WITH THE JONESES



The **Singularity University Global Summit** brings together some of the world's brightest minds, showcasing the world's most promising social impact tech companies. Teaming up with global Development Organizations, NGOs and Corporate Partners, it brings attention, connections, opportunities, resources, and recognition to the companies and projects they feel are capable of making the most significant positive impact through their use of exponential technology.

Below is a summary of a number of interesting thoughts from the Summit:

Rise and Fall: Software and operating platforms will disrupt most traditional industries in the next 5 to 10 years. Uber is just a software tool. It doesn't own any cars, but is now the largest taxi company in the world. Airbnb is the largest hotel company in the world, although it doesn't own any properties.

Artificial Intelligence: IBM's 'Watson' already helps nurses diagnose cancer four times more accurately than doctors. Facebook now has pattern recognition software that can recognize faces better than humans. By 2030, computers will have become 'more intelligent' than humans.



Self-Driving Cars:

In 2018, the first self-driving cars will be offered to the public. At present, 1.2 million people die each year in car accidents worldwide. There is one accident every 100,000 km. With autonomous driving, that will drop to one accident every 10 million km. It will save a million lives each year.

Electric Cars: These will become mainstream around 2020. Cities will be cleaner and quieter because all cars will run on electricity, which will also be less

expensive. Most traditional car companies may become bankrupt by taking the evolutionary approach and attempt to build better cars, while tech companies such as Tesla, Apple and Google will take the revolutionary approach and build computers on wheels.

Insurance Companies: They will experience increased difficulty, because without accidents, insurance will become one hundred times cheaper. Car insurance business models will disappear.

Real Estate: Real estate values based on proximities to work places, schools or other desirable attributes will change. If people can work effectively from anywhere or be productive while commuting, they will move out of cities to live in more rural surroundings.

Solar Energy: Production has been on an exponential curve for 30 years, but is only now having a substantial impact. Last year, more solar energy was installed worldwide than fossil fuels. The price for solar energy will drop so much that almost all coal mining companies will be out of business by 2025.



Water for All: With cheap electricity comes cheap and abundant water. Desalination now only needs 2kWh per cubic metre. There is not scarce water in most places, only scarce drinking

water. Imagine what would be possible if people could have as much clean water as they wanted for virtually no cost.

Health: The Tricorder X price will be announced this year. This medical device, which is named after the "Tricorder" from Star Trek, works on a cell phone and scans a person's retina, takes a blood sample and measures breath. It then analyses 54 biomarkers that can identify nearly any disease. The Tricorder X will be inexpensive, so in a few years, everyone on this planet will have access to world class, low cost medicine.

3D Printing: The price of the cheapest 3D printer came down from \$18,000 to \$400 within 10 years. In the same amount of time, it also became 100 times faster. All major shoe companies started printing 3D shoes. Spare airplane parts are already being 3D printed in remote airports. The space station now has a printer that eliminates the need for the large amount of spare parts they needed in the past. At

the end of this year, new smart phones will have 3D scanning possibilities. You can then 3D scan your feet and print your perfect shoes at home. China has already 3D printed a complete 6-storey office building. By 2027, 10% of everything produced will be 3D printed.

Business Opportunities: If you think of a niche you



want to enter, ask yourself, "In the future, do I think this will exist?" If the answer is yes, then work on how you can make that happen sooner. If it doesn't work via your phone, forget the idea. Most ideas

designed for success in the 20th century are likely doomed to fail in the 21st century.

Work: Seventy to eighty percent of jobs will disappear in the next 20 years. There will be many new jobs, but it is not clear whether or not there will be enough new jobs in such a short time.

Apps: There is already an app called "moodies" which can tell the mood a person is in. By 2020 there will be apps that can tell by facial expressions if people are lying. Imagine a political debate where views know whether or not participants are telling the truth!

Longevity: The average life span of humans increases by 3 months per year. By 2036, the average lifespan will increase by one year each year. Humans may live well beyond 100 years.

Education: The cheapest smartphones already sell for \$10 in Africa and Asia. By 2020, 70% of all humans will own a smartphone. That means everyone will have much the same access to world class education. Every child can use Khan Academy for everything he needs to learn at schools in First World countries. Further afield, the software has been launched in Indonesia and will be released in Arabic, Swahili and Chinese languages this summer. The English app will be offered free, so that children in Africa can become fluent in English within half a year.

As always, times are changing, but now at a much faster rate than ever imaginable!

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



Autumn In The Northland (photo on page 6)

By: Franklin Carmichael

This outstanding creation by Franklin Carmichael is such a well-balanced painting. The soft hazy sky and the background hills stand firmly in the distance and perfectly push the foreground hills and trees into the main focus. The birch logs on the lower right guide the eye gently toward the true focal point of the painting; the overall effect being a calming and relaxing feeling.



YEAR END TAX PLANNING TIPS (CONTINUED FROM PAGE 6)

The Relationship was the most important topic of conversation

Survivors were interested in knowing about history and life experiences. However, the most striking and consistent message received from respondents was that they wanted to have evidence speaking to the importance of the relationship.

They also wanted to hear expressions of love from the deceased towards them. It was touchingly reiterated over and over again by many respondents that the simplest and most important written content they could receive from a loved one was, "I love you, I always have, I always will." Statements such as this, as simple as they are, as obvious as they may seem, as unnecessary to write as they may appear, are of the utmost importance in the absence of physical life, when such utterings can no longer occur.

People suggested that they wanted to know that the life of the deceased was enriched by their presence. They wanted to know that they contributed to growth and happiness - to feel as though they played an important role in their loved one's life.

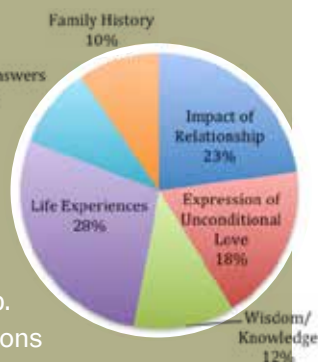
Our memories cannot be fully trusted to be accurate. However, written work can act as a more reliable witness to what existed then, so that it may in some way continue to exist today.

Some People Already Have Written Keepsakes

Many people spoke about how their loved ones' journals or letters brought them comfort, a sense of connection, and wisdom. Every single respondent spoke of how these items were amongst the most treasured of all the things they had.

A few moments of your time may provide an eternity of comfort to someone you love.

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



The Wright Brothers

by David McCullough

In this "enjoyable, fast-paced tale", master historian David McCullough "shows as never before how two Ohio boys from a remarkable family taught the world to fly" and "captures the marvel of what the Wrights accomplished". He draws on the extensive Wright family papers to profile not only the brothers but their sister, Katharine, without whom things might well have gone differently for them. Essential reading, this is "a story of timeless importance, told with uncommon empathy and fluency...about what might be the most astonishing feat mankind has ever accomplished...*The Wright Brothers* soars".

Robinson Crusoe

by Daniel Defoe

Hailed as the first great English novel, Robinson Crusoe spawned legions of imitations, none of which surpass the original. All readers with a taste for adventure will relish this inexpensive edition of one of the most popular and influential books ever written.



NORTHLAND
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8965 Woodbine Avenue, Markham, Ontario L3R 0J9

Southcentre Executive Tower, Suite 610, 11012 MacLeod Trail S.
Calgary, AB T2J 6A5

(888) 760-6596 (NLWM) | www.northlandwealth.com



THE BLACKROCK AWARD FOR PORTFOLIO /
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