

# WEALTH

FINANCIAL AND LIFESTYLE PERSPECTIVE FROM NORTHERN TRUST

Spring 2010

## Mind Games

New Considerations  
for Nonprofit  
Board Members



Concierge Services

Emotions can affect your  
investment decisions. Learn  
how to balance their effect.



Northern Trust

# CONTENTS

SPRING  
2010

# ON THE WEB

EXCLUSIVE AT [NORTHERNTRUST.COM/WEALTH](http://NORTHERNTRUST.COM/WEALTH)



## Planning for the Unexpected

Despite your best-laid plans for how to distribute your wealth to your heirs, sometimes events happen that are beyond your control. How can you best prepare for unpredictable factors? Learn how in this Web exclusive article.



## Which News Do You Want First?

The global recovery feels different depending on where you are. In this two-part video, Northern Trust's award-winning Chief Economist Paul Kasriel takes a look ahead at the economic recovery – the hopeful signs and the hidden landmines.

**Part I:** Prospects for Jobs and Global Growth

**Part II:** Prospects for the Financial Sector, Real Estate and Long-Term Growth

## [FEATURES]

- 6** **Mind Games**  
It's nearly impossible to completely remove the emotional component from any investment decision. But a growing field of study, behavioral finance, may help investors identify their emotional triggers and minimize the negative effects on their portfolios.
- 10** **On the Board**  
Serving as a board member for a nonprofit organization can be very rewarding. But it's important to be sure you understand — and are comfortable with — their expectations before you accept.
- 14** **Educating the Next Generation**  
Most affluent parents face a similar challenge: discerning how and when to teach their children about managing family wealth. According to our experts, helping children understand the principles of finance and how inherited wealth will change their lives should begin at an early age.

## [DEPARTMENTS]

- 2** **Information Exchange: Northern Trust's Minerals Management Group**  
Learn about the unique strategies this group uses to manage these unusual assets.
- 4** **Wealth Management Perspectives: The Year of the Roth IRA**  
New tax laws allow affluent individuals to take advantage of a Roth IRA. Is a conversion right for you?
- 18** **Inspired Living: At Your Service**  
Northern Trust Concierge Services can help you maintain balance in your busy life.

## [NEWS & NOTES]

### Northern Trust Ranked Number 1 Superregional Bank by *Fortune* Magazine

*Fortune* magazine ranked Northern Trust number one in the Superregional Banks category in their 2010 list of the "World's Most Admired Companies." The ranking was based on nine key attributes: innovation, people management, use of corporate assets, social responsibility, quality of management, financial soundness, long-term investment, quality of products/services, and global competitiveness. To learn more, visit [northerntrust.com/wealth](http://northerntrust.com/wealth).

### ALSO IN NEWS & NOTES ON THE WEB:

- Access Northern Trust's "Wealth Transfer Strategies for a New Decade" series
- Read about the newest member of Northern Trust's Board of Directors

Published by  
**Northern Trust**  
50 South La Salle Street  
Chicago, IL 60603  
866.296.1526  
[northerntrust.com/wealth](http://northerntrust.com/wealth)  
[wealthmagazine@ntrs.com](mailto:wealthmagazine@ntrs.com)

The views, opinions and investment information expressed are those of the individuals noted herein, do not necessarily represent the views of Northern Trust or any other person in the Northern Trust organization and are subject to change based on market or other conditions. The material is provided for informational purposes only and should not be construed as investment, tax or legal advice or a recommendation to buy or sell a security. Northern Trust disclaims any responsibility to update such views. Northern Trust does not guarantee that the information supplied is accurate, complete or timely and does not make any warranties with regard to the results obtained from its use. Northern Trust does not guarantee the suitability or potential value of any particular investment or information source. You should consult your investment, tax, legal and accounting professionals before taking any action.

To ensure compliance with requirements imposed by the Internal Revenue Service, we inform you that any tax information in this magazine is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

Northern Trust banks are members FDIC. © 2010

# Northern Trust's Minerals Management Group



**JOHN M. COUZENS** is the managing director of Northern Trust's Specialty Assets and Asset Advisory Services Group, which is responsible for clients' non-financial assets and unregistered securities. The Group has 65 professional staff and over \$6 billion in client assets, mostly held in trust. John holds an M.B.A. from the University of Chicago and a B.A. with Honors from Villanova University.



**BILL WEEGE** is manager of the Oil, Gas and Minerals Management Division based in Dallas. Bill earned an M.S. in Management and Administrative Sciences from the University of Texas at Dallas and a B.S. in Petroleum Engineering from the Colorado School of Mines. He is a Registered Professional Engineer in Colorado and California.

*Wealth* spoke to Bill Weege, oil, gas and minerals manager for Northern Trust in Dallas, and John Couzens, managing director of Asset Advisory Services in Chicago, about the unique services the group provides and the strategies its team uses to manage these special assets.



**Wealth:** What is the group's objective?

**Bill Weege:** Our primary objective is to manage oil, gas and other mineral assets that clients have either in trust or in agency accounts. This includes everything from collecting revenues, paying operating expenses and providing monthly reporting to coordinating environmental assessment of working interest properties

and evaluating and negotiating leases. We also handle farmouts, gas purchase contracts and other industry agreements, as well as valuing mineral assets for sales and tax purposes.

**John Couzens:** It's important to understand our role in the context that Northern Trust's client relationships include helping families manage their balance sheets. Many of our

clients have unique assets such as investments in oil and gas properties, and our experience is that clients value our support and guidance. We tailor our responsibility to clients' values and priorities by developing personal relationships with clients, and continually considering and doing what is in their best interest. We work to understand each client situation and stand prepared to navigate various market cycles and economic conditions. Our depth of resources and specialized skills are critical to successfully dealing with the complexities and technical requirements of the oil and gas business.

**What makes the oil and gas team at Northern Trust different?**

**Weege:** Our practice is staffed with experienced oil field professionals, including a geologist and a registered professional engineer. The team currently manages more than 16,000 properties. People are often surprised when they get a call from a bank with professionals who are so well-versed in the industry. Our experts have all worked in the industry, so we understand how it works, we know the risk and how to manage it, and we do that on behalf of our clients to maximize the value for them. So it's a very different experience than with most other banks.

**What strategies do you use to manage these assets?**

**Couzens:** We manage day-to-day operations of mineral assets similar to a small production company, yet with the industry perspective that comes with the scope and scale of a larger organization and a multi-discipline team. We work with a wide variety of types of clients — from individuals to families to family offices. Sometimes these assets are held in conjunction with privately held businesses or family foundations. As part of managing these specialized assets, we develop personal relationships with the individuals or families who own these properties. We strive to understand their estate planning goals, the wealth transfer techniques they are using and the investment strategies they have in place to help make decisions about capital resource allocations, development opportunities or divestitures. We look for opportunities to facilitate growth with individual family members as well as a multi-generation understanding of these family assets.

**How does market volatility affect these types of assets?**

**Weege:** Traditionally, oil and gas prices have a lot of volatility, but these assets also frequently serve to balance volatility

in more traditional investments, such as stocks and bonds. While the volatility we've experienced in the stock markets over the past two years is unprecedented, it has validated the value of hard assets like oil and gas for families that are comfortable investing in these types of assets.

These are assets that won't disappear. Even if your property is not producing at its full potential, it still has economic value. With a stock investment, the company could go bankrupt, leaving your investment worthless.

**Can you share any specific examples of how clients have benefited from partnering with you?**

**Couzens:** Recently, a California woman's husband died unexpectedly, and as a couple, they had a long history of investing in oil and gas. They both knew the business and the properties very well. When he died, she was charged with the responsibility alone. One day, she was hit with a \$200,000 request for capital from a major oil company on a development well. It was at that point that she realized she wasn't equipped to evaluate the request. Fortunately, she was familiar with Northern Trust's expertise, so she called us to help. We entered into an advisory relationship, and today we act as her advisor and help her evaluate these types of situations as they come up with her properties.

**How else have you helped families manage these assets?**

**Weege:** We recently partnered with a family of five brothers who were managing these assets independently, and we brought them all together as one. To maximize their return and to make the ownership of these assets simpler, we recommended putting them into a limited liability company. This way, the family would have a smoother transition after the death of any family members and all of the assets wouldn't need to be retitled. We're always thinking of ways to assist families now, so that when these properties pass on in the future, they don't have to spend additional funds or dilute the assets.

**Couzens:** When you think about our main mission as an organization, in terms of understanding a family's priorities and goals over multiple generations, it falls into three buckets: evaluating and planning, growing and managing, and protecting and transferring. And this is what Bill's talking about. Having an intimate understanding of the assets and how the ownership is structured is critical to providing that kind of advice and guidance. And that's what we do best. ■

# 2010: The Year of the Roth IRA

New tax rules have given more people access to a Roth IRA, one of the most effective vehicles in which to accumulate money for retirement or heirs. If you determine that it pays to convert, the following strategies can help you maximize the benefits.



New tax laws for 2010 provide a unique opportunity for affluent individuals to convert to a Roth IRA, a move that can potentially allow you to accumulate more wealth for your retirement or heirs than your current retirement plan.

Yet while converting can be rewarding, it's not for everybody. Mary Ann Spangler Sisco, senior wealth strategist with the Wealth Strategies Group for Northern Trust, outlines four main factors to weigh when considering a conversion to a Roth IRA:

**Liquidity:** Do you have enough assets outside of the IRA to pay the conversion income taxes?

If you have to use assets in the IRA to pay the taxes due at conversion, it may not make sense to convert because you are going to lose tax-free growth on the amount you pay in taxes. In this situation, a partial conversion may still make sense, up to the amount of assets you have available outside of the IRA to pay the taxes.

**Future tax rates:** If you think you (or your heirs) will be in the same or a higher tax bracket when IRA distributions are made, converting now lets you pay taxes in a lower tax bracket.

**Time horizon:** If your time horizon is not sufficiently long enough — generally at least seven years before withdrawals are made —

the tax-free earnings in the Roth IRA are not going to have enough time to grow to be able to offset the taxes you pay.

**Intended beneficiaries:** Who will receive the IRA distributions? If you need the money for your own retirement and you have a short time horizon, converting to a Roth IRA likely won't make sense. However, if you don't need the money in retirement and intend the money to benefit children or other heirs, it most likely will pay to convert.

## Make the Most Out of Your Conversion

It's not merely a question of whether you should convert to a Roth IRA. Rather, if you do convert to a Roth IRA, how can you do so in the most tax-advantaged way? There are several specific planning strategies that can enhance the conversion benefits.

**Charitable planning:** If you're considering a Roth IRA conversion because of the potential benefits to your family or heirs and also want to make charitable donations, there are ways to combine these goals and reduce the cost of the conversion. An example would be to set up a charitable lead trust where the lead annuity recipient is a donor advised fund or private foundation, Sisco says.

"You're able to take an income tax deduction this year for the contribution to the charitable lead trust, potentially offsetting the entire income tax due as a result of the conversion," she says. "You're also benefitting your chosen charitable vehicle (the donor advised fund or private foundation) and you're benefitting your heirs because they get the appreciation on the assets at the end of the term."

**Investment opportunities:** Professional investment advice pre- and post-conversion can add significant benefits. Pre-conversion advice on asset allocation and asset location can help you isolate market impact for targeted recharacterization consideration.

After conversion, it's important to look at whom your money is intended to benefit and allocate assets accordingly. For example, if you don't need the assets in the Roth IRA for your retirement, then your investment horizon would shift to align with that of your heirs, so you would likely want a more aggressive portfolio in regards to asset allocation.

**Recharacterization:** What happens if the value of your IRA decreases significantly after you convert? You can recharacterize, which allows you to essentially undo the conversion and move your money back into a traditional IRA, and avoid paying income taxes on the higher amount. If you convert to a Roth IRA in 2010, you have until October 15, 2011, to recharacterize. This time is useful, Sisco says, because you can use this period to evaluate how the market actually performs and possibly

## New IRA Conversion Rules Kick in for 2010

For high-income wage earners, the government for the first time has lifted IRA income restrictions, allowing you to convert your traditional IRA or other eligible rollover distribution from a qualified retirement plan to a Roth IRA as long as you pay the resulting income taxes. For 2010 only, you can elect to either pay all of the tax in 2010 or defer paying these income taxes and spread them evenly over 2011 and 2012. Also, filing status restrictions are lifted for people who are married but filing separately, allowing these individuals to convert to a Roth IRA for the first time.

These new laws are important based on the fundamental advantages of a Roth IRA:

- Qualified distributions are income tax-free as long as they are made after the fifth year of Roth IRA creation and are paid out after age 59½ or due to a qualified reason;
- There are no required minimum distributions over the account owner's lifetime; and
- Greater wealth is accumulated in a tax-free environment, created with after-tax dollars.

make a retroactive decision to avoid paying unnecessary income taxes. You can always reconvert these assets back into a Roth IRA 30 days later (or in the next tax year) if you deem it appropriate, although after 2010, you will not be able to spread out the payment of income taxes between 2011 and 2012.

To maximize the recharacterization opportunity, creating multiple traditional IRAs prior to the Roth conversion — such as focusing on non-correlated asset classes — is especially beneficial. With this situation, Roth IRAs that decline in value can be recharacterized — avoiding the higher tax bill — while assets that increased in value can remain intact, resulting in paying taxes on the lower conversion value.

## Not One-Size-Fits-All

Converting to a Roth IRA is not a one-size-fits-all situation, and you should sit down with your advisor to determine if converting is the right strategy for you. "I think anybody who has a retirement plan, either a traditional IRA or a qualified retirement plan from a previous employer, should at least look at a Roth IRA and see if it makes sense for them," Sisco says. ■

Emotions can trip up any investor by **stoking a fear of loss — and fears of losing out.** The field of behavioral finance helps investors understand how emotionally driven decisions happen and the potential implications.



In an ideal world, every financial decision you make would be based on extensive research and thorough analysis. But let's be honest. Purely objective assessments aren't that common; emotions can, and do, routinely skew your perspective.

Consider your portfolio over the past few years. How many times have you called your financial advisor about a stock, bond or mutual fund based on a "feeling," not fundamentals? When's the last time a tip from a friend led you astray from your well-intentioned investment strategy?

To be fair, it's nearly impossible to completely remove the emotional component from any investment decision. Yet a growing field of study — behavioral finance — is focused on identifying the potential pitfalls of the human psyche to help investors minimize the effect emotions can have on their portfolios.

"As soon as money is committed to a financial asset, so, too, is an emotional stake," says Marc Borghans, a senior portfolio manager for Northern Trust's Wealth Advisory Services. "Recognizing that, investors will more likely avoid flawed decisions and achieve their financial goals when they become aware of their own behavioral biases and mistaken beliefs and work to overcome them as much as possible. In the process, a conscious effort to keep crowd emotion at bay may come in handy."

#### A Multifaceted Field

Studied within academia since the early 1970s, the field of behavioral finance has gained significant traction within the larger investment community over the past dozen or so years. The scope of the late-1990s technology bubble — and its sharp implosion — and the degree of the recent housing bubble, which nearly took down the world's financial system as it collapsed in 2008, helped underscore the danger of rallies fueled by irrational behavior.

# Mind GAMES

Philosophically, behavioral finance is considered a counterpoint to the efficient market hypothesis, which holds that all financial market participants are rational and a security's price at any given time fully reflects all available information. Although such thinking dominated financial theory for decades, the booms and busts of recent years have prompted many to question its validity.

While presuming that even near-perfect information fails to explain day-to-day price moves in stocks, bonds and other investments, behavioral finance researchers have identified a number of behavioral patterns among investors. Some of the more prevalent ones include:

**Exuberant Extrapolation:** Because individuals want to believe in the durability of broad market trends, they tend to overemphasize recent experiences and extrapolate them into the future. Yet such focus can foster a herd mentality that funnels too much money toward stale trends and an increased likelihood of subpar returns in the future. “The optimism that prices will keep going up can lead to buying at the peak,” says Yale University Professor of Finance Nicholas C. Barberis.

**Brazen Overconfidence:** Very few people like to admit that they're wrong. At the same time, many investors frequently shrug off new insights, believing in the superiority of their personal viewpoints. Barberis says such overconfidence frequently manifests itself in brokerage trading accounts, where research has shown that people who trade the most tend to be the worst performers. These investors would do much better if they cut way back on their trading, or didn't trade at all.

**Mistaking the Noise for the Signal:** To deal with an information overload, people tend to revert to mental shortcuts in making judgments. While rules of thumb may be helpful in keeping perspective and instilling a sense of control, Borghans says, chances are that oversimplification, stereotyping and readily embracing information that confirms investors' pre-existing beliefs and ignoring evidence that contradicts their views augment investment mistakes.

**Putting Off Pain:** No one enjoys getting hurt. In the investment arena, this frequently leads to a refusal to sell losing positions, because selling is seen as an acknowledgment of a poor investment decision, Barberis says. Instead, he adds, investors prefer to sell winners to lock in a positive return and generate a “nice” investment story that is fun to think about and share with others. Meanwhile, laggards are pushed to a corner of the portfolio, where they frequently continue to falter and weigh on true returns.

#### Steeling Yourself for Emotional Shortcomings

Experts in behavioral finance are quick to acknowledge that conquering one's emotions is far from easy. The first practical step to minimize the effect of emotions on our investment decisions is simply becoming aware of the mistakes that can result from internal biases, Barberis says. Once that awareness exists, investors can take a stab at exploring contrarian perspectives and challenging the reasoning behind any potential investment decision.

“If you're about to buy a stock, force yourself to write down three reasons why it's not a good idea to make that investment. If you're about to sell, write down three reasons why you should keep the investment,” Barberis says. “Such an exercise forces you to look at the other side of the equation, and see why the opposite of what you're thinking could be true.”

Frank discussions with your financial advisor are also valuable in keeping your finances on track. Indeed, part of Northern Trust's wealth management philosophy is rooted in the desire to help shield clients from the effects of acting on their emotions, according to Borghans. Interestingly, to help accomplish this, Northern Trust borrows from another behavioral pattern — mental accounting, which describes people's propensity to mentally categorize assets into noninterchangeable compartments relating to intended use or source of those funds.

More specifically, Northern Trust investment advisors aim at creating a dynamic wealth management plan around your personal life goals, which likely fall into the following categories:

- Aspirational goals, which may include starting or funding a new business or spending a year traveling around the world.
- Philanthropic goals, which may include supporting core causes or creating a family foundation.
- Legacy goals, which may include transferring wealth to another generation and educating your heirs about the responsibilities of wealth.
- Lifestyle goals, which may include maintaining your current lifestyle, making a major purchase or covering college education costs for your children or grandchildren.



## Know Your Type

Understanding your investment personality type can help you be aware of your investment tendencies. In fact, once you've identified the habits you're prone to and discussed them with your investment advisor, you're better equipped to counteract them by building safeguards into your investment strategy. With your emotions in check and your advisor providing a helpful counterpoint when needed, you might feel less like an investing prodigy, but your portfolio's performance may say otherwise. To help determine where you fit in, here are a few common investor types:

#### Investor Type #1: The Headliner

Some investors can't resist a good story. They hear everyone talking about a hot new tech stock or an exciting start-up, and they rush to join in the fun — often at the expense of careful review.

#### Investor Type #2: The All-Day Trader

Investors like to earn money, sure, but the thrill of victory is no match for the pain of loss. That means that for investors who keep a close eye on the stock ticker, monitoring the market is likely to cause undue anxiety, even when their portfolios are performing well.

#### Investor Type #3: The Talent Scout

Maybe you've discovered a miracle product, and want to jump on its manufacturer's stock before the gizmo becomes a retail sensation. Or you have enough business experience to recognize a superstar management team and when you

see one, you want in. Don't forget, you still need to look carefully before you leap.

#### Investor Type #4: The System Player

System players develop complex formulas that they rely on totally when evaluating stocks. They rely on their mathematical model, only to be foiled by some chance event. No predictive model is foolproof, and investors who convince themselves otherwise are vulnerable to unexpected results.

#### Investor Type #5: The Loyalist

After the collapse of several high-profile, high-flying companies, you'd think people would remember the importance of maintaining a diversified portfolio and not depend too much on one stock. But people do just that, because familiarity with a particular company — often the investor's employer — breeds trust.

“Importantly, identifying and understanding clients' unique life goals and commitments ahead of time increases the likelihood of attaining them,” says Borghans. “With this in mind, categorizing and prioritizing goals and liabilities properly tends to illuminate clients' ability to assume investment risk. Subsequently, in our portfolio structuring and investment strategy, we translate those life goals into a discrete set of distinct investment objectives, which may include capital preservation, cash-flow generation, market-based growth and opportunistic wealth creation. Finally, we select appropriate investment vehicles to match the objectives and do so in a tax-friendly way. Hence, the best practical asset mix follows logically from a goals-centered ‘bucket’ approach and is unique to each client situation.”

By changing the investment discussion from specific securities' prospects to the merits of goals and objectives — whether short-, mid- or long-term — Northern Trust has found that investors are less likely to fixate on the market's day-to-day noise, which can easily sway emotions. “If you know where you are going and recognize the investment path you are travelling while keeping return expectations realistic, you tend to enjoy a calmer, more disciplined state

of mind. This, in turn, allows you to stay the course, no matter how the market winds are blowing,” Borghans says. “At the end of the day, it is our clients reaching their life goals that determines our investment success.”

#### Keeping Your Cool

With hindsight, periods of excessive market irrationality are easy to spot. In the midst of the fever pitch, however, arguments on both sides of the debate tend to prove quite compelling.

“In 1999, all the talk was how the new technology of the Internet was truly transforming how business was done. In 2005 and 2006, as housing prices kept climbing, people argued that we were running out of land and home prices would always go up,” Barberis says. “Part of the problem with irrationality is that it is difficult to prove its existence with certainty.”

Every investor is prone to emotional swings — even experienced professional money managers occasionally succumb to an internal bias. But as behavioral finance pushes further into the mainstream, such patterns will likely become less of a mystery and more of a key element in savvy investors' decision-making processes. ■

# ON THE BOARD



Substantial donors are often asked to serve on the boards of nonprofits they support. And being a board member for a nonprofit organization you care about can be very rewarding. Board memberships also carry significant responsibilities and can potentially expose you to liabilities, **so a little research is in order before you accept a position.**

When a nonprofit organization you support and care about asks you to join its board of directors, it can be a gratifying, exciting moment. The group wants your advice and your leadership, and you're probably eager to serve.

Your enthusiasm is well-founded: Board service can be deeply rewarding. Membership often also entails a substantial commitment of time and money, and can expose you to liability the organization incurs. So before you accept the invitation, it's wise to ask several questions to ensure that joining the board is the right move.

**What's your role?** The first step is to determine the expectations that accompany board membership. Many organizations, for example, expect their board members to make an annual financial contribution and attend regular meetings. Once at the meetings, you may be expected to know the intricacies of the field in which the nonprofit operates and provide advice accordingly. Are you willing?

"Too many people join boards without finding out what's expected of them," says Paula Goedert, a partner with the Chicago law firm Barnes & Thornburg and a specialist in nonprofit issues. "They often join thinking that the board provides an opportunity for self-aggrandizement or business development, instead of focusing on what the organization will expect from them as a board member. The question to ask yourself is, 'Do I have the commitment and ability to make a contribution?' If you're going to attend

the social functions and snooze through the important parts, it's not worth it."

To learn what's expected of you, read the board's bylaws and the organization's mission statement because your overarching fiduciary duty to the organization will be to advance its mission. Also talk to some current board members about their experiences.

**Will you be expected to provide professional advice?** This issue is particularly relevant if you're an attorney or financial professional being asked to serve at smaller organizations that can't afford or simply doesn't want to pay for outside legal or financial counsel. The organization may hope to get advice from you in your professional capacity, but this is dangerous for a couple of reasons.

First, your specialty may not (and probably doesn't) match up with the organization's needs — a personal investment manager may not have the training or experience running an institutional investment fund, for example.

"A foundation or endowment has a much longer lifespan than an individual client, so the way to approach them is different from how someone would manage their own funds," says Helen Nugent, senior wealth strategist for Foundation and Institutional Advisory Services at Northern Trust. If you do end up offering professional advice to the board, Nugent suggests requiring a clear set of guidelines, sticking to them and documenting your steps to demonstrate that you are adhering to policy.

"The question to ask yourself is, 'Do I have the commitment and ability to make a contribution?'"

— Paula Goedert,  
Barnes & Thornburg, Chicago



## Keeping Perspective for the Long Run

The recession and market volatility have taken a bite out of many nonprofit endowments, causing financial committee members at some of these organizations to question their investment strategies. Not so fast, warns Helen Nugent, senior wealth strategist for Foundation and Institutional Advisory Services at Northern Trust.

According to Nugent, "A lot of organizations have been blindsided with the market downturn — they've lost value in their portfolios, they're afraid, and they're wondering 'Do we need to make a change?' And they're reaching out, sending out requests for proposals, trying to make sure they are up to date and have the best thinking. Those are good things." It's also wise, however, to take a long view and consider an investment policy in the same manner as a business plan: formal, long-range and strategic. It should work for you in good times and bad.

Nugent recommends that organizations establish a clear investment strategy that carefully defines things such as spending policies, fees and cash flow parameters, and the responsibilities of finance committee members and external advisors or consultants. In other words, it all comes down to good governance, policies and procedures, and not deviating from the structure that the board/committee has put in place. With that sort of framework, an organization should be positioned to stay on track regardless of the market's fluctuations.

The second issue is that by offering a professional service, you confuse your role. "Even when you're very qualified, this is still dangerous. It's hard to know which hat you've got on," says Betsy Schmidt, owner of Southpoint Social Strategies in Williamsburg, Va., a nonprofit management consulting firm, and also a visiting professor at Vermont Law School. She uses the example of a lawyer providing legal advice to a board. If you get in trouble, your legal malpractice insurer might refuse to pay by claiming you were acting as a board member, while the board insurer might make the opposite claim.

A related danger is conflict of interest. As a board member, take extreme care if your company does business with an organization where you serve on the board. You'll need to demonstrate that your firm did not collect a premium price or gain an advantage because of your position.

**What protections does the organization offer?** Board members can be held financially liable for claims against the organization. In practice, this concern is somewhat counter-intuitive, because nonprofits whose work runs the greatest risk of liability are the most likely to have director's insurance or offer bylaw protection that indemnifies board members. In contrast, smaller nonprofits without obvious liability exposure are more likely to not offer this protection.

"If you're on a hospital board, could you be held personally responsible for medical malpractice? Not likely. But if you're involved in the operations of a theater troupe or an art gallery, and someone is injured, it's possible that a court could turn to the board members and say, 'You should have known better,'" — and hold you personally liable, says Goedert, who also serves on boards of both a hospital and an opera company.

When investigating the available protections, ask about the limits of insurance coverage and whether antitrust coverage is included. "It's a common exclusion, yet it's a very common source of liability for board members," Goedert says. That's because boards, by bringing together people who may compete with one another in their primary business activities, can thus increase those members' vulnerability to charges of anticompetitive behavior.

**What's the financial and structural health of the organization?** Ask to review the organization's bylaws, articles of incorporation, financial records and long-range plan. If it's the middle of a fiscal year, ask to see updates and a tax return for the prior year. This is critical because a nonprofit that goes belly-up can leave its board members liable on certain claims even if the board members are otherwise insured. Specifically, if a troubled organization diverts funds meant for employee salaries to paying the bills instead, the board members could be held personally liable to pay payroll taxes; board members can also be held individually liable for sales tax obligations. As Goedert says, "You have to pause and make sure you're willing to put yourself into the soup."

In addition to weighing the risks of board membership and evaluating the organization you'd be joining, remember that as a board member you'll have an opportunity to make a difference.

"The best protection [against liability] is good governance," Schmidt says. "Somebody joining a board should be thinking, 'I'm going to do a really good job and make sure the organization is doing a really good job.'"

That's good news, because it matches up with the reasons that should be motivating you to serve a nonprofit organization in the first place. ■

A photograph of two men, one younger and one older, both smiling and wearing light blue shirts. The younger man is on the left, and the older man is on the right. The background is a bright, out-of-focus indoor setting.

# Educating <sup>the</sup> Next Generation

Helping children understand how inherited wealth **can make all the difference in their success.**

# It's

a rare set of parents who have unwavering, 100% confidence that their college-age children will, if necessary, make wise long-term financial decisions. Sometimes parents are apprehensive because their children are too immature, but sometimes it's simply because they lack experience — most young people are just getting a handle on managing their own finances, either by paying bills for the first time or trying to make it through the semester without running out of money.

Yet, as some of them turn 18 or 21, ready or not they suddenly become responsible for managing large sums of money when they begin to receive distributions from trusts their grandparents or other family members have established.

The challenge for parents, then, is preparation — discerning how and when to teach their children about managing family wealth. To meet that challenge, it's critical to help them grapple not only with the principles of finance, but also with understanding how inherited wealth will change their lives.

"You're not just preparing your children to manage financial assets, you're also teaching them how to integrate wealth into their lives," says Ann Freel, director of Family Education and Governance

appropriate way, you can talk about why you have this money that other people may not have and how you manage that."

Once children approach the time of inheritance, they will likely be at an age where they are finding their own identities and redefining relationships with their families. This can be difficult in any family, and the dynamic of inheriting wealth can add pressure. Parents can diffuse some of that by advising them about the experience of receiving a first distribution for several years before the distribution, rather than trying to control what they do with it when it happens.

"The reality is that most times, once trust distributions begin, parents no longer have veto authority; and even if they maintain influence over assets, a battle of wills is not a good way for young adults to start their lives as inheritors. Instead, it's best to talk openly about your own hopes and intentions, then ask your children what their goals are regarding the wealth, and truly listen with an open mind so you can help them think through their options."

She says parents should refrain from characterizing their children's spending plans as wasteful or without value, which feeds the potential for conflict over issues of identity, independence and responsibility. Often, parents and children can find some common ground — turning a year of surfing, for example, into a volunteer experience on those same beaches.

---

**We're all searching to find meaning in life — and this search extends to the financial realm, too. The way we learn about wealth should support that reality, not detract from it.**

---

Services for Northern Trust in Chicago. She suggests starting with conversations and activities that help children understand the family's values, goals and the choices that the family makes about money. These types of experiences focus on the meaning of money in the family's life as much as financial skills.

"We're all searching to find meaning in life — and this search extends to the financial realm, too. The ways we learn about wealth should support this reality, not detract from it. That's how wealth becomes a beneficial tool for realizing your potential, rather than a set of challenges or obstacles to overcome."

Of course, it's best to start developing your children's financial habits and understanding long before they receive that first distribution. The message may change over time to fit a child's age and circumstances, but Freel recommends starting early.

With young children, "You don't need to talk about 'wealth' specifically, but you can talk about money in a continuous way that takes advantage of teachable moments around earning, saving, spending and sharing money. And then gradually, in an age appro-

Freel adds, "Work with your advisors to actually show your children examples of how different spending patterns will affect the trust distributions — and if it's possible, the principal — over time. Give them enough information that whatever they choose to do, they will make informed choices as a beneficiary." Part of the process also can involve helping children understand the financial benefits of keeping assets in trust.

Some young people may view the mechanism as restrictive and infer they weren't deemed responsible enough to handle the money because they're receiving it over time, rather than in a lump sum. Even when that is the case, a trust offers advantages over an outright gift.

"Donors could use trusts to insulate wealth from creditors, as well as to protect it from a grandchild's misadventures," says Jeffrey Pennell, an Emory University law professor who specializes in trusts, wealth transfer taxation and estate planning. "Trusts are really useful devices because they provide a level of protection that's not available with an outright gift. If you're in a profession with a high malpractice exposure, the spendthrift provision of a trust will

absolutely work to protect that money. So if you need a car or a house, the trust can purchase those things and you can enjoy the benefits, without them being exposed to any potential creditors."

Inheriting wealth brings a unique set of challenges, and parents who themselves inherited money as young adults are able to relate to children in the same situation. However, if the parent's experience wasn't a positive one — for example, if the parent associates the wealth with bad family memories — he or she may find the process of watching the child come into money distressing or avoid talking about it altogether.

Freel's advice is to be honest with yourself about your experiences so that you can be more aware of your reactions. Remember, you can choose what to replicate with your children and what to lose from those experiences. It's normal to have some anxiety as your children move into adulthood, especially if they will be faced with the responsibility of managing significant wealth. Expect some failures along the way. That's part of attaining financial maturity for every young adult. But if you've prepared them well, you should offer your assistance and then try to relax as you watch them grow up. ■

## Preparing Families for a Meaningful Life with Wealth Northern Trust's Family Education and Governance Services

Your sense of success quite likely is linked to your dreams for the future — for your children, grandchildren and the rest of your extended family. You hope that by providing for their financial well-being, you also can provide security, help them realize their potential and give them the freedom to explore the world while also building strong family connections.

Yet for many affluent families, their wealth is diminished or lost within just two generations, preventing them from realizing their dreams. The reality is, most wealth transfer plans break down because families do not know how to prepare the next generation to manage the unique challenges and opportunities they will face.

### Helping Families Learn

Northern Trust's Family Education and Governance Services helps families address the common concerns they face in a meaningful way. By doing so, we help prepare families to meet challenges such as:

- Raising children with wealth — by helping them develop a sense of purpose and teaching them financial responsibility.
- Handling multigenerational planning and decision making — by defining your family's values and mission, and clarifying roles and responsibilities so the family can make effective decisions together.
- Building and protecting the family's wealth together — by preparing the next generation to lead and manage the family's investments and business endeavors.
- Navigating generational wealth transitions — developing a plan that will not only transfer your wealth to your beneficiaries, but also will be revisited and revitalized with each generation.

**To find out more about our Family Education and Governance Services, please contact your relationship manager or visit [northerntrust.com/generations](http://northerntrust.com/generations).**



### Providing the Tools to Empower Families

Everyone learns differently, which is why our approach accommodates a wide range of learning styles. Whatever your family members prefer, you will find an array of resources at your disposal, including:

- Educational seminars, programs and interactive workshops;
- Personalized advice and consultation;
- Retreats and custom programs designed to meet your family's needs;
- Networking opportunities with peers and world-class experts; and
- A family resource library with white papers, articles, and video and podcast presentations.

Northern Trust's family education programs put the experience and insight we have gained by working with more than six generations of families and their advisors at your family's disposal. Our integrated approach can help you achieve the peace of mind that comes from knowing your family is working to realize lasting growth.

# At Your Service

Northern Trust Concierge Services provides access to exclusive opportunities in travel, dining and entertainment.



Recently, there has been a renewed interest in concierge services as busy families seek to make the most of their precious time. “Many of us are struggling to find balance in our lives, and what most people really want to do is spend their valuable free time together with their family doing things they enjoy,” says Kathy Reilly, head of Northern Trust Concierge Services, through

which Northern Trust offers premier access and exclusive privileges. People look to concierge services for creative ways to support their favorite charity or to arrange educational activities for their kids, as well as for access to the hottest new restaurant in town. Regardless of how they use the service, a common theme is that concierge clients are short on time and are seeking high-quality experiences.

Northern Trust Concierge Services builds on our strong relationships with our clients. It allows us to help them save time and money and focus on the things they’re passionate about.

To provide you with the best service possible and to be proactive in offering solutions, Northern Trust Concierge Services gets to know you, and understand your likes, dislikes, travel habits, family members and anything else that helps you benefit the most from the service.

Northern Trust Concierge Services can help simplify your life by handling tasks ranging from the simple to the very complex. It can open the door to a variety of exclusive opportunities for you and your family.

#### One-Stop Family Planner

Planning a family event can be as complicated as any business meeting, so concierge services are particularly handy when it comes to coordinating extended events involving multiple parties — like a group of 22 that flew in for a family foundation meeting in Chicago recently.

Reilly says, “There were car pickups, people arriving at different times from different destinations. We needed to make sure they were all on the same floor. And a baby came aboard at the last minute, so we had to set up car seats.”

The family wanted an indigenous Chicago experience, so the concierge snagged reservations at one of the city’s most exclusive restaurants — Table Fifty-Two, owned by former Oprah personal chef Art Smith. “In many cases we know the general manager and maitre d’ and can have them move some things around to accommodate our clients,” she says.

#### Helping Instill Values

Reilly says, “I’ve seen a growing interest in families who are trying to instill good values in their children by steering the focus away from activities that are just about spending money.”

Last Thanksgiving, for example, a family used her services to acquire tickets to the

“We actively cultivate contacts at the most senior levels of organizations. We go right through to the decision-makers.”

—Kathy Reilly,  
Northern Trust  
Concierge Services

## Above and Beyond Expectations

Northern Trust Concierge Services caters to more than routine requests. It opens doors to exclusive opportunities in every facet of life.

**Fine Dining:** Hard-to-get reservations, catering services for private events and access to renowned chefs.

**Philanthropy:** Charitable events, underwriting assistance, and planning and research for philanthropic activities.

**Travel:** Personal and business travel arrangements, customized itineraries, destination referrals and access to exclusive villas.

**Entertainment:** Priority access to concerts, sporting and cultural events, private tours of galleries and museums, and international event arrangements.

**Home:** Architect, interior design and home consultant referrals, party planning and personal shopping services.

Macy's Thanksgiving Day Parade, but also asked her to arrange for the family to volunteer at a soup kitchen afterwards.

**Working Out Snags**

Concierge services are also there to provide last-minute solutions when your plans hit a snag. As the 2010 Winter Olympics in Vancouver were approaching, one Northern Trust client had plane tickets for himself and his 16-year-old son to attend Olympic men's hockey, but he lacked accommodations and access to the events. With the opening ceremonies of the Games just weeks away, securing a hotel room had become impossible and dealing with unknown brokers was a risk he preferred not to take.

A Northern Trust Concierge team member not only booked them a hotel room, but also scouted out activities that were appropriate for

his son. Despite a sold-out city, the team member secured seats to all of the games in the series and a hotel room in the heart of the action. The service was accompanied with maps of the area, tips for negotiating the venues and restaurant reservations.

**Front of the Line Access**

You may already have a personal assistant organizing the details of your daily life. "But clients don't know general managers in Costa Rica or the best consultant to advise them on their modern art collection," Reilly says. "We actively cultivate contacts at the most senior levels of organizations. We go right through to the decision-makers."

Anybody can get access to events through ticket brokers, but there are some things you simply can't pull off unless you have the right connections. "We are able to tap into our



**Who is the ideal Northern Trust Concierge Services client?**

"Anyone who is interested in enhancing their lifestyle, whether by streamlining their schedule or getting some research off their plate," says Kathy Reilly, head of Northern Trust Concierge Services. "We can help those who have complex lives, whether raising young kids or managing multiple homes. They can rely on us as trend spotters and to execute every request with a style that mirrors their own."

worldwide partner alliances and contacts that few others can access," Reilly says.

These days, many people are seeking a balance in life they can feel good about. For instance, you may still travel several times a year, but also want access to environmentally friendly hotels abroad. Through a growing network of luxury partners, an extensive national and global database, and comprehensive insider knowledge, Northern Trust Concierge Services can seek out opportunities related to your needs and passions alike.

**Doing Good**

That access pays off in philanthropic areas, as well. While affluent families have used concierge services to help underwrite events to support their foundations, they're increasingly combining travel with causes near and dear to their hearts.

"It's not just about writing a check anymore, but seeing how the money is deployed," Reilly says. "Like visiting the library you funded or seeing how the money is helping to paint a school, for example."

Recently, a Northern Trust Concierge team arranged a 10-day trip in Africa that accommodated a family of eight on two separate safaris. The group had contributed funds to help improve the quality of water in southern Africa, so the team arranged for family members to meet with leaders in a village that was benefit-

ing from the aid and to spend time helping to dig the wells themselves.

**Getting to Know You**

Northern Trust has a history of acting as a resource for affluent customers on the go. "Clients ask us all the time for access to venues. Whether for concerts or the Super Bowl, we look at the concierge service as a fantastic opportunity to elevate their lifestyle," Reilly says. And the teams provide planning assistance with the same level of service clients receive on the financial side, relying on expertise and connections to create a once-in-a-lifetime experience.

Compared with other concierge services, this is far more consultative. As such, Northern Trust Concierge Services teams easily tap into innovative ideas you might not have thought of. Plus, they've built relationships with luxury providers that could benefit from the brand exposure that goes along with charitable events. For example, someone might have an eye for jewelry combined with a desire to develop philanthropic experiences in her life. "We know organizations willing to underwrite that kind of thing," Reilly says.

"People have dreams and may not know how to realize them," Reilly says. "When someone comes to us, we may not know the exact answer to their request, but we know how to go and get it." ■



**Northern Trust**

Wealth & Investment Management | Trust & Estate Services | Private Banking | Family Office Services