

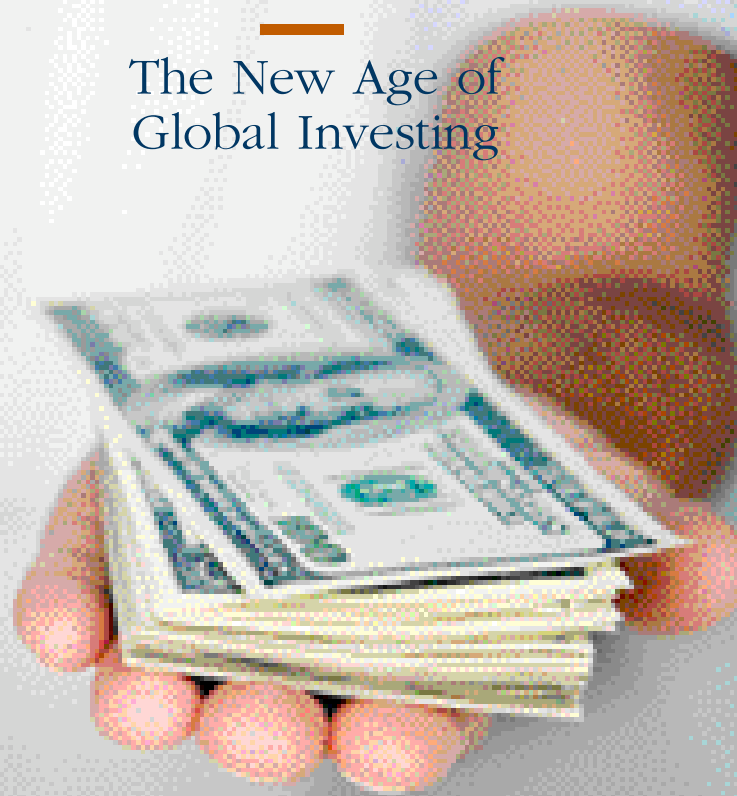
WEALTH

FINANCIAL AND LIFESTYLE PERSPECTIVE FROM NORTHERN TRUST

Winter 2010

Green Building

The New Age of
Global Investing



Depreciating Dollar?

How mounting pressures from abroad
affect the dollar's strength

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WINTER
2010



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ON THE WEB

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2010: The Year Without Transfer Taxes?

Because Congress failed to act before the end of 2009 to extend them, for a one-year period that began on January 1, the federal estate and generation-skipping taxes are repealed. However, several potential scenarios may yet unfold – including the possibility that Congress may reinstate the taxes retroactively to January 1. Read about the estate planning implications of these scenarios in Northern Trust's recent "Tax News You Can Use."



International Investing Video Podcast

Learn more about why international equities are becoming an important part of many investors' strategic asset allocation in this video podcast with George Maris, who manages international, global and U.S. portfolios of large-company stocks for Northern Trust.

[NEWS & NOTES]

Northern Trust Provides Support to Haiti

We have been deeply saddened by the devastating earthquake in Haiti. In support of the disaster relief efforts, Northern Trust made a corporate donation to the American Red Cross – International Response Fund. This money will help the American Red Cross provide critical relief to the survivors in Haiti, including water, food and shelter. Northern Trust has also established a Haitian Relief Matching Gift Program through which the company will match dollar-for-dollar any donations made by current Northern Trust employees to the American Red Cross – International Response Fund. To learn more, visit northerntrust.com/wealth.

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New Age of Global Investing

For affluent U.S. investors, international equity investments have become at least as important as domestic ones as global investing has become a tool for creating value in a portfolio.



Three decades ago, the financial shocks investors worldwide weathered during 2008 might have reverberated less because economies and markets were more defined by national borders and not so intertwined. Now, when one economy

or market hits a road bump, many more are just as likely to react, just as much. Affluent U.S. investors understand this and realize the U.S. investments that once were the centerpieces of their portfolios no longer should dominate them.

The Benefits of Going Global

“There has been an increased allocation to international (non-U.S.) investments over the last 20 years,” says George Maris, who manages international, global and U.S. portfolios of large-company stocks for Northern Trust. “Originally, ‘international’ would have been viewed as an interesting diversifier in terms of getting some outsized investment returns at the cost of increased investment volatility.”

Only in the last three decades, however, have U.S. investors found that the higher equity returns in countries with greater economic growth rates outweigh the risks that come with international investing. Moreover, the rise of multinational corporations placed many investors into the global arena by default.

Advancements in national laws and accounting rules as well as more investor-friendly market practices and trading technologies have made the case for global investing in a core stock market portfolio, Maris says. Now, with about half of total world stock market value domiciled outside the United States, suitable risk/reward strategies can be devised irrespective of locale.

Dividing the Global Playing Field

Most analysts divide the global playing field between advanced economies and emerging economies. Advanced industrialized nations, such as Canada and Germany, have long-standing links to the United States through trade and political alliances. As a result, their major home-based companies operate in the same investment environment. Emerging economies, including the so-called BRIC nations — Brazil, Russia, India and China — may some day follow suit. But the fortunes of most companies in these nations still depend on indigenous economic and political trends, which may not track with trends in the major industrialized nations.

“For the emerging markets, it’s still useful to keep that [category] as a distinct asset class,” says retired asset manager Gary Brinson. That means investors need to make a separate decision about including emerging market stocks in a portfolio, just as they would in considering investment grade bonds versus high-yield “junk” bonds.

Be Aware of Subtle Nuances

Still, opportunities and risks in global investing may be more nuanced than a simple division between emerging and devel-

oped economies implies. For example, the fates of commercial and investment banks headquartered in developed economies were not uniform in the recent economic crisis, according to Maris.

“In this latest crisis, countries such as the United Kingdom, Ireland and Spain that had an over-extension of credit, especially real estate credit, have suffered just as the United States has,” he says. “However, countries that didn’t have such an over-extension of credit — such as France or Germany — fared much better through this crisis than we have.”

In another vein, Maris says that not all companies in emerging economies are tied primarily to in-country trends, such as consumer spending and local interest rates. Certain emerging countries, such as Brazil, India and China, have spawned giant corporations whose business scope, financial underpinnings and management skills match any multinational corporation based in a developed nation, he says.

Pointing to oil giant Petrobras Brazil, India-based global steelmaker ArcelorMittal and the Bank of China, Maris says, “There are clearly companies within these emerging countries that are global leaders in what they do. They have acted much more like developed market companies than we normally think of with emerging market companies.”

How Much Management?

This leaves global investors to face an age-old question: How actively should their portfolios be managed for optimum results and at what cost? For many, a decision to invest globally, like a decision to invest at home, must be made with an eye on the investment management costs and benefits.

The evolution of investor-friendly global investment strategies and convenient vehicles has not advanced to the point that investors can take a passive, long-term point of view, according to Robert Aliber, professor emeritus of international economics and finance at the Booth School of Business of the University of Chicago.

“Long-term foreign investment is an oxymoron,” he says, noting that two or three years is a reasonable time horizon. “You have to be opportunistic.”

Globalization also means that events such as the recent recession and financial crisis wield a far deeper, wider-

reaching and longer-lasting impact on the investment landscape than ever before.

“Every time you are given an inflection point, such as a financial crisis, it changes the scenario,” Maris says.

Intertwined Trends Will Affect Future

Three related themes bear watching as the world struggles to recover: consumer behavior, government policy and investment bubbles. All three will play out globally in the years ahead.

The deleveraging of households is underway in Europe as well as the United States, eroding consumer demand for domestic and foreign goods. For investors, a more cau-

issued by the United States and other nations, may be one way to prepare for the consequences of government spending.

Beware of Developing Bubbles

Aliber is less worried about inflation, however, than about the next speculative investment bubble. Many investors might agree that housing during the last 10 years, Japanese stocks in the 1980s and the U.S. dot-com craze of the 1990s each constituted a bubble.

But he says spotting developing bubbles now is even harder because, like sound investments, they increasingly disregard borders.

Globalization also means that events such as the recent recession and financial crisis wield a far deeper, wider-reaching and longer-lasting impact on the investment landscape than ever before.

tious consumer means that companies that prospered in a period of economic tranquility may not survive “in a more difficult world where consumers are going to be more conscious of value,” Maris says.

In terms of government policy, Brinson says that fiscal stimulus, generated in almost lock-step fashion by governments around the world, poses a risk.

“I think the effects are not easily known, because in history we’ve never seen such a dramatic period of pumping money into the system,” he says.

Inflation-protected government bonds,

For instance, when crude oil prices in 2008 spiked up to nearly \$150 a barrel, “we heard a lot about peak demand,” Aliber says, “but it was all a bubble.”

Opportunities Worth Exploring

Despite the potential challenges the global markets face, allocating a portion of their equity investments internationally may help position investors to benefit from the higher economic growth rates being realized by many countries outside the United States. And that may be an opportunity worth exploring. ■

In Whom Do You Trust?

When it comes to choosing a trustee, you have many decisions to make, including whether to use an individual, a corporation or both, serving as co-trustees. *Wealth* spoke to Hugh Magill, Northern Trust's chief fiduciary officer, and Michael LoVallo, a partner in the Wealth Planning Group of Reed Smith, LLP, in Chicago, about what to consider before choosing a trustee.



Q: What types of trends or changes have you seen in inheritance practices over the past 20 years?

Hugh Magill: One of the biggest changes we've seen in inheritance practices with our clients is more flexibility in the use and design of trusts. Over the typical lifetime of a trust, it must navigate a wide range of circumstances — family changes, multiple economic and market cycles, different tax climates and changes in domicile. Well-designed trusts must be able to accommodate these circumstances with as much flexibility as possible, without

subjecting the trust assets to unnecessary taxation or to the claims of creditors. Another change has been an increasing interest of parents to discuss estate planning with their children, as well as the role that wealth plays in the family.

Michael LoVallo: On the law firm side, there has been a trend toward consolidation of practices with increased expertise in the area. I've been doing [estate planning] for the last 30 years, and there had been a general attitude that almost any lawyer could practice in the area and dabble in it, but there's been a

Northern Trust's Long History of Fiduciary Care

Northern Trust has a long history of building relationships with trust clients, and the expertise that comes from more than a century of experience. We have been privileged to work with many families over multiple generations, and we work hard to nurture those relationships and facilitate each generation's, and each family member's, growth.

As a trust company, our fiduciary duties to our clients are woven into the cultural fabric of Northern Trust. When clients entrust their assets to our management, and their families to our care, we fulfill that trust by continually considering and doing what is in their best interests. To do so, we must keep abreast of changing federal and state laws, the development of new wealth transfer strategies, and demographic changes such as the reshaping of family structures through divorce, blended families and same gender relationships.

healthy consolidation of it lately. I think it's in response to a respect for the complexity and the technical requirements as well as the importance of having a depth of experience. This is an area where the personal goals and philosophies of people — more than almost any other area of the law — really need to come into play and be understood. An estate plan is very much a personal statement and reflection of values and priorities, and all of that needs to be integrated with sound tax planning and a solid platform for investment management.

Q: When establishing a trust, your choice of trustee would be one of the more important decisions to make. What are some considerations people should keep in mind as they contemplate their options?

LoVallo: When choosing a trustee, you have to take several things into account: their experience, the depth of resources available to the trustee, the amount of work, specialized skills and most importantly, objectivity and independence. But on top of all that, fit is extremely important. You can look at the objective side — experience, resources, a demonstrated ability to deal with special assets, and continuity — but a lot of it

comes down to fit and chemistry, both institutional chemistry and personal chemistry. Who's going to handle the relationship? And is there a personal rapport, understanding and respect?

Magill: Serving as trustee is a complex, long-term role; it's not an easy job. As trustee, you are responsible for asset management, tax planning and compliance, discretionary administration, trust accounting and, ultimately, for fulfillment of the trust's role in the overall estate plan. These multi-disciplinary roles are outside the scope of most individuals' abilities or experience. An individual trustee will usually need to establish a team that would include an estate-planning attorney, an accountant, an investment manager and a custodian to hold assets, execute trades and manage receipts and disbursements.

Selecting and overseeing this team can be challenging, even for the most talented individual, especially if the trustee is related to the family. For instance, how will Uncle Ted — who might be a very successful attorney or an accountant in his own right — build this kind of team? Equally important is understanding the time commitment required. Does Uncle Ted have the time to perform due diligence on the investment advisor, confer with beneficiaries and weigh discretionary needs, and ensure that tax returns are

accurate and timely? He may have the ability, but does he have the time?

Another aspect to remember when selecting a trustee is that the trustee's fiduciary relationship often begins at the time of a death. This is



Michael LoVallo is a managing partner of the Chicago office of Reed Smith. He attended Georgetown University for his undergraduate degree and received his J.D. from Columbia Law School. Today, he provides advice to fiduciaries on technical aspects of tax, estate and trust law. LoVallo also represents beneficiaries and fiduciaries in estate and trust disputes and litigation.



R. Hugh Magill is chief fiduciary officer and national director of trust services for Northern Trust. In this capacity he is responsible for Northern Trust's fiduciary and philanthropic services to private clients nationally. Magill received a B.A. degree, cum laude, from St. Olaf College in Northfield, Minnesota, and a J.D. degree from the University of Minnesota Law School, where he was named a distinguished alumnus in 2005.

And, unfortunately for many individual trustees, their decisions can affect their relationships with the beneficiaries — especially if the trustee is a family member.

LoVallo: If you have

a traumatic time for a family, when members are grieving, but the trustee will have immediate responsibilities. Personally, I have not found grieving and fiduciary responsibility to be very compatible.

If the trustee is a family member, how fair or realistic is it to expect that he or she can maintain the detachment that the role requires and let family ties neither color fiduciary judgments nor influence family relationships? Fiduciary duty also requires that a trustee avoid conflicts of interest and self-dealing; complying with those duties requires special vigilance of an individual trustee and may place constraints on his or her ability to participate in commonly shared investment or financial activities.

By using a corporate trustee, you gain access to an already-assembled team that has comprehensive expertise. And, of course, this team has worked on a wide range of complex estate plans and served families of diverse wealth, so there are few challenges that we haven't encountered or can't bring creative insight to.

Q: Is geographic location important?

LoVallo: It can be. I've seen situations presented where the trust officers were not in the same geographic location and it wasn't an issue because people are willing to travel, or communicate by phone or video conferencing. But in my experience, while that can work, being in the same location works better. And having substantial backup and operations in the same location works best, rather than having just a satellite office in the same location. It just seems to be easier when everyone is in the same location.

Q: So why might someone planning an estate choose an individual trustee? And what are the risks of doing so?

Magill: The biggest advantage an individual trustee brings to the table is family insight and perspective. How does cousin Jane handle money? How will the relationship between siblings affect their response to certain decisions? These kinds of insights can help a trustee make compassionate decisions based on family dynamics and individuals' needs. But it also can color a trustee's judgment and make it more challenging to be impartial.

a trusted advisor and an investment management counselor, then I think individual trustees can work. But it needs to be understood that this position is not just a figurehead. It's a real role with real legal responsibility. It's time-consuming, and there's compensation that needs to be addressed. Sometimes, families think that a family member shouldn't take compensation, but it's a lot of work and it can take away from their other professional and personal responsibilities. You need someone who doesn't shrink away from their role because they're not being compensated. So it's important for the grantor to bring everyone into his or her thinking and intentions ahead of time in order to avoid as much conflict as possible.

Q: Is there a way for families to reap the benefits of both types of trustees?

Magill: Many families are combining the strengths of both individual and corporate trustees by naming them to act as co-trustees. This allows the family to benefit from an individual trustee's insight, while taking advantage of a corporate trustee's expertise in trust management and administration.

By employing a collaborative approach, co-trustees provide continuity and balance. The individual brings perspective about the family. The corporate trustee brings a depth of experience and judgment, and ensures continuity in management and administration, which are particularly important for trusts designed to serve multiple generations.

LoVallo: I think co-trustees work well when the job may be too big for an individual, but you still really want some family oversight. There may be significant or complex assets, and having the corporate fiduciary do most of the administrative work — such as tax planning, recordkeeping and accounting — and relying on the family's input on high-level decisions can work well.

Another thing to consider building into a trust is removal powers. Including this clause empowers the family and ensures maximum attentiveness from fiduciaries. But good corporate fiduciaries are not threatened by these powers because they're confident enough in their work. ■

THE RENEWABLE ENERGY

BOOM

As the “going green” trend has become increasingly popular, the demand for more use of renewable energy has grown stronger. Many people now want to reduce their carbon footprint as much as possible to minimize pollution and limit their dependence on diminishing petroleum reserves.

“From the big picture, the future of conventional fossil fuel energy is very limited,” says Gary Gerber, president of the California Solar Energy Industries Association (CALSEIA). “It’s a material resource that is finite. You’re dealing with something that’s more and more scarce.”

But Is There Green in Green?

Energy suppliers have responded by working to make use of renewable energy more efficient and less costly. But where does renewable energy stand as an investment?

Adam Ritt, director at National Association of Investors Corporation — the nation’s largest nonprofit investment education organization — says that alternative energy is



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Demand for renewable energy such as wind and solar power is apparent due to the public's increasing desire for eco-friendly practices. **But does this make renewable energy a good investment?**

a potential growth area because although oil prices have come down considerably, he believes they will go up again once the economy recovers.

“If this happens, stocks related to the oil industry will likely regain their various levels, but high oil prices will also make these alternative energies more economical,” he says. “Long-term, alternative energy is an interesting area for investors.”

How Strong Is the Demand?

Blaine Collison, director of the Green Power Partnership, a national voluntary green electricity purchasing program from the U.S. Environmental Protection Agency (EPA), says the 1,100 organizations he works with are making proactive, eco-friendly choices with their electricity to answer an increasing demand.

“The collective electricity-consuming market is saying ‘we’re willing to spend more money above and beyond what is required because of renewable energy’s importance, usefulness and value,’” he says. “It strikes me as a very positive indicator that the supply side is going to continue to step up to meet the demand.”

Collison believes market demand should spur future efforts in renewable energy development in terms of technology and efficiency.

Government Support

Gerber says demand from the public is also being supported by government legislation, which is helping internalize the cost through incentives, such as tax credits, rebates or deductions.

“The government is saying: This is where we need to go,” he says. “There’s government commitment behind it to make it happen.”

An Ever-Changing World

As with any new trend or development, renewable energy is an evolving niche that requires considerable attention to make wise investment decisions. Visit the EPA’s Web site at www.epa.gov to stay up to date on the status of cap-and-trade legislation. Or, to learn more about government incentives for renewable energy or energy efficiency, visit the Database of State Incentives for Renewables & Efficiency, funded by the U.S. Department of Energy, at www.dsireusa.org.

You also can learn more about the investment potential offered by alternative energy in Northern Trust’s paper, “Exploring Alternative Power Generation Technologies.” You can receive a copy of the paper from your relationship manager, or visit northerntrust.com/wealth to download a copy today.

As of January, the U.S. Senate was debating a bill that would create a cap-and-trade program designed to reduce greenhouse gases by placing mandatory caps on emissions. The House passed a similar bill last June.

The government is also encouraging states to implement a renewable portfolio standard (RPS). According to EPA’s Web site:

“An RPS requires electric utilities and other retail electric providers to supply a specified minimum amount of customer load with electricity from eligible renewable energy sources. The goal of an RPS is to stimulate market and technology development so that, ultimately, renewable energy will be economically competitive with conventional forms of electric power.”

An RPS is meant to help a state increase use of renewable energy in a way that’s cost-effective and administratively efficient. Collison says that a state that implements an RPS is required to get a certain percentage of electricity from renewables by a specific date, and these policies are a form of guarantee that supply will be developed to meet that demand.

“Facilities will have to be constructed to meet those demand minimums,” he says. “Developers have the confidence that a renewable energy developer such as a wind farm will be built, and there will be customers.”

Currently 24 states plus the District of Columbia have RPS policies in place, which according to the U.S. Department of Energy, accounts for more than half of electricity sales in the United States.

High Demand, but Good Investment?

“Alternative energy for the most part is speculative, and stocks of companies that are 100% related to this industry tend to be quite volatile,” Ritt says. “Some investors surely have done exceedingly well by being fortunate enough to buy very low and sell very high, but individual investors generally have difficulty studying these stocks because they lack the historical performance required to understand management’s capability.”

Like any developing field, the success of any particular renewable energy company or technology depends on a number of shifting factors. And while getting in on the ground floor of the next big thing sounds appealing, there are many things to consider before deciding to invest in industries that solely produce renewable energy.

Politics

Matt Peron, director of equity research at Northern Trust, says that the renewable energy investment decision is a difficult one. Even though the government shows enthusiasm for renewable energy practices, actually creating policies is a political process, which can



Like any developing field, the success of any particular renewable energy company or technology **depends on a number of shifting factors.**

be unpredictable and often not based on the most economical solution. Because of this, Peron doubts that Congress will adopt meaningful cap-and-trade legislation anytime soon.

“The regulatory uncertainty has been a problem,” he says. “We don’t know what form subsidies or emission standards will take.”

Technology

Peron mentions that even if you do have a good grasp of the regulatory environment, which might be creating demand to inspire technological advancement, investing in any specific technology can be a bit of a gamble. You always face the risk that something newer and more efficient is waiting just around the corner.

“Most alternative energy is not yet competitive on its own versus fossil fuels,” Peron says. “The technology is not quite to the point where we can produce clean energy efficiently; it needs a government incentive.”

Ritt says that the renewable energy situation reminds him of the Internet boom, where many companies and technologies rushed to the market, only to fail as enthusiasm subsided and investors began to take a hard look again. Likewise, Ritt feels there will be relatively few big alternative energy winners in the long run.

How Can Renewable Energy Fit Into Your Portfolio?

While your investment advisor can help you determine whether renewable energy investments would be suitable for your portfolio, Peron does recommend some guidelines to consider. He

advises against investing in a sole renewable energy producer, such as a wind farm or a solar panel company, because of the risks stemming from regulatory and technological uncertainty. Even buying a diversified basket such as an exchange-traded fund focused on clean energy can be risky, he says. Rather, Peron recommends buying “large, diversified, multinational industrial” companies that are moving toward greener product portfolios.

Ritt agrees and says that investors should have at their disposal at least five years of sales, earnings, profitability and return on equity data. “Investors should focus on high-quality companies, which are firms that have achieved a history of sales and earnings growth and of steady or growing operating profitability,” he says. “Few alternative energy companies meet these parameters. Investors might have more success finding larger, established companies that are making investments in alternative energy.”

Peron believes that investing in larger, established companies is a sound long-term approach because they have the capital to acquire the appropriate technology needed and the customer relationships to apply it profitably to infrastructure projects.

“These companies are moving their product portfolios to address the renewable energy market. And, as the incumbent supplier to the power grid, they’re more likely to be well-positioned to take the lead in applying new technologies to the grid,” Peron says. “They’re essentially making the investment in renewable energy for you.” ■

AT a LOSS

The U.S. dollar spent much of 2009 in a funk. And fundamentals remain unsteady, which could lead to higher prices and inflation at home if the U.S. currency weakens further.

Fish a dollar bill out of your wallet and lay it out on your palm. Does it feel lighter than it did last spring?

It should.

Between early March and late November 2009, the value of the U.S. dollar, relative to a collection of six overseas currencies, sank 16%. Perhaps more importantly, the depreciation was a sizeable factor in a 37% rise in the average price of a gallon of regular gasoline over the same period.

“A weaker U.S. dollar leads to a stealth reduction in its buying power,” says Paul Kasriel, Northern Trust’s chief economist. “Essentially, U.S. consumers must give up more dollars than when the currency was stronger to get the same amount in return.”

Under the simplest definition, the value of the U.S. dollar hinges on basic economic supply and demand. As supply oversteps demand,



investors will offer smaller amounts of foreign currencies for the dollar, diminishing its value. Conversely, when demand outstrips supply, investors bid the dollar higher and other currencies depreciate.

As is the case with most elements of the global financial system, however, assessing the U.S. dollar's relative value is anything but simple. Many other related factors, such as international interest rates, quality issues and economic expectations, also weigh into the supply/demand equation.

Demand a Moving Target

Starting in early March 2009, investor demand for the U.S. dollar drifted lower as confidence took root that the world's economy had avoided a second Great Depression. The decline renewed a trend that emerged as the U.S. economy weakened in 2008, but was suspended late that year as the global financial market teetered on the edge of collapse.

In times of crisis, the U.S. dollar remains a beacon of security for investors. Yet its low-risk profile is generally deemed too conservative once it appears safe to wade back into assets offering potentially higher returns.

Last spring, with the global financial system seemingly on firm footing, many investors exited dollar positions. Meanwhile, cur-

rency specialists zeroed in on the U.S. economy, and they weren't exactly enthralled, according to James Hamilton, a professor of economics at the University of California, San Diego.

"The general perception was that the rest of the world was recovering faster than the U.S. from the recession," Hamilton says. "At the same time, the U.S. had greatly expanded its debt, and other countries didn't cut interest rates as low as the Federal Reserve, so bonds issued by other countries offered more attractive returns."

Since government debt must be purchased with that country's currency, demand for U.S. dollars waned on the international stage as investors steered toward better yields offered on bonds issued by Australia and emerging market Brazil, among others.

And Then There's China

Regardless of traders' short-term perspectives on the U.S. dollar, it remains the reserve currency of the world — the standard by which the bulk of global currencies are measured and most commodities are priced. Such status reflects international confidence in the U.S. government, which is well regarded for its stability and ability to pay off its debts.

That said, the amount of debt issued by the U.S. Treasury — \$1.8 trillion in the fiscal year that ended September 30 and a projected \$2.4 trillion for the current fiscal year — has some creditors worried.

One upside to a depreciating dollar is that U.S.-produced goods are more attractively priced in overseas markets, which can lead to increased production and a reduced trade deficit.



Weak-Dollar-Friendly Investments

In an environment where the U.S. dollar is sagging, major overseas currencies are climbing and commodities command higher prices, Paul Kasriel, Northern Trust's chief economist, says the following investments tend to lead the market for U.S. investors:

- Bonds issued in appreciating currencies;
- Stock in foreign companies that report earnings in appreciating currencies;
- Stock in U.S.-based multinational companies that have overseas operations;
- Stock in U.S.-based companies that generate significant revenues from exports; and
- Commodities, most notably gold, which tends to be very sensitive to currency markets.

Most notably, the Chinese government, which held nearly \$800 billion of Treasury issues at the end of September, has openly questioned the validity of the dollar standard.

"Obviously, China is worried about the future purchasing power of its dollar holdings," Kasriel says. "But it's a symbiotic relationship, as the country has chosen to export large volumes of goods to the United States, for which it receives billions of U.S. dollars and it chooses to invest many of those dollars in Treasuries."

According to Hamilton, a government's actions offer deeper insights than its words, and he finds it interesting that the Chinese government has stockpiled large quantities of commodities, which tend to rise as the dollar declines. Elsewhere, central banks in India and Russia added considerably to gold positions in the fall, boosting exposure to a metal considered by many to be a hedge against all currencies.

Supply Also Tough to Pin Down

While the demand dynamic for the U.S. dollar became increasingly delicate in 2009, supply side issues flared up as well.

The nation's money supply is controlled by the Federal Reserve, which played a key role in furnishing liquidity — or ensuring an ample supply of cash — to the troubled banking industry during late 2008 and early 2009. While many praised its response to the crippled financial markets, thoughts quickly turned to how the Fed planned to mop up the liquidity — or remove the excess cash from the system — once all was deemed healthy.

Separately, wariness grew over potential plans for a process known as debt monetization, where the Fed purchases debt issued by the Treasury. The maneuver helps prop up demand for Treasury issues, which tames interest rates, but increases the amount of available cash. Again turning to the law of supply and demand, too many dollars in the system can reduce the value of the currency,

which usually leads to inflation that translates into even higher dollar-denominated prices for goods and services.

"Monetizing the debt is nothing new," says Arturo Estrella, the head of the economics department at Rensselaer Polytechnic Institute in Troy, N.Y. "But one concern about current conditions is that the amount of additional debt the Treasury will need to issue is so huge that we might be looking at a different situation than we've seen before."

A Sure Way to Shore Up the Dollar

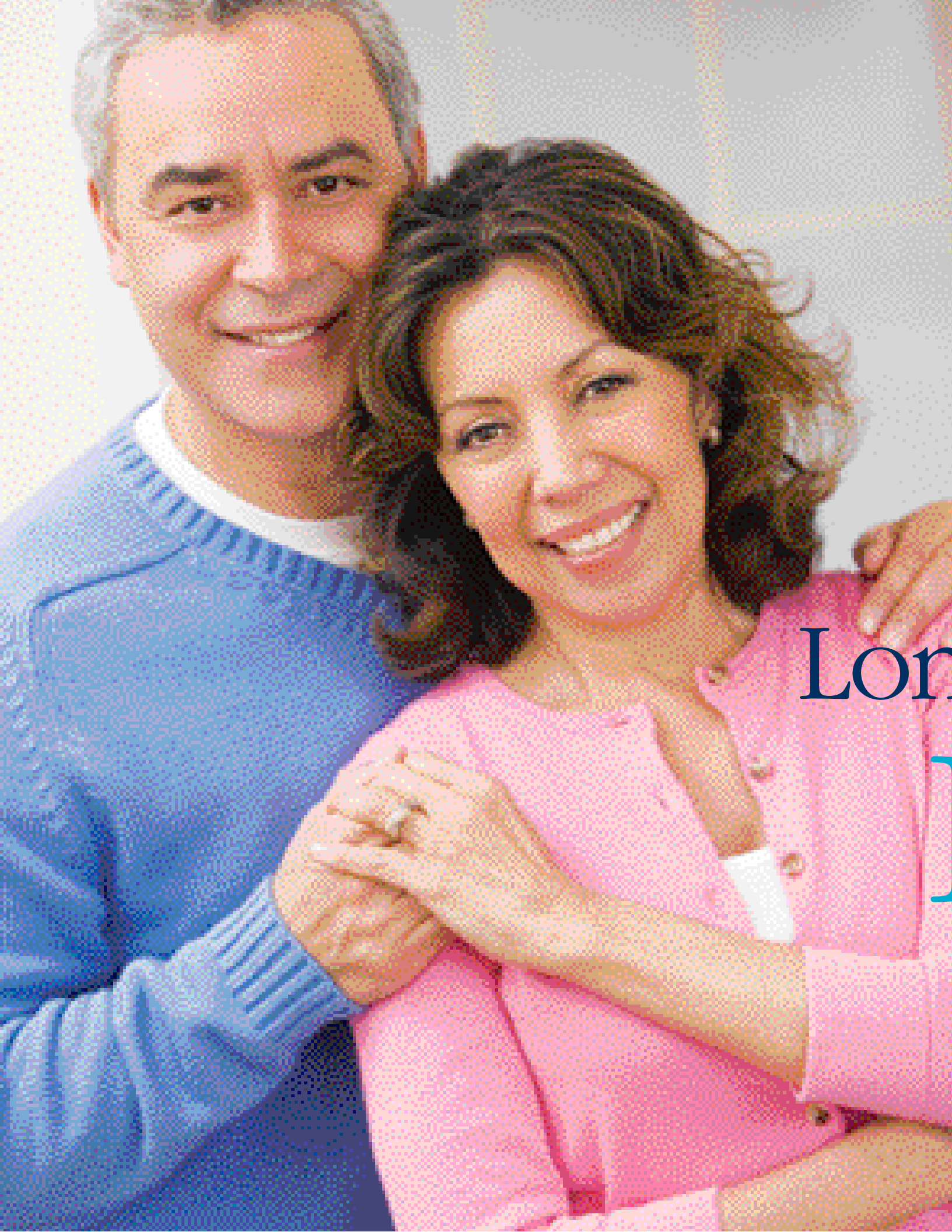
One upside to a depreciating dollar is that U.S.-produced goods are more attractively priced in overseas markets, which can lead to increased production and a reduced trade deficit. Nonetheless, its weakness is a leading worry in Washington, as evidenced by Fed Chairman Ben Bernanke's mid-November declaration that the central bank's policies are designed to help support a strong dollar. His comments came shortly after Treasury Secretary Timothy Geithner publicly stressed that it was "very important" for the United States to maintain a strong dollar.

"Officials typically don't like depreciation because it could be seen as a loss of confidence in the U.S. government," Estrella says.

Aside from the high-level posturing, which extends a long tradition of public statements from administration officials that have little impact on the markets, Kasriel says sustainable strength in the dollar stems from a healthy U.S. economy. More specifically, he says the world would want to see:

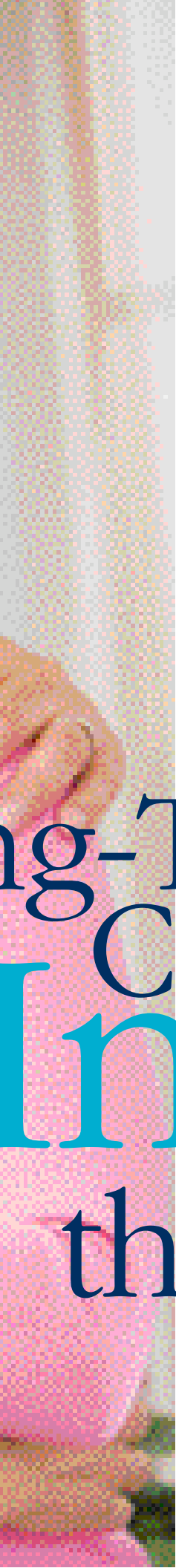
- Higher U.S. interest rates, relative to inflation;
- A reduced rate of growth in U.S. government spending;
- Relatively low U.S. tax rates, especially on businesses; and
- A relatively small amount of U.S. regulation.

But unless — or until — all of those elements align, figure on spending more of those lighter dollars nestled in your wallet. ■



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No one wants to contemplate the prospect of a long-term illness, much less the toll it could take on his or her family. Yet the cost of health care is rising, and long-term care services are no exception. To make sure your assets are well-protected, why not give it a second look?

Most affluent people opt out of long-term care insurance, assuming they can cover the cost of any future health care needs. Still, between increasing life expectancy and the rising costs of nursing homes and home health care, long-term care insurance can be an important financial planning tool. Perhaps more important, early preparation may help alleviate the emotional burden of issues down the road, for both you and your loved ones.

A Growing Expense

Long-term care refers to a broad range of personal assistance services that aren't covered by either health insurance or Medicare.

"Most care doesn't happen in facilities. It happens in the community and at home," says Peter Wetzel, president of American Medical Claims, a company that helps people receive insurance reimbursements. And as people are living longer and leading fairly independent lifestyles, they'll increasingly need some assistance at home, whether due to an accident, illness or the aging process.

Long-Term Care Insurance for the Affluent



Planning for the Unknown

A long-term health condition can take a toll in unexpected ways. More than a third of family caregivers in 2007 quit their jobs to care for loved ones, according to AARP. “You can’t project what the needs will be because life is full of surprises,” says National Family Caregivers Association communications director Deborah Halpern. More and more, people in their 50s and 60s are experiencing what it takes to care for their parents, which may help them plan for their own futures. “If they’re paying out of pocket for their parents, they may not want their children to be in that position,” Halpern says.

Sometimes, it’s the children who opt to buy long-term care coverage for their parents – a choice Jacqueline Marcell, a former TV executive, wishes she had made. Her father was caring for her mother, who had Alzheimer’s, in San Francisco. When he began to suffer from dementia, Marcell left her home in southern California. “I hadn’t planned on moving in, but I got there and the situation was so horrific that I had to stay,” says Marcell, who wrote a book, *Elder Rage*, based on her experiences.

For the next five years, her life was put on hold while she navigated the situation, eventually hiring around-the-clock care. Like many, she was unaware that Medicaid was limited to services in a nursing home, or what taking care of her parents would entail. Today, she believes that having long-term care insurance could have saved her parents’ life savings and most of her own, as well as a lot of emotional distress.

The aging baby boomer generation is posing a growing challenge. The number of older Americans is expected to reach 70 million by 2030. By 2020, it’s estimated that 12 million older Americans will need long-term care, according to the American Medical Association.

Moreover, the responsibility of caring for the elderly tends to fall on family and friends. The assistance they provide is worth approximately \$375 billion, according to the National Family Caregivers Association.

A range of professional services could be needed for long-term care. Consider that the average cost of care in a nursing home is between \$70,000 and \$75,000 per year, and the cost for a certified aide at home averages \$35 an hour. These costs add up if you consider that, on average, a typical person who enters a nursing home stays two and a half years. And treating a chronic illness at home can cost much more, requiring professional care seven days a week.

In addition to offsetting some of that financial risk, experts view long-term care insurance as a means of helping family members supervise the care. “The real risk is to the family because of the physical and emotional stress that the need for assistance can cause,” Wetzel says. “Long-term care insurance basically buys peace of mind.”

Weighing the Benefits

Determining whether long-term care insurance is right for you requires balancing a whole range of factors. First, consider the following: Do you have a family history of chronic illness? And where do you plan to retire? If you’re headed for New England, for example, keep in mind that the cost of nursing homes there is twice that in other regions.

According to Frank Bond, a senior financial consultant at Northern Trust, people with assets between \$500,000 and \$5 million stand to benefit the most from long-term care insurance — although he’d recommend it for wealthier clients, as well.

“If there’s a real risk out there and you can share that risk cost-effectively, why wouldn’t you do it?” he asks. “You’re more likely to collect on long-term care insurance than you are on home or auto insurance.”

And there are other potential incentives. Certain income tax deductions are allowed for some long-term care expenses and insurance premiums. Meanwhile, many states are reducing funding for long-term care services to help balance their budgets.

To be sure, long-term care insurance isn’t for everyone. The high cost of premiums dissuades much of the population. Another downside is availability — many people don’t qualify for the insurance.

And it's difficult to anticipate future needs. A plan with built-in inflation adjustments is one way to offset that concern. According to a 2009 report by the Kaiser Commission on Medicaid and the Uninsured, purchasers tend to "buy a substantial amount of comprehensive coverage and protect it aggressively against inflation."

In fact, people are increasingly buying into plans at a younger age. One benefit of doing so is that you lock into the premium at the age you sign on, but can add coverage later. A typical premium for a 60-year-old couple is \$3,096; at 70, that same premium has nearly doubled, according to the Commission's report.

Those figures may seem pricey, but one year of care could outweigh 20 years of premiums. "Wealthy people don't get average care," Wetzel says. "They're going to go into a much nicer facility [or] pay more for better care at home."

Long-term care insurance is also viewed as a tool for protecting your wealth, so that you can later transfer it to a child or charitable organization. "Affluent people who engage in sophisticated planning so they don't spend their own assets

make prime candidates for long-term care insurance," Bond says. While those with more than \$5 million can probably self-insure, he still recommends long-term care insurance to lessen that risk.

Before making any decisions, consider how long-term care services could affect your finances. How might your expenses be affected by a chronic illness? On the other hand, if your premiums would consume 10% or more of your expected retirement income, it may not be worth it.

A Healthy Conversation

Long-term care insurance plans are complicated, and you may benefit from having an advisor walk you through your options. In addition, discussing long-term care isn't easy, and families may be confused over the best solutions for care.

"When you buy the coverage, you buy the insurance company's expertise," Bond says. "But it's also a way to give your children permission to spend the money to get you good care." ■



The Many Shades of Building Green

As people become more aware of the effect they have on the environment, green building has exploded. But “green” means different things to different buyers.

“**I**t’s *the last home we’ll ever build.*” When upscale home builders hear that phrase — and most of them have heard it many times — they know it’s not just referring to permanence. It’s also referring to luxury and personality, and to the identities and lifestyles their clients hope to maintain while raising a family or in retirement. The strange thing, considering how these “last homes” are supposed to endure many decades, is that the standard make-up of those houses fluctuates dramatically with trends.

“McMansions,” of course, are falling quickly out of favor. They have been replaced by green homes — houses that emphasize energy efficiency, a healthy living environment and minimal negative ecological impact. There are many ways to make a home greener, and builders say different buyers have different ideas of what “green” means, as well as different priorities.

The Generation Gap

“The baby boomers are interested in making their homes as energy efficient as they can. They know it will cost a little more, but they also know it’s the wisest investment they can make,” says Don Ferrier, owner of Ferrier Builders in Fort Worth, Texas, and winner of the National Association of Home Builders’ 2007 Green Builder Advocate of the Year. “There’s another group that’s 30-45 who are doing this because it’s the right thing to do, and they’re interested in making less of an environmental impact — using fewer materials in construction and making the home more environmentally sustainable.”

Both groups value indoor air quality, so features such as low- or no-VOC paints and good air-filtration systems are a given. Beyond that, buyers make choices about which potential green upgrades they value most. While energy-focused buyers might invest in solar or geothermal heat to generate their own electricity, buyers focused on minimal impact might emphasize locally produced or renewable materials.

As an investment, the allure of spending on energy efficiency is that it will reduce the long-term costs of home ownership. Ferrier says that while features such as a high-efficiency furnace, thicker walls, upgraded insulation and alternative energy sources, such as solar or geothermal, typically increase the cost of a new home by \$200 per month, he can save his clients \$300 per month right away by lowering their energy bills. The investment also provides a hedge against future spikes in energy prices.

Long-Term Results

Still, the investment is large enough to give some buyers pause. Installing a geothermal system in a typical home costs at least \$20,000 and can double based on the size of the home, the difficulty of drilling and other factors, according to the California Energy Commission’s Consumer Energy Center. It may save you more money than it costs you each month, but in terms of straight return-on-investment, it could take a decade or more to pay for itself. That’s where the *“it’s the last home we’ll ever build”* mentality comes into play.

“These buyers are taking a long-term viewpoint and are looking at a long-term return-on-

Commercial Value

When the Museum of Northern Arizona in Flagstaff planned a new building to store the items in its collection that aren't on public display, it made sense to build green. The museum's leadership — and the community members they involved in the planning process — wanted a building that blended into the environment and would last a long time, which required minimizing its reliance on fossil fuels while protecting the museum's collection from swings in temperature and humidity.



photo by Will Viktora

The resulting building, the Easton Collection Center, has thick walls, an elaborate green roof, flooring and wall coverings that don't off-gas (the process of releasing potentially harmful chemicals into the air through evaporation), and rooms that rely on UV-filtered natural light. Additionally, much of the energy required is provided by photovoltaic panels. As a result, it was named the greenest building of 2009 by McGraw-Hill Construction in New York.

"We had a commitment from the very beginning to make this green to the core," says Robert Breunig, the museum's executive director. "We had donors that shared our values and said, 'Yes, we think this is the way you should go.'"

The museum is a nonprofit; most corporations and developers who are considering building green with their commercial projects don't have donors to rely on. Instead, they have to weigh the higher up-front costs of green building with the long-term energy savings. But many are building green anyway; more than 22,000 commercial projects are pursuing Leadership in Energy and Environmental Design (LEED) certification.

"The only reason that [commercial developers build to LEED standards] is because it makes financial sense. There are financial opportunities here, and we see them achieved every day," says Marc Heisterkamp, director of commercial real estate for the U.S. Green Building Council, the Washington, D.C. organization that administers the LEED standard. "What green building offers is a plus in this economy, because it saves money by saving on operating costs — you're using less energy, less water and producing less waste."

Additionally, Heisterkamp says businesses are aware that the government may impose regulatory standards in the future, so building to LEED standards may help insulate them from potential penalties or violations.

investment," says Brad Beeson, vice president of Bethesda Bungalows, a Chevy Chase, Md.-based green builder. "Investing in geothermal makes perfect sense to them."

In contrast, a younger buyer focused on building a home with minimal environmental impact might order bamboo flooring (bamboo is considered to be a more renewable resource than hardwoods because it grows more quickly), emphasize recycled or locally produced materials, and insist that construction waste be recycled. These buyers will also look at energy efficiency, but primarily through the lens of doing right by the environment, and are less concerned about a return on their investment. Builders say even these buyers are more likely to pay for tangible benefits such as green flooring and cabinetry than, for example, the recycling of construction material.

"Flooring, cabinet and energy-efficient products were big hits at our recent shows because they could be visually seen and enjoyed," says John Heller, president of Seattle Street of Dreams, an upscale green home and garden tour in Seattle.

People who are interested in building earth-friendly homes are perhaps more likely to think long-term and spend altruistically than a typical homebuyer. But Don Ferrier, the Fort Worth, Texas, green builder, says his clients still get sticker shock.

"Sometimes the pain of the upfront cost may be greater than [my clients] want," Ferrier says. "I just tell them to look down the road. Once they're in the home, and this may be 10 or 20 years from now, they'll look back and say, 'I'm so glad we made the choices we did.'" ■



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