

Opportunities in Today's Market:

**Rebalancing the Portfolio to Gain a
Fresh Perspective on Asset Allocation
in the New Economy**

**NORTHSHORE CAPITAL MANAGEMENT, LLC
RICHARD A. MASINO – Founder & CIO**

Family Office Forum – June 9, 2009

**©NorthShore Capital Management, LLC
All Rights Reserved**

Achieving Real Diversification – Going Beyond Traditional Strategies to Effect Reliable Results

Key Themes

- **Look for Best Pitches**
 - macro thesis is more important than diversification

- **Stay in Control**
 - limited partner interests = loss of control

Macro Thoughts

- **De-leveraging process still has unfinished business**
 - US savings rate - negative in 2005, 4% now, 8% is long term trend
 - massive mortgage resets coming in 2010/2011 (Alt-A & Option Arms)
- **Unprecedented money printing – potential for chaotic consequences**
 - aggregate fiscal & monetary response:

3x that of the Great Depression for a recession that is statistically
1/15th the magnitude (source: transcript of Jim Grant 4/15/09 interview on Kudlow Report)

Evaluating the Model

The Private Bank & Family Office Model

Domestic Equity
Foreign Equity
Private Equity
Emerging Markets
Infrastructure
Real Estate
Commodities
Precious Metals
Timber
Absolute Return
Cash
Fixed Income

The Masino Model

Dividend Compounders
Growth Bias
Inflation Hedges
Deflation Hedges
Liquid Hedged & Trading
Fixed Income

Dividend Compounders as an Asset Class

Sector	Total Dividend Growth 2001 - 2008	Top 10 Companies from representative index
Consumer Staples	145%	Sector SPDR (XLP)
Energy MLP's	61%	Alerian MLP Index
Utilities	43%	Sector SPDR (XLU)
REIT's	24%	iShares Real Estate (IYR)

- Dividends = 40% of returns since 1928 (Source: *Barron's* 5-21-07)
- Low correlation to stock price
- Differentiate high current income stocks from dividend compounders

Growth Bias - China

Criteria	China	US
Current Account Balance*	+368 billion	<568> billion
2008 Budget*	+ 18 billion	<455> billion
Public Debt as % of GDP*	15.7%	60.8%
Stimulus as % of GDP*	14%	5.5%
Public Infrastructure	38%	10.2%
More stimulus affordability	Yes	No
Savings Rate	40%	4%

Source: * CIA World Fact Book

- Focus on the emerging Chinese consumer class

Inflation Hedges

- **Agricultural commodities**
 - big input cost to favored food and beverage sector
 - biofuels remain in favor politically
- **Energy**
 - mid-stream MLP's
 - integrated E & P companies
- **Gold**
 - view as insurance product
 - prefer futures (uses little capital and tax-efficient)

Deflation Hedges

- The ability to get liquid FAST!!
- High and ultra-high net worth investors have one big advantage . . . *the ability to do nothing and wait with cash.*

**The Changing Role & Placement of
Alternative Assets in Your Portfolio:
Will They Produce Returns?**

Hedge Funds

- **Alpha inhibitors**

- October 2000: Reg FD evened the playing field for all investors

- advent of internet has made information instantaneously available to all

Periods of Positive S&P Returns 1977 - 2008	S&P 500 Performance	HFN Hedge Fund Aggregate Average *
Post 2000 (5 periods)	11.1%	12.4%
Pre 2000 (19 periods)	17.1%	27.4%

Must consider: declining alpha & asymmetric risks

(counter-parties, transparency, illiquidity & leverage)

Source: * HedgeFund.net
Channel Capital Group, Inc.

Private Equity

Are Expected Returns Exaggerated?

- Top-quartile funds have top-quartile successors with 71% persistency *

Quartile	1985 – 2005
Top	16.3%
Median	5.2%
71% Top blended with 29% Median*	13.1%
S&P 500	12.7%

Source: Thomson Venture Economics

- **Additional factors:**
 - FAS 157 removes stability premium
 - material illiquidity discount

* Source: Alignment Capital Group: Persistence in Venture Capital Returns, 1/08
Vintage Years 1980 - 1995



**The Government as a Stakeholder
and What it Means to You?**

Causes of the Market Crash of 1937

Are we now pursuing a similar path?

THEN

NOW

1933 Upper Income Tax Increases	5% withholding tax on corporate dividends
1935 (1937) (1938)	<u>Wagner Act</u> Unemployment: 12.0% Unemployment: 18.8%
1936 Upper Income Targeted Again	At \$100K (\$1.5M inf. adj.) Federal & NY State Income taxes = 40.063%
1936 Higher Corporate Taxes	The Undistributed Profit Tax

2011 Upper Income Tax Increases	Dividend & Capital Gains Taxes going up to 20%
Legislation Pending	The Employee Free Choice Act
2011 Upper Income Targeted Again	Higher Income Taxes on \$250K + earners
Legislation Pending	Tougher rules on taxing multi-nationals

Source: *Economics and the Public Welfare*, by Benjamin M. Anderson, 1949

Disclosures

- All written and verbal content is provided for information purposes only and should not be used for or considered a solicitation of an offer to sell, buy or subscribe for securities, investment partnerships or other financial instruments. Nothing contained herein or by discussion should be considered individual investment, tax or legal advice or an endorsement or recommendation of any firm, financial advisor, individual or investment.
- Presenter/Family and/or Company may have long or short positions in securities mentioned. Positions can change at any time without notice.