THE NEW YORK FAMILY OFFICE

Your Contact in the U.S.

Newsletter: 3rd Quarter 2013

U.S. Continues Slow Recovery but Employment Remains Subpar

The U.S. real gross domestic product (GDP) grew 1.1% and 2.5% for the first and second quarters respectively. However, the latest incoming economic data for July and August suggest the economic momentum garnered in the second quarter is losing steam in the third quarter. Consequently, economists estimate real GDP growth for the third quarter to be around 2%. So far growth in 2013 has been slower than the annual historic average of 3.3% from 1929 through 2012. The reasons include the rise in payroll taxes, higher income taxes on upper income individuals, significant cuts in federal spending, and a modest decline in state and local spending which was reversed in the second quarter.

Overall the U.S. economy has shown reasonably good performance given fiscal headwinds and sequestration cuts. The bright spots continue to be the ongoing revival in the housing and automotive sectors. Statistics from the National Association of Realtors published on September 19, 2013 showed that sales of previously owned U.S. homes unexpectedly rose in August to the highest level in more than six years as buyers rushed to lock in interest rates before they increased further. However, this special effect for sales will probably cool.

Outside of car replacements, cautious consumers are holding back spending. There is no sign that consumer spending is gaining momentum, especially if borrowing is required. Except for car and student loans, consumer credit demand remains weak. Retail buying was disappointing this summer, reflecting continued household concern of whether this economy will start to deliver more jobs and increased paychecks.

After job growth of just below 200,000 per month during spring, the gains disappointed with a July-August average of just 137,000. The unemployment rate dropped again in August to 7.3%, but in part due to job seekers being discouraged and dropping out of the labor market. This helped the labor participation rate fall to 63.2%, the lowest rate since August 1978. The lackluster labor market caused the Fed on September 18 to refrain from reducing its $85 billion in monthly asset purchases called quantitative easing (QE3). However, James Bullard, the President of the Federal Reserve Bank of St. Louis, said in an interview with Bloomberg that it was a borderline decision after weaker data came in and the Federal Open Market Committee (FOMC) decided to wait. Yet, Mr. Bullard pointed out that the Fed may reduce bond purchases in October. It is obvious that the Fed is getting ready to taper QE3 as soon as the economic data allows. But with an unemployment rate still significantly above 6.5%, the Fed will continue to support the economy and is unlikely to start raising the Fed funds rate from its current 0-0.25% range until 2015 at the earliest.

Foreign Direct Investments: The U.S. Overtakes China after 12 Years

Each year, the consulting firm A.T. Kearney (www.atkearney.com) publishes a Foreign Direct Investment (FDI) Confidence Index based on feedback from hundreds of executives around the globe who in total are in charge of more than $2 trillion in annual global revenue. The index ranks countries on how political, economic, and regulatory changes will affect FDI and assesses where global investment dollars are likely to be directed.

From our perspective, highlights of the 2013 study about the FDI Confidence Index are:

1) Big Picture

- The top ten countries for FDI are the United States, China, Brazil, Canada, India, Australia, Germany, United Kingdom (U.K.), Mexico, and Singapore.

- For the first time since 2001, the United States surpassed China and lead the FDI Confidence Index. Despite considerable fiscal challenges, the U.S. is viewed to be on the right path toward sustainable growth.

- There are four other developed countries in the top ten of the 2013 index: Canada, Australia, Germany, and the U.K. Canada and Australia are drawing interest for their fossil fuels and minerals, while Germany and the U.K. are popular because of their perceived safe and reliable investment opportunities despite ongoing debt and political issues in Europe.

- Besides Germany and the U.K., there is not much optimism about Europe. 62 percent of all respondents anticipate no growth or a recession over the next three years. Six years after the beginning of the global economic crisis, Europe – and in particular the Eurozone's periphery countries – might face a lost decade similar to Japan's in the 1990s after its asset price bubble collapse.

- After attracting most FDI for more than 10 years, China was ranked second in the 2013 survey as its economy is going through significant changes. For several decades, China's large, low-wage manufacturing labor force gave shape to its economy but now the elements that made China the prime choice for such work are changing quickly. Chinese labor costs have increased rapidly since 2007. In addition, rising transportation costs and the appreciation of the Chinese renminbi are closing the gap between China and other low-cost manufacturing countries. It is evident that Bangladesh, Cambodia, and Vietnam are becoming the choice for low margin, labor intensive sectors. Even though there is quite some talk about "reshoring", only six percent of all respondents said their companies will return to the developed world. It seems that those that will return are probably concentrated in hard-to-transport goods that require highly skilled labor and which are destined for developed markets.
  Due to China's changing labor costs and its dependency on exports, its leaders are focusing on better global positioning and strengthening domestic demand. FDI flows to the services sector reflected this change through faster growth in 2011 and surpassed those to manufacturing for the first time.

2) United States

- After more than a decade the United States has reclaimed the number one spot for FDI. Investors are drawn to the U.S because of its improving cost factors and increasingly competitive workforce. However, investors remain cautious because of the federal budget crisis and its impact on the economy. Given its market size and resources, the U.S. is still considered a safe harbor among developed nations. Its economy, though still recovering, has outperformed Europe since the global downturn of 2008 and 2009. In addition, the U.S. has a healthier birth rate than most other wealthy countries.

- U.S. manufacturing productivity has significantly increased since the recession. After experiencing major cutbacks during the downturn, companies invested in productivity-enhancing tools and

equipment. In combination with a weaker dollar and rising wages in developing countries, this could bring long-term benefits to the U.S. economy. Outsourcing will make less economic sense in some less labor-intensive sectors and the U.S. is becoming a more attractive place to manufacture goods for its own consumers. Some companies have already begun to return production to the U.S. as they consider costs and efficiency, better protection of intellectual property, and the benefits of having designers, salespeople, and engineers within proximity.

- The natural-gas boom is rapidly reducing energy costs in the United States. Factories which require a lot of energy and chemical plants using natural gas as their feedstock have a considerable advantage. The U.S. already has lower feedstock cost than the vast majority of all countries and foreign chemical companies are considering investments in the U.S.

3) Canada

- Canada's oil and gas boom is attracting a lot of interest among investors. The country has one of the largest reserves in the world in which private companies can invest. Canada is also the only G7 country to recapture all of its output and employment shortfalls since the recession. Compared to 2009, its FDI doubled to $45.4 billion in 2012.

Real Assets

The financial crisis caused many families and family offices from Germany, Switzerland, and Austria (GSA) to reconsider their investment and asset allocation strategies. In general, they are increasingly turning to investments that are easy to understand and re-discovering traditional investments in real assets including timberland and farmland. Given the scarce product and rising prices in GSA, investors are increasingly considering to buy in the much larger U.S. market.

However, for U.S. direct investments in timberland and farmland it is critical to understand local aspects and receive qualified information. As your contact in the U.S., The New York Family Office is happy to assist as your independent advisor at site and upon request provide access to co-investment opportunities with U.S. families and family offices.

Note: Below please find information about timberland investments in the U.S. In our 4th quarter 2013 newsletter, we will write a report about investments in U.S. farmland.

Timberland

Many conservative long-term investors find timberland investments attractive, because of favorable risk-adjusted returns, inflation protection characteristics, and low correlation to main assets.

1) Return Drivers

In general, Timberland investment returns are essentially a function of three main drivers: biological growth (~60%), timber prices (~25%), and timberland prices (~15%)*.

***Important Note:**

The split between the return components can vary considerably between individual investments. In addition, other income sources such as higher and better use,

hunting, mining royalties, conservation easements, etc. are applicable to some investments.

a) Biological Tree Growth

The largest component of timberland investment returns, biological growth, is highly predictable and independent of all other factors. This separates timberland from other types of investments including property.

The effect of biological growth on return is two-dimensional. Not only do trees grow in volume, but as they grow, they also turn into higher value products (called "ingrowth"). The resulting extra volume and consequent value change over time are, to a large extent, independent of macroeconomic or financial market conditions.

b) Changes in Timber Price

Numerous macroeconomic factors influence the price of timber, including population growth, GDP per capita, activity in the construction sector, interest rates, and the overall level of economic activity. Research shows that the increase in timber prices consistently trended above the inflation rate over the last century.

Moreover, micro factors such as environmental and legacy issues affect the stumpage price within regions. However, during periods of declining timber prices, biological growth counters the impact of reduced timber prices. Therefore, timberland investments have a natural built-in hedge against timber price fluctuations. Furthermore, flexibility exists when it comes to timing the harvest of trees and by utilizing positive market conditions, management can maximize the return from the investment.

c) Changes in Land Value

Historically, land value only represents a small percentage of the total timberland investment value. Land values are related to local supply and demand conditions and therefore vary geographically. In addition, price is also partly a function of soil quality. Nevertheless, increasing competition for land to be used for agriculture, bioenergy production or recreational use, and forestry, can provide major upside potential based on land appreciation.

Furthermore, it appears that the strongest indicators of real value of land over time are the Consumer Price Index and the nominal risk-free rate of interest. During periods of low inflation and relative timber product price stability, timberland prices tend to change slowly, and vice versa.

2) Return Structure

Ownership of timberland can be viewed as investing in two timing options: the entry/exit option and the harvest option.

a) Entry/Exit Option

Changes in the value of a timberland property are related to a number of factors, of which changes in timber prices and presence of timber industry are particularly important. Managers can utilize timberland market conditions when entering and exiting the investment and thus affect the return on the investment.

b) Harvest Option

In addition, management can positively affect the rate of return on the investment by utilizing market conditions and harvesting the trees when timber prices are attractive.

3) Catastrophic Loss Risks

When considering the risks of timberland investments, biotic and climatic factors are often addressed by inves-

tors. However, statistics indicate that professionally managed timberland has hardly experienced adverse natural events. Less than 0.45% of the total value of the forest asset has been lost due to insects, storm, or fire in any given year. A key point is that after a fire, it is estimated that up to 90% of the timber is still merchantable.

4) Historical Timberland Performance

The NCREIF Timberland Index has been published since 1994 and includes returns dating back to 1987. As of the end of 2012, the index accounted for 15 million acres of forestland (approximately six million hectares) and the total value of the 443 properties was about USD 26 billion, a substantial share of institutional timberland investments in the United States. Despite several limitations, the index is the best available measure of historical performance and it provides some indication of expected return characteristics for timberland investments.

According to the NCREIF Timberland Index, U.S. timberland investments have yielded an annual nominal return of 12.8% from 1987 until 2012. The composition shows a steady, although decreasing, income return, while capital appreciation is more volatile and has even experienced depreciation in 2001 and 2002 and again from 2009 to 2011.

5) Regional Differences in the U.S.

Please note that the specific characteristics and annual returns of timberland vary within and between the different U.S. regions. For example, forestry regions in the U.S. vary by rotation time, average annual growth, annual precipitation, vegetation period, tree stand composition, ratio of coniferous/deciduous trees, age class composition, log rules, terrain, tract parcelling, ruminant damage, accessibility, management restrictions, mechanical/manual operating, property taxes, regeneration, management costs, biodiversity, average land price, dirt value, historical land appreciation, possibility to convert land use, public/private ownership, risks by natural events, etc.

6) Conclusion

For asset allocation purposes, timberland investment return characteristics are attractive:

- According to the NCREIF Timberland Index, U.S. timberland investments have yielded a nominal return of 12.8% p.a. from 1987 until 2012 before asset management fees.
- The historical standard deviation of U.S. timberland has been approximately 11% p.a.
- Timberland returns have historically shown low or negative correlations with returns from traditional asset classes in a portfolio.
- The flexibility in connection with timing of entry/exit and timing of harvests reduces the risk of negative returns for timberland investments compared to investments without these characteristics.

Update regarding FATCA

In our newsletter for the 1st Quarter 2012, we reported that President Obama signed the Foreign Account Tax Compliance Act (FATCA). This law should prevent tax evasion of U.S. citizens and residents through offshore accounts. As a result, those U.S. citizens or Green Card holders for which the FATCA rules apply, have to attach Form 8938 to their 2011 tax returns under the FATCA Foreign Financial Assets Reporting rules. Ge-

nerally, taxpayers must file Form 8938 with their tax returns if the aggregate value of all specified foreign financial assets exceeds $50,000 at the end of the year or $75,000 at any time during the year.

Note: The aforementioned tax return filing obligations also apply for residents of GSA with German, Swiss or Austrian citizenship, who in addition have U.S. citizenship (e.g. by birth), because U.S. citizens are generally taxable in the U.S. with their world-wide income.

Furthermore, U.S. withholding agents are required to withhold a 30% tax of certain payments from U.S. sources (such as interest, dividends, and gross receipts from capital gain transactions) to foreign financial institutions (FFIs) or nonfinancial foreign entities (NFFEs) unless

- the FFIs enter into an agreement with the Internal Revenue Service (IRS) to, among other things, report certain information with respect to U.S. accounts.
- the NFFEs provide information on their substantial U.S. owners.

On January 17, 2013 the U.S. Treasury Department and the IRS issued the final regulations under FATCA. These regulations provided for a phased implementation of the requirements of FATCA withholding. The first phase begins on January 1, 2014 with withholding on interest and dividends from U.S. sources, and the last phase starts on January 1, 2017 with withholding on gross proceeds and foreign passthru payments.

On May 31, 2013 the Federal Republic of Germany and the United States of America signed the "Agreement to Improve International Tax Compliance and with respect to the United States Information and Reporting Provisions Commonly Known as the Foreign Account Tax Compliance Act". This FATCA-Agreement will become effective in Germany after adopting the according German approving act (Zustimmungsgesetz), which is expected to happen in 2013.

On July 12, 2013 the IRS issued Notice 2013-43, which among other things granted a six-month extension for FATCA withholding on interest and dividends from U.S. sources. This withholding will now apply only to payments made after June 30, 2014. However, withholding on gross proceeds is still scheduled to begin on January 1, 2017. Besides, the timeline for FFIs to register as a participating FFI (PFFI) was also extended. For extensive details see Notice 2013-43.

The New York Tax Group

The New York Family Office had a very positive start and continues to grow. In addition, we are pleased to announce the formation of **The New York Tax Group**, a sister company, which comprehensively assists German-speaking entrepreneurs and families with all U.S. tax matters. With this expansion we implemented repeated requests of some clients. There is strong demand for our tax competency not only for their individual tax issues but also for their business interests and entrepreneurial direct investments in U.S. subsidiaries. With the formation of The New York Tax Group we position ourselves as the central point of contact for all U.S. tax matters.

For additional information regarding The New York Tax Group please see www.TheNewYorkTaxGroup.com or www.tnytg.com.

Economic Indicators & U.S. Dollar Foreign-Exchange Rates

Economic Indicators	August 2013	June 2013	August 2012	August 2010	August 2008
Employment	169,000	195,000	96,000	(54,000)	(84,000)
Unemployment Rate	7.3%	7.6%	8.1%	9.6%	6.1%
Avg. Weekly Hours (Manuf.)	40.8	40.9	40.5	40.2	40.9
Avg. Overtime Hours (Manuf.)	3.4	3.3	3.2	0.1	3.7
Building Permits	918,000	911,000	803,000	569,000	857,000
Housing Starts	891,000	836,000	750,000	598,000	849,000
Consumer Confidence Index	81.8	82.1	62.7	54.3	50.4
Purchasing Managers Index	55.7	50.9	50.7	57.8	49.2

Other Indicators	Aug. 30, 2013	June 28, 2013	Aug. 31, 2012	Aug. 31, 2010	Aug. 29, 2008
S&P 500 Index	1,632.97	1,606.28	1,406.58	1,049.33	1,282.83
S&P 500 - Trading Volume (in thousands)	2,734,300	4,977,190	2,938,250	4,038,770	3,288,120
VIX (Volatility Index)	17.01	16.86	17.47	26.05	20.65

Real GDP	2013 Q2	2013 Q1	2012	2010	2008
Real GDP	2.5%	1.1%	2.2%	3.0%	(0.3%)

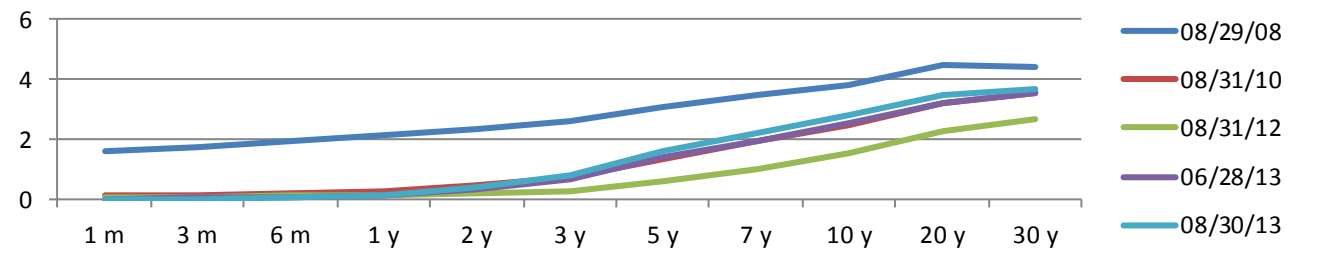
Inflation	Aug. 2013	June 2013	2012	2010	2008
Inflation	1.5%	1.8%	2.1%	1.6%	3.8%

Currency Exchange Rates	Aug. 30, 2013	June 28, 2013	Aug. 31, 2012	Aug. 31, 2010	Aug. 29, 2008
EUR / USD	1.3281	1.3027	1.2531	1.2700	1.4750
GBP / USD	1.5514	1.5290	1.5822	1.5510	1.8341
CHF / USD	1.0788	1.0593	1.0434	0.9733	0.9134
CAD / USD	0.9520	0.9561	1.0089	0.9496	0.9550
CNY / USD	0.1622	0.1614	0.1577	0.1468	0.1462
JPY / USD	0.0102	0.0102	0.0127	0.0118	0.0091

Note: Some Numbers May Be Updated Due to Revisions of Official Statistics.

Interest Rates, Real Estate & Taxes

Treasury Yield Curve (in %)



Base Rates	October 7, 2013	2 Weeks Ago	One Year Ago
30 Day LIBOR	0.17%	0.18%	0.22%
U.S. Treasury			
5 Year	1.38%	1.48%	0.65%
10 Year	2.61%	2.72%	1.71%

10-Year Fixed Rate Ranges by Asset Class	Max. LTV	Class A	Class B/C
Anchored Retail	70-75%	T + 215	T + 230
Strip Center	65-70%	T + 235	T + 250
Multi Family (Non-Agency)	70-75%	T + 200	T + 210
Multi Family (Agency)	75-80%	T + 210	T + 215
Distribution/Warehouse	65-70%	T + 210	T + 225
R&D/Flex/Industrial	65-70%	T + 225	T + 245
Office	65-75%	T + 205	T + 225
Full Service Hotel	55-65%	T + 265	T + 290

Note: T = Interest Rate for 10-Year U.S. Treasury (2.61%)
Source: Cushman & Wakefield (October 7, 2013)

Simplified Presentation of the Most Important U.S. Federal Tax Rates:	
Income Tax	10-35% / 10-39.6%*
Long-Term Capital Gains (LTCG)	15% / 20%*
"Qualified" Dividends	15% / 20%*
Corporate Tax	15-35%
Gift and Estate Tax	18-35% / 18-40%*

Note: * = As of January 1, 2013 higher tax rates apply for individuals earning more than $400,000 (and couples earning more than $450,000).

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For questions or scheduling meetings, please contact us.
We are looking forward to hearing from you.

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