THE NEW YORK FAMILY OFFICE

Your Contact in the U.S.

Newsletter: 2nd Quarter 2014

Stronger U.S. Economy Leads to More Normal Monetary Policy

After a very surprising 2.9 percent contraction in the first quarter 2014 – due to downward revisions to health care and exports and the impact of a bad winter – the U.S. real gross domestic product (GDP) is expected to grow approximately 3 percent annualized in the second quarter. The strong labor market including significant job growth in the second quarter reflects a strengthening of the U.S. economy. In addition, a stronger job market improves consumer sentiment and stimulates consumer spending. Higher spending could lead to increased business investments in capital expenditure and human capital but it remains to be seen if this will lead to a rise in wages. Further job growth may raise the participation rate as discouraged workers restart their job search, which could keep downward pressure on wages and salaries. Historically, inflation does not become a problem until the capacity utilization rate of the U.S. industry reaches 82 percent. As of June the rate was at 79.1 percent. Some economists believe that firms will soon have to ramp up their capital spending since much of the equipment is old. If this happens the economic expansion will be extended and inflationary risks will be reduced.

The Federal Reserve has been purchasing mortgage and Treasury bonds in a quantitative easing program (QE1-3). The purpose of this monetary policy is to keep long-term interest rates low and to steer investors into riskier holdings such as stocks or corporate debt. The Federal Reserve put this in place to stimulate lending, spending, investing and hiring in order to spur economic growth. The Fed has been reducing the quantitative easing program from $85 billion per month in December 2013 to $35 billion per month as of July without negative impact on interest rates. If the economy progresses as the Fed expects it will end the quantitative easing program in October.

The next change in monetary policy will be the timing of interest rate increases to counter a possible rise in inflation as the U.S. economy reaches its capacity limits. The Federal Open Market Committee (FOMC) has maintained the federal funds rate, the interest rate at which depository institutions lend balances to each other overnight, near zero since late 2008. Most economists anticipate the beginning of an increase in the short term rate in the second quarter of 2015 and expect it to reach about 1 percent by the end of next year. Currently, Janet Yellen, the Federal Reserve Chairman, wants to wait with rate increases until the economy is on a solid trajectory, but if she waits too long she could spur inflation or financial bubbles. She considers the low levels of labor-force participation and slow wage growth as signs of „significant slack“ in the job market. The missing piece for a complete economic recovery is wages, which should increase when supply for available workers gets tight and signal the Fed that the labor market is heating up. While inflation has risen the Fed expects it to remain below its 2 percent standard for 2014. However, Ms. Yellen kept the door open for sooner and potentially more rapid interest rate increases if the labor market continues to improve more quickly than anticipated.

German Firms Confident about U.S. Market in 2014

The German American Chambers of Commerce (GACCs), the Representative of German Industry and Trade (RGIT), and Roland Berger Strategy Consultants conducted a survey monitoring the state of German-owned subsidiaries in the U.S. The key findings of the "German American Business Outlook 2014" are:

- German-American firms have had a positive year in terms of business activity and growth in 2013; respondents expect to continue the trend of outperforming the U.S. economy in 2014.

  - ✓ Firms experienced strong top-line growth as sales volumes have continued to increase even though price levels stagnated or slightly decreased.

  - ✓ However, as the market continues to recover, both labor and non-labor costs continued to increase marginally.

  - ✓ In 2014, respondents expect the U.S. market to continue improving and are confident in the growth prospects for their own firms. In response 75 percent expect to increase their workforces in 2014.

  - ✓ Based on this confidence, firms continue to focus on growth-oriented initiatives like investing in plant, property, and equipment (PP&E) and introducing new product lines to their U.S. operations

- Confidence levels of German subsidiaries in the U.S. about business growth in 2014 hit highest level in five years

  - ✓ Majority of respondents had increased their strategic focus on the U.S. in 2013. Expectations for 2014 are further growth and investments.

  - ✓ U.S. operations provide a different level of access to the U.S. market and closeness to the firms' American consumers.

- Future expectations and challenges

  - ✓ Respondents remain cautious regarding Euro/USD exchange rate risks.
  - ✓ German-American firms continue to believe that long-term economic value can be created through investing in education as many companies are experiencing difficulty finding skilled workforce.

  - ✓ Addressing U.S. fiscal concerns and tax reform are believed to help restore market confidence and improve long-run economic growth potential.

  - ✓ Firms believe that increased transatlantic economic integration will stimulate growth and additional investments mainly through reduction of tariffs and compliance costs.

Sources: www.rgit-usa.com, www.gaccny.com, www.rolandberger.us

How Did the U.S. Experience the 2014 FIFA World Cup?

Soccer saw an increase in interest in the U.S. as a mass of people skipped work or other commitments to gather in sports bars and beer gardens and experience the games of the 2014 FIFA World Cup. According to some polls soccer ranks as the fourth most popular team sport in the U.S. behind American football, baseball, and basketball. An estimated 20 million Americans play soccer and there are about three million registered U.S. Youth Soccer players. An ESPN sports poll ranked soccer as the second most popular sport in the country for 12-24-year-olds. One reason for the increasing popularity of soccer in the U.S. is the strong growth of immigrants from Latin America.

The 2014 FIFA World Cup attracted more television viewers than the NBA finals this year and there were reports that except for hosting Brazilians, Americans purchased more FIFA World Cup tickets than any other nationality. It is noteworthy that the Empire State Building lit up in the German colors black, red, and gold after the German team defeating Brazil 7:1 in the semi-final and beating Argentina in the final. Normally, this only happens once per year on October 3, the Day of German Unity.

Economically the 2014 FIFA World Cup was a success and marketers hope that even more Americans will be drawn into soccer in the future. Currently marketing dollars are not pouring into soccer as much as other sports and soccer is at a slight disadvantage since it consists of two 45-minute halves without commercials. However, marketing experts extensively use perimeter advertising systems in the soccer stadiums and might consider other marketing opportunities like displaying virtual images onto the field and in the spectator stands. Shakira who performed during the closing ceremony of the 2014 FIFA World Cup now has 100 million facebook fans. It seems that in the future more artists may be vying for a chance to perform during the World Cup which will add to soccer's popularity.

U.S. Rulings Allow First Oil Exports Since the 1973 Oil Embargo

As response to the oil embargo in 1973 the U.S. banned all crude oil exports allowing only exports of refined oil like gasoline, diesel, and jet fuel. According to various news reports in June 2014 two U.S. companies received private letter rulings (PLRs) from the Bureau of Industry and Security (BIS) which will not consider slightly processed condensates as crude oil and in turn allow them to be exported. The BIS is an agency of the U.S. Commerce Department and one of its activities is to enforce export control.

PLRs bind only the BIS and the requesting company. The agency interprets and applies the law to a specific set of facts described in the ruling request and its ruling prevents the requester from criminal and civil prosecution if the facts were outlined correctly. However, PLRs cannot be referred to or relied on as precedent by others and they do not bind the BIS to take a similar position when dealing with other companies. So, why have these rulings – which have not yet been published – drawn so much attention and are widely considered as a game changer?

According to the Code of Federal Regulations (15 CFR

754.2(a)) crude oil is defined as "a mixture of hydrocarbons that existed in liquid phase in underground reservoirs and remains liquid at atmospheric pressure after passing through surface separating facilities and which has not been processed through a crude oil distillation tower." After crude oil has been extracted it passes two processes: Stabilization and distillation. The stabilization process makes crude oil safe for transportation by removing hydrogen sulfide (sweetening "sour" crude oil) and reducing vapor pressure. Distillation process is a term for a broad range of processes with varying complexity further refining crude oil into different petroleum products. The problem is that it is impossible to chemically define crude oil due to its various consistencies when extracted. In addition, it is practically almost not possible to differentiate between crude oil, condensate and further refined petroleum products based on their chemical composition.

Essentially, the rulings confirmed that the BIS distinguishes crude oil from non-crude oil by its processing (distillation) but made crystal clear that condensate does not have to be fully refined or distilled before it can be exported. Similar requests could easily be made for other crude oils that are stabilized and minimally distilled. According to industry experts it seems impossible for the BIS to rule differently in other cases. Therefore, the PLRs with their interpretation of what is considered crude oil have opened the door for the beginning of the end of a 40-year long export ban of oil from the U.S.

The U.S. Is Expected to Start Exporting Natural Gas in 2015

In May 2014 the U.S. Department of Energy (DOE) gave conditional authorization to a second facility to export liquefied natural gas (LNG) to countries without free-trade agreements. However, approval is still needed from the Federal Energy Regulatory Commission. The first facility, which received approval in May 2011, is expected to begin exporting LNG in 2015, and the second facility in 2017. Both facilities are located on the Gulf coast, the first one in Sabine Pass, Louisiana and the second one in Freeport, Texas. Furthermore, over 20 additional proposed facilities are in different stages of the DOE's review and approval process.

Exporting LNG is controversial in the U.S. with proponents claiming it will improve the trade balance and support adoption of clean fuels world-wide and opponents countering it will cause a rise in domestic prices, which will hurt U.S. consumers and various U.S. industries – including the chemical industry – that benefit from low energy prices.

The Largest Private Landowners in the U.S.

Investing in rural, undeveloped land continues to be a popular strategy among the affluent, according to the 2013 Land Report (www.landreport.com) ranking the 100 largest private landowners in the United States. Land has also become a popular investment in uncertain financial times and appeals to people as an investment they can easily understand. Some investors see land as a hedge against inflation, and low global

interest rates have made land cheaper to buy. Higher world food prices and an anticipation of a recovery in the housing market have positioned land as a good place to get real returns on an asset whose underlying value continues to rise.

In 2012, the country's top 100 landowners cumulatively increased their private holdings by 700,000 acres to a total of 33 million acres, nearly 2 percent of U.S. land mass. According to the Land Report 100 list, which focuses exclusively on deeded acreage owned by individuals, families, family-owned companies and family-controlled foundations and excludes leased and public lands, the top five largest landowners in the U.S. are:

1. John Malone (2,200,000 acres)
2. Ted Turner (over 2,000,000 acres)
3. Emmerson Family (1,860,000 acres)
4. Brad Kelley (1,500,000 acres)
5. Irving Family (1,250,000 acres)

Note: 1,000,000 acres are approximately 405,000 hectares or 4,050 square kilometers.

America's largest landowners continue to recognize land as a compelling asset, one whose numerous attributes go well beyond return on investment (ROI). They find value in aggregating their land for conservation and agricultural purposes versus parceling and developing the land.

For example, the 75 year old media mogul and CNN founder, Ted Turner, has morphed into a passionate environmentalist and humanitarian. He is also the second largest individual landholder in North America, with approximately two million acres of personal and ranch land in twelve U.S. states and Argentina. Mr. Turner started buying ranches in 1987 for fly fishing and stress relief. He fell in love with the West for its wide-open spaces, wildlife, and beautiful landscapes. But he also tries to make his ranch operations – most often raising bison – profitable and claims that he always considers investment value in addition to opportunities for recreation and conservation when he looks at property. Accordingly, his ranches operate as working businesses, relying on bison and hunting, fishing, nature tourism as principal enterprises. The properties are innovatively managed to unite economic viability with ecological sustainability. In addition, Turner ranches support many progressive environmental projects including water resource and timber management, and the reintroduction of native species to the land. Turner Enterprises also manages over 55,000 bison across 14 ranches, which is the largest private herd in the world. The mission statement of Turner Enterprises, Inc. is "to manage Turner lands in an economically sustainable and ecologically sensitive manner while promoting the conservation of native species." This philosophy allows natural processes to take precedence, but still recognizes the "hand of man." Turner Enterprises, Inc. strives for management that is both ecologically sensitive and commercially sustainable.

The fourth largest landowner in the U.S., Brad Kelley, is a reclusive billionaire who made his fortune in the discount cigarette business. The 57 year old is deeply private, is hardly ever photographed, rarely gives interviews, and doesn't tweet or use email. Mr. Kelley says it was not his goal to become one of the country's biggest landowners. He grew up on a farm, land is something he knows and something he has an affinity for. Mr. Kelley considers land as a nonperishable commodi-

ty and much better than derivatives. Ranches, which are Mr. Kelley's specialty, don't tend to yield much of an annual return. Instead, their value is in the underlying appreciation of the land. Most investors' investment strategies are changing the use of the land, for example creating value by subdividing ranch land and selling it to developers or as „trophy sporting ranches," where the wealthy can fish and hunt. However, Mr. Kelley's ranch strategy is different. He looks for good deals on cattle ranches in out-of-the-way places he thinks are undervalued, and holds on to them. And he doesn't develop the land he buys. He has sold about 15% of his total holdings over the past three decades; combined with the land he has bought during this period that is an aggregate turnover of less than half a percent, most of it for management reasons. He likes to buy adjoining parcels for two reasons: 1) It is more efficient to operate a ranch in large blocks and 2) it tends to be easier to buy property when it is right next door because he already knows what he is buying and what the seller is like. Once he has bought the land, Mr. Kelley does what some ranchers call „resting." He keeps the cattle operations running, almost always leasing the land back to the previous owner, who already knows how to run the existing operation. In this way, he has pieced together existing cattle ranches in remote parts of Texas, Florida and New Mexico.

Land ownership has become a good strategy for prudent investors. For those who are long term investors and do not watch the near term swings in property values this can be a solid strategy to gain long-term returns.

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

Economic Indicators	May 2014	March 2014	May 2013	May 2011	May 2009
Employment	217,000	192,000	175,000	54,000	(349,000)
Unemployment Rate	6.3%	6.7%	7.6%	9.1%	9.4%
Avg. Weekly Hours (Manuf.)	41.1	41.1	40.8	40.6	39.3
Avg. Overtime Hours (Manuf.)	3.5	3.5	3.3	3.2	2.7
Building Permits	991,000	990,000	974,000	612,000	518,000
Housing Starts	1,001,000	946,000	914,000	560,000	532,000
Consumer Confidence Index	82.2	83.9	74.3	61.7	54.8
Purchasing Managers Index	55.4	53.7	49.0	53.5	41.7

Other Indicators	May 30, 2014	March 31, 2014	May 31, 2013	May 31, 2011	May 29, 2009
S&P 500 Index	1,923.57	1,872.34	1,630.74	1,345.20	919.14
S&P 500 - Trading Volume (in thousands)	3,263,490	3,274,300	4,099,600	4,696,240	6,050,420
VIX (Volatility Index)	11.40	13.88	16.30	15.45	28.92

Real GDP	2014 Q1	2013 Q4	2013	2011	2009
Real GDP	(2.9%)	2.6%	1.9%	1.8%	(2.8%)

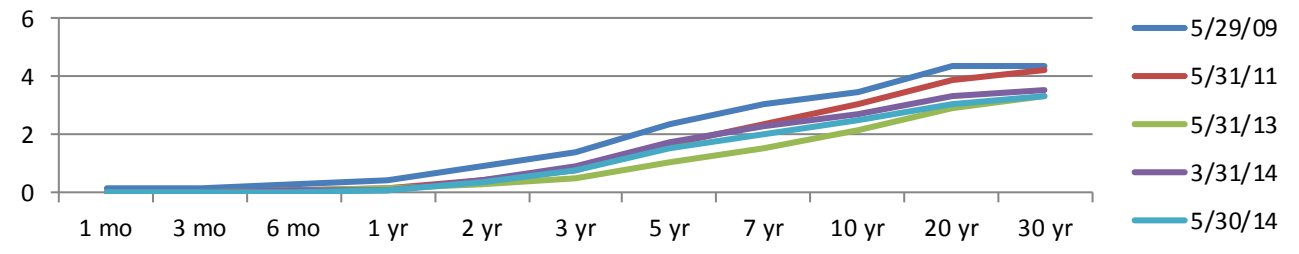
Inflation	May 2014	March 2014	2013	2011	2009
Inflation	2.1%	1.5%	1.5%	3.2%	(0.4%)

Currency Exchange Rates	May 30, 2014	March 31, 2014	May 31, 2013	May 31, 2011	May 29, 2009
EUR / USD	1.3605	1.3753	1.2988	1.4283	1.3877
GBP / USD	1.6718	1.6640	1.5166	1.6474	1.5940
CHF / USD	1.1142	1.1275	1.0431	1.1744	0.9372
CAD / USD	0.9210	0.9041	0.9672	1.0238	0.8938
CNY / USD	0.1620	0.1623	0.1617	0.1542	0.1465
JPY / USD	0.0098	0.0097	0.0099	0.0124	0.0104

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

Interest Rates, Real Estate & Taxes

Treasury Yield Curve (in %)



Base Rates	July 10, 2014	2 Weeks Ago	One Year Ago
30 Day LIBOR	0.15%	0.15%	0.19%
U.S. Treasury			
5 Year	1.62%	1.64%	1.48%
10 Year	2.50%	2.53%	2.64%

10-Year Fixed Rate Ranges by Asset Class	Max. LTV	Class A	Class B/C
Anchored Retail	70-75%	T + 180	T + 190
Strip Center	65-70%	T + 185	T + 195
Multi Family (Non-Agency)	75-80%	T + 170	T + 180
Multi Family (Agency)	75-80%	T + 155	T + 160
Distribution/Warehouse	65-70%	T + 175	T + 185
R&D/Flex/Industrial	65-70%	T + 185	T + 195
Office	65-75%	T + 180	T + 190
Full Service Hotel	55-65%	T + 235	T + 255

Note: T = Interest Rate for 10-Year U.S. Treasury (2.50%)
Source: Cushman & Wakefield (July 10, 2014)

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

Note: * = As of January 1, 2014 higher tax rates apply for individuals earning more than USD 406,750 (and couples earning more than USD 457,600).

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If you have questions or would like to schedule a meeting, please contact us.
We are looking forward to hearing from you.

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