



**NEW ENGLAND  
GUILD**  
Wealth Management  
& Investment Advisors

# WEALTH MANAGEMENT COMMENTARY

PROTECTING AND BUILDING YOUR FINANCIAL FUTURE

FALL 2010

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www.neguild.com

## Market Spotlight

Index	Returns			
	Qtly	Annual		
	3 <sup>rd</sup> Qtr	1 Yr	3 Yrs	10 Yrs
<b>Equities</b>				
S&P 500	11.3%	10.2%	-7.2%	-0.4%
Russell 2000	11.3%	13.4%	-4.3%	4.0%
MSCI EAFE (Int'l)	16.5%	3.3%	-9.5%	2.6%
FTSE NAREIT	12.8%	30.3%	-6.1%	10.4%
<b>Bonds &amp; Cash</b>				
Barcap Agg. Bond	2.5%	8.2%	7.4%	6.4%
90 Day T-Bills	0.1%	0.1%	0.9%	2.4%

What to make of a topsy turvy quarter in the equity markets? A volatile July was followed by battered markets in August as waves of disappointing economic data overshadowed a strong corporate earnings season. However, defying September's track record as the worst month for stocks, the S&P 500 bounced back and posted its best performance in 71 years, gaining 8.8% for the month. During the quarter, most stocks were up with both large and small US stocks advancing over 10% and growth stocks continuing their rally. International results were also strong, led by stocks within the European and emerging markets. Bonds returns for the quarter were moderately positive while yields on short term CDs trended lower. REIT performance continued to be strong.

What we've seen in the current economic climate is both good news and bad news. With respect to improved fundamentals, there is "good news" particularly as it pertains to stronger corporate profits and balance sheets. Household finances also have improved, and weak home building and car buying is building pent up demand in these areas. At the same time, strength has been noted in the railroad, airline and lodging sectors pointing to an upward trend in consumer discretionary spending. Outside the US, a stronger than expected recovery has been noted from countries such as Germany and China. Inflation remains subdued and interest rates are historically low. And the Federal Reserve has signaled that they will leave interest rates low "for an extended period", which bodes well for financing costs.

But now for the "bad news"...! Improvement in the labor market has yet to kick in, leaving the unemployment rate uncomfortably high at about 9.5%.



Dear Clients and Friends of The Guild:

As we approach our 20th anniversary at The Guild, we are pleased to announce the launch of enhanced communication tools, which include a new logo, website, stationery and brochure. When our firm was founded in 1991, we chose the word Guild to distinguish our unique approach and capabilities among financial services firms. Our commitment to knowing our clients well, to applying a comprehensive process toward achieving their goals, and to providing integrated services through a collaborative union of financial professionals with diverse expertise continues to differentiate us from our peers. We believe this new communications initiative better conveys our philosophy and collaborative approach to our clients as well as to others who may benefit from our disciplined process, integrated capabilities, and personalized service.

In the future, you will hear and see us communicate frequently about why it is so important to *Invest in Context*. At The New England Guild, we believe that strategic asset management is not a one-time event, but rather an ongoing process that responds to our clients' evolving needs and plans. *Invest in Context* refers to our core approach of developing a plan and then re-evaluating our clients' goals, needs and circumstances regularly to ensure that the financial decisions they make are appropriate for the present now and in the future.

As part of our effort to communicate the values and capabilities that differentiate the Guild, you will notice some positive changes. In November, we will launch our newly designed website, which will offer comprehensive information about the firm. In addition, it will enable us to better define our capabilities and to provide more comprehensive information about our approach to investing and wealth management. We hope it will also convey the privilege we feel to work with clients, whose relationships we value and enjoy. Our clients are the foundation of our success, the best source of our referrals, and the basis for the passion we feel coming to work every day. Further, it is our hope that our efforts will help you to better understand the ways we at The Guild can help you to achieve your goals. We invite you to visit our new website in November at [www.neguild.com](http://www.neguild.com).

With warm regards,

Hal, Eliot, Patrick, Jim, Jen and Sue

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The New England Guild, Inc. A Registered Investment Advisor

Despite strong balance sheets, corporate confidence is shaky hindering the deployment of high levels of cash on activities such as capital expenditures, dividend increases, acquisitions and hiring. Tight credit for individuals and small businesses remains challenging, and industrial growth has begun to sputter after benefitting from the rebuilding of inventories. Government debt continues to rise, and investors and businesses alike are unnerved by regulatory uncertainty, Washington policies and the unknown impact of upcoming elections. At the same time, geopolitical shocks, terrorism, a sudden spike in oil prices and sovereign

debt worries continue to pose risks.

As to prospects for a double-dip recession in the US...? During September investors appeared optimistic that the risks of a double-dip recession were lessening and that modest levels of economic growth in the range of 1.5% to 2.5% were more likely. Although we don't have a sure answer, we do believe that sustaining the current recovery will depend heavily on job growth, a successful handoff from the government to the private sector, and the corporate sector's ability to maintain

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## MARKET SPOTLIGHT

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productivity and profits if top-line revenue growth stalls.

Markets hate uncertainty. And despite a 10% rise in equities from the lows a month ago, the markets lack any clear upward trend. We would point out that stocks look cheap by conventional valuation measures, especially relative to bonds. That said, JP Morgan's Chief Economist David Kelly reminds that "if investors don't feel good about the economy, it is hard for them to feel good about stocks". So given the number of crosscurrents and structural problems currently affecting financial markets, coupled with a lack of conviction on the part of individual investors, we believe that it remains a time to be cautious. At the same time, we would encourage clients with longer term horizons to look past short term tactical issues, and to adhere to the mantra of broadly diversifying their investment strategy

### EXCURSION

The *Mill at 2T* is a charming seven table restaurant housed by the river in a beautifully restored, historic mill tucked away in the Tariffville section of Simsbury. Owner-operators Ryan and Kelleanne Jones make a friendly, welcoming team. Exposed beams, hardwood floors, black leather chairs, wide open kitchen create a warm ambiance. The menu is a culinary extravaganza of simple fare made extraordinary by intriguing combinations of locally sourced ingredients, which change often. Freshly baked popovers surprise! For starters don't miss the Foie Gras, but save room for the Chocolate Molten Cake – melts in your mouth! Dinner is served Wed-Sat at this destination not to be missed on 2 Tunxis Rd in Tariffville, CT. Call (860) 658-7890 or visit [www.themillat2t.com](http://www.themillat2t.com).

"Those who stay away from the election think that one vote will do no good. 'Tis but one step more to think one vote will do no harm."

- Ralph Waldo Emerson

## Investment Commentary

### PREDICTION MARKETS

We came across a fascinating article recently entitled 'Prediction Markets: The Collective Knowledge of Market Participants', written by Justin Wolters, Associate Professor of Business and Public Policy at the Wharton School of the University of Pennsylvania. As explained by Wikipedia, "prediction markets are speculative markets created for the purpose of making predictions. Assets are created whose final cash value is tied to a particular event (e.g., will the next US president be a Republican) or parameter (e.g., total sales next quarter). The current market prices can then be interpreted as predictions of the probability of the event or the expected value of the parameter. Prediction markets are thus structured as betting exchanges, without any risk for the bookmaker."

Prediction markets may include a broad variety of topics with the more popular markets focusing on political, financial and sports events. However, they also have value as a business tool for gaining intelligence and feedback on products and markets, project management, and planning. What predictive markets provide, in addition to pure entertainment value, is a) collective wisdom about likely outcomes of events; b) objectivity since, unlike opinion polls, they ask the question, "who do you think will win?" rather than "who would you like to win?" as many polls do; c) quick response to new information; d) encouragement to seek out better information; and e) greater accuracy in forecasting than has been the case with more traditional approaches. Participants may bet on expected outcomes with either real money or 'virtual' or play money so there is strong economic incentive to forecast accurately.

For these reasons, prediction markets have had an impressive performance record. Academics love to analyze data of this sort, and the data suggest that predicted markets do a better job at forecasting political outcomes, sports results, and/or movie success than polls or other fore-

casting techniques. (Hard to believe, but they even do better than economists in forecasting economic parameters!). It is to be noted, however, that if no useful information is available to be aggregated, prediction markets are not especially helpful, e.g., when asked whether weapons of mass destruction would be discovered in Iraq by May 2003, June 2003, July 2003 or September 2003, they were no more accurate than the rest of us.

Some of the more popular websites using prediction markets include: *Betfair* which is the world's biggest prediction exchange, *Intrade* which offers a large variety of contracts not including sports, the *Iowa Electronic Markets* which is an academic market maker focusing on political events, and the *Hollywood Stock Exchange* which makes markets in movies. One could see, for example, that as of September 29, 2010, Intrade indicates a 74.8% probability that the Republicans will win the US House of Representatives in the November elections; a 62.8% probability that the Democratic Party presidential candidate would win election in 2012; a 19.0% chance that Sarah Palin will be the Republican presidential nominee in 2012; a 44.9%; a 38.8% chance that the US economy will be in recession in 2011; and a 98.0% probability that the Global average temperature in 2019 will exceed that of 2009.

So how can all this be useful to investors? The big thing is that they remind us of capital markets which are also voting machines using real money to seek financial gain, and which, in their collective wisdom, are generally more accurate than the opinions of individuals, however expert they may be. To the extent that prediction markets provide more accurate forecasts of outcomes which impact economic variables (growth, inflation, interest rates) and corporate profitability, we make better decisions about the future. And, quite simply, prediction markets are fun!

*Our firm continues to grow by referrals from our clients. Thank you for recommending us.*

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