THE NEW ENGLAND GUILD, INC.

WEALTH MANAGEMENT COMMENTARY

PROTECTING AND BUILDING YOUR FINANCIAL FUTURE

SUMMER 2009 (860) 236-3301 www.neguild.com

Market Spotlight

Index	Returns Qtly	Annual		
	2nd Qtr	1 Yr	3 Yrs	10 Yrs
Equities				
S&P 500	15.9%	-26.2%	-8.2%	-2.2%
Russell 2000	20.7%	-25.0%	-9.9%	2.4%
MSCI EAFE (Int'l)	25.4%	-31.4%	-8.0%	1.2%
DJ Wilshire REIT	31.5%	-45.4%	-19.7%	5.5%
Bonds & Cash				
Barcap Agg. Bond	1.8%	6.1%	6.4%	6.0%
90 Day T-Bills	0.1%	0.6%	3.0%	3.1%

As indicated above, global markets rallied strongly across the board during the second quarter with smaller stocks performing better than larger stocks, and international equities stronger than U.S. stocks at large. Emerging Markets were one of the best performing asset classes, gaining 35% while REIT's surged 29%. Attractive valuations prompted investors to allocate out of the safe haven of government bonds into investment grade corporate and high yield bonds resulting in solid returns for both sectors.

The recent rise in markets perhaps is explained by a belief that the economy is about to emerge from recession. Maybe it simply reflects relief that we have avoided a depression. Or perhaps even it's a dead cat bounce, which is to say that the downside may not be over yet. It is important to note that despite the major gains of the past 4 months, stocks are still 40% below their previous all time highs.

We know the recession will end. We just don't know when or from what levels. We are encouraged by the rise in savings rates and the reduction in inventory levels as these forces will create pent up demand. Credit markets are stabilizing, stimulus spending is working its way into the economy and some of the emerging market countries, such as China, India and Brazil, are rebounding. At the same time, risks to a rebound remain. The surge in unemployment and falling wages can further weaken demand. The potential for reflation (and/or stagflation) looms given the size of stimulus packages and the

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Investment Commentary

INSTITUTIONS AND INDIVIDUALS

We have long been fascinated by the similarities and differences between investing for institutional portfolios such as foundations and endowments, as compared to the portfolios of individual investors. Because of their fiduciary nature, institutional portfolios are regarded by many as representing 'best practices'; that is, they follow an investment process which establishes clear objectives with asset allocation targets, parameters limiting risk, diversification criteria, benchmarks for measuring performance, and standards of reporting as would be expected of a 'prudent person'.

We think these same procedures should apply for the management of the portfolios of individuals as well, although we understand there are many investment advisors who believe individual portfolios are so idiosyncratic with such frequently changing financial parameters that following such a disciplined investment approach is not appropriate. We disagree.

To be sure there are many differences between individual investors and institutional investors. Institutions typically invest 'to perpetuity', an indefinitely long time horizon while individuals invest for a lifetime, which is admittedly indefinite but certainly not 'to perpetuity'. Institutions do not have to contend as much with tax issues while individuals must not only consider tax effects but frequently have multiple portfolios with different tax implications (retirement accounts such as IRAs and 401k's, and non-retirement accounts). For many individuals these multiple portfolios also have different purposes and objectives, liquidity requirements, and time horizons, all of which influence locations where certain types of assets are held. Institutional portfolios tend to be more stable in terms of both spending policies and operating structures, while individuals typically follow a life cycle pattern of asset accumulation and asset decumulation as they move through their work careers and into retirement. Even this path often may be interrupted by career changes, disruptions in family situations, and health issues.

But perhaps the greatest difference between institutions and individuals is the injection of emotion into decision-making. As fiduciaries, trustees of institutional funds tend to focus on the investment policy statement as the roadmap for future investment direction. Difficult times may suggest a need to review and revise policy if financial circumstances change, but such changes are made deliberately with consideration of the longer-term expectations for the institution and the capital markets.

Individuals, on the other hand, tend to have strong emotional reactions to dramatic moves in asset prices. *This is their money*. Many individuals have no backstop. They may be retired or late in their work careers with limited options to look to 'human capital' (wages and salaries) to pick up a greater share of the financial burden. Many do not have much flexibility to cut spending, particularly with so many basic costs (health care, food, fuel) continuing to increase. As a result, emotions can sometimes overtake sound judgment in investment decision-making. The respected bi-annual Dalbar studies of investor behavior have consistently shown that "the average investor earns significantly less than mutual fund performance reports suggest." As the 2009 Dalbar report notes, "when the going gets tough, investors panic."

Which is not to say that, because of the disciplined pursuit of 'best practices', institutions have avoided the catastrophic markets of this past year. The press is full of articles about the Harvard and Yale endowments, indeed all endowments, which have declined by 25%-30% in the fiscal year just ended on June 30th! But it is to say that the correct response to such a painful experience is to both evaluate the financial impact and implications for the investor's future risk-taking capacity, and

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MARKET SPOTLIGHT

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impact on oil prices of troubling geopolitical uncertainties such as Iran. The ramifications of foreigners owning 61% of our national debt could cause further concern. Adding to uncertainty is the possibility that still another financial shoe could fall.

Bill Gross at PIMCO writes that we are entering into a period of "new normals". He is speaking of secular norms more than cyclical patterns. For example, what will be the new norm of inflation; will it be as high as what occurred in the 1970's or low like in the 30's? What will be the balance of the public and private sectors and what implications will that pose for profit margins and regulation? What will be the new relationship between the U.S. and the rest of the world, particularly emerging nations, economically and politically? Will investor attitudes toward risk-taking be structurally altered as a result of this bear market? Will consumers again spend and lever up, or will they save? As the global economy is delevered and reregulated and as consumers adjust to a collapse in wealth of $15 trillion, Gross believes that we will see higher savings and lower consumption. As a result, economic growth will be slower, profit margins narrower, and asset returns smaller than in past decades. What the "new norms" will be remains to be seen. However, we can be certain that despite the current pain and uncertainty, future historians will find this a very fertile, fascinating period for economic and financial market analysis once they have the benefit of hindsight.

Mortgage Loan Modifications

We are once again seeing mortgage rates decline to historically low levels. This may present another opportunity to refinance your existing mortgage rate to a new, lower rate. An alternative to the conventional refinance process that often involves hefty fees is to simply call your mortgage lender to inquire as to the availability of a rate modification rather than a refinance of your mortgage. Many mortgage lenders are willing to offer existing mortgagees a new lower rate, albeit modestly higher than the rate available through a conventional refinance, by executing a single document that lowers the rate while maintaining all of the terms of the original mortgage, resulting in a lower monthly payment. Some mortgage lenders will offer existing mortgagees this "gift" without a charge, while others charge a modest onetime fee of between $250 and $500 dollars. The reason banks may offer this option is to retain the mortgage rather than have existing mortgages refinanced with other institutions. We have found that the availability of this "refinance lite" is more prevalent with regional banks that retain their mortgages rather than sell them into the secondary market. However, we have also found large institutions (CitiMortgage, for example) that have been willing to reduce the mortgage interest rate; in some cases, over the phone. Either way, it certainly is worth a phone call to your mortgage lender to inquire as to the availability of an interest rate modification for your mortgage.

INVESTMENT COMMENTARY

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to be vigilant about investment strategies that can protect against adversity without material sacrifice of expected return.

We think we have entered an investment era where emotions will be severely and frequently tested. In a period of structural change, during which old norms of relative value shift, eventually, to new norms, markets are likely to display greater volatility and less systematic direction. During such a period we believe the lessons, learnings and innovations of institutional portfolios will continue to inform prudent investment practices for individuals.

On Board

It is with pride that we report on new involvements of several members of The Guild. Jim Liddy recently has been elected to the board of The Renbrook School; Hal Rives has joined the boards of the New Britain Museum of American Art, the Connecticut Health Foundation, and Voce; and Eliot Williams is now on the board of the Hartford Seminary.

EXCURSION

What better time of year than summer to enjoy a good hamburger. If you're in West Hartford Center there are a couple of creative options. In Blue Back Square, *The Counter* has you build the hamburger (beef, turkey or veggie) with selections from a huge array of unique toppings that make it fun to order and even more so to eat. Or go gourmet at *Max Burger*, where goat cheese, arugula and other modern trimmings adorn the beef, lobster or veggie versions of this American classic.

QUOTE

"He who knows best knows how little he knows."

- Thomas Jefferson

FINANCIAL Q & A

1. What were the two best calendar years on a total return basis for the S&P 500?
2. What has been the average historical 30-year fixed mortgage rate over the past 30 years?
3. Who was the first president to visit the New York Stock Exchange while in office?
4. What are the two most commonly used paper currency denominations in the US?
5. How many miles per gallon did the Model T Ford get when it was introduced in 1908?

1. 1933 (+53.9%) and 1954 (+52.6%) 2. 9.2% 3. Ronald Reagan 4. $1 and $20 bills 5. 25 to 30 mpg

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

PRINCIPALS OF THE NEW ENGLAND GUILD, INC.

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