THE NEW ENGLAND GUILD, INC.

WEALTH MANAGEMENT COMMENTARY

PROTECTING AND BUILDING YOUR FINANCIAL FUTURE

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Market Spotlight

Index	Returns			
	Qtly	Annual		
	4th Qtr	1 Yr	3 Yrs	10 Yrs
Equities				
S&P 500	6.0%	26.5%	-5.6%	-1.0%
Russell 2000	3.9%	27.2%	-6.1%	3.5%
MSCI EAFE (Int'l)	2.2%	31.8%	-6.0%	1.2%
DJ US Select REIT	9.2%	28.5%	-13.7%	10.7%
Bonds & Cash				
Barcap Agg. Bond	0.2%	5.9%	6.0%	6.3%
90 Day T-Bills	0.0%	0.2%	2.1%	2.9%

After pulling out of one of the worst economic and financial crises of the post WW II era, the U.S. economy spent most of 2009 healing and mounting a recovery that investors hope can be sustained. A marked change in investor sentiment in March triggered a significant market rally that resulted in a year-end gain of 26% for the S&P 500 Index. Investor relief that we were only dealing with a recession extended the rally to more risky asset classes, resulting in strong gains for corporate bonds and REITs, along with year end returns in excess of 50% for domestic high yield and 79% for emerging markets.

During the fourth quarter, indicators showed signs of economic improvement as governments and central banks throughout the world continued their intervention with monetary and fiscal stimulus. Data also produced corporate earning surprises as a result of lower costs, lower interest rates and rising productivity. Pent up demand, both home and abroad and on the part of both consumers and businesses, boosted growth. Although still at depressed levels, cyclical sectors such as autos, housing, business equipment and inventories started to show signs of life.

Although some economists have suggested that the recession ended with positive growth in both the third and 4th quarters, investors remain uncertain as to whether this current recovery will transform to a sustainable economic expansion or suffer a relapse in 2010. Shorter term headwinds and longer term structural changes are apparent with

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Investment Commentary

INVESTMENT PHILOSOPHY

At a time when many are questioning traditional approaches to investing, we think it important to reiterate and reaffirm our investment philosophy.

At the core of our investment philosophy is a belief that every asset exists to satisfy a client's future need for cash. Correspondingly, risk is about not having the cash the client needs when the client needs it.

Therefore, informed investing must combine an understanding of the client's future needs for cash with an understanding of investment markets in order to develop an investment plan that allocates assets in a manner consistent with an acceptable level of risk for the client. Our objective, as manager of a client's assets, is to achieve the highest level of long-term return within the risk constraints of the client.

Corollaries to our investment philosophy:

- We believe that an Investment Policy Statement (IPS) is the cornerstone of a successful investment plan. This IPS must set clear and specific investment benchmarks and parameters, and it must be understandable and acceptable to the client.
- We believe that many small risks are preferable to a few large risks. Therefore we believe in broad-based diversification within and across capital markets. This may include investment in less traditional asset classes that offer the potential to improve the portfolio's risk/return relationship.
- We have great respect for the efficiency of capital markets and use index funds when appropriate. But we believe that inefficiencies in markets exist and that mutual fund managers with integrity, intelligence and discipline can outperform index funds.
- We believe mutual funds offer opportunity to access some of the best investment managers and organizations in the world at very moderate expense ratios. We also believe that careful due diligence can identify these organizations and managers. Our due diligence focuses on an organization's culture (the integrity, intelligence, team orientation of its people), the clarity and financial integrity of its philosophy and decision making process, its past record of success, and its investment costs.
- We will not invest in an investment strategy we do not understand.
- We believe that attention to taxes and investment costs are critically important to the realizable returns achieved by the client from the portfolio.
- We believe that a well-informed client strengthens the client/manager relationship and enhances the discussion of progress toward goals. Therefore our investment reports and our interactions with clients are intended to be clear, comprehensive, and timely.

TAX REMINDERS

Rule	2010 Level
Estate Tax	
Exemption	Unlimited (subject to change)
Maximum Tax Rate	0% (subject to change)
Annual Gift Exclusion	$13,000 (unchanged)
IRA Contribution Limits	
Less than Age 50	$5,000 (unchanged)
Age 50+	$6,000 (unchanged)

MARKET SPOTLIGHT

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unemployment at 10%, consumers saving more and spending less, uncertainty surrounding future taxes and government policies, reluctance on the part of banks to lend and consumers and businesses to borrow as deleveraging continues, the ability of businesses to maintain profit margins, and the potential impact for oil price increases and other unknowns resulting from geopolitical shocks.

Robert Arnott, President of Research Affiliates, points to critical long-horizon issues – the deficit, national debt and demographics – that could result in an extended reflationary environment mixed with potentially higher taxes and sluggish economic growth. As a result, it's his opinion that the next quarter century of investing could look quite different from the past 25 years especially in terms of real returns from financial assets. Bill Gross of Pimco shares his view and suggests that we are entering into an era where structural changes will occur as a result of delevering, deglobalization and reregulation. Like Arnott, he sees a period not only of slower growth but also one in which profits are relatively static, in which government plays a larger role in terms of deficits, reregulation and control of the economy, and in which a more frugal consumer stops shopping and starts saving.

Ten years ago as we moved into a new millennium, optimism was widespread. A decade later, in the aftermath of 9/11, wars, the bursting of a housing bubble and a global financial meltdown, sentiment is more skeptical and pessimistic. Clearly, uncertainties remain which give reason for vigilance and caution. However, despite what could be a subpar recovery, history has proven that economic expansion and growth in the U.S. eventually will resume. At the same time, the U.S. economy stands to benefit from the raging growth rates in countries such as China, India, Brazil and Indonesia. As wealth rises in other countries, consumer demand for U.S. technology, goods and innovations should follow, helping to offset slower U.S. growth.

Roth Conversion

2010 marks an important change in the tax rules related to Roth IRA conversions. In prior years the opportunity to convert conventional IRAs to a Roth IRA was limited to taxpayers with less than $100,000 in Adjusted Gross Income (AGI). However, effective 1/1/2010 there is no income limitation for those wishing to convert. The essential impact of the conversion is to pay income taxes now on previously untaxed income (for most clients most, if not all, of the assets in their IRAs have not yet been taxed) with the upside being that all future growth in the IRA will be tax free for federal (and most states) purposes. Who are the best candidates to consider a Roth conversion? Clients who have:

- the ability to pay the taxes triggered by the conversion from funds held outside of their IRAs
- no need to withdraw from the Roth IRA for at least 5 years (the longer the better as to the benefit of converting)
- no need for the Roth assets in their lifetimes since Roth IRAs don't require minimum distributions until the account owner's death. These are especially good candidates since the Roth is an excellent wealth transfer vehicle for children or grandchildren.

The benefits of a Roth conversion can be tremendous for some, advantageous for many others, and of little or no benefit for others. Since every client's situation and needs are different, it is important to discuss all aspects of a Roth conversion with your advisor.

Much has been written about the last 10 years being "the lost decade". We don't exactly agree. Despite two nasty bear markets and a negative return for the S&P 500, a balanced portfolio of 55% stocks and 45% fixed income/alternative investments returned 54% for the decade. Although this is not as stellar a return as we've seen in many past 10 year periods, it certainly is not a lost decade. Uncertainties remain and no one can be sure of what the year will bring. Much can go right and lots can go wrong; the lesson for investors - be diversified.

Client Referrals

Much has been written on the importance of client referrals in growing a business. Indeed, referrals are our best source of business, and they often lead to our best type of client. Referred clients generally approach The Guild with a positive mindset and are less burdened with skepticism and even mistrust; therefore they are more willing to share information that helps us assess their financial goals and challenges. In addition, we find this contributes to a health, long-lasting relationship. We are currently working with an outside consultant to enhance our marketing efforts, including the introduction of a new website and other tools designed to better communicate the services and value that The Guild offers. Stay tuned existing clients...you will be our test market!

EXCURSION

The music of Mozart has endured for 250 years, and this winter you have the chance to immerse yourself in the Hartford Symphony's celebration of this gifted composer. From February 11-14, Maestro Edward Cumming will conduct the symphony through alternating performances of Mozart's No. 9 "Jeunehomme" Piano Concerto and the towering No. 24 Concerto. The symphony will begin and end the Masterworks concert with lyrical symphonies by Sibelius and Vaughn Williams. You will even have the opportunity to engage in a pre-concert discussion with the Maestro about the composers and their pieces. To begin your classic Valentine's experience, contact the Hartford Symphony at (860) 244-2999 or www.hartfordsymphony.org.

QUOTE

"Success is a lousy teacher. It seduces smart people into thinking they can't lose ."

\- Bill Gates

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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