NEW ENGLAND GUILD
Wealth Management & Investment Advisors

WEALTH MANAGEMENT COMMENTARY

PROTECTING AND BUILDING YOUR FINANCIAL FUTURE

WINTER 2011 **(860) 236-3301** **(800) 254-8453** **www.neguild.com**

Market Spotlight

Index	Returns Qtly 4th Qtr	Annual 1 Yr	3 Yrs	10 Yrs
Equities				
S&P 500	10.8%	15.1%	-2.9%	1.4%
Russell 2000	16.3%	26.9%	2.2%	6.3%
MSCI EAFE (Int'l)	6.6%	7.8%	-7.0%	3.5%
DJ US Select REIT	7.5%	28.1%	0.0%	10.4%
Bonds & Cash				
Barcap Agg. Bond	-1.3%	6.5%	5.9%	5.8%
90 Day T-Bills	0.0%	0.1%	0.6%	2.3%

A strong fourth quarter resulted not only in double digit gains for the year for the S&P 500 Index, but also marked a second consecutive winning year of recovery from the financial crisis. Boosted by another round of fiscal stimulus and/or quantitative easing in the form of both extended and new tax breaks, the advance in stocks for the quarter was broad based as seen in the data above. Small cap US stocks outperformed large cap while growth continued to outpace value. Led by emerging markets, international stocks experienced positive gains in spite of the downward pressure from sovereign debt concerns. Bonds across the risk spectrum from Treasuries to high yield to emerging markets had a positive year, although gains for the quarter were modest to negative as Treasury yields started to trend upward. REIT performance remained strong.

There is no doubt that fiscal and economic structural problems continue to pose long term risks. At the same time, headwinds from sticky unemployment, rising oil prices, geopolitical shocks, euro zone financial turmoil, debts and deficits continue to be reasons for caution. However, on balance, there are powerful forces at work helping to fuel the transition from recovery to expansion that will be important to watch. For example, U.S. corporations continue to reduce debt while at the same time generating both cash and profits. Historically, corporate spending has been key to successful periods of economic expansion and growth as it can lead to a rise in capital expenditures, dividend payouts and/or stock buybacks, increased merger and

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Investment Commentary

MEASURING HAPPINESS

The year-end cover story of *The Economist* magazine offers some interesting observations based on studies of a new branch of economics that seek a more satisfactory measure than money of human well-being. In a study of what makes individuals happy the findings suggest that there are four main factors: gender, personality, external variables and age. Women are by and large happier than men; extraverts are happier than neurotic people; being married, employed, educated, with wealth and without children at home represent conditions more amenable to greater happiness, and older people tend to be happier than younger people; in fact (clients take note), there is a "U-bend" effect wherein happiness tends to diminish among adults as they move into middle age after which time it steadily rises into older age! The low point of happiness is typically around age 46.

The article also makes reference to a concept of Gross National Happiness (GNH), a term coined in 1972 by the former king of Bhutan, developed in an attempt to define a measure of quality of life or social progress in more holistic and psychological terms than Gross Domestic Product (GDP). It is believed that by introducing a broader set of indicators that better capture the values of a society, policy makers will better implement policies or programs that enhance the happiness of that society.

Over the past 10-20 years work has been done in Bhutan and elsewhere to develop indicators for GNH with a goal of establishing a single number GNH index. In the past two years Nicolas Sarkozy, President of France, and Prime Minister David Cameron of Great Britain have each announced intentions to develop measures of their own national contentedness and well-being. The best known of the studies (found at www.grossnationalhappiness.com), identifies nine core dimensions that are regarded as components of happiness and well-being. These indicators may have positive or negative values and include the following core dimensions of happiness:

- **Psychological Well-being:** General psychological distress, emotional balance and spirituality indicators;
- **Time Use:** Total working hours, and other non-working hour indicators such as sleeping, personal care, community participation, learning, religious activities, social and cultural activities, sports and leisure;
- **Community Vitality:** Indicators of family vitality, safety, trust, social support, socialization and kinship density;
- **Cultural Diversity and Resilience:** Dialect use, traditional sports, community festival, artisan skill and basic precept indicators;
- **Health:** Health status, health knowledge and barriers to health indicators;
- **Education:** Educational attainment, language and folk and historical literacy indicators;
- **Ecological Diversity and Resilience:** Ecological degradation, ecological knowledge, and afforestation indicators;
- **Living Standard:** Income, housing, food security and hardship indicators;
- **Good Governance:** Government performance, freedom and institutional trust indicators.

The formula for coming up with a single GNH Index number is highly complex, and what works for one country does not necessarily work for all other countries. Nevertheless, the exercise is provocative and serves in and of itself to promote discussion of values and priorities, to look at policies and program objectives, and to measure trends and success over time. At the least it can serve to raise interest in otherwise boring economic statistics!

MARKET SPOTLIGHT

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acquisition activity – and eventually – jobs! Data indicates that industrial production is strengthening considerably. In addition, cheaper goods and services, coupled with pent up demand, could bode well for industries such as the auto and service sectors. Weak housing prices have created affordability that, together with an improving lending environment, could help to stimulate real estate activity. Moreover, at least for the short term, the economic backdrop for these driving forces remains one of low inflation, cheap money provided by central banks, as well as continued unprecedented efforts by governments around the globe to buoy economic growth and stimulate markets.

Steadying signs of global economic activity and revised upward estimates for GDP growth are being met by increasing confidence and cautious optimism on the part of investors resulting in a more bullish market this past quarter. There is no shortage of markets forecasts being published for 2011. But believe! As the late Peter Bernstein pointed out on the follies of forecasting: "There is a huge amount of uncertainty embedded in forecasts. Therefore what is wise is to expect surprise – on either the upside or the downside!" To Bernstein's point, it's not wise to act as though the future is anything but uncertain. Nor is there merit in trying to outguess the markets or relying on short term market moves as future market predictors. Successful investing in the long term gets right back to the basics: the practice of disciplined, decision-making in all kinds of markets that comes from having a sound, well-diversified investment strategy.

Estate Planning & New Federal Tax Law

On December 17, 2010, the President signed new tax law into place that effectively eliminates estate taxes for almost all individuals. The new law provides several key estate tax changes, which are expected to sunset on 12/31/12.

Unified Credit

Each taxpayer is now allowed an exemption of $5 million (reduced by any lifetime gifts over and above the annual gift limit, currently $13,000). Therefore, a married couple can effectively shelter a total of $10 million from estate taxes beginning on 1/1/10. [Keep in mind that CT law allows $3.5 million per individual.] Further, a husband and wife do not have to be as concerned over asset titling going forward, since the new tax law allows the surviving spouse to elect to take over any unused unified credit of the deceased spouse and to add it to his/her unified credit going forward. In the past, a couple risked losing some of the unified credit on the first death if asset ownership wasn't well planned. Estate taxes could be triggered on the "stacked" estate upon the death of the survivor.

By example, a couple with $6 million in assets, all in the wife's name does not lose the husband's unified credit if he were to die first. Instead, she would be entitled to a unified credit of $10 million at her death. Under the old rules the couple would have been taxed on $1 million since the wife would have only been allowed her own unified credit of $5 million. [CT law does not provide this "portability" option between spouses.] Given these changes, only 2/10ths of 1% of all future estates are estimated to be subject to estate taxes.

Lifetime Gifts Reunified

The new law allows an individual to fully utilize the unified credit to make lifetime gifts. Under the old law, an individual was limited to $1 million even though the unified credit increased to $3.5 million in 2009. [Keep in mind that CT state law limits the lifetime gifts to $3.5 million.] This change will provide individuals with the opportunity to gift up to $5 million during their lifetime, allowing all future growth to occur while in the hands of the gift recipients and outside of the donor's taxable estate.

Charitable Gifting of IRA Assets

The new tax law has reinstated individuals' ability to transfer assets from their IRAs directly to qualified charities. For CT residents this change will reduce CT taxes for those making these transfers since a CT resident is taxed on "modified federal adjusted gross income" which is not reduced by charitable deductions from Schedule A. Also, since this change was made so late in 2010, an individual is allowed to make a 2010 transfer to charity under the new rules as late as 1/31/11 and elect to treat it as a 2010 transfer.

TAX REMINDERS

Rule	2011 Level
Estate Tax	
Federal Exemption	$5.0 million (reinstated)
Federal Max. Tax Rate	35% (reinstated)
CT State Exemption	$3.5 million (increased)
CT Max. Tax Rate	12% (decreased)
Annual Gift Exclusion	$13,000 (unchanged)
IRA Contribution Limits	
Less than Age 50	$5,000 (unchanged)
Age 50+	$6,000 (unchanged)

EXCURSION

Buon Appetito (693-2211) on Route 44 in Canton, CT is a great culinary experience, particularly if you enjoy garlic. The place is a bit deceiving, but get past its shopping plaza location and unassuming décor, and you'll find excellent food. Numerous daily specials yield only to a huge menu of classic Italian dishes made with homemade pasta and others accented with flavors of Vietnam, the homeland of the owners. There's no wine list, but the BYOB policy is a welcome twist. Oh, and don't miss the melt-in-your-mouth garlic bread!

"The boisterous sea of liberty is never without a wave." - *Thomas Jefferson*

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

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