NEW ENGLAND GUILD
Wealth Management & Investment Advisors

WEALTH MANAGEMENT COMMENTARY

PROTECTING AND BUILDING YOUR FINANCIAL FUTURE

SUMMER 2012 (860) 236-3301 (800) 254-8453 www.neguild.com

Market Spotlight

Index	Returns: Qtr	Annual		
	2ND Qtr	1 YR	3 YR	10 YR
Equities				
S&P 500	-2.8%	5.5%	16.4%	5.3%
Russell 2000	-3.5%	-2.1%	17.8%	7.0%
MSCI AC World exUS	-7.6%	-14.6%	7.0%	6.7%
MSCI AC World	-5.6%	-6.5%	10.8%	5.7%
REITs	3.8%	10.8%	30.9%	9.3%
Barcap Agg. Bond	2.1%	7.5%	6.9%	5.6%
90 Day T-Bills	0.0%	0.1%	0.1%	1.8%

A re-escalation of the Eurozone crisis, uncertainty over the fiscal path of the U.S., and further evidence of slowing global economic growth resulted in a sharp sell-off in risk assets across the globe this quarter. Market volatility returned, reigniting a flight to perceived "safe haven" investments. As a result, the Aggregate Bond index posted gains of 2.1% for the quarter, pushing government bond yields to new record lows. For the third consecutive quarter, U.S. equities outperformed their global counterparts while non-U.S. equities, emerging market equities, and economically sensitive commodity and oil prices posted notable declines. Solid returns from less traditional asset classes such as Treasury Inflation Protected Securities (TIPs), High Yield Bonds and Real Estate Investment Trusts (REITs) served as a reminder of the importance of portfolio construction with robust asset class diversification.

Fragile global economic and political conditions continue to be defining issues for investors. At a time when all of the countries in the Eurozone, except Germany, are in recession, more burden sharing and fiscal unity will be needed to solve the European credit crisis. And although the corporate sector continues to lead the U.S. economy along a path of recovery, albeit slow and unsteady, the U.S. is not without its own hurdles that include job growth, the upcoming election, softer US data, the lack of clarity as to whether this still-fragile U.S. growth can withstand the Eurozone crisis, and its own impending year-end "fiscal cliff". Beyond the United States and Europe, growth in China and India is slowing; while geopolitical tensions continue to escalate in the Middle East.

Macro tensions such as these, combined with extreme market volatility and the recent "lost decade" in equities, have understandably left many investors feeling fearful and uncertain.

Continued on next page:

Investment Commentary: Challenges of a 'New Normal'

At the recent annual meeting of The Travelers, a property-casualty insurer, Chairman Jay Fishman reviewed the company's 2011 financial highlights and the challenges the company faces. After summarizing a number of positive developments of the past year, Fishman noted two problem areas that had severely impacted operating earnings, investment income and casualty losses. Investment income was off because of the decline in interest rates, while casualty losses were the highest in the company's history because of unusual weather patterns that wrought tornadoes, drought conditions (fires) and snowstorms in addition to hurricanes.

Because these problems represent new challenges to the Corporation and are, in many respects, outside of the company's control, they require new and creative responses. With interest rates at their lowest levels in over 60 years, over the next few years, absent any change in the current level of rates, Travelers will suffer a hit to operating earnings in excess of $4 billion as bond holdings mature. Bonds represent $68 billion of Travelers' $72 billion in total assets. Fishman said that after careful analysis of available investment options and regulatory/business constraints, they have concluded that no changes should be made in the portfolio, i.e., that despite low rates, the current portfolio best serves and protects the liability obligations of the company. Travelers simply needs to find other sources of operating earnings.

The challenge of casualty losses that Travelers and other insurers face is even more interesting. Unlike most previous years when large casualty losses resulted primarily from hurricanes along coastlines, the 2011 experience was the result of inland storms, specifically tornados in Missouri and Alabama, but also fires in Texas and snowstorms across the Northeastern U.S.. Fishman indicated that while Travelers has developed strategies to mitigate the risks of coastal storms, these inland storm conditions represent a new pattern with risks that are more varied and geographically diffuse as well as more frequent and unpredictable. If this is the 'new normal', Travelers will need to develop a new approach for underwriting and risk management.

All of which is to parallel the challenges investors face. Low interest rates represent a drag to investment returns that historically have not simply impacted bonds alone, but also stocks, real estate and other assets whose valuations relate to discounting future cash flows. In addition, investors now face the 'new normal' challenges of excessive debt, globalization, and entrenched politics which also require new approaches, i.e., how risk can be managed without sacrificing return.

Difficult challenges often bring out the best thinking in the development of creative and effective solutions. We see the signs of this occurring already. For example, new approaches to the management of risk (risk parity, using volatility as an asset class, dynamic hedging), and more opportunistic decision making that moves away from narrowly defined style boxes to broader mandates. These models either challenge old paradigms of portfolio theory or adapt them to fit a new era. It is more about how portfolios should be constructed than about picking securities or timing markets. We think they will serve to separate the truly effective investment managers from those run of the mill managers who simply follow the herd.

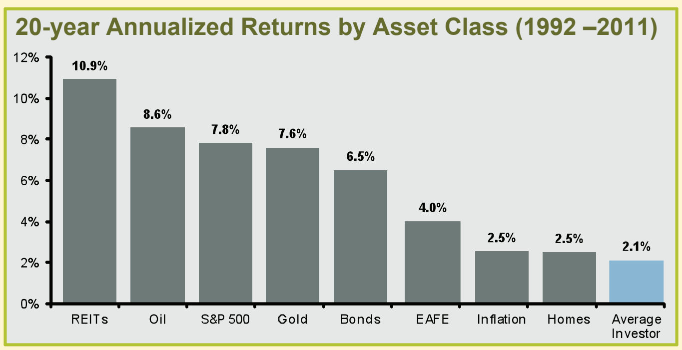
We have identified some of these firms/people and are doing intensive due diligence to gain both understanding of their processes and confidence in their ability before introducing their ideas to clients. Like The Travelers, we think there are new challenges confronting us as investors, presenting both risks and opportunities. We intend to be open-minded and diligent in the development of effective responses.

Continued from page 1:

Trying to put current fears in perspective, Blackrock's chief strategist, Bob Doll, points out that although today's concerns are reason for caution, they may not be more ominous than those seen in the past. However, he is quick to acknowledge that it can appear that way given the 24-hour news cycle that spews gloom and doom and bombards investors with a constant ebb and flow of economic data. He goes on to state that "a review of prior market cycles reveals the difficulties of war, economic weakness, scandal and geopolitical turmoil are not new. In fact, they are the historic norm. The Vietnam War, runaway inflation, the oil shocks of the 70's, and Nixon's Watergate scandal are just a sampling of past macro events that weighed heavily on markets and the economy – as well as on investor psyches. The market downturns associated with these episodes had two hallmarks: each time, individual investors lost faith in equities and headed for the exits. And each time, equities rebounded from their declines and resumed their upward track with even greater strength". To that point, we think that it is important to note that since the beginning of 2007, investors have poured five times as much money into bonds as equities.

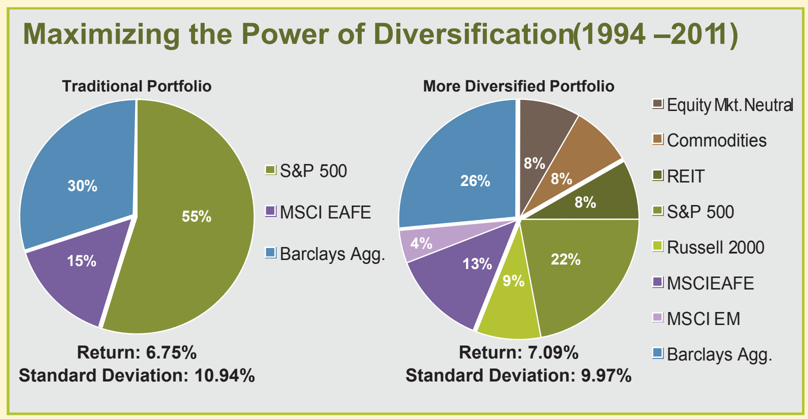
Balancing short-term risks and longer term opportunities can be challenging, particularly given the uncertainties in today's world. Although equities can be more volatile, particularly in the short term, they remain an effective investment vehicle for preserving and growing investor purchasing power since historically their performance has outpaced the rate of inflation. And given today's low-interest rate environment, where the direction of bond yields over the next 3-5 years is far more likely to be upward than downward, it appears an even greater risk to be overexposed in bonds. History has taught that market rebounds are difficult to predict and come without warning, therefore having the patience and prudence to stick with an investment plan, rather than trying to time markets, pays off in the long term. Chart #1 illustrates the impact that market timing had on the average investor from 1992-2011, compared to asset class performance for the same period. Further, as seen in Chart #2, more robust diversification can also benefit an investor's portfolio. By including less traditional asset classes, which do not move in the same direction as one another, the portfolio's overall risk-return profile is improved over time. And although past performance is no guarantee of future results, historical data since 1994 suggests that a portfolio with a more diversified array of holdings had less volatility and higher returns.

Chart 1:



Indexes used are as follows: REITS: NAREIT Equity REIT Index, EAFE: MSCI EAFE, Oil: WTI Index, Bonds: Barclays Capital U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Gold: USD/troy oz, Inflation: CPI. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Returns are annualized (and total return where applicable) and represent the 20-year period ending 12/31/11 to match Dalbar's most recent analysis.

Chart 2:



Indexes and weights of the traditional portfolio are as follows: U.S. stocks: 55% S&P 500, U.S. bonds: 30% Barclays Capital Aggregate. International stocks: 15% MSCI EAFE. Portfolio with 25% Traditional Portfolio in alternatives is as follows: U.S. stocks: 22.2% S&P 500, 8.8% Russell 2000; International Stocks: 4.4% MSCI EM, 13.2% MSCI EAFE; U.S. Bonds: 26.5% Barclays Capital Aggregate; Alternatives: 8.3% CS/Tremont Equity Market Neutral, 8.3% DJ/UBS Commodities, 8.3% NAREIT Equity REIT Return and standard deviation calculated using Morningstar Direct. Charts are shown for illustrative purposes only. Past returns are no guarantee of future results. Diversification does not guarantee investment returns and does not eliminate risk of loss. Data are as of 6/30/12.

Excursion: Tanglewood Celebrates Its 75th Anniversary

To celebrate its 75th Anniversary, Tanglewood is featuring a festival of programs that will include replications of historic concerts, The Boston Pops and Symphony Orchestras, The Tanglewood Festival Chorus, a star-studded performance commemorating the 80th birthday of John Williams, big names such as cellist Yo Yo Ma, jazz trumpeter Chris Botti, vocalist Diana Krall, and plenty of fireworks. So pack a picnic and enjoy the summer sounds! For program information regarding this special milestone season at Tanglewood in Lenox, Massachusetts, visit **www.tanglewood.org**.

QUOTE: *"I hope that we never see the day when a thing is as bad as some of our newspapers make it".* — Will Rogers

---

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

THE NEW ENGLAND GUILD TEAM

Harold L. Rives III, CPA | Susan M. Grayson | E. Patrick Logue, CPA

Eliot P. Williams, CFA | Jennifer Stanley | Claudia Flannery