FALL 2014 COMMENTARY

NEW ENGLAND GUILD WEALTH ADVISORS

INVEST IN CONTEXT

Market Spotlight

Returns as of 9/30/14

Index	3rd QTR	Annual YTD	3 YR	10 YR
S&P 500 (inc. div.)	1.1%	8.3%	23.0%	8.1%
Russell 2000	-7.4%	-4.4%	21.3%	8.2%
MSCI AC World xUS	-5.3%	0.0%	11.8%	7.1%
MSCI AC World	-2.3%	3.7%	16.6%	7.3%
REITs	-2.7%	13.3%	16.0%	7.3%
Barcap Agg. Bond	0.2%	4.1%	2.4%	4.6%
90 Day T-Bills	0.0%	0.0%	0.1%	1.6%

Volatility returned to equity markets during the quarter. A strong August was followed by declines in September, as market rallies began to focus on selected winners rather than stocks across the board. Investors exhibited a decided preference for large caps; the S&P 500 closed above 2,000 for the first time ever and the Dow industrials also set new all-time highs. However, the Russell 2000 Small Cap Index, which has struggled for most of the year, fell deeper into negative territory year-to-date. International equities continued to suffer from political conflicts abroad as well as concerns about global growth.

Bond investors demonstrated surprising resilience. In early September, the yield on the benchmark 10-year Treasury fell to 2.35% - a level it hadn't seen in more than a year--as demand pushed bond prices higher. At the same time, the U.S. dollar, hit its highest level against the euro in almost two years. Dollar strength coupled with weaker global demand also meant lower oil prices. Inflation remained low.

A Goldilocks environment of not too hot, too cold, too fast or too slow, enabled the U.S. economy to show steady incremental growth. Economic data remained generally positive and unemployment showed improvement (6.1%). World economies were mixed. Conflicts over Ukraine continued

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The Value of Behavioral Coaching

While institutional investors (i.e. endowments, foundations, pension plans, etc.) typically follow investment policy targets, which naturally enforce disciplined investing, retail investors (i.e. individuals managing their investments on their own) face behavioral biases that often stand in the way of optimal decision making. As the JPMorgan chart shows, retail investors have pulled money out of equities during the current bull market. Two behavioral biases that may have led retail investors to direct flows this way are 1) loss aversion and 2) the "availability heuristic". Loss aversion is the idea that investors may feel more pain from losses than joy from gain. The "availability heuristic" suggests that investors tend to base their investment decisions on more recent, recallable events. These two behaviors may have contributed to retail investors' decisions to move money out of equities given the large losses many experienced during the financial crisis, preventing them from benefiting from the equity rally since. Overcoming behavioral biases requires discipline and guidance, and helps investors generate more attractive returns in the long-run. (Source: ICI, JP Morgan Asset Management)

Chart 1: Retail flows to U.S. equities since the financial crisis reflect behavioral biases
Cumulative U.S. equity mutual fund and ETF (exchange traded fund) flows since 2007

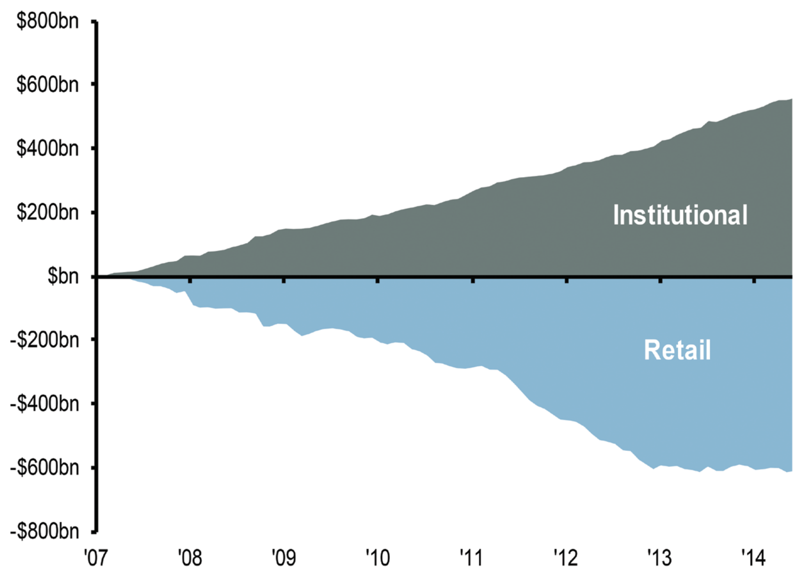

Chart of the week: Source: ICI, J.P. Morgan Asset Management

Behavioral coaching is often needed the most during market turbulence, when investors may feel the need to abandon their asset allocation and move to cash, or chase after an asset class that has outperformed other asset classes. Recent research published by Vanguard, and illustrated in the hypothetical example and Chart 2 below, shows the destructive impact this can have on portfolios and wealth creation.

Example: Consider three hypothetical investors during the period between October 9, 2007, and March 31, 2014, each starting the period with a balanced $100,000 portfolio. The investor who moved this balance to cash at the 2009 stock market bottom lost $29,000. The investor who moved to an all-bond position at the stock market bottom lost $10,000. But the investor who stayed committed to the predetermined asset allocation, in the end, gained $41,000.

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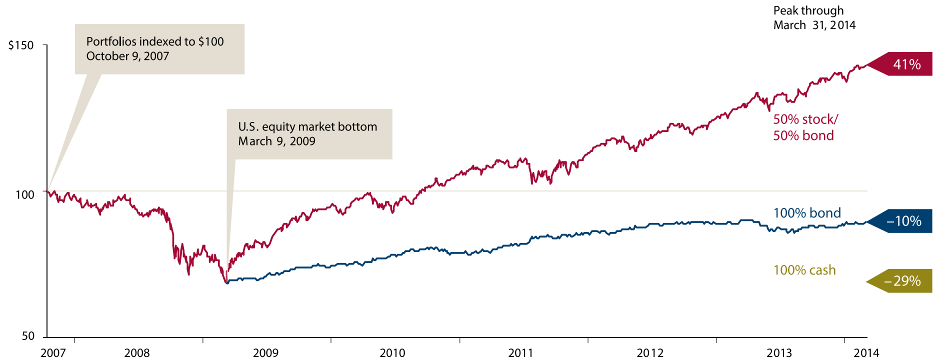
We believe that one of the important sources of value that we bring to our clients is the role we play as behavioral coach. In that role, we provide clients with counsel and discipline that helps to:

- resist emotional overreaction and market timing;
- adhere to a thoughtfully developed investment plan;
- promote wealth creation.

Chart 2: Vanguard (Source: "The Added Value of Financial Advisors")

A balanced, diversified investor has fared relatively well



Vanguard: The Added Value of Financial Advisors; Source: FactSet; This is a hypothetical illustration. Notes: The 50% stock/50% bond portfolio is represented by the Standard & Poor's 500 Index and the Barclays U.S. Aggregate Bond Index (rebalanced monthly). The 100% bond portfolio is represented by the Barclays U.S. Aggregate Bond Index. The 100% cash portfolio is represented by 3-month Treasury bills. Past performance is no guarantee of future results. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

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to raise concerns about how Russian retaliation for Western sanctions might affect the fragile European economy. Eurozone growth essentially flat-lined and weakness in both Germany and Italy led the European Central Bank to promise more aggressive stimulus measures. The Chinese economy continued to show signs of slowing in some key areas.

With October's Fed bond purchases expected to be the last, next month's monetary policy committee announcement will be closely monitored to determine whether a rate hike is still a "considerable time" away. A survey of Fed members showed that most now expect steeper increases than previously estimated, with rates hitting 1.4% by the end of 2015 and 2.9% by December 2016. At the same time, global investors will be assessing whether additional expected support from the European Central Bank has helped jumpstart the economy there.

Data Source: Broadridge Investor Communication

The Season of Political Discontent

(Excerpts from JP Morgan's Commentary by Dr. David Kelly, CFA, Managing Director and Chief Global Strategist)

EXHIBIT 1A: S&P 500 PRICE RETURNS BY POLITICAL CONFIGURATION
Annual average price returns, 1949-2013, (President/House of Representatives/Senate)

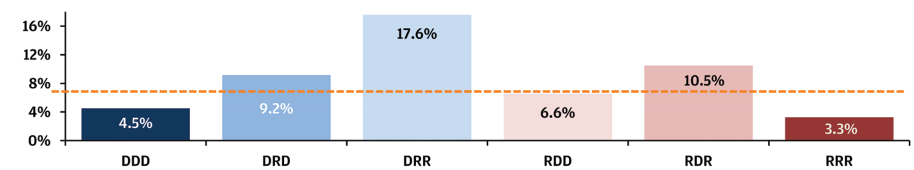
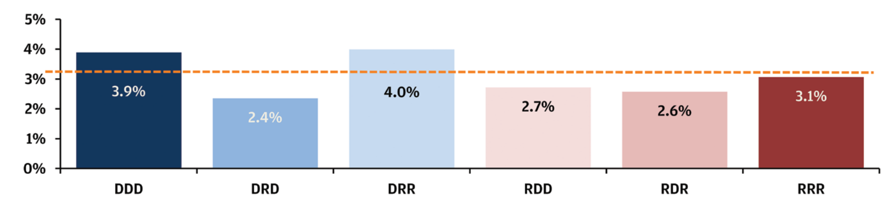


EXHIBIT 1B: REAL GDP GROWTH BY POLITICAL CONFIGURATION
Average year over year growth, Chained 2009 Dollars, 1949-2013, (President/House of Representatives/Senate)



Every two years, in the weeks following Labor Day, even as cool Canadian air seeps into the lower 48, the political temperature rises. Stoked by attack ads from both sides, the public discontent with Washington grows with many professing that the country is headed for disaster due to either the Democrats, the Republicans or both, depending on political perspective.

As shown in Exhibits 1A and 1B, the reality is that over the past 65 years, both the economy and equity markets have produced good gains on average over a wide variety of political configurations.

Going forward this will likely continue to be the case. The truth is neither the American economy nor American financial markets have been blessed by particularly benign policies over the years. Dr. Kelly's advice: "Don't let how you feel about politics overrule how you think about investing."

OUR FIRM CONTINUES TO GROW BY REFERRALS FROM OUR CLIENTS. THANK YOU FOR RECOMMENDING US.

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