NEW ENGLAND GUILD WEALTH ADVISORS

INVEST IN CONTEXT

Market Spotlight

Returns as of 12/31/14

	4th QTR	Annual YTD	3 YR	10 YR
Index				
S&P 500 (inc. div.)	4.9%	13.7%	20.4%	7.7%
Russell 2000	9.7%	4.9%	19.2%	7.8%
MSCI AC World xUS	-3.9%	-3.9%	9.0%	5.1%
MSCI AC World	0.4%	4.2%	14.1%	6.1%
REITs	12.3%	27.2%	15.5%	7.1%
Barcap Agg. Bond	1.8%	6.0%	2.7%	4.7%
90 Day T-Bills	0.0%	0.0%	0.1%	1.5%

As we turn the page on 2014 and review asset class returns for the year, REITS stand out as the top performers, amidst improvements in property market fundamentals and a falling interest rate environment.

Large-cap domestic equities spent much of the year climbing to new heights with the S&P 500 gaining 14% for the year. The Russell 2000, which had soared in 2013, had trouble scaling the proverbial "wall of worry" and spent much of the year either flat or down before a rally in the fourth quarter returned it to positive territory.

U.S. equities were the bright spot in the equity market, as international equities declined. However, international returns denominated in local currencies were actually positive. Thus the real problem for international markets was currency-related (i.e. when the value of the U.S. dollar rises like it did this year, share prices of international funds decrease).

The bond market confounded those who had feared bond prices would suffer from the unwinding of Federal Reserve support. Challenges overseas lured investors to the safety of U.S. Treasuries. Treasury prices rose after the threat of an imminent Fed rate hike faded and falling oil prices threatened the economies and currencies of several oil-dependent countries. The Barclays U.S. Aggregate Bond Index rose 6.0%, while high yield bonds and emerging market debt struggled.

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Investment Opportunities Outside the U.S.

International equities now comprise half of the world's equity market capitalization; yet they constitute less than one-third of the equity fund assets held by U.S. investors. This preference for U.S. equities compared to their international brethren was further evidenced in an investor survey conducted by Blackrock. The results indicated that only 13% of Americans investors hold international stocks in their portfolios. In addition, only up to 13% of their portfolios were allocated to this asset class. So despite large and growing investment opportunities beyond U.S. borders, U.S. investors continue to show a "home country bias" and remain considerably underweight in international.

Some would argue that international investing involves increased risk of heightened volatility; and that fluctuating currency can impact returns and cause international equities to underperform relative to U.S. equities. We saw evidence of this last year. For example, worries about the Ukraine and Ebola increased volatility across both emerging and international developed markets. And although returns denominated in local currencies for many developed countries were actually positive last year, it was a bad year for international investing when those returns were translated to U.S. dollars for U.S. investors.

Since the 2008 financial crisis, U.S. equities have exceeded their pre-recession highs driven by strong corporate earnings. That has not been the case for developed and emerging market stocks. It's been our belief for a number of years now that increasing international exposure in portfolios makes sense. Given the potential stock market bargains and valuable investment opportunities that may be uncovered overseas by active managers with a strong geographic research presence, that may be the case even more so today. A recent research paper published by J.P. Morgan, titled 'International Investing: Valuation, Diversification, Income and Growth' points out a number of attractive features that non-U.S. markets offer at this time. For example:

- Valuations for international stocks are below historical averages (despite improving economic fundamentals and solid corporate balance sheets) and are low compared to the U.S. (*See Chart*)
- International equities can provide increased dividend income in a low interest rate environment, and can reduce portfolio volatility through diversification.
- Over the long term, emerging economies are expected to continue driving global economic growth.
- European countries are investing heavily outside of Europe and, as a result, are well-positioned to access growth in emerging markets.

In addition, we also would point out that market-friendly actions, taken by Central Banks in regions such as Europe, Japan and China, could further support international stocks in 2015 and beyond. It's been very reassuring to witness the expansion of the U.S. economy and to see double digit stock market returns for still another year. At the same time, we should not lose sight of investment

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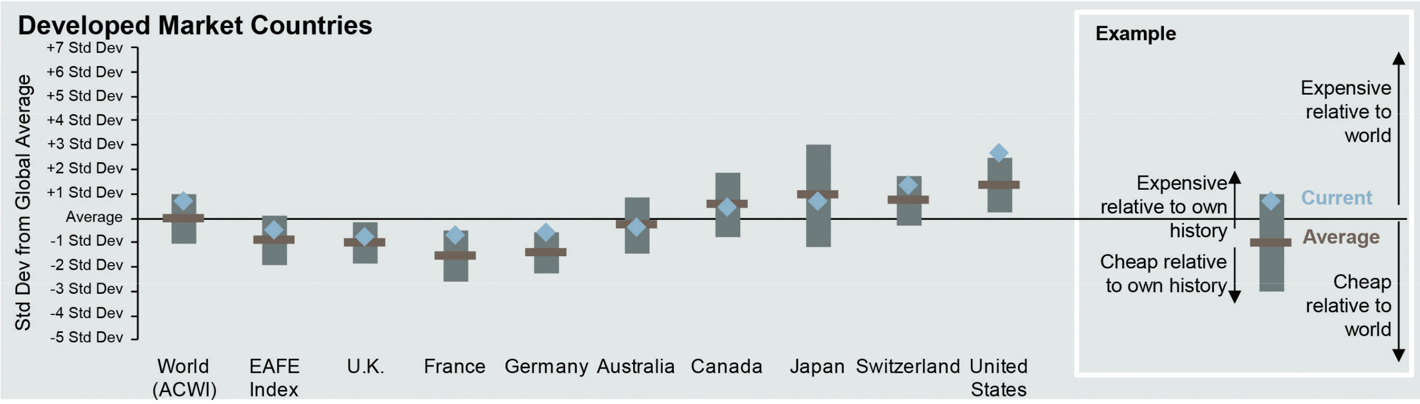
Investment Opportunities continued from page 1



Source: MSCI, FactSet, J.P. Morgan Asset Management. Note: Each valuation index shows an equally weighted composite of four metrics: price to forward earnings (Fwd. P/E), price to current book (P/B), price to last 12 months' cash flow (P/CF) and price to last 12 months' dividends. Results are then normalized using means and average variability over the last 10 years. The grey bars represent one standard deviation in variability relative to that of the MSCI All Country World Index (ACWI). J.P. Morgan Guide to the Markets – U.S. Data are as of 12/31/14

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A dramatic drop in crude prices accelerated in the fourth quarter after Saudi Arabia chose not to cut production. Prices promptly plummeted to levels not seen since the depths of the financial crisis. Falling oil prices coupled with the expectation of higher interest rates helped to boost the U.S. dollar by 11% against the Euro.

While world economies are continuing their recovery in a post-crisis period; they also are entering a period of divergence. The U.S., UK and select emerging markets economies are getting steadily stronger while other regions continue to struggle. As the Federal Reserve steps away from its stimulus program and prepares to raise interest rates, opposite actions are occurring in other regions of the world as they try to jump start their flagging economies. And as interest rates rise in the U.S., the dollar strengthens, which creates further downward pressure on commodities and inflation, and creates headwinds for U.S. exporters. Going into 2015, the extent of the complexity and connectivity of the global economy couldn't be more evident.

Data Source: Broadridge Investor Communication

prospects outside of the U.S. Many investors have a tendency to project the recent past into the future. In simple terms, that's the belief that whatever was performing the best will continue to outperform and whatever was performing the worst will continue to underperform. We would caution that to avoid the perils of chasing past returns that one should consider where the next opportunities may lie. In the words of "The Great One", (Wayne Gretsky), "A *good* hockey player plays where the puck is. A *great* hockey player plays where the puck is going!"

College Planning Essentials for Parents & Grandparents May 6th at noon at the Guild

SAVE THE DATE!

Michael Conrath CFP, CRPC, Executive Director and Libby Hamel, CIMA, Vice President at J.P. Morgan Asset Management will join us to discuss the college savings landscape and costs; financial aid myths and realities; and benefits of 529 Plans (e.g. income taxes, estate planning, control and flexibility). The session will include a question and answer session and lunch will be provided. An invitation will follow and we hope that you can join us. If you have friends who are interested in attending please let us know.

"The hardest thing to understand in the world is the income tax".
Albert Einstein

(Died April 18th, 1955. Tax code was 14,000 pages then compared to the 2013 Tax Code which totals 73,954 pages including statutes, regulations and case law)

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

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