

The New Hampshire Trust Company

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Asset Management & Trust Services

Financial Markets Summary & Outlook

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Welcome to the fourth edition of our newsletter. The New Hampshire Trust Company will celebrate its third anniversary on June 12th! During this time our assets under management have grown to \$67 million and, more importantly, we have had the opportunity to work with many wonderful clients and their professional advisors. We truly appreciate these relationships and look forward to assisting them in the future.



Greg, Rhonda & Mike

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Through early May, the 2005 environment for investors has been challenging. First quarter corporate earnings have exceeded expectations, intermediate and longer term interest rates are lower than expected and the U.S. dollar has strengthened against the euro and the yen. In a vacuum, these factors would seem to support higher stock prices. However, the bull market advance that began in October of 2002 is now 31 months old and the historical average duration for bull markets is 36 months. The broad based advance of 2003 and 2004 has given way to a market that has seen far fewer sectors advancing in 2005. The Federal Reserve Board has now raised both the Federal Funds Rate and the Discount Rate a full 2% since June 30, 2004. This measured increase was initially prompted partially in an attempt to slow down the roaring housing market and more recently to address inflationary concerns. Interestingly, fixed mortgage rates are still historically attractive and demand from baby boomers for retirement/second homes continues to support the housing market.

Federal Reserve interest rate tightening generally has a lagging impact on economic activity of 9 to 12 months. Given the historically low level from which the current tightening began, expectations are for U.S. gross domestic product growth to continue to expand by 3-3.5% over the course of this year and next. This expected rate is down from 2004's 4.4%, but is superior to most other developed countries' own forecasted gross domestic product. Investors seem to be

grappling with the question of whether the Fed can successfully navigate the desired slowdown without doing more serious damage to the economy? The yield curve has flattened over the last year with rates on short term Treasury Bills now over 3% and rates on 10 and 30 year Bonds between 4% and 4.5%. The slope of the yield curve and absolute level of longer rates seems to support the Fed's assertion that inflation is well contained on a longer term basis. A slowdown in the growth of the manufacturing sector is already upon us as evidenced by April's Institute of Supply Management's PMI reading of 53.3 compared to June of 2004 at 61.2. A reading above 50 indicates that the manufacturing economy is generally expanding; below 50 indicates that it is generally contracting.

The equity market would welcome a conclusion of the current tightening. Since the rate increases began last June, the S&P 500 Index has appreciated 2.7% in the face of record corporate profits. Based on work compiled by Crandall Pierce, since 1970, the S&P 500's annualized return during periods of rising rates was 1.8% while the market returned almost 7% during periods of declining rates. Recently investors have become more risk averse in the face of a slowing economy, rising short term rates and increasing inflationary pressures. Our portfolios have benefited in this defensive climate by our decision to be slightly overweight in healthcare, consumer staples, industrials and energy while underweighting technology, consumer discretionary and utilities. We con-

continue to favor high quality large cap companies that are selling at reasonable valuations as compared to their earnings growth prospects. Valuation levels for the S&P 500 Index are more reasonable with the price earnings ratio based on forward 12 month earnings at close to 16.

We remain cautiously optimistic about the prospects for the equity market over the balance of this year realizing that there will be concerns du jour such as hedge fund mismanagement, terrorist attacks or pension default issues that could derail this forecast. We remain hopeful that the Fed tightening is concluded by this fall allowing for sustained economic expansion over the balance of this year and into 2006. We continue to believe that equities will outperform bonds this year, but are reminded of the rewards of staying patient as most of 2004's returns in the equity market were achieved in the last quarter of the year. As always, we welcome the opportunity to discuss our outlook with you in further detail and how it pertains to your individual circumstances.

The New Hampshire Trust Company is a locally owned trust and investment management firm solely focused on serving individual investors and non profit organizations.

Our services include:

- ◆ Wealth Management
- ◆ Asset Allocation
- ◆ Retirement Planning
- ◆ Estate Planning Coordination
- ◆ Trust Planning
- ◆ Tax Planning

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Financial Peace of Mind

Mike Rafferty, Certified Financial Planner & Co-President

This concept may conjure up a number of different images depending upon your frame of reference. In very generic terms, it means having a general sense of well-being and confidence with regard to your current and future financial picture.



Given the ever-changing world economy as well as the vast array of investment choices, evolving tax and estate law as well as the high and growing expenses associated with health care and long-term care, it has become more of a challenge to achieve "Financial Peace of Mind".

As with any goal you might have, it is certainly advisable to develop a road map, which can provide some guidance to get you from point "A" to point "B". As I've mentioned in previous planning articles, you can begin this process by completing a full inventory of everything you own or have an interest in. Once you have an accurate picture of where you are and what you have, and have given some very serious thought to your unique goals and priorities, you can then start to put specific plans and strategies in place that will ensure your future financial health.

In theory, this should be a relatively simple and straightforward process, however, if you've been successful in accumulating various assets over a long period of time, just getting started may seem like a daunting task. If you already have a

team of financial professionals that proactively assist you with taxes and estate planning as well as investment management, they may be the best place to go. Each of those professionals should have an understanding of your current plan and circumstances, and by bringing the team together, you can leverage each of their areas of expertise.

Some of the typical issues and concerns that can be addressed include:

- ◆ A calculation of potential federal estate taxes
- ◆ A full review of all of your holdings and investments in terms of balance and diversification
- ◆ A determination of when you should start receiving social security payments
- ◆ An assessment of your income taxes and possible tax savings opportunities
- ◆ A complete review of your existing estate plan
- ◆ A review of future health care costs and long-term care issues

We have found that a team approach can lead to a well thought out and comprehensive plan that answers these and other questions and concerns that you may have, and ultimately lead to some specific strategies for you to consider. As a local investment and trust management firm, we take great pride in being part of our client's team of financial professionals. If this concept makes sense to you, or if you simply have unanswered questions about your own situation, please feel free to call or stop by our office.



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