

The New Hampshire Trust Company

Asset Management & Trust Services

February 2007 Vol. 6
Keene, New Hampshire

We are delighted to announce that our assets under management have surpassed 100 million. Since we started this company in June of 2002, our goal has been to exceed our client's expectations in all areas of wealth management. Thank you to all of our clients. It's been a pleasure and an honor to be entrusted with the management of your assets, but, more importantly, to become actively involved with you in meeting your financial and family related objectives.



*Greg McConahey
Rhonda Stephens
Mike Rafferty*

255 West Street
Keene, New Hampshire 03431
Phone: 603-352-0862
Fax: 603-352-1880
www.nhtrustco.com

Year End Review & 2007 Outlook

For those invested in the stock market, 2006 turned out to be a pleasant surprise as the S&P 500 posted a total return of approximately 15.8%. This was more than twice what most analysts expected when they were projecting 2006 returns. The primary factor that led to this surprising performance was stronger than expected earnings growth. At the beginning of 2006, it was generally assumed that the projected weakening of economic growth would lead to a smaller advance in corporate profits. Instead, the predicted 7% increase in 2006 earnings now appears to be closer to 15% as we begin to tabulate fourth quarter earnings reports. This extra 8% gain in earnings growth aligns nicely with the actual higher performance of the index.



2007 should be a decent year for stock investors, although probably not quite as good as 2006. On a comparable basis, stocks appear to be the cheapest of the major asset classes, especially when compared to bonds and real estate, and therefore should produce better risk-adjusted returns. The average S&P 500 stock is trading at approximately 14.8 times 2007 earnings expectations. That translates to an earnings yield (1 divided by the P/E) of 6.8%, which is very attractive relative to the current 4.8% yield on the 10 year U.S. Treasury note.

This is important since, historically, the market tends to do much better when earnings yields are high relative to Treasury notes.

In our view there are two major risks to the market. Geopolitical risks and the repercussions from such events will continue to threaten the market. Although Americans seem to have become somewhat desensitized to such occurrences, they would still negatively impact investor confidence.

The second risk is a potential uptick in inflation or an unexpected reacceleration of economic growth that would cause the Fed to reverse its position on interest rates. The idea that the Fed. remains neutral through the first half of 2007 with a possible rate cut later in the year is already discounted into current market prices, so a major change from this policy would be a negative for the stock market.

We feel confident that current economic conditions are favorable for our somewhat conservative investment philosophy. Diversified portfolios using high quality reasonably valued large multi-national corporations are well suited for periods of slower economic growth and a blurring of world economic boundaries. Special thanks to our Investment Committee members from Trust Company of Vermont for drafting this outlook piece.

The Potential Risks to a Successful Retirement

Mike Rafferty, Certified Financial Planner & Co-President



There are several current trends occurring which will make it increasingly difficult to save enough for retirement. First and foremost, US citizens are living longer and thus need to support themselves over a much greater span of time. According to an article in the Financial Planning Journal, “the life expectancy for Americans increased roughly thirty years between 1900 and 2000.” In that same article, it noted that for a couple who are both age 60, there’s a 40% chance one of them will be alive at age 95. I find it interesting to note that when I’ve shared these statistics, many folks have responded that there’s no way they want to live that long, but as we all know, you don’t typically have a choice about this and need to plan accordingly.

A byproduct of this increasing life expectancy is a corresponding increase in costs for medical expenses, which tend to be greater as we age. According to a study by Fidelity Investments, a couple who are age 65 will need at least \$200,000 to pay for their medical expenses in retirement. The Wall Street Journal estimates that figure to be in excess of \$400,000.

Another trend which impacts your retirement is the stance that corporate America is taking in terms of retirement and health expenses. In an effort to reduce their costs and potential future liabilities, many of the traditional health and pension benefits are being significantly reduced or eliminated. Many larger corporations had provided employees with a defined benefit plan that typically paid retirees a percentage of their final pay for as long as they lived. The newest generation of retirement plans are called defined contribution plans and they include 401(k)’s, cash balance plans as well as simple IRA’s.

These plans often contribute a percentage of the employee’s pay, but the responsibility for the investment of those funds and the timing of the ultimate distributions is clearly the responsibility of the employee.

One additional and potentially critical risk for a successful retirement is the possibility of a nursing home stay. According to the Genworth Financial 2006 Cost of Care Survey, the average daily cost for care in New Hampshire is \$233 per day, or almost \$7,000 per month. This could have a devastating effect on retirement savings.

There are a myriad of potential solutions to the challenges I have presented. The simple act of regular, tax-advantaged savings starting at a relatively young age will help immensely. For many of the readers of this newsletter, you are close to or already in retirement, so please share this in-

formation with your children or grandchildren and encourage them to develop their desire to save for the future.

You should also review your options in terms of long-term care insurance as well as the possibility of supplemental health insurance. Although we do not offer these potential solutions, we welcome the opportunity to work with you and your other advisors to review the costs and benefits of these insurance products.

Another important consideration is your asset allocation in retirement. In my opinion, you should not be too conservative as you enter retirement given the life expectancy figures I’ve already discussed. If your assets need to last you another 25-35 years, you truly have a long-term time horizon, and the difference between earning 5% and 8% on your investments can make a huge difference in your ability to maintain your standard of living. I am certainly not suggesting that anyone roll the dice with their retirement funds, but with a well diversified and thoughtful investment strategy as well as a sustainable spending rate, portfolio fluctuations can be reduced while simultaneously producing positive and competitive long-term results.

Another suggestion, as well as a note of caution, is to understand how many of the financial advisors you use are compensated. Are they paid per transaction or do they receive significantly greater compensation for selling certain products? Is your provider truly interested in a long-term relationship, or are they more comfortable selling products and moving on to the next sale? Do they have specific expertise and training to deal with the tax issues related to wealth? I have seen several examples of questionable transactions recently including the sale of annuities within an IRA as well as the use of wrap accounts with extremely high fees. I would strongly suggest that you ask for a written explanation of all fees, costs, commissions and back-end charges that may exist prior to entrusting your hard-earned assets to anyone. Feel free to contact me if you’d like an example of a letter that may prove useful.

In summary, I believe that it’s absolutely critical to be proactive and take full responsibility for your successful financial future. The reality of a truly global economy is that companies need to create a very competitive cost structure and cannot afford to offer some of the same retirement benefits that have been offered in the past. If you take control, plan ahead and enlist the help of a trusted and competent team of advisors, you can insure a long and rewarding span of time during your retirement.