

The New Hampshire Trust Company

Asset Management & Trust Services

April 2011

Exciting Changes at NHTC

As we mentioned in a letter to our clients in early February, there are several changes going on that we feel will enhance our ability to provide first-rate services to all of the folks we have the pleasure of serving.

Todd Gray has now been onboard for over three months, and we are very pleased with the expertise and communication skills he has brought to our company. Todd was most recently with the Wealth Management Division of Chittenden Bank (now People's United) in their Brattleboro office and has been managing client portfolios for over 20 years.

We moved into our new space in early February and we are enjoying our new surroundings. We now have an office for Todd and some additional space for future expansion. Please feel free to visit when you are in the area.

Finally, our new trust accounting and investment system through Northern Trust is fully operational and will provide us and our clients with additional capabilities and efficiencies as we move forward.

Investment Tax Planning

The new tax act has maintained the beneficial treatment for most long-term capital gains and dividends through 2012. The maximum rate is 15% versus a maximum rate of 35% on ordinary income.

We are cognizant of our clients' after-tax returns and we are always monitoring and tracking tax costs as well as any transactions within a portfolio. We typically review these details when we complete account reviews, and at year-end.

We have many strong relationships with several of our clients' tax accountants and we will continue to encourage a proactive and communicative approach to tax planning. Please let us know if you'd like to discuss any aspects of the recently passed legislation.



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Good News/Bad News on the Estate Planning Front

Mike Rafferty, Certified Financial Planner

As many of you have read, we now know what the rules will be regarding gifting and the exemption amounts that will be applicable when someone passes away. The good news is that there will be a 5 million dollar exemption amount per individual (10 million per couple) and the maximum rate is 35%. To put this in perspective, the individual exemption amount was 3.5 million in 2009 and 2 million in 2006-2008, with a maximum rate of 46%. Clearly, the higher exemption amounts and lower rates will be very beneficial to individuals with larger estates.



It's nice to finally have some guidelines to plan with, but the bad news is that these new rules are set to expire in 2013 and we will revert back to a 1 million dollar exemption amount if no changes occur between now and then. Many experts feel that we will in fact get more permanent rules that will maintain the current exemption amounts, but the reality is that no one knows for sure. As we all know, our House of Representatives and Senate procrastinated on the issues related to the estate tax for several years, and we were without clear guidance during most of the year in 2010.

Without getting too technical, the estate and gift tax are now unified. What this means

is that a couple could gift up to 10 million currently and not have to pay any gift taxes, assuming no taxable gifts had been made previously. There is also a new concept in the law called "portability", which allows a surviving spouse to utilize the exemption amount of a deceased spouse without a need for a pre-established by-pass trust and asset splitting.

There are still some potential tax benefits in funding a by-pass trust upon the first death, but clearly each client's situation should be reviewed in light of the new laws.

Also, the 2010 Tax Relief Act extends through 2011 the rules that allow an individual to pay up to \$100,000 from his or her IRA directly to a qualified charity. The individual must have reached 70.5 and the amount given will count towards the minimum required distribution. The annual gift tax exclusion remains at \$13,000 per individual (\$26,000 for couples) for 2011. You should also keep in mind the new, expanded rules regarding Roth IRA's.

In summary, we would be happy to sit down with you and your attorney to review in detail how the new rules may affect your situation, and what strategies should be considered, especially given the relatively short two-year window for these new laws.

Happy Second Anniversary Bull Market

Todd E. Gray, Portfolio Manager

March 9, 2011 represented the second anniversary of the birth of the current bull market in U.S. stocks. With the S&P 500 Index having increased during this time period by almost 100%, measuring from the lowest to the highest point, it is reasonable to have some concerns about the health of the bull. Is the bull market getting long in the tooth? Have stock prices gone up too much and too fast? Such concerns are best addressed by examining previous bull markets.

Over the past eighty years there have been sixteen bull markets. Out of the sixteen, eleven have lasted for longer than two years with the longest lasting nine years. Measuring from the market bottom to the peak, the average bull market duration has been 3.8 years. So, from the standpoint of duration, the current bull market is still below average in its length.

At 100% gains, this bull market has run further and faster than any previous rally since 1932. Indeed, it has outpaced every other rally's 24 month return by a substantial margin, with the average return over this time period being 56%. Based on this information, concerns that the stock market has bounced back too much and too fast would appear valid. However, it is important to keep in mind that the last stock market decline was far more severe than the typical bear market, making this sharp rise a little less extraordinary.

In order to get an accurate perspective on the health of the current bull market, investors need to examine

what is driving this rise and how these drivers may be different from previous bull markets. Earnings growth, a critical measure of corporate health, has been strong and that trend is expected to continue in 2011. Therefore, despite the rise in stock prices, the price-to-earnings (P/E) ratio, which measures how much investors are willing to pay for each dollar of company earnings, indicates that the market is still inexpensive. The "forward" P/E ratio for the S&P 500 index is 13.6, which is below the historical average of 15. That means there's still room for P/E expansion before the market can be considered "fairly valued".



Low interest rates and cost cutting have driven corporations to retool their balance sheets. They are currently sitting on almost \$2 trillion of cash. Some of the money that's been saved and raised by companies is being earmarked for dividend increases and stock repurchases, which should help extend the bull market. The current dividend payout ratio for the S&P 500 of 26% leaves considerable upside if the payout ratio moves toward its 54% historic average.

“The four most dangerous words in investing are: it’s different this time.”

~ Legendary Investor Sir John Templeton

At the risk of violating the wisdom of Sir John Templeton, we would suggest that there are external dynamics that are different this time. The biggest change is that the U.S. stock market is no longer reliant on the U.S. economy. We now live within a truly global



economy. The companies with global reach, those that sell their products worldwide and source raw materials, components, manufacturing and labor globally, are the companies leading the market higher.

What's different is that the external forces that can drive up, or derail, the U.S. stock market are forces which are beyond our borders and our control. Events such as global stock markets correcting or crashing, emerging markets' economic growth and inflation, government debt held by overseas investors, sovereign wealth funds and central banks can all have a significant impact on our markets. While we are not dismissing the lessons of history, we believe that we are operating within a new global environment that may very well make historical statistics less accurate predictors of current and future market movements.

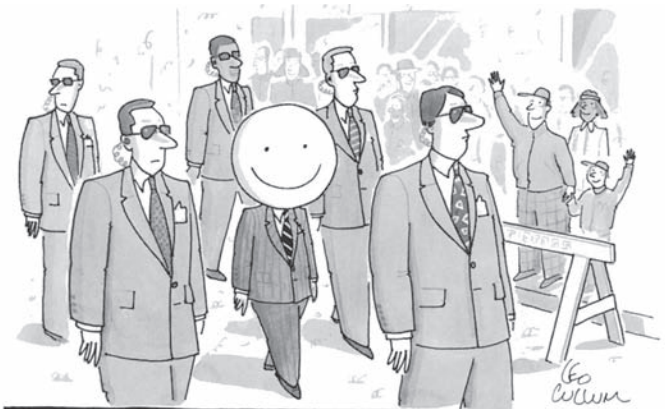
What do we do now?

As we celebrate the second anniversary of the bull market, the lessons of history would suggest that we need to be preparing for a shift to sectors that will be leading the bull market in its third year of life. That shift would be away from the small-cap and growth sectors of the stock market toward large-cap and value. While it is entirely normal for the small-cap and growth sectors to lead the stock market during the earlier phases of this bull market, it is increasingly surprising that they have continued to do so. The typical pattern during prior bull markets is for the shift toward the large-cap and value ends of the spectrum to have occurred before the two-year mark. With each passing month, the odds in favor of large-cap and value taking the lead become that much stronger. Eventually, this shift in market leadership will

take place and when it does the advantage that large-cap has over small-cap and value over growth could be quite significant. According to calculations made by Jeremy Grantham, the chief investment strategist at Boston-based GMO, the large-cap value sector has never been more undervalued than it is today, relative to small-cap growth stocks. We also believe that the superior economic growth levels of emerging market countries make their stocks attractive investments, as well as U.S. companies who derive significant amounts of revenue from these countries.

A common question currently being asked by investors is should they be reducing their stock holdings and buying bonds. With interest rates, especially short-term rates, being either at or near the lowest levels of the past 50 years, our opinion is that bonds, especially government bonds, are not particularly attractive at this point. However, it is important that investors do not allow their stock allocation to grow above the maximum level that is warranted for their circumstances and tolerance for risk.

We welcome the opportunity to meet with you to review your portfolio and discuss how our outlook can fit into your specific goals and objectives.



THE RETURN OF GUARDED OPTIMISM

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