

# The New Hampshire Trust Company

Asset Management & Trust Services

May 2010

## Happy Anniversary Bull Market



March 9, 2010 marked the one-year anniversary of the end of the last bear market. After 16 months of market decline and financial crisis causing investors fear and trepidation throughout 2008 and early 2009, the Standard & Poor's 500 Stock Index bottomed at 676 on March 9, 2009; down 57% from its all-time high of 1,565 reached in October 2007.

Since then, the calls for a second Great Depression have receded, much of the world economy has started to grow again and investor sentiment has gone from apocalyptic to hopeful. Stock markets around the world have staged powerful rallies. As of March 31, 2010, the S&P 500 is up 73% from its March 2009 low, marking the strongest advance for any first year of a new bull market since the 1930's, according to Standard &

Poor's. Similarly, the MSCI EAFE and Emerging Markets indexes were up 78% and 104% respectively for the same time period based on representative ETFs.

Hindsight tells us that March 9, 2009 was one of the greatest opportunities to invest in most of our lifetimes, but the situation wasn't nearly as clear back then. The bear case was that the economy and corporate profits would be in a slump for a long time. Really, other than attractive valuations on stocks, there was little to get most investors excited about committing cash to the equity markets.

Today, stocks are no longer the bargains they were back in early 2009 when the P/E for the S&P 500 was just above 10 times the then 2010 earnings estimate of \$66 versus a P/E of 15 times the current 2010 earnings estimate of \$78 on March 31, 2010. And there is plenty of reason for concern; including a fragile domestic recovery, European debt problems, overly indebted U.S. households, and high unemployment. But the fact is, there are always reasons not

to buy stocks. In the long term, staying invested has always been the right move.

Uncertainty is a key word as newscasters struggle to explain each day's volatility. "The market does not like uncertainty." After many years of investing, we can assure you that the future is never certain. In the 1970's the concern was inflation; in the 1980's money supply and Latin American debt; the 1990's brought a real estate crash and the savings and loan debacle. Of course the 2000's had more than its share with the technology bust, and the current real estate and mortgage bust.



If you are waiting for certainty, your rate of return will most likely be equal to that of a 30-day Treasury bill, which these days has a yield of around 0.16%. It is risk investment that generates excess re-

turns. Yet risk must be assumed in a thoughtful manner and your risk should be mitigated where possible. Don't take on risk if you can't afford to do so. If you will need the money in the next one to three years, then you are taking too much risk investing in stocks.

So what are some of the important lessons that investors should take away from the last 13 months? One thing is that it is so important to stay invested. Trying to time the market is a loser's game. Had an investor sold on March 9, 2009 the only thing he would have succeeded in doing is locking in his losses. Depending on if or when he re-entered the stock market he missed part of the rally. Within one week of the low, the market was up 11.5% and in two weeks the market had rallied 22%.

Another lesson is to develop a diversified investment strategy and rebalance the portfolio on a consistent basis. Do not become consumed with where the best returns are, but instead focus on a fair return for the risk you are willing to assume and how best to position yourself to achieve it. By doing this, you will usually outperform any decision based on emotions.



Mike Rafferty, Rhonda Stephens & Greg McConahey

255 West Street

Keene, New Hampshire 03431

Phone: 603.352.0862

Fax: 603.352.1880

## The Federal Estate Tax?

We are currently in the midst of the one-year repeal of the Federal Estate and Generation Skipping Tax and the one-year reinstatement of the ill-fated '76 carryover basis rules. If Congress passes a law to reinstate the Federal Estate Tax, they may make it retroactive to January 1, 2010. They may do the same with the Generation Skipping Tax. If nothing is done, on January 1<sup>st</sup> of 2011, both taxes will be reinstated and the exemption will drop to 1 million for both, with a maximum rate of 55%.



Most planners expect that some form of estate tax will come back this year, but we also were predicting that this would get resolved in 2009. Our

hope here at The New Hampshire Trust Co. is that this issue will get resolved soon so that our clients may plan accordingly.

Despite the current uncertainty, we continue to encourage our clients to think about their estate plan. There are many non-tax issues that should be addressed, including whether or not a trust is necessary or desirable after your death, or how a second marriage situation should be handled.

Please feel free to call us should you wish to discuss your current circumstances. We will continue to keep you informed as we move forward in 2010, and we'll look forward to sharing any new details on the Estate Tax as they become available.

© The New Hampshire Trust Company