

# The New Hampshire Trust Company

June 2006 Vol. 5  
Keene, New Hampshire

## Asset Management & Trust Services

Welcome to the fifth edition of our newsletter. The New Hampshire Trust Company will celebrate its fourth anniversary on June 12th! During this time our assets under management have grown to over \$84 million. More important, from our perspective, is the fact that we've had the opportunity to expand the number and depth of our client relationships. It continues to be an honor and pleasure to work with our clients. We also appreciate the referrals from existing clients and their advisors who are satisfied with the service and attention to detail that they've come to expect.



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### Reversion to the Mean

Gregory M. McConahey, Portfolio Manager & Co-President

At the time of this writing, six weeks into the 2006 Major League baseball season, Toronto Blue Jay's outfielder Alex Rios, a career .284 hitter, leads the American League in batting with a .374 average. Conversely, NY Yankee's infielder Alex Rodriguez, a career .306 hitter, has a .269 batting average. The 162 game major league season provides ballplayers with the opportunity to endure many streaks and slumps but at the end of the season batting averages tend to reflect a player's inherent level of skill and approximate a player's career average.

As long term investors our season is generally three to five years which coincides with a full economic cycle. Rather than streaks and slumps, stocks tend to go through periods of being cheap and rich but over time tend to revert to their mean or normal valuation levels. Over the three and five year periods ended April 30<sup>th</sup>, 2006 the following market indices total returns were:

	3 Year	5 Year
S&P 500 Index	14.68%	2.70%
S&P 500/Barra Value	18.99%	4.14%
S&P 500/Barra Growth	10.41%	1.09%
S&P 100 Index	10.77%	.24%
S&P 400 Index	23.71%	10.73%
S&P 600 Index	26.63%	13.34%
MSCI EAFE Index	29.10%	9.18%
MSCI Emerging Mkt	45.39%	23.72%

This three and five year period has been characterized by easy global monetary conditions, strong economic growth from many emerging nations with China a driving force, record U.S. corporate profits, surging commodity prices and generally low inflation. Equity investors have gravitated to those areas of the market with the greatest earnings increases and as a result emerging market equities along with U.S. small and midcap equities have outperformed. Valuation levels for these groups have begun to exceed their normal levels. Conversely U.S. high quality big cap growth stocks valuations are at relatively low levels.

The investment climate going forward will experience tighter monetary conditions, potentially higher inflation and a lower U.S. dollar, as well as a slowing in U.S. corporate profit growth. This scenario would ben-

efit the high quality big cap growth companies as well as big cap international.

In our three plus years as a firm our clients have benefited from our investment committee's commitment to diversification and decision to include U.S. small and mid cap exposure as well as developed and emerging international exposure in their portfolios. We will continue to be mindful of where the relative value in the market is and maintain appropriate exposure levels to each sector. As always, we welcome the opportunity to review our outlook with you further and discuss how it may apply 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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## Revocable Living Trusts

Mike Rafferty, Certified Financial Planner & Co-President

Much has been written about this financial planning tool. Some of the typical benefits associated with this kind of a trust include probate avoidance, professional investment management, and protection in the event of a disability, as well as overall confidentiality. Some attorneys we have collaborated with encourage their clients to put all of their assets, including personal property, into their trusts for many of the reasons previously mentioned. Other attorneys feel that the probate process and the cost for New Hampshire residents is not particularly burdensome or expensive, and in some cases, having the probate court involved in the oversight of asset distributions can add a higher level of accountability to the process.

We do not believe that there is any one right approach when trying to assist our clients in meeting their financial objectives, and this certainly holds true with regard to the use of Revocable Living Trusts. Each individual and family situation is different, and we feel our goal is to expose our clients to the various options that exist. We try to do this in conjunction with their legal and tax advisors so that clients can make informed decisions about the best course of action to take.

Having said all of that, and in the interest of providing the

reader with some general guidelines, I will identify some scenarios where the use of a Revocable Trust could be beneficial.

- ◆ A retired widower or widow who does not possess a lot of expertise in the management of an investment portfolio or with tax planning.
- ◆ A couple with significant assets and estate planning issues. Although a Revocable Trust does not necessarily reduce taxes, it can be a useful tool in dividing assets and assuring a level of confidentiality for the family.
- ◆ A retired couple or single individual where there have been some fairly serious health issues.

The use of a professional corporate trustee in a Revocable Trust, either alone, or as a co-trustee with a family member, may provide a level of professionalism as well as continuity and objectivity in the management of one's affairs. If the corporate trustee is already involved prior to a disability, the transition can be quite simple and straightforward.

Whatever may be appropriate for you, or perhaps an aging parent that you are trying to assist, should involve a full review of your current financial picture as well as some significant discussions about your family's unique goals and objectives. Please let us know if you would like to explore how we work with our clients in this regard.

