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The Ides of March, By Ted Cronin, CIO

While a thorough understanding of financial theory and portfolio science is necessary to making sound investment decisions, it is not the only source of knowledge that can be employed profitably. Useful inputs can be found in a study of human psychology, a familiarity with economic history, a broad exposure to current events, and a sensitivity to the direction of global trends.

The recent stock market action demonstrates the enigma of market behavior. We've had month after month of consistent market gains since last summer. Then, suddenly, one morning there is a decline of a scale last experienced after the 9/11 terrorist attacks. What happened?

The big picture hasn't changed. The U.S. has record exports, rising hourly compensation, superb corporate profits, great balance sheets, growing federal tax revenues, solid GDP growth, healthy productivity, low unemployment, modest inflation, reasonable market valuations, etc. What's not to like?

If you turn on the television, which is usually a mistake, you can learn that the Chinese markets suffered a decline, which somehow threatened global liquidity even though their markets are 99% closed to outside investors. You can learn that the New York Stock Exchange still is unable to handle trading volume. You can learn that different Presidential candidates are proposing trade and capital restrictions that might undermine the economy. And, you can learn that the "housing bubble" is about to burst, people aren't paying their mortgages, and we will witness a repeat akin to the collapse after the "internet bubble."

Every pundit has a different explanation, and even the most innocent observer recognizes that in combination the pundits don't explain anything. The markets are an adaptive system too complex with feedback loops and occasional behavioral chaos to be reduced to a simple causal relationship that "a" happened because of "b".



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We mentioned in our last newsletter that we feel “the biggest risk to global stability continues to be a credit crunch.” We remain concerned about the amount of excess liquidity (too much money) in the system that has prompted a lack of prudent lending standards and investment practices. We share in the alarm about the sub-prime mortgage market, but we also identify liquidity traps throughout the financial system, from the international carry trade to domestic hedge fund jockeys. These are potentially serious problems, but when and to what extent they impact the markets is unclear. After several years of great markets, we are cautious about what lies around the corner.

The most important factor to portfolio success (or failure) is the selection of which asset classes to employ and what weights to assign each class. The largest part of the returns come from where you have the money at work, such as domestic stocks or foreign stocks, such as real estate trusts versus Treasury bonds. Each class has different functional and cyclical characteristics, potential returns, and ability to mitigate risk within the overall portfolio. The process used to make these decisions must be based on a combination of investment science and investment art, tempered with experience, and a healthy dose of humility.

If we had perfect knowledge of the future, we would put all of the money in exactly the right place at exactly the right time. But our crystal ball is not that clear, nor is anyone else’s. The best way to prepare for uncertainties is to remain dedicated to our process and to know our limits.

Should You Have a Financial Plan?

By Jim Mirenda, CFP®

Regardless of your asset size or employment situation you may find value in a financial planning exercise. Why? Because as life changes so does your financial world. The best time to prepare for and address these changes is before they happen.

Recently you may have welcomed children or grandchildren. You may have started or sold a business. You may have retired or returned to the workforce. You may have been married or divorced. You may have inherited money or made a lifetime charitable gift. All of these events bring an assortment of ramifications and it's important to address how these changes affect your financial health.

Financial Planning is more than planning for retirement. Among other topics it can encompass risk planning, tax analysis, cash flow, asset management, and estate planning. The goal is not to replace the work done by specialty advisors such as accountants, lawyers, or investment managers, but to coordinate the efforts of these people with your complete and complex financial world. You can make better, clearer, and more financially sound decisions when the various financial elements are examined together in a coordinated process.

What follows are sample topics, statements, and questions that may be useful in a financial planning exercise. These insights are not meant to scare you into action but are intended to prepare discussion for events that may happen in your lifetime. Please think through these issues and ask yourself if any of these apply to your world. It's never too soon to



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address these issues even if some appear to be decades away.

Risk and Insurance

The importance of risk management cannot be stressed enough. Everyone needs to protect assets, incomes, and health from adverse situations. Proper coverage on your home, auto, and business is a given, but still must be addressed every few years. Has your insurance been updated for rising home prices and increased re-building costs for instance? Do you have adequate umbrella coverage that protects your general assets from lawsuits? Is your earning stream appropriately insured for your disability? If you are a small business owner with other partners you should consider buy-sell agreements that are coordinated with life insurance.

Hopefully you have adequate health insurance now, but what changes may affect your insurance in the future? Who will take care of you as you age? Perhaps you are a candidate for long-term care insurance. Life insurance, especially as it relates to estate planning, may still be useful even if you are an empty-nester with significant assets.

Balance Sheet and Cash Flows

Not unlike a business you should know how your assets and debts are structured and titled. You should also be familiar with drivers of your major cash flows. Changes in overall Net Worth may tell you about other areas that need to be addressed (liquidity needs, estate planning, taxes).

Do you have a complete list of your assets and liabilities? Should you have less or more

debt? How do your cash flow needs fit with your assets? How does your investment plan fit with your cash flows and assets?

Steps should be taken to reduce your annual taxes. Are you fully utilizing deductions, credits, and gifting exclusions? Are annual tax decisions fully integrated with your estate plans?

Life after a career should be rewarding and viable. How do you see yourself living during this phase of your life? What retirement dreams do you have? We want to make a reasonable judgment that you will have enough to live on in retirement. Perhaps you desire to outlive your assets. If so, how and when should you gift assets to family or charity?

Estate Planning

A properly designed estate plan will ensure that your assets are effectively and efficiently transferred according to your desires. Key to this process is transferring assets without generating unnecessary estate or gift taxes (the highest federal estate tax rate is currently 45%). Estate planning techniques can be effective during your lifetime and are not solely for asset transfers at death.

Wills and estate plans should be reviewed and updated frequently. Has your family, work, residence(s), or asset base changed significantly since your last update? Do you have charitable intents during life and at death? Do you intend for family members to inherit wealth during your life or at death? Should you establish Trusts during your lifetime or at death to help carry out your wishes?



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Perhaps you care for dependents. How do you pay for education for children or grandchildren? How do you care for the aging of your parents?

What personal values are associated with your wealth? How will those values be communicated or adopted through your estate planning?

Personal Issues

There are countless other personal, financial issues that may be important to you. For example, you should have a Health Care Power of Attorney with your spouse or other trusted person. Do they know what to do in the event that you fall ill? Do they know where your important documents are and who your trusted advisors are?

Also, you should take complete steps to protect your identity beyond just your credit cards. Have you considered putting a credit freeze on your files to protect your identity? A credit freeze blocks anybody from opening new lines of credit under your name, except with your deliberate consent.

Summary

Financial markets tell you the current value of your assets. Financial Plans can tell you everything else about the health and risks of your financial world. We at Manchester Capital want to help you address these matters. We understand the importance of helping you with more than direct investment issues. We can help review these issues and work with outside counsel to ensure that nothing gets missed. Please call us with any questions or issues that you feel deserve our shared attention.

Inside MCM

We are pleased to welcome Henry Morneault and Jeff Hall to MCM!



Henry is the Chief Operating Officer of the Manchester Capital Management and is based in Manchester, Vermont. He has responsibility for the firm's operating and administrative activities, including strategic and tactical business process, personnel, and the back office. Prior to joining Manchester Capital, Henry was the Chief Operating Officer of Fortigent, a wealth management outsourcing company, and Executive Vice President of Riggs Bank in Washington, DC, responsible for the wealth management and institutional businesses. Henry has an undergraduate degree from Boston College and an MBA from Babson College.



Jeff Hall has joined our Manchester office as Vice President-Real Estate. His principal area of focus will be providing clients assistance and advice on strategic commercial real estate acquisitions and divestitures. He has been active in principal investing in the real estate and private equity businesses for over twenty years. Jeff graduated with a BS in Finance from the University of Virginia, subsequently obtaining an MBA from the New York University Stern School of Business.