50 Locust Avenue, New Canaan, CT 06840
Ph: (203) 972-8262 Fx: 203-966-4740
htg@htgadvisors.com ◆ htginvestmentadvisors.com

HTG INVESTMENT ADVISORS INC

A WEALTH ADVISORY NEWSLETTER FROM HTG INVESTMENT ADVISORS ◆ FALL 2011

HEDGE FUND STRATEGIES

Migrate to Mutual Funds and ETFs

Hedge funds have become popular over the last few decades because of their high profit potential, lack of correlation with traditional asset classes such as stocks, and protection in down markets. Some consider hedge funds to be a third pillar in portfolio construction.

We start with a discussion of "what is a hedge fund?" Usually the term refers to a private investment vehicle, generally a limited partnership, which has a high degree of flexibility to invest in many different markets and strategies. The word "hedge" implies risk reduction, but in reality hedge funds can position themselves anywhere on the risk spectrum. Typical characteristics of hedge funds are:

- High minimum investment and net worth requirements
- High fees, often "2 and 20," meaning a 2% ongoing annual management fee and 20% of profits as a performance fee
- Illiquidity, with limitations on the ability of the investor to withdraw funds
- Fewer legal requirements, such as less disclosure of holdings and financial reporting
- May use substantial leverage
- Tax inefficiency

Let us turn to a brief overview of the major hedge fund categories.

Directional

"Directional" strategies make a "bet" on which way markets will move. They may use long/short, long only or short only tactics for implementation.

Event-driven

"Event-driven" strategies attempt to capitalize on a corporate event or significant change such as a merger, spin off or bankruptcy. The manager positions the fund according to his or her analysis of how the event or restructuring will proceed. A few examples include merger and fixed income arbitrage, distressed securities, and private investments in public entities.

Global macro

"Global macro" funds typically invest according to their view of expected macroeconomic trends. They are global in orientation and can invest tactically in a wide range of asset classes.

Relative value

A "Relative value" approach attempts to capitalize on a mispricing between two related securities. To implement, the expensive security typically would be sold short and the inexpensive security would be purchased long.

We noted earlier that "hedge fund" generally refers to a partnership structure that may employ any number of strategies. As the financial world has evolved, it seems more apropos to focus on the term "hedging strategies." Such a phrase encapsulates the desire to generate a favorable return regardless of market conditions. Other goals are for returns to be uncorrelated with traditional

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INSIDE

RETIREMENT PLANNING

Are you saving enough?

It is widely reported that Baby Boomers will fall short of saving for retirement, yet it is rare to find advice for younger workers on how to avoid the same fate. What should individuals who are 20 to 30 years from retirement save in order to reach an accumulation level that ensures a safe retirement?

The traditional starting point is to determine what savings are needed to fund a lifetime retirement income. This is not an easy task, since assumptions such as spending, inflation, longevity and investment return heavily influence the result.

In order to determine the savings need, it is necessary to consider the withdrawal rate (i.e. the percentage of assets consumed in each year of retirement). Financial planning experts have long debated what constitutes a "safe" withdrawal rate in retirement. The consensus opinion is that an initial withdrawal rate of 4% to 5% is "super-safe" and will provide a rising, inflation-adjusted income. This analysis assumes a balanced portfolio and a 30 year retirement. While this approach results in almost no chance of running out of assets, you'll need to accumulate 20 to 25 times the income you desire at the outset of retirement! For example, if you want to replace $50,000 of income, you'll need $1M to $1.25M of savings. (Don't stop reading now; advice on how to get there is coming.)

Some question whether this approach overstates the savings need, because the 4%-5% withdrawal rule prepares you for the worst case scenario. During many 30 year retirements, higher withdrawal rates were sustainable and did not result in asset depletion.

How can a young person know whether he or she is saving too little or too much?

A recent study provides a saving "prescription" and attempts to address this issue. But before we examine the results, understanding the underlying assumptions is key:

- While the study spans 1870 to 2009, it assumes history repeats itself. Using over 100 years of data ensures that several severe down periods are included.
- The study assumes that investors hold their portfolio balance constant throughout the accumulation and de-cumulation period. For example, a 60% stock/40% bond portfolio is held from age 35 to 95.
- No savings are assumed at the outset.
- The goal is to provide a constant inflation-adjusted retirement income.

The study linked the accumulation or savings period and the retirement/consumption period with market valuations at the time of retirement. Retirement periods in which the lowest withdrawal rates are needed tend to follow bull markets, as the market assists savers in reaching a higher accumulation amount by retirement. Conversely, the highest sustainable withdrawal rates tend to follow prolonged bear markets. Despite entering retirement with less savings, a bull market during retirement provides higher returns and therefore higher sustainable withdrawal rates going forward.

The charts illustrate the savings rates required assuming a 60%/40% portfolio, and the desired replacement of 50% or 70% of income. It's clear that the younger you start saving, the lower the savings rate. A 35 year-old planning to retire at 65, and live to 95, needs to save 17% to 23% of income per year depending on the desired income replacement. But, if that 35 year-old waits ten years to get started, the savings required skyrockets to 36% to 50%.

REPLACE 50% OF FINAL SALARY

Asset Allocation: 60% stocks/40% bonds		Years in Retirement		
		20 yrs	30 yrs	40 yrs
Years until Retirement	20 yrs	31%	36%	39%
	30 yrs	14%	17%	19%
	40 yrs	8%	9%	9%

REPLACE 70% OF FINAL SALARY

Asset Allocation: 60% stocks/40% bonds		Years in Retirement		
		20 yrs	30 yrs	40 yrs
Years until Retirement	20 yrs	43%	50%	54%
	30 yrs	19%	23%	26%
	40 yrs	11%	12%	13%

On the positive side, a 25 year old needs to save only 9% to 12% for the same retirement.

Remember that you can count your employer contribution to your retirement account towards your savings goal. If you don't have a pension, we suggest using the higher replacement target (70%) and count your employer's contribution. A 6% employer match combined with a 6% employee contribution, means that you are already at 12% before any other savings.

These recommended savings rates also assume no accumulated savings at the outset. If you already have some savings, and want to figure what more you'll need to save, we recommend a more detailed personal analysis. Contact HTG to see what is involved in planning for your retirement. ◆

GETTING TO KNOW THE HTG TEAM

Valerie H. Connolly, CFA

Valerie joined HTG in 2011 as a senior investment advisor. She has over 25 years of experience in the financial services industry. Valerie manages client investment portfolios and counsels clients on their financial concerns such as retirement aspirations, education savings and wealth transfer strategies. She participates in developing the firm's investment strategy, researching investment vehicles and mentoring colleagues on investment related matters.

Valerie received a MBA from the University of Chicago Graduate School of Business, now the Booth School of Business. She graduated from Wellesley College with majors in economics and psychology. She is a CFA charterholder and a member of the CFA Institute, the Stamford CFA Society, and the New York Society of Security Analysts.

Valerie enjoys spending time with her family, walking their Boston terrier, and reading. She volunteers for several organizations including Wellesley alumnae activities and the New Canaan Chapter of the American Association of University Women. Valerie is a member of the Estate Planning Council of Lower Fairfield County.

AdvisorOne's Annual Top Wealth Managers

HTG was named to AdvisorOne's **Annual Top Wealth Managers** list for the fourth time. The list highlights the top wealth managers serving high net worth individuals across the country. Firms were selected based on levels of revenues, assets and productivity.

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...Hedge Fund Strategies

asset classes and to reduce overall volatility in an investment portfolio. Hedging strategies are now being brought to the open-end mutual fund arena and the world of ETFs, in part due to the availability of new liquid derivative products. Positive effects from this trend include reduced fees, lower minimum investment requirements, increased transparency and daily liquidity in normal market conditions. The rationale for inclusion of these hedging strategies in mutual funds and ETFs is the same as for hedge funds; better diversification, lower overall volatility and a reduction of down-side risk in an investment portfolio.

At HTG, we include hedging and other alternative investments to reduce our dependence on traditional stock and bond funds, thus moderating the risk inherent in those asset classes. As an alternative to stocks, we typically add tactical and multi-strategy funds. To enhance asset preservation, we selectively use "absolute return" funds which strive to remove much of the risk of stocks and bonds.

When we first began adding alternative investments to our portfolios several years ago, the universe of funds employing hedging strategies was small. Today it is rapidly expanding as top hedge funds offer their skills in the mutual fund and ETF markets. We view this as a very positive development as it provides new tools to enhance portfolio construction. ◆

FALL FINANCIAL FOCUS SERIES UNDERWAY

Both programs for this fall are back by popular demand:

Yes, You Can Raise Financially Aware Kids

OCTOBER 18, 2011

Alan Critchell, VP of American Century Investments offers an engaging, open format for parents to share their stories, ask questions and develop a strategy for teaching children the basics about money. Mr. Critchell recommends that we should all reinforce the four pillars of personal finance: earning, spending, saving and investing. When these principles are properly taught-even to a young child-parents can raise their children to live within their means and become financially responsible members of society.

Playing Offense through Strategic Tax Planning

NOVEMBER 29, 2011

Ms. Janice Kunst, CPA at Reynolds & Rowella, LLP in New Canaan will provide winning advice on how to make the most of the current tax environment. Participants in last year's workshop found her tips and insight to be practical and timely. Janice serves individual clients in tax planning and tax compliance as well as business clients in the areas of consulting and taxation.

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HTG news

- Barbara Ollinger, Jennifer Nicasio and Robin Sherwood all attended Code of Ethics training as part of their CFP continuing education requirements. The CFP Board's ethics requirements reflect recognition of certificants' responsibilities to the public, clients, colleagues and employers.
- In August, Amy Sheinberg attended SOLUTIONS, a custodian sponsored workshop designed to streamline workflow and improve client service through new tools and technologies.
- For many years Tom Gnuse has participated in Aegis, an informal group consisting of the owners of ten independent advisory firms located throughout the country. The group is pleased to count among its members the current presidents of the two leading industry associations, FPA and NAPFA.
- HTG would like to congratulate James Hunt, Jennifer's father, who recently received the Consumer Federation of America's Distinguished Lifetime Service Award. Jane Bryant Quinn presented this consumer service award to Mr. Hunt, recognizing his three decades of tireless work for the consumer as a pro bono life insurance actuary and expert for national consumer groups.
- This summer Tom and Jeanne hosted a gathering of the extended Gnuse family clan at Mission Bay in San Diego. With seven grandchildren present, small plastic shovels, buckets, and beach sand were the highlight of the week.
- The HTG family headed back to the Roton Point Club for our annual summer outing. Last year we went on a kayaking adventure, but this year we chose a wine tasting picnic. Everyone was challenged to identify twelve heavily disguised bottles. One employee succeeded. Guess who!
- Jeanne sang with the Berkshire Choral Festival in July. The concert included a new composition called The World Beloved, A Bluegrass Mass composed by Carol Barnett and accompanied by Monroe Crossing Band.

We would be happy to add family members or friends to our newsletter mailing list. Please call Susannah at (203) 972-8262 or email her at susannah@htgadvisors.com. Also, if you're interested in receiving your newsletter by email, please let us know.