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A WEALTH ADVISORY NEWSLETTER FROM HTG INVESTMENT ADVISORS ◆ SPRING 2010

Bonds Deserve MORE ATTENTION

The typical investor seeks a return that combats the negative impact of inflation and produces income to maintain a standard of living.

To do this, most will arrive at a portfolio which is balanced between income-producing assets with fixed, more predictable returns and riskier assets with less predictable, higher expected returns. While equities are often the center of attention, fixed income deserves equal consideration in portfolio construction. This leads to questions such as:

What role should bonds play in a portfolio?

How can one apply allocation and diversification strategies to fixed income?

What is the best way to own bonds?

We view bonds as serving a dual purpose in overall portfolio design. Bonds moderate portfolio fluctuations and are also an effective cash flow generator. Short-term, high-quality, government guaranteed, US dollar denominated bonds do the best job of stabilizing a portfolio. One need look no further than the fourth quarter of 2008 to see this in action, as government-backed bonds rose while prices of corporate, or non-government guaranteed debt declined significantly. However, those same government bonds offer virtually no yield today, thereby dimming their future prospects as a risk reducer or income generator.

To achieve the dual purposes mentioned above, one should diversify across a variety of bond maturities, credit qualities and sectors. In recent years, the breadth of bond offerings has expanded to include a vast array of choices, including corporate and multinational debt, mortgages, foreign and US government debt, asset based securities, Build America Bonds and a range of bonds from states and municipalities. The rise in bond sectors has expanded the ability of investors to build highly diverse fixed income portfolios, but at the same time requires more specialized expertise. Bonds are not as simple as they once were; they come in many shapes and sizes in terms of quality of issuer, payment/coupon terms, as well as redemption/maturity or call provisions. These characteristics are key to defining their riskiness and potential return. Furthermore, the bond market is relatively rational- the longer the maturity and the weaker the borrower, the greater the prospective reward to the lender. However, the greatest risk for bond investors is an increase in inflation resulting in an increase in interest rates. Bond prices and interest rates move in opposite directions. As rates rise, bond prices fall, potentially offsetting the income earned. While investors can obtain more income on long-term bonds, the volatility of prices increases dramatically as the table (below) illustrates.

How Rising Interest Rates Affect Bond Prices
Change in Principal Value of Bonds with $1,000 Face Value

Bond Maturity	Coupon	Rates Rise 1%	Rates Rise 2%
2 years	1.02%	-1.95%	-3.85%
5 years	2.54%	-4.54%	-8.84%
10 years	3.83%	-7.84%	-14.89%
30 years	4.71%	-14.13%	-24.55%

Coupons reflect yields on Treasury securities as of 3/31/10.
Source: T Rowe Price

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INSIDE

THE SOCIAL SECURITY *Dilemma*

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"When should I begin receiving Social Security?" We are often asked this question, and while there is not a "one size fits all" answer, careful consideration of your personal circumstances and the Social Security rules will help you to make an informed decision which can maximize the benefits you receive.

Your Social Security benefit is based on your work history. Assuming you have met Social Security's minimum requirements, you will have a choice of collecting a) reduced payments as early as age 62; b) full payments at Full Retirement Age (FRA) which is between age 65 and 67; or c) increased payments, if you postpone commencement to age 70.

According to the Social Security Administration, 73% of those collecting benefits are receiving reduced amounts due to an early start. By doing so, recipients are accepting payments which are 20-30% less than if they waited until their FRA. With statistics showing that the average male has a 50% chance of living to age 85 or beyond, and the average female to age 88 or beyond, it is important to consider what starting date will maximize the present value of projected payments, and minimize longevity risk (i.e. the risk of running out of money in your lifetime).

Deciding when to begin receiving payments should be coordinated with your overall retirement strategy. Among the most important considerations are:

1. Your Health. If you have a serious illness or a family history of short life expectancies, beginning payments as soon as you are eligible may be optimal.

2. Your Plans. If you are working and do not need the payment stream, you may be better off to delay. Social Security applies an earnings test: if you are under your FRA, benefits are reduced $1 for every $2 of earned income above $14,160 (2010). If you are working in the year that you will reach FRA, the reduction is $1 for every $3 of earned income above $37,680 (2010). After reaching FRA, individuals can receive full benefits with no limit on earnings. This earnings penalty is not a tax, however, Social Security payments are subject to taxation if your income exceeds certain limits.

3. Your Marital Status. The decisions for couples revolve around spousal and survivor's benefits. For a couple with average life expectancy, the present value is usually maximized when the lower-earning spouse begins payments as soon as possible (as long as those payments would not be lost because of the earnings test), while the higher-earning spouse delays payments until age 70. Longevity risk is minimized when the higher-earning spouse delays until age 70. There are often times when it pays for someone to begin spousal or survivor's benefits and then switch to benefits based on his or her own earnings record at age 70. If the higher earner delays the start of benefits based on his earnings record until age 70, it results in the highest level of benefits at this age and beyond, including the lifetime of the spouse. For singles, assuming average life expectancy and no earnings test, the present value of payments is roughly the same no matter what age the payments begin. Singles with short life expectancies who will not lose benefits to the earnings test may want to begin collecting early. Those with long life expectancies can maximize the present value of benefits and minimize longevity risk by deferring the start, perhaps to age 70.

Deciding to begin receiving Social Security payments is not an irrevocable decision. For example, if you start collecting benefits prior to your FRA and find yourself returning to work and having benefits withheld, you can consider a Withdrawal of Application which essentially allows a "do-over." In order to make this work, you need to repay all benefits you received to date, along with any family benefits paid on your work history. Then, you can subsequently apply later as if it were the first time applying.

The issues surrounding Social Security are complex and require a thorough analysis of your personal financial situation, and of the many nuances of the benefits rules. This article is intended to provide a brief overview of some of these issues. The Social Security Administration provides numerous calculators and publications. Visit their website at www.socialsecurity.gov. Your financial advisor should also be able to walk you through the process and help you arrive at the best decision for your particular circumstances. ◆

GETTING TO KNOW THE HTG TEAM !

Robin Sherwood

With twenty years of experience, Robin has extensive knowledge of personal financial planning issues. She uses her knowledge and experience to assist clients in maximizing their financial well-being. Robin counsels clients in the areas of retirement, taxes, investments and estate planning. Her principal roles at HTG involve working directly with clients, designing and implementing portfolios, developing and reviewing financial plans, serving as the Chief Compliance Officer, and mentoring other advisors. As a Principal, she is a major contributor to the general management of the firm.

Robin has an MBA in Finance from the Wharton School at the University of Pennsylvania, and graduated magna cum laude with a BA from Colby College. She received her CERTIFIED FINANCIAL PLANNER™ designation in 1989. Prior to joining HTG in 2005, Robin was a financial advisor with Westbrook Financial Advisors for 15 years. She also worked for five years as a financial manager at Smithkline Beckman.

Robin has spoken widely and has conducted financial planning seminars for several major corporations in the tri-state area. She has contributed to articles in Money Magazine, Ladies Home Journal, Fidelity's Stages Magazine, and has appeared on CNN.

Robin has hands-on experience with college planning, having two recent college graduates. She is an avid tennis player, competing in both USTA and league tennis events.

Amy Sheinberg

Amy joined HTG in January of 2005. She is an important member of our support and operations staff and enjoys her interaction with clients acting as an administrative associate. Her responsibilities include handling client requests, opening and reconciling accounts, back office operations, and other corporate administrative tasks.

Amy comes to HTG with over ten years of experience working on Wall Street. She worked at EF Hutton where she was an assistant vice president and head trader in the Unit Investment Trust department. Amy graduated from the State University of New York College at Oneonta with a BS degree in Consumer Economics. She is Series 65 registered.

Amy is the co-president of her Sisterhood at The Conservative Synagogue of Westport; and she is actively involved in the Weston High School PTO. She enjoys hiking, reading, scrapbooking and spending time with her family and friends.

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...Bonds Deserve Attention

In addition to risk of rising rates, bond investors face the risk that a bond's credit quality will deteriorate, thus reducing the value of the bond. However, this risk can be significantly reduced through adequate diversification among bond issuers. Likewise, liquidity and reinvestment risk can be managed and controlled through effective portfolio management.

Why use bond funds rather than individual bonds? The argument for individual bonds is that you can buy and hold to maturity, thereby knowing your income and avoiding losses. Is this true?

One of the big myths of owning individual bonds is that you don't lose money. The truth is more complicated. Suppose you own a 4%, 10 year bond and in three years the market interest rate rises from 4% to 6%. The price of the bond will decline by about 16%. If you hold the bond, you'll continue to earn 4%/yr for the next 7 year, while others will be earning 6%, or 2% more than you. By holding to maturity, you will avoid the immediate 16% loss of principal, but you will forgo the extra 2% per year for 7 years, or roughly 16% when reinvestment is considered. Thus, the comfort of "holding to maturity" is largely psychological and more than offset by the positives of bond fund ownership.

Bond funds offer numerous advantages. The most obvious are diversification, professional management, and economies of scale. Unlike the stock market, where transaction costs have been driven down via competition, it is more difficult for the individual bond investor to realize low transaction costs. In addition, because the number of bonds far exceeds the number of stocks, specialized, professional management is critical. In today's world, where rating agencies and insurers have lost credibility, it is important to have an independent, highly-skilled manager to perform the needed credit analysis.

In addition to the diversification benefits that bond funds offer, they are also easy to buy or sell, making portfolio adjustments and withdrawals uncomplicated. Bond funds pay dividends more frequently than individual bonds and provide an investor the ability to quickly move from taxable to tax free, as needed. Finally, as managers of large quantities of bonds, funds can achieve lower trading costs due to larger trade blocks.

A well-designed bond portfolio is essential in preserving capital and providing a source of cash flow, especially in times of equity market stress. Therefore, the bond component of your portfolio deserves consideration equal to that of your equity portfolio. ◆

HTG news

- Tom and Jeanne Gnuse are thrilled to welcome another granddaughter. Nicola Christiana Gnuse was born February 12, 2010. Proud parents, Stacey Dunn-Emke and John Gnuse, are enjoying the delightful new addition to their family. Nicola joins her excited siblings Sophia and Henry as the newest member of the family.

- HTG extends congratulations to Dayna Sheinberg on her graduation from college this May. Dayna is the daughter of Amy and Steven Sheinberg. She graduated from Indiana University in Bloomington, IN with a double major in Journalism and History. She plans to relocate to Chicago to pursue a career in public relations.

- HTG also congratulates Carla Nicasio on her graduation from St Luke's School in June. Carla is the daughter of Jennifer and Luciano Nicasio. She plans to attend Williams College in the fall, where she will be playing soccer while pursuing her studies.

- In May, Robin attended a day-long investment symposium in New York sponsored by Blackrock Investments. Topics included the outlook for fixed income, energy and global equity markets.

- Barbara Ollinger and Jennifer Nicasio attended the annual conference of the Connecticut Financial Planners Association in May. Topics discussed were investment allocations trends and best practices, estate planning issues and updates on US and global economies.

- Barbara's daughter, Heather Stephens, earned Big East Conference honors recently with her second place finish in the 3000 meter steeplechase. Heather is a sophomore at Syracuse University.

- As part of the Financial Stability Initiative sponsored through the United Way, Robin Sherwood has been trained as a volunteer budget coach. The Initiative's goal is to provide support guidance to low income working families in their financial decision-making. The Budget Coaching Program trains professionals to apply their financial knowledge to help working families get their finances in order and matches them with families. Robin has been assigned her first family and is excited to get started coaching!

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