

WALL STREET VETERAN PENS

The Investment Answer

After working for 25 years on Wall Street, Gordon Murray had an epiphany that changed his career and his life. Ten years later, he learned that he had terminal brain cancer and decided to create a legacy by sharing his life-changing insights with the public. The result is a delightful little book, The Investment Answer, co-authored with his friend and long-time financial planner, Dan Goldie.

Murray lived long enough (he died January 15, 2011) to enjoy the praise that early readers heaped on this self-published book and to be signed by a major publishing house for a first run of 150,000 copies. Columnist Ron Lieber made Murray the subject of a major article in the New York Times. Why has this little book by a dying man created such a stir?

Murray concluded that his years at Goldman Sachs, Lehman Brothers, and Credit Suisse had been an exercise in futility. He had spent those years believing that he could help big-time institutional investors beat the markets using complex investment offerings created by his employers. After he retired, Murray began working with financial planner Goldie, who introduced him to basic investment principles and the investment approach espoused by Dimensional Fund Advisors (DFA).

DFA's mission is to create and market products based on rigorous academic research about investment markets. The origins of this research were in the renowned graduate program run by Professor Eugene Fama at the University of Chicago business school, since named the Booth School of Business, after DFA founder David Booth. Through their success in creating practical implementations of research-based principles, and marketing to individuals only through qualified advisors, DFA has become one of the most successful fund management companies.

Having honed his knowledge working with DFA, Murray set out in his final months to share the message that personal investing is far more straightforward than Wall Street would like you to believe. *The Investment Answer* focuses on five decisions the investor must make:

- ◆ Will you go it alone? Murray and Goldie suggest hiring an independent advisor who earns fees only from his clients.
- ◆ How should the investment assets be divided between stocks and bonds; between growth and value oriented stocks; and between larger companies and smaller companies?
- ◆ How should the equities be divided between domestic and foreign stocks?
- ◆ Should you invest in active or passively managed funds? Murray and Goldie favor passive funds.
- ◆ Will you rebalance, selling assets that have appreciated more in order to purchase more of assets that have appreciated less?

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UNDERSTANDING *Credit Scores*

Ever considered opening a retail credit card for an instant discount? You might be in for a shock if you are debt free. That's what a retired family member of our staff recently discovered. With ample retirement income, investments, a home and no debt, he was surprised when he was turned down. Even more puzzling, he had always paid previous loans on time.

As credit markets tighten, it is increasingly important that consumers understand how their credit score is influenced by their credit behavior. The most well known credit scoring system was developed by Fair Issac Corp (nicknamed FICO). The FICO system takes credit related data gathered by credit bureaus (Equifax, Experian, TransUnion) and evaluates, weights and interprets your credit usage with the goal of predicting your future credit behavior. The credit score is designed to provide lenders with a concise prediction of the risk of offering you more credit. FICO scores range from 300 to 900, with the majority in the 600 to 800 range.

Borrowers need to understand what is considered in the scoring process and how much weight is assigned to each of the five key areas of importance:

35% — Payment History

Lenders review the length of your positive credit history and the severity of the delinquencies, as well as whether there are any bankruptcies or foreclosures. *TIP: Set up automatic payment features to ensure on-time payments.*

30% — Amounts Owed

Too many credit accounts and a high ratio of credit balances to credit limits is viewed as a negative. Your score is also affected by your repayment history on term accounts. *TIP: Keep balances below 10% of revolving credit limit for best scores.*

15% — Length of Credit History

Longer credit histories result in higher scores. The length of time specific accounts have been open and the duration of time since each account was last used are important factors. *TIP: Keep old accounts open even if you use them just once a year.*

10% — New Credit

Credit scores track consumers who suddenly take on new debt, potentially becoming overextended. They include the last time a consumer opened an

account and how many accounts were opened. Inquiries on your credit reports cause your credit score to go down. *TIP: Avoid opening new credit cards at the same time you are applying for a loan.*

10% — Types of Credit Used

Your score improves if you are using credit for large ticket items like a car payment or mortgage. Your score goes down if you have a lot of revolving credit cards. *TIP: A "healthy mix" of installment loans and revolving credit from banks is considered optimal for your score.*

Credit expert Tracy Becker, President of North Shore Advisory in Tarrytown, New York, has evaluated thousands of credit reports and interviewed many FICO experts. She has this to say about what makes for a high credit score:

"90% of the credit reports I have seen with scores over a 780 have certain things in common. They usually have many credit cards (at least 5-7) of which 3-5 are store cards, one or two mortgages, a few car loans or leases, and some student loans (opened or closed). There are usually a bunch of accounts, mostly installment, that are closed and old. The revolving credit accounts have balance to limit ratios of less than 10%. These credit reports never have over 30 accounts (both closed and opened). The credit that is listed has an average age of 15-20 years (age is extremely important for high scores) and all the revolving credit that is opened is active. None of these reports show newly opened credit in the past year and these consumers also pay their bills early (10-12 days before they are due). There are never any late payments or derogatory information of any kind".

AnnualCreditReport.com provides one free credit report annually from each of the three credit reporting bureaus. This credit history information is free, but there is a fee to obtain your credit score. Each score varies slightly due to differing data collection and tracking methods. ♦



Jeanne Gnuse, Principal

Jeanne co-founded HTG Investment Advisors Inc. in 1993. She oversees the firm's client communications, marketing, and community relations functions.

Prior to founding HTG Investment Advisors, Jeanne represented Doncaster, a women's apparel company. As a registered dietician, Jeanne wrote a diet and nutrition column and consulted in the healthcare industry. Jeanne received her BS from the University of Dayton and pursued graduate studies at Ohio State University.



Jeanne has been an active member of choral arts organizations including singing with the Mendelssohn Choir of Connecticut, serving on the board of Pro Arte Singers of Stamford, CT, and fundraising for Chanticleer of San Francisco. Jeanne has been active in community organizations including the American Association of University Women, the New Canaan Foundation and the Stratton Mountain Foundation. She enjoys outdoor activities and her seven grandchildren.

Barbara M. Ollinger, CFP®

With over twelve years at HTG, Barbara has an in-depth knowledge of HTG clients. As a senior advisor, Barbara is involved in the design and implementation of portfolios to meet her clients' objectives. She also provides counsel to clients regarding their financial planning concerns, including retirement, taxes, education, and estate planning. Barbara is a key contributor to the HTG newsletter, assists the Chief Compliance Officer, and acts as a mentor to junior associates.



Barbara received her MBA from the University of Connecticut and a BS in Business Administration from the University of Maine. She received the CERTIFIED FINANCIAL PLANNER™ designation in 2007, and she is Series 65 registered. Barbara is a member of the Financial Planning Association.

Barbara's prior work experience includes senior associate of a firm specializing in private equity investments and corporate development programs, and ten years in the banking industry, where she held positions in loan review, residential construction lending, and commercial mortgage lending.

Barbara enjoys power walking, reading, and spending time in Maine. She is a member of the P.E.O. Sisterhood, a philanthropic, educational organization, and is a Deacon at Ridgebury Congregational Church.

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...The Investment Answer

Murray and Goldie believe that most people think too much in terms of forecasting. The authors conclude that you do not have to predict the future to be successful in investing, because the free markets of capitalism create a positive return on capital. The key is to be exposed to a diversified set of opportunities. When you put your money to work in global markets, you get your fair share of the return. Instead of trying to predict the future, which investors cannot control, they should focus on what they can control. Murray says, "With your advisor you can control your costs, diversify properly, establish the right asset allocation, and maintain the discipline to stay the course... you will have done everything possible to stack the odds in your favor."

While *The Investment Answer* presents an oversimplified "answer," we believe it highlights fundamental principles that can get investors started on a successful path. ♦

RECENT ESTATE TAX CHANGES

The Tax Relief Act of 2010 provides for important changes to the estate and gift laws that will be in effect for 2011 and 2012 (and for estates of decedents who died in 2010). These changes will expire on January 1, 2013, unless Congress acts again before then.

The following is a summary of the key provisions:

- ♦ For individuals dying in 2011 and 2012, the federal estate tax exemption will be \$5 million (a significant increase from the 2009 exemption of \$3.5 million) and the top estate tax rate will be 35 percent (down from 45%).
- ♦ The Act includes a "portability" provision, which means that any unused federal estate tax exemption of the first spouse to die will be available to the surviving spouse.
- ♦ For gifts made in 2011 and 2012, the lifetime gift tax exemption will be \$5 million (a significant increase from the \$1 million in effect before 2011).

NOTE: Many states have not updated State estate exemptions to the new Federal levels. This means that even estates under \$10 million will likely owe State estate tax.



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HTG news

- ◆ Having passed the comprehensive exam and satisfied the requirement of three years of relevant work experience, Jennifer Nicasio has been awarded the CERTIFIED FINANCIAL PLANNER™ designation. Congratulations, Jennifer!
- ◆ Tom and Jeanne Gnuse attended Charles Schwab Institutional's "Impact 2010" in Boston. Impact is the premier convention for the independent managed-money industry. The conference featured exhibits by leading fund companies, excellent speakers including former Treasury Secretary Henry Paulson, and many sessions on investments and practice management topics.
- ◆ Barbara Ollinger attended the annual conference of the Financial Planning Association (FPA) in Denver. A wide array of educators and experts provided valuable insights and information aimed at keeping advisors and planners on the cutting edge of the ever-changing financial services industry.
- ◆ Tom has joined the board of directors of Staying Put in New Canaan. New Canaan is one of a handful of communities with pioneering not-for-profit programs that provide services to encourage and enable seniors to remain in their own homes longer.
- ◆ Robin Sherwood's family gathered in Martha's Vineyard to celebrate her father's 90th year. Dad enjoys tennis, walking Rusty and writing books. Some of Robin's long-time clients may remember his columns in her newsletter. One was entitled "Notes from an Octogenarian". Now he's a Nonagenarian!

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.