



NORTHSTAR

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PLANNING INC

APRIL 2007

603.216.9226

## 2007 Q1 Investment Letter

Well, it sure looks like spring is finally on the way! The farmers here in Northern New England have had the maple sugar trees tapped for about a month now as cold nights alternate with warm days. The sweet smell of “sugaring off” time can often be detected if you venture along the muddy back roads here, as the best maple syrup in the world is sweetly brought to life in New Hampshire. It still amazes us that it takes a barrel of sap being boiled down to end up with 1 gallon of syrup!

You will be (or have been) receiving letters or special mailings from the TD Ameritrade Inc., who we use as custodian for your various investment accounts. As you recall, last year TD Waterhouse merged with Ameritrade, Inc. and formed TD Ameritrade. The consolidation of their two” back-office” operation systems is being carefully planned and tested to avoid any service disruptions or otherwise unduly impact you. We are actively involved with the TD Ameritrade operations team to ensure that your relationship with TD Ameritrade continues unimpeded.

On May 12, 2007 the conversion to a new integrated clearing platform is scheduled to occur. The biggest impact to you is that your account numbers will change. The good news is that (1) all automatic deposits and withdrawals will continue without change (2) checks written in the book you have now will be honored just as before and (3) there will be no new forms or signatures required.

All TD Waterhouse account numbers were 8-digits in length and began with the number 5. Upon conversion, the leading 5 will be changed to a 9, and a 0 will be added to the end of the number, making the numbers 9-digits in length. For example, Account #512 34567 will become #912 345670 after conversion.

The other good news is that after May 12<sup>th</sup>, cost basis information is scheduled to become available for your accounts at TD Ameritrade. While we currently keep track of tax basis information as part of our service to you, this new feature from Ameritrade will be useful going forward for new positions.

Now let’s talk about some recent headlines and market news that may be on your mind as you’re listening to the evening news about oil prices climbing towards \$100/barrel or real estate crashing. We are always plagued by a gnawing fear of the future- it’s hard-wired into our subconscious by thousands of years of cultural memory. Every bump in the night we hear in the darkness ahead gets magnified by our subconscious into an imminent theft of our fortune. We try to give you some “night vision glasses” to bring clarity to those moments. We have one big message that we try to give to you and all our clients that can help in bringing you



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peace of mind while the winds of market volatility and change capture the evening news and roil the bearing of a constant soul. It is:

*“The best way to improve the probability of meeting your long term goals is to hold a globally diversified portfolio of equities that can efficiently capture the total returns available in all significant asset classes.”*

What this means is that we steadfastly hold appropriate positions for you in asset classes even though they may be out of favor at any given time or conversely that suddenly break-out in a valuation spurt and become “hot” in the media.

For instance, in building an overall portfolio strategy we try to have about 30% of your equity (“stock”) allocation in mutual funds that invest in companies that are located overseas in Europe, Asia, Latin America and the Far East. We further split this International allocation into about 60% for Developed Countries and 40% for Emerging Markets. We further diversify your portfolio with an allocation to both small and large companies.

Why is adherence to a long-term portfolio strategy important to you? Well, in the case of the small company overseas market segment mentioned above - , it would have kept you smiling to read an article like that the one below that appeared recently in the Wall Street Journal:

“It’s a Small World, After All

**Global Investors Look Beyond Big-Cap Issues; Will The Streak Run Out?**

**By CRAIG KARMIN**

**March 26, 2007;**

*International investors are starting to think smaller. They should have started earlier! Small and midsize stocks in Europe, Japan and other corners of the developed world have offered some of the best earnings growth anywhere in recent years. These stocks returned 25% a year, on average, for the five years through December, according to Morgan Stanley Capital International.*

*Like U.S. small-capitalization stocks, small-cap foreign stocks outperformed large-cap foreign stocks for each of the past six years. Up 7% year-to-date, foreign small stocks are ahead again this year. Small-cap international stocks offer some unique advantages to U.S. investors. They can provide better portfolio diversification than other foreign-stock categories.*

*Returns on small-cap foreign stocks were less likely to move in sync with Standard & Poor’s 500-stock index in the past 12 years than either emerging-market stocks or large-cap international stocks, according to ING Investment Management. Analysts say this is because small-cap stocks are influenced more by domestic or regional factors than by global factors, such as the price of oil or interest-rate*



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*moves by the U.S. Federal Reserve.*

*ING also found that foreign small-cap stocks have been less volatile over those 12 years than the other hot area in overseas investment, such as emerging-market stocks."*

Guess what? Following the Northstar strategy, you did "start earlier"!

You've had half your equity exposure in the International market in "small and midsized stocks" and gotten those 25% annual return they talk about over the past three years. That is another example of the real value we can bring to our clients, we think. We help you get your "share of the pie" by building a globally diversified portfolio and keeping your strategy disciplined in the face of the normal fears and uncertainty raised by those "things that go bump in the night"!

Lastly, there has been a break for the "little guy" in the ongoing struggle to protect individual investors from the throng of "wolves in sheep's clothing" that spend big advertising bucks and sell you investment products that are too often more in their interest than yours. We have been writing a series in our electronic newsletter ([www.northstarfp.com/newsletters.htm](http://www.northstarfp.com/newsletters.htm)) focused on this issue called "Who Can You Trust?" for several years and last Friday, the courts finally weighed in.

The U.S. Court of Appeals for the District of Columbia Circuit overturned the Securities and Exchange Commission's broker-dealer exemption rule in a 2-1 decision.

The broker-dealer exemption rule, which went into effect last year, allowed registered reps of broker/dealers (such as Merrill Lynch, Prudential and Smith Barney) to hold themselves out as financial advisers without being required to act as a fiduciary and put the client's interest first. The escape clause the Court closed was their claim that any investment advice they provided was "incidental." In real life, we know how ridiculous that claim really was. Basically the old SEC interpretation exempted some brokers from being regulated as investment advisers, even if they acted and sounded just like us at Northstar.

The decision is a victory for the Financial Planning Association ("FPA"), which sued the SEC in 2004. Sam, Robin and Alexa are all members of the FPA and have strongly supported the FPA case.

"The broker-dealer exemption was wrong," said J. Thomas Bradley Jr., president of TD Ameritrade Institutional of Jersey City, N.J., who has stood out among brokerage executives by voicing his opposition to the rule. "I hope no one tries to wiggle out of it. We all need to suck it up."



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This ruling marks the latest twist in the industry's battle over the distinction between stock brokers and financial advisers. We think this is great news! The individual investor has always had a very hard time separating the sheep from the wolves and the lesson –sadly - usually costs them money!

As proud members of the “sheep” side, we say it's about time everybody plays by the same rules and always puts the client's interest foremost.

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