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October 14, 2011

Dear Clients, Prospects, and Friends,

As the days start getting shorter and colder, our thoughts turn to nesting, family, year-end traditions, and planning.

In terms of our business, we are eagerly anticipating the Charles Schwab Investment Advisor Conference being held this year in San Francisco. This is a great opportunity for education and to hear from industry leaders and policy-makers regarding trends and perspective, as well as share experiences with other advisors. We also use this time for our “company retreat” and come back inspired and reinvigorated. With the intensity of the markets and political discourse, we think this time will even be more valuable.

Kori continues her community involvement with The Library Foundation, The Portland City Club, Lincoln HS Girls Soccer and Portland State Alumni Association. Paige just finished a 75-mile ride for Buzzard Bay protection and continues her involvement with Unitarian Universalist Association, as well as a variety of her children’s activities. Her big fall project is helping her church host an Alternative Gift Fair. We enjoy hearing of your charities and involvement during this season of giving and gratitude, and we look forward to helping you with your gifting. It is often beneficial to donate appreciated stock; however, all stock transfers should be requested by the first week in December.

Also, this is the last quarter of the year to review issues that may pertain to your taxes. If you are 70 ½, have you completed your required minimum distribution? Do you have a significant capital gain or loss outside of our purview that we should discuss? Would it be beneficial to pay January estimated taxes in 2011 rather than waiting for 2012? We look forward to our conversations in the coming weeks.

We are grateful for your trust and patience in a year that has been notably wearisome with volatile markets and political discord.

Warm regards,

-Paige

Paige Johnson Roth, CFA®
Principal

-Kori

Kori Allen, CFP®
Principal

“Stare into the face of danger, Bond style”

Pine Haven Investment Counsel, Inc - Market Commentary – 3rd Quarter 2011

By Kori Allen, CFP® and Paige Johnson Roth, CFA®

Late in September, a day after the Federal Reserve announced “Operation Twist,” we received the quote above in an email subject line. In light of the plethora of negative headlines and our market focus, the first assumption was that there was something new to worry about in the fixed income, or bond market. In this case, it was actually a reference to James Bond and facing fears coolly.

As laughter wore off, the James Bond image became appealing. With this market, one must have the cool confidence that it will all work out, but if faced with *true* danger, have courage. The James Bond character has evolved over the decades and like the markets, we can look romantically at times gone by, or learn from the past and move forward.

Operation Twist is a repeat of what the Federal Reserve did in the ‘60’s – can you see Ursula Andress and Sean Connery dancing? The goal is to help push interest rates lower, primarily on the 10-year treasury, and to encourage increased lending for mortgages and corporate borrowing. The 10-year treasury has dropped to historically low levels and mortgage rates are now below 4%. Whether this will be stimulative is anyone’s guess and, if you’ve read our previous commentaries, it falls within the ‘unpredictable’ category. We continue to focus upon investors’ unique situations and how goals can be reached in this low interest rate and volatile environment.

In our “predictable” category, we still believe that markets will, in the long run, reflect the worth of the underlying companies. While the last decade has been referred to as “the lost decade” in terms of stock market returns, many companies are in better fiscal health than they were entering the decade. In a recent Barron’s article (Wake up & Smell the Profits, Andrew Bary, 9/3/2011), the author presents 22 companies whose earnings have significantly grown, but their stock prices have declined. At number 11 was Microsoft. Microsoft has *increased* its earnings 193.33% in the 10-year period between 2001 and 2011 and its stock price is *down* 7.07%. Many companies are in much better fiscal health now than in 2001 *and* 2008, yet the market has not priced them according to their actual growth and enterprise strength.

Not only is there a disconnect between market valuations and intrinsic worth of companies, other contradictions exist. Core inflation has not been this low since the late 60’s, yet adding back food and energy (Headline Consumer Price Index), inflation rests slightly lower than our 50-year average. Taxes collected by the government, as a percentage of personal income, has not been this low since the 50’s. Consumer sentiment is low and matches only a few times in recent history: 1975, 1980 and 2008.

Many corporations are in fine fiscal health, yet the consumer remains pessimistic, not spending, and many people are un or underemployed. Through the summer, many economists believed that this negative sentiment could become a self-fulfilling prophecy and drive us back into a recession. Regardless, we remain encouraged that banks are lending and corporations are primed for growth, once a catalyst returns to restore optimism. When that happens, we’ll toast with a martini (in James Bond style), “shaken, not stirred”.