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April 17, 2009

Dear Friends,

There is no doubt you have been inundated with information about the current, dire state of the world economy and global financial markets. I will not take on the task of giving you more bad news since this is not the area of our focus at present. Our research team's key area of focus is attempting to find solid companies in the United States and around the world that trade at very attractive valuations. We are seeking out those leading growth companies that we believe can help our economy once we begin the slow and steady process of rebuilding growth.

Today you will find many economists and market observers who say our economy will not recover any time soon. They say our troubles are too big, banks are too weak, and the consumer is not healthy enough to drive growth in our economy. Yes, we all are aware of these troubles; they cover the front pages of our newspapers. Nonetheless, we feel confident that our economy will recover and that growth will again resume. Will economic recovery come in late 2009 or early 2010? Obviously, the exact timing of the recovery process is difficult to determine. However, we do strongly believe that we are on the road to recovery.

Outlined on the following page are five reasons to feel positive about the long-term prospects for equities today. The key is remembering that the stock market is a discounting mechanism. Current stock prices reflect full and complete knowledge about the coming economic conditions in both the United States and globally for as much as 12 months into the future partly due to those who anticipate changes and invest ahead of the facts. One should never expect the market to wait until you read about the good economic news coming from corporate America. While the coming months may have some continued volatility, we do believe that we are on the road to recovery.

Thank you for the honor of being stewards of your wealth and your family's financial future.

Best wishes,

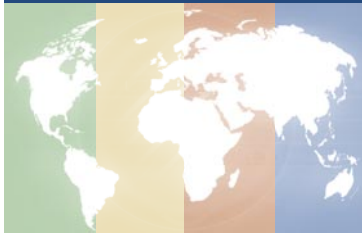


Robert T. Lutts  
President and Chief Investment Officer  
Cabot Money Management, Inc.



*Rob Lutts listens to other panelists during a roundtable at the North Shore Expo in February.*

# CABOT'S OUTLOOK



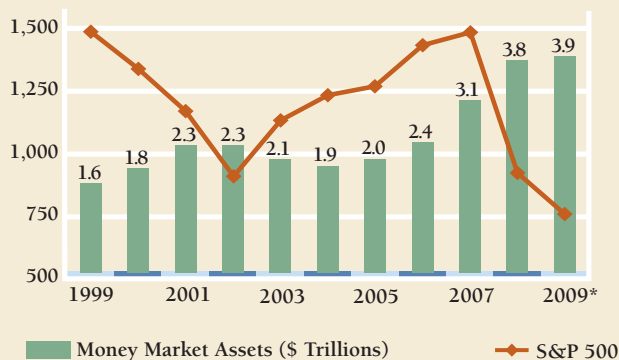
by Robert T. Lutts,  
President and  
Chief Investment Officer

## Five Reasons for Optimism Today

- 1 Consumers are saving again.** They will gradually build up much healthier balance sheets. Many are working down debt levels with the goal of staying away from leverage. We believe financial attitudes in the United States, and internationally, will remain conservative for some time.
- 2 Bank regulations on marked-to-market accounting of troubled assets have changed.** This allows a more moderate approach to toxic assets and will give banks time to earn their way to profitability. Further, the yield curve today is very constructive for banking profits.
- 3 Low interest rates – the lowest in decades – will help the housing market find a bottom.** We think we are much closer to the eventual bottom in real estate prices. Real estate values in many parts of the country are now very affordable and may be at a bottom. More time is likely needed in other parts of the country. Now, new young buyers finally have a chance at affordable home ownership! Presently in the United States, we have almost \$4 trillion sitting in very low-yield money markets. This is the fuel for the next bull market.
- 4 Investors have thrown in the towel on stocks today.** Investors are generally quite negative on the expectation of stocks performing in the coming years. We have read many well-written articles in the past few months explaining why stocks will offer lower returns on a permanent basis in the coming decade. Once a decade (1999-2009) goes by without decent returns, investors tend to justify permanently low returns. Below are a few recent headlines. From a contrary viewpoint, these headlines are quite constructive.
  - “What are the Odds of Depression?” *Wall Street Journal* – March 4, 2009
  - “Dow 5000? There is a case for it.” *Wall Street Journal* – March 9, 2009
  - “Buy and Hold is a Loser’s Game.” *Barron’s* – February 16, 2009
- 5 Valuations of stocks are more attractive than they have been in decades.** On a price-to-sales basis, price-to-book value or many other yardsticks that do not include earnings, we are seeing very attractive price levels in the market.

### High cash levels add to upside potential during recovery

Assets in US Money Market Funds and S&P 500



Source: Investment Company of America, Thomson-Datastream

\* as of March 4, 2009

### Insuring the Safety of Clients' Assets

We have selected some of the largest and safest brokers in the world as our primary custodians – Charles Schwab and TD Ameritrade. We continue to monitor the financial health of these companies. These partners are in solid financial condition and are not experiencing any of the troubles that many investment banking firms, such as Lehman Brothers, Merrill Lynch (now Bank of America), Bear Sterns and others are. Our custodians do not underwrite securities, and they have not participated in the *creative financial engineering* that has been the downfall of many firms.

As many long-time clients may already know, Cabot is operated in a conservative manner. We have no debt, own our office building and have excellent credit standing. We operate our business by the same philosophy my own father, Carlton Lutts, instilled in me: keep it simple, safe and conservative, an old New England tradition. So please rest assured that these principles will help us in guiding you through this difficult period.

Cabot Money Management, Inc. recommends that individuals consult with their advisor, attorney, accountant, or other professional to determine their own particular situation. It is important to note that any performance reporting or implied performance is not indicative of future results. Investments are not insured and may lose value. Asset allocation and diversification does not protect against loss.

# Measuring the Distance Between Peak and Trough

In the 1976 thriller *Marathon Man*, Lawrence Olivier plays a sadistic dentist war criminal who is seeking to recover diamonds that his dead brother stole during WWII and put in a New York City bank. He straps the innocent and unsuspecting Dustin Hoffman (ignorant brother of a government agent) to a chair, and tries to figure out whether he can approach the bank without alerting the good guys. Dangling a pair of rusty pliers in front of the sweating Hoffman, the dentist slowly moves in and asks in a near-whisper, “Is it safe?”

Cut to today’s market. After all, stocks until recently have been losing value in a painful, straight line since October 2007. But suddenly, that trend seems to have been snapped: equities have rallied over 20% from their closing low on March 9 and there is a flurry of news that at the very least is not getting materially worse. Aren’t we all asking ourselves the same question: Is it safe?

The answer, as usual, is a resounding maybe.

Any good geometry teacher will tell you that the shortest distance between two points is a straight line. Alas, the same cannot be said for mapping market highs and lows. Consider the now-clichéd use of the Great Depression example. Stocks lost 86% of their value from peak (September 1929) to trough (November 1931). But during that relatively brief period of time, there were four savage bear markets punctuated by three ebullient bull markets.

Our point, of course, is that the so-called “market bottom” is a process and not a single moment in time. The recovery process may be lengthy, and will be punctuated with many ups and downs, some of which probably will be severe movements in both directions.

The good news is that, at least in our opinion, the bottoming process is already in motion. The specter of widespread bank nationalization has receded, and the government’s willingness to wield the largest balance sheet in the world as a weapon against prolonged recession appears unconditional.

While the long-term consequences of these government actions are subject to considerable debate, we believe that, over time, our economy and stock market will recover, as it always has. In addition, while certainly the data will not show significant improvement for at least a couple of quarters, stock prices already have most—but certainly not all—of this “baked in the cake” now. Shares of best-in-class companies are now selling at valuations that are close to historic troughs. The dividend yield of the S&P 500 is almost 1% more than that of the 10-year Treasury. In addition, there is a \$4 trillion pile of cash sitting in money markets that is waiting for markets to show unequivocal signs of recovery. And, as sure as bear markets are followed by bull markets, most of this capital may still be waiting for a recovery when markets rally in the face of dire economic and earnings news.

This is not to say that we are diving into stocks with reckless abandon. But the current dislocation in the markets does offer long-term investors the opportunity to own quality companies at prices that were unthinkable just a year ago. After being defensive for some time now, we are beginning to redeploy as the market bottom takes shape.

So, is it safe? Well, let’s put it in context: 10-year Treasuries are safe—unfortunately, they only yield 2.9%. And if the question asks whether the market will go up tomorrow or next week, we can’t say it’s safe. But if you are looking for solid 5- or 10-year returns from the equity market from today’s levels, it is likely enough to start moving closer to long-term equity target allocations. Please review your portfolio to ensure that your equity exposure fits your short- and long-term needs and risk tolerance. If you have any questions or would like to review your own situation, please contact your financial counselor.

## CABOT’S OUTLOOK



Les Satlow, CFA  
Portfolio Manager

From	To	Bull / (Bear)	From Peak	Duration (Days)
9/16/1929	11/13/1929	-45%	-45%	40
11/13/1929	4/10/1930	47%	-19%	101
4/10/1930	6/2/1931	-53%	-62%	286
6/2/1931	6/26/1931	26%	-52%	18
6/26/1931	10/5/1931	-43%	-72%	71
10/5/1931	11/9/1931	31%	-64%	23
11/9/1931	6/1/1932	-62%	-86%	140
6/1/1932	9/7/1932	112%	-71%	68
9/7/1932	10/10/1932	-31%	-80%	23
10/10/1932	11/11/1932	20%	-76%	22
11/11/1932	2/27/1933	-28%	-83%	71

Cabot Money Management, Inc. recommends that individuals consult with their advisor, attorney, accountant, or other professional to determine their own particular situation. It is important to note that any performance reporting or implied performance is not indicative of future results. Investments are not insured and may lose value. Asset allocation and diversification does not protect against loss.



Bill Larkin  
Portfolio Manager

# Cash Alternative Options

The confusion in the marketplace today is placing a large burden on conservative investors, which have swelled the total value of money market assets to an all-time high. These investors fled the markets for the safety of money-market mutual funds, which are now offering yields slightly above zero, which is similar to the period right after 9/11. Reuters reported that US taxable money-market mutual funds rose \$57 billion in the last week of January, pushing the total assets to a new record of \$2.78 trillion. They also reported that tax-free money markets rose \$940 million for the same period, pushing the tax-free money market total to a record of \$483 billion. These segments of the bond market are so bloated with investors that many fund companies have been forced to lower their management fees to keep yields positive. Why have yields fallen so fast and so low?

Short-term bond yields have been especially influenced by the Federal Reserve's quantitative easing strategy (buying US Treasury Bonds) and the Fed's current zero-interest-rate policy (overnight lending rate). These policies have basically anchored short-term interest rates at zero percent. This quantitative easing strategy is designed to flood the banking system (money supply) with abundant supply of money to promote lending. This large increase in the availability of money cheapens its value especially for deposit rates. This makes investing in this environment very challenging and difficult to find acceptable short-term options that offer compelling risk-return scenarios. This problem has been highlighted recently by investors finding their competitive certificate of deposit rates are now gone and wondering what options are available when their CDs mature. Here are a few investment options you may find attractive when comparing against both money-market mutual funds and certificate of deposit rates.

## OPTION #1

### Higher-Yielding Money-Market Mutual Funds

- ✓ Money market funds are especially attractive because *the price is set* at one dollar and the principal investment is *liquid* on following business day. Deposit requirements from twenty-five thousand to ten million dollars may be required to gain access to higher-yield lower-cost money market funds.

## OPTION #2

### Certificate of Deposit Yield

- ✓ Certificates of deposit are attractive because FDIC Insurance protects your principal investment, but liquidity can be a problem, along with specific lockup dates and early redemption penalties. The requirements of the CD need to be researched before investing.

## OPTION #3

### High-Grade Corporate Bonds

- ✓ Offers an investor the *flexibility* to purchase several different bonds with a whole range of risk-return scenarios that can be customized to clients' specific cash flow requirements. Corporate bonds entail credit risk and risk is directly associated with the bond's expected return, which requires research.

## OPTION #4

### Short-term Exchange-Traded Bond Funds (ETFs)

- ✓ There is a *whole range of different investment options* both taxable and tax-free that are inexpensive, diversified, liquid and transparent. The one issue investors need to be aware of is the ETF's price will fluctuate, which means a loss can be realized when the ETF is sold.

Cabot Money Management, Inc. recommends that individuals seek the advice of their advisor before considering any investment idea or making any investment decision resultant from information contained herein. All bonds, mutual funds and ETFs that utilize individual bonds are subject to availability, credit risk, interest rate risk and market risks. As with any investment, market value will fluctuate during the period held and, if sold prior to maturity, the price received may be more or less than the yield calculated at time of purchase and can cause an investor to realize a loss. Discretion with respect to suitability should be prudently exercised and fundamental research of the issuer ability to maintain their financial obligations for the term of the bond's estimated life is strongly suggested.

Please keep in mind that the bond market is no different from the stock market, prices and yield are dynamic and can change abruptly. A bond quote today may be higher or lower tomorrow and rates are likely to climb just as quickly as they have fallen once the economy starts gaining traction. It should also be noted that like stocks, bonds can generate losses if they are sold prior to maturity or the financial condition of the issuer deteriorates. This would include all types of fixed investment wrappers, such as mutual funds, unit investment trusts, closed-end mutual funds and ETFs. Cabot strongly believes that the best plan is to diversify into multiple asset classes within a well-planned asset allocation strategy, which benefits from the embedded diversification characteristics of holding multiple asset classes.

# The Multiple State Estate Conundrum

The estate tax landscape is in flux. Both federal and state governments have failed to create a dependable system that yields consistent results when applied across state borders. Instead, smart planning in one state may yield a malpractice suit in another. Of course, many of the technical details should be reserved for your attorney. Individuals, however, would do well to confront some of these issues and make sure that their representative can answer the key questions when they review their plan.

## Avoid Probate in Multiple States

For many, the retirement dream is to have multiple homes, golf memberships and other investments in multiple states. In an ideal world, these assets would pass to their intended destination upon death without the added time and expense imposed by the courts. In general, a well-executed estate plan that uses revocable trusts can accomplish this. It is important to note that simply drafting a trust is not enough. You must fund your trust as well. Therefore, if your property is in your name, your spouse's name or is held jointly, you should speak with your attorney. It is also important to remember that interests in club memberships, income streams and other assets should all be held in the name of your trust or potentially payable to your trust at death to help avoid probate.

## The Homestead Conundrum: A Lesson from Florida

Some states have strong homestead laws. Florida, for example, is well known for having a strong and advantageous homestead law. This is not to be confused with certain property-tax homesteads but rather those that protect the principal in your homes from creditors. At present, Florida law is unsettled in the area of whether a property that is owned by a revocable trust can qualify for the asset-protection benefits of the homestead. The reasoning is that a revocable trust is not a natural person that qualifies under the law. Individuals, therefore, must ensure that their attorneys consult with local counsel to fully integrate their estate plan with the state-specific issues they may face in Florida and other states.

## State Estate Taxes: And You Thought the Homestead Raises Issues

At present, many states have a separate state estate tax. These states utilize either their own rules or a modification of federal rules to collect estate taxes when an individual passes away. In general, these states will stake claim to either all assets in the case of residents, or in-state assets for non-residents. Since many states have a lower estate tax threshold, many planners have used state-specific trusts to help eliminate tax at the death of the first spouse. This would entail having some assets included in the surviving spouse's estate for state tax purposes but excluded for federal tax purposes.

The area of caution comes in both drafting and executing the estate plan at death. Directing estate taxes to be paid in a certain manner or from the marital share without thought for state-specific issues can lead to trouble. It can get really dicey because in some states, the out-of-tax ramifications can increase the tax in other states; and, other states may not even allow state-specific elections that create divergent federal and state tax consequences.

In addition, the changing tax landscape may require many to rethink the idea of paying no tax at the death of the first spouse. Given the divergent handling of state estate taxes in states such as Connecticut and New York, individuals may want to create a plan that allows for some tax at the first death. In some cases, the overall savings can be over \$200,000 when the total tax paid at the first and second death is combined. The key is to remember that there is a real cost in not getting state-specific planning right.

## Conclusion

Individuals do not need to enroll in tax classes or law school to protect themselves. Rather, they need to understand the importance of engaging local counsel to consult on their estate plans so that any state-specific issues are clearly defined and remedied if needed. While this may result in an added expense up front, it can save you or your loved ones an even greater one down the road.

## ESTATE PLANNING



Michael C. Kozak, Esq.  
Director of Wealth  
Management

*Individuals with property in more than one state need to be mindful of tax and property issues that may derail their estate plan.*

# AROUND CABOT

## NEW White Paper



Equity analyst **Dennis Wassung** has written Cabot's most recent white paper on the mobile handset industry, specifically 3G technology. 3G technology is the latest in mobile communications. There has been a lot of discussion in the mobile phone industry about "3G" – when will it happen, when will the networks be in place, when will the industry transition, etc. Well, 3G is here; but, what is it exactly? Find out by visiting our website and downloading this paper.

You may also subscribe to our white paper updates by clicking the *Sign Up for Our Literature* button on the left side of our home page.



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& Luncheon

~ Friday, September 25 ~  
2009

Hawthorne Hotel  
Salem, MA

[www.eCabot.com](http://www.eCabot.com)



## Our Commitment to Education



**Robert Lutts**, president and chief investment officer, attended the Howard Weil 37th Annual Energy Conference in New Orleans, LA, from March 21st – 25th. During the four-day conference, CEOs and other top-level management representatives from 138 public energy companies presented to over 545 institutional investors from around the world.

Rob will also attend Merrill Lynch's Asia Rising Stars Conference – an Asian Conference Week in Singapore, next month from May 5 – 15. After the conference, Rob will make an excursion over to Hanoi, the capital of Vietnam.



Portfolio manager **Les Satlow** attended a Clean Coal Conference in Boston, MA, on April 1st. This investor conference, which was sponsored by Knight Capital Group and the Boston Society of Security Analysts, featured thought leaders from government and environmental groups, technology companies, and the coal industry.



**Mikki Wilson**, marketing coordinator, will graduate and receive her bachelor's degree in business administration with a concentration in marketing on May 16th from Salem State College. She anticipates graduating magna cum laude. Mikki transferred to Salem State's Continuing Education program in 2005 from North Shore Community College where she obtained associates degrees in both liberal arts and legal administration.



**Cabot Money Management** made a generous donation to Salem State's business honor society, Delta Mu Delta, on March 25th at their 34th Annual Induction Ceremony. This contribution helps support the LaPorte & Murphy Scholarship awards, which are presented to two deserving business students. Arthur LaPorte and William "Doc" Murphy were both long-term Salem business faculty who helped start and develop the Delta Mu Delta Chapter at Salem State College. Both men were also instrumental, over a period of many years, in helping educate thousands of business majors.

## Jay Leno Performs at Salem State College

Salem State College's Speaker Series is a community enrichment program presented through the dedicated support of corporate and individual sponsors alike. Cabot is a proud sponsor of this program and had the opportunity to attend the season's opening performance, which kicked off with Jay Leno. The Andover native returned to his North Shore roots to pay homage to the man who helped launch his career.

The "Tonight Show" host performed to honor Lennie Sogoloff, a jazz icon and Peabody native who ran Lennie's-on-the-Turnpike, the club where Leno would get one of his first big breaks. Leno has never forgotten Lennie's kindness and paid some of it back by handing him a \$100,000 check as a donation to a scholarship in Sogoloff's name. Leno also waived his performance fee, which allowed all of last night's proceeds to go toward another scholarship established several years ago in memory of Sogoloff's late wife, Barbara.



*Leno and Sogoloff speak at SSC's press conference*

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