

January 28, 2011

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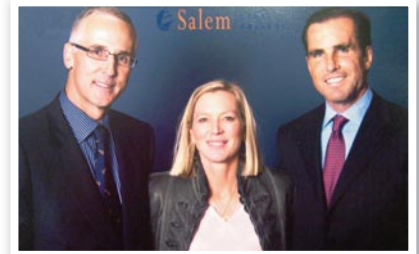
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Dear Friends,

After 28 years of studying businesses, I have come to the conclusion that the most successful businesses place the interests of their customers first, usually have creative and competent management, and have exceptionally strong business models.

**As a firm we have worked hard to instill a client-centric culture that puts clients' interests first.** We work very hard to keep an open mind when looking for and investing in change. We also have very strong principles that ensure we operate in a manner which helps us maximize results for our clients. This commitment to you has not only allowed us remarkable growth but also to grow our assets under management, which are now approximately \$500 million.



*Rob Lutts with Bob and Lee Woodruff at Salem State's Speaker Series. (2009)*

**We have always maintained a policy that Cabot will not be compensated by outside companies for any investment, insurance, legal, or other products that we invest in or recommend to our clients.** Simply put, you pay us to give you the best independent services that we can find for you. Therefore, it would be impossible for us to provide you with objective advice if we were being paid by a broker or insurance agent to recommend specific products. Today, many investment professionals are exempt from the Investment Advisers Act of 1940, meaning they do not have to act as a fiduciary when making recommendations to clients. This law **requires** advisers to act in the best interest of their clients. We have a policy of acting independently and removing ourselves from problematic conflicts of interest; and, as our clients, you are the beneficiaries of this policy.

**We work to keep transaction costs down and investment product costs to a minimum.** We try to lower costs for our clients by regularly renegotiating these fees with our custodians for your benefit. You will notice we often use low-cost exchange-traded funds with rock-bottom expense ratios.

**Finally, we explore tax strategies that minimize your tax costs and keep abreast of amendments to both federal and state tax laws.** Again, this all comes down to having that client-centric focus.

I hope reviewing some of these topics gives you comfort in knowing that through sound advice and vigilant client service, we truly put you and your interests first. Thank you for the honor of being stewards of your wealth and your family's financial future.

Best Wishes and Happy New Year!



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



Les Satlow, CFA  
Portfolio Manager

## The Crowded Toolbox

Let's face it: investment managers have a dizzying array of ways to invest client assets. Of course, there are the more traditional vehicles, such as individual stocks and bonds, and mutual funds; however, in the last ten years there has been a proliferation of new ways to invest. Some of these methods include exchange-traded funds (ETFs), exchange-traded notes, inverse leveraged participation notes, variable demand rate obligations, and all sorts of other tools that investors can use to build highly individualized, tailored portfolios...or to drop on their toes.

As private client investment managers, we typically prefer securities or funds that are transparent enough to easily explain to clients. After all, you should understand where and how your assets are invested. At the same time, however, technology and our shrinking globe has made it much easier to target more narrow investment themes, single, regional, country, or sector combinations, as well as commodities, all of which were more or less off limits to even high-net-worth individual investors.

As our clients may already know, Cabot strongly prefers security selection to funds. Although, oftentimes it does make more sense to use some sort of fund rather than to pick individual stocks or bonds. Why? It may be that we want to take a modest-sized position in a narrow investment theme—say, small-cap banks—and we want *instant diversification*. A fund is the way to go, rather than cobbling a dozen different banks together. Or, we may want exposure to countries where *investment advisors can't trade*—say, India or Brazil—in this case, it makes more sense to buy a fund. Lastly, we may want to build a position in a theme where liquidity is a challenge: in this case, we may opt for a mutual fund that we know we can enter and exit with ease.

### The Question You've Been Waiting For...

**Q:** What is an exchange-traded fund (ETF), and how does it differ from a mutual fund?

**A:** While both are investment funds, there are several key differences:

- 1.** Mutual funds cannot be traded during market hours, while ETFs can;
- 2.** Almost all ETFs are passive indices, meaning that nobody is picking the securities in the funds: they just track one of the hundreds of indices out there, from the S&P 500 to the S-BOX Consumer Index;
- 3.** ETFs, because they are passive and not burdened with high overhead, are typically cheap. Most mutual funds still are active, and therefore usually have much higher fees. For instance, the expense ratio for an Emerging Markets ETF is around 0.75%, whereas a foreign mutual fund may have double the fees, not to mention load fees! It's no surprise that ETFs have become wildly successful.

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's ability to maintain their financial obligations for the term of the bond's estimated life is strongly suggested.

# European Sovereign Debt Crisis: This Too Shall Pass?

Europe underperformed the US and Asia/Pacific stock markets in 2010 due to:

1. Mounting debt concerns as peripheral European countries faced heavy maturing debt with a threat of default spreading to nearby countries holding their debt. There is a wall of refinancing ahead for 2011 in debt-plagued countries.
2. Very slow response by European governments in denial of a pressing need for budget cuts and austerity.
3. Low relative GDP growth (GDP is the total value of goods and services produced in a year) and competitiveness divergence among European countries (labor costs, unemployment, capital investment, exports).
4. Rising borrowing costs for troubled countries with high Debt/GDP and Budget Deficits.
5. Euro currency devaluation of -7% versus the US Dollar (which lowered stock returns translated back into Dollars).

Budget deficits have increased, making debt repayments very challenging for the PIIGS (Portugal, Italy, Ireland, Greece, Spain). Debt servicing capability is still in question as bondholders demand higher interest rates for risks associated with solvency and eroded confidence. Interest rates for 10-Year Bonds skyrocketed by 3-5% throughout 2010 in Greece, Portugal and Ireland. Greece triggered the crisis, needing \$145 billion in bailout aid, followed by Ireland with \$110 billion of rescue. During this first week of 2011, Western Europe government bonds had higher implied credit default risk than Emerging Markets government debt for the first time ever (Euro structural flaws and country risk).

Higher than 80% Government Debt/GDP poses a serious concern for countries with weak economic growth. Private sector debt only compounds this problem. While Greece and Ireland have been addressed, they still need to execute on spending reduction. Portugal and Spain are potentially next for bailout assistance, which is not fully priced in yet to the market. Spain is critical as the 9th largest economy in the world and 5th largest in Europe with \$500 billion of combined Debt Due and Budget Deficit forecast 2011-2013.

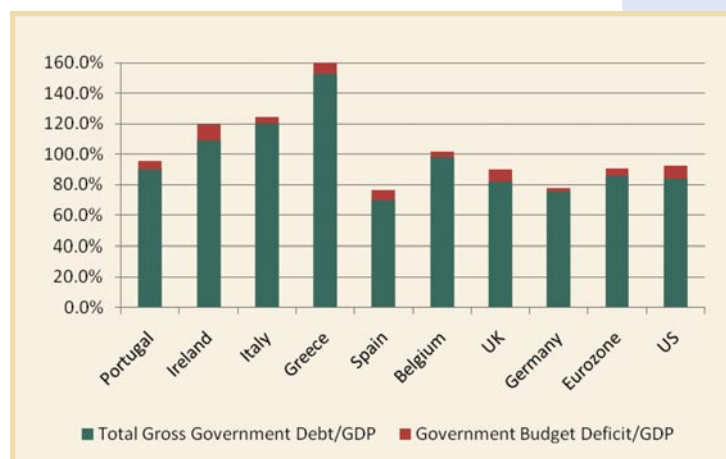
Occasionally, the baby gets thrown out with the bathwater as speculators and media distort any crisis. Despite less Economic Stimulus than the US (in terms of % of GDP), Europe received the most Revenues and Earnings upgrades of any region in late 2010. It currently trades at 19% discount to the US on valuation (forward Price/Earnings), which is harsher than its historic 10% average discount. Investors still ignore Europe's exposure to strong emerging markets including China, Russia, Turkey and Poland. Even China's trade value with Europe increased 32% in 2010 as China has tripled imports from Europe since 2005. China and Japan could also buy Eurozone bond issuance.

In closing, I still anticipate a 5-10% correction in Europe from peak December as it digests overdue medicine on debt servicing and broader budget cuts. This could present us with an attractive entry point to double our exposure there as sentiment overhang subsides, especially as a break-up of the Euro area and its currency seem absurdly unlikely for a region with compelling stocks.

## INVESTMENT STRATEGIES



Tim Moore, CFA  
Senior Research Analyst



Source: 2011 estimates based on European Commission AMECO estimates and Barclays Capital Italy, France, Belgium or Hungary could follow with aid need in 2011. Importantly though, there is a \$1 trillion emergency fund for the European Union through 2013. This and Germany's strength should keep future debt shocks more at bay after early 2011's solution of Portugal and Spain.

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.



William Larkin, Jr.  
Portfolio Manager

## Navigating Through A Recovery



Opinions on the economic recovery can be emotional and heated because it impacts what degree of influence you believe the Fed needs to apply to induce a healthy recovery. This debate continues to be driven by policy decisions, political posturing and social concerns. As this deliberation rages on, it is important for a bond investor to be more cautious about the risks of rising interest rates and falling demand for safety.

This debate would not be credible without substantial confidence by a growing segment of the market that conditions are improving. Market participants are trying to gauge the likely intensity of the next phase of this recovery, which could be either lackluster or robust. Because of the uncertainty and the degree of global coordination taking place, it is prudent at this time to be more flexible and take advantage of trading opportunities as events unfold.

A simple step to protect your wealth is to give up the liquidity of a bond mutual fund for the stability of a bond's date-certain return. The scheduled interest payments for the life of the bond and the return of your principal at maturity are very attractive options today.

The prices of bonds and bond mutual funds rise and fall with the market, but a bond investor has the option to hold until maturity, completely insulated from the turbulence of the markets. As an investor you don't need to be concerned about the expected benefit because your return is locked in place at the time of purchase.

Today, large corporations have some of the healthier balance sheets (high cash/liquidity) in recent times due mainly to the cautious spending post credit crisis. The big advantage offered by individual bonds over mutual funds relates to buy-and-hold investors. **The risk of owning a bond decreases the closer the security moves towards its maturity date (less time, more certainty).**

A mutual fund's risk profile is constantly changing depending on the decisions made by the portfolio management team and the actions of millions of other shareholders. This is a very important distinction when it comes to risk-averse investors who want a predictable cash flow, price stability and transparency of their investments, especially considering today's challenging investment environment and the unknown surprises that may lurk in 2011.

### A Changing Interest Rate Environment

GOALS	INDIVIDUAL BOND INVESTMENTS	BOND MUTUAL FUNDS	EXCHANGE-TRADED FUNDS
Stable Return	Yes	No	No
Cost Efficiency	Yes	No	Yes
Liquidity	No	Yes	Yes
Predictable Cash Flow	Yes	No	No
Transparency	Yes	No	Yes
Diversification	No	Yes	Yes
Simplistic	No	Yes	Yes
Market Impact	No	Yes	Yes
Tax Efficient	Yes	No	Yes

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# “That Movie was Over The Top!”

## TECHNOLOGY’S EFFECT ON MEDIA CONSUMPTION

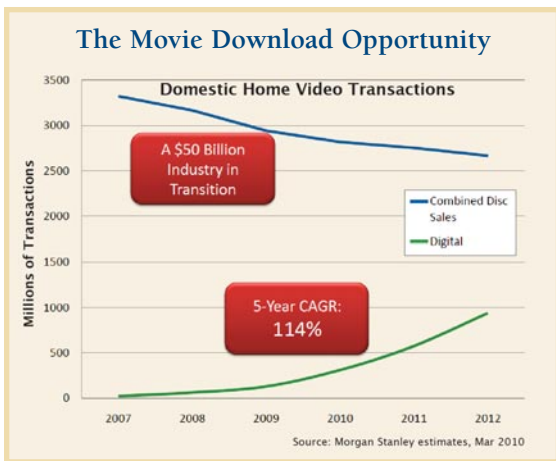
Technology is continuously changing, and nowhere is this more evident than consumer electronics. Mobile phones are becoming increasingly powerful and more capable devices called “smart-phones”; our televisions are bigger, more energy efficient, and have amazing high-definition resolution; and the Internet continues to evolve and we can access it with a growing list of devices at lightning speed.

Technology is now opening the door to a new way we will access video entertainment content – “Over The Top,” or “OTT” video. OTT video is video delivered through the Internet, in real time, when you want it, with the freedom to watch it wherever you want on a range of devices – including the TV in your living room. With the living room now becoming Internet connected through new TVs, Blu-ray disc players, and game consoles, our options for accessing video content are about to expand well beyond what the cable and satellite companies have offered for many years.

### OTT Video Market Opportunity

With billions of home video transactions every year, and the associated billions of dollars generated, the market for home entertainment is large. The traditional markets of DVD rentals and purchases are migrating to internet-based options – rentals, purchases, and subscription services.

The \$50 billion domestic market for home video is in transition. The “disc” market – purchased and rented – is likely to be in decline moving forward, as the consumer transitions to the OTT



model. The opportunity for OTT video offerings of premium, new release, and back-catalog content is still in its early stages. Today, this opportunity is serviced through the cable companies’ On-Demand offerings (Pay-Per-View), but the market is moving toward the internet-based offerings from newer entrants such as Netflix, Hulu, Vudu, Amazon, Best Buy, BlockBuster, Sonic Solutions and others.

With content ready to be delivered over the Internet, and home networks in place, the final piece of the puzzle is the internet-connected device in the living room, enabling

consumers to watch the content where they want to – in the living room. The added capability of being able to watch your content wherever you are – on your iPad, smartphone, laptop, or your TV – should further accelerate adoption.

### Investment Opportunities

There is little doubt that the media industry is changing rapidly. The Internet has significantly impacted numerous industries, and the OTT video transition marks another. OTT video gives the studios another avenue to reach consumers, and the business models are still being developed. What is certain is that consumers will have more access to content – in a flexible, mobile, and cost effective way.

There are multiple industries and segments that should benefit from the shift to an Internet-based OTT video market. We believe this significant technology and media transition will continue to present a wide range of interesting investment opportunities in the coming years.

**For more information on the OTT opportunity, and Cabot’s thoughts on attractive areas for investment in this important theme, please download our latest white paper at [www.eCabot.com](http://www.eCabot.com).**

## INVESTMENT STRATEGIES



Dennis Wassung, Jr., CFA  
Associate Portfolio Manager



### CABOT WHITE PAPERS

- OTT Video: That Movie Was Over the Top!
- Demystifying Gold
- LEDs: Opportunity Could be Bright
- China’s Internet: The World’s Largest Internet Community
- The Currency Crisis: Manage Your Investment Risk

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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.



Greg Stevens, CFP®, CRPS®,  
Senior Financial Counselor

## Succession Planning for the Small Business Owner

One of the most overlooked facets of running a small business is what will happen when the owner retires or is unable to run the company. Business owners spend years building a viable enterprise and don't want to see their hard work disappear when they pass away or retire. Unfortunately, many fail to put a proper plan in place and leave their family members with a significant asset, and no direction. What should business owners consider when thinking about how best to prepare for their eventual departure from the firm?

The most important facet of succession planning is to coordinate the overall business disposition with the owner's overall estate plan. The potential tax impact is obvious, but what about the emotional component? Are there family members in the mix that want to take over (and are they able)? If the business is a large piece of the family estate, are there liquidity options built in to compensate family members that don't want ownership? The overall succession plan needs to cover these very sensitive issues (among others).

- *Who will run it and are they capable?*
- *How will the "family dynamic" be impacted when control is passed?*
- *How will the value of the business be impacted when the owner leaves?*
- *Would it be better to simply sell the assets rather than transfer the ownership (i.e., is the value in the land/equipment rather than the business itself?)*
- *Should the business simply be sold to a disinterested third party to provide for family harmony and liquidity?*
- *How does the sale or transfer of the business affect the owners' overall estate plan?*

The clients we work with that own a business grapple with how best to pass along what they've spent so many years building. Some want to create a family legacy by keeping the company in place but overlook the fact that *they* are, in fact, "the company" and their intellectual capital and personal relationships leave when they do. It is important to determine the best way to account for this issue.

It is vitally important that a business owner plan for the day that they will no longer want, or be able, to run their company. Planning should begin by putting together a team that can help develop the framework necessary to ensure that all the appropriate steps are taken. The overall estate plan should include specific details about how the ownership will pass to the next generation so the impact of estate taxes can be managed. It is important to account for key employees and provide incentive to keep them on board, if needed. It always helps to have regular family meetings to keep everyone on the "same page" relative to the value of the business and the planning that surrounds it.

It is important to note that income tax planning is unique for each taxpayer and the strategies above might not apply to your individual circumstances. We recommend consulting your personal tax advisor to review your portfolio in more detail if you have any questions.

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Please contact your Financial Counselor here at Cabot if you have any questions about how your business integrates with your overall financial plan.

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# The Season of Giving



Rob Lutts gives Mark Cote of Lifebridge a holiday donation on behalf of Cabot clients.

*Non-profit organizations cannot succeed without the dedication of people who give their time, money and expertise, which is why we find it so important to give back to our local communities in any way that we can.*

## On Behalf of the Clients

This year we made charitable contributions on behalf of our clients to three non-profit organizations. 100% of the net proceeds from this year's holiday card benefits **The Home for Little Wanderers**, whose mission is to ensure the development and well-being of children and families living in at-risk circumstances. One half of our contribution benefits **Lifebridge** (The Salem Mission), who works to offer men and women opportunities they need to end their homelessness. And the other half of our contribution benefits **Hospice of the North Shore**, the largest non-profit hospice in Massachusetts, which provides comprehensive and compassionate care to individuals and families dealing with life-threatening illnesses.



## On Behalf of the Cabot Team

Each year portfolio manager **Les Satlow** organizes a holiday food drive for **St. Joseph's Food Pantry**. The food pantry serves 2,000 people – many of whom are children or single parents – who are in real need of food assistance. Our staff is encouraged to bring in canned goods and/or make donations in order to help the pantry and the dozens of families in need during the holiday season. In addition to this year's food drive, Mikki Wilson organized an Employee Penny Challenge within the firm to raise an additional cash contribution for the pantry. The employee donation, which totaled \$373.11, was matched by the company for a generous contribution of \$746.22 on behalf of the Cabot team in addition to the goods collected.

### St. Joseph's Food Pantry



*VeAnn Campbell, the tireless head of St. Joseph's Food Pantry, was very thankful for the donation from Cabot and its employees.*



Mikki Wilson presents Audrey DeLoffi, development officer for Hospice of the North Shore, with a holiday donation.

## AROUND CABOT



Mikki L. Wilson,  
Marketing Coordinator

# AROUND CABOT

Tim Moore, CFA  
Senior Research Analyst



## Meet the Cabot Team

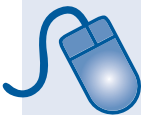
**TIM MOORE** has recently joined the Cabot team and is responsible for providing in-depth fundamental research for Cabot's core equity and growth equity portfolio strategies. He focuses on opportunities in both developed and emerging markets around the world. Tim earned a Bachelor of Science degree, with magna cum laude honors, in Business Administration with a Finance concentration from Boston University. He also holds an MBA from the Kellogg School of Management at Northwestern University, where he majored in Finance, Management & Strategy, Entrepreneurship and Marketing. Tim began his investment career in 2000, covering REITS in Sydney, Australia, at BNP Paribas. He also brings an additional three years of equity research experience covering US names for the top-ranked Institutional Investor sell side analyst before his MBA studies. Prior to Cabot, he spent over four years at Invesco/Aim Investments on the International Growth Team covering European and Canadian stocks. Tim is a CFA® charterholder and a member of the Boston Security Analysts Society.



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articles, and media clips.



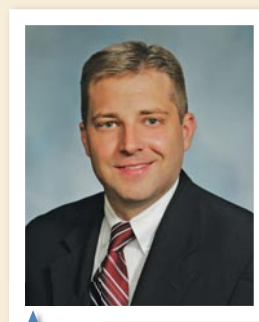
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We would also like to take this opportunity to welcome **TOM VAUTIN** back to our financial counseling team. Tom works with Cabot clients to develop tax planning, asset allocation, and retirement planning strategies. He holds a Bachelor of Arts degree in economics and an MBA from the University of Rochester. Prior to joining Cabot, Tom worked in the Private Banking group of JPMorgan. Tom is a Certified Financial Planner™ practitioner and is a member of the Massachusetts chapter of the Financial Planning Association. He is also licensed to practice before the Internal Revenue Service as an Enrolled Agent.



Tom Vautin, CFP®, ChFC®, EA  
Senior Financial Planner

## Thank You

Many of you have referred us to relatives and friends because of our strong relationship with you. The greatest compliment any advisor can receive is being asked by a client to speak with a friend, associate or family member. This is especially significant since the process of selecting a wealth manager is a difficult and very personal decision.

We thank you for this vote of confidence as we consider ourselves your partner as you journey through the many stages of your life. From investments, to retiring comfortably, to ensuring a future for you and your loved ones, Cabot has been there. We hope that in the new year that you will continue to contact us if you have friends or relatives that need help starting the year off on solid financial footing.



This quarterly newsletter is intended for information purposes only. Articles, graphs, charts and discussions should not be construed as specific investment advice. Individuals should personally consult with a financial professional to review their own specific situation in light of any information discussed here. Cabot is not under any obligation to update the information and while every attempt is made to insure that it is accurate, we are not responsible for misstatements or inaccuracies. This quarterly is intended for dissemination in the United States and is not intended for circulation elsewhere. 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 do not protect against loss. For complete disclosures, please contact us at (800) 888-6468 or [info@ecabot.com](mailto:info@ecabot.com) to receive a copy of our Form ADV and privacy statement.

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