

THE EAST END FINANCIAL GROUP

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Dear EEFG Client,

For over 30 years I've kept a file on my state of the agency letters. Before beginning a new one I review the previous four or five letters in order to stay consistent with the basic format and also not to be repetitive. The ones from 2008 and 2009 are my favorites since they were written when the financial world was in chaos and about one-third of financial advisors left the industry.

Here it is March of 2013 and the markets have completely recovered from those dark days but I find myself more concerned than ever about the markets, the direction of America and the future for my children and grandchildren. So here we go again for the 33rd time, my personal and brutally honest thoughts on our company, our industry and the world in general.

Market Summary and the Economy

Within the last few weeks we've seen the equity markets reach all time highs. Interest rates remain at all time lows and the real estate and housing markets have begun to recover. Money is pouring into the stock market and many investors have returned to that time tested investment model – put your head in the sand and throw money at stocks; they always go up, right?

I usually skim read five newspapers each day. The weekend Wall Street Journal is my favorite especially the column by Jason Zweig called the "Intelligent Investor". In his February 23rd column, Zweig wrote:

"Many investors have been behaving as if the blood bath between October 2007 and March 2009 never happened, even though the global markets lost over 50%. Investors are forgetting that agonizingly real fear they felt during the financial crisis. There is an epidemic of amnesia in America."

Understand what has driven this market. It's certainly not job growth in the private sector or a feeling of security for small business owners. Interest rates are being artificially held at historic lows through quantitative easing, a fancy name for the Federal Reserve buying back U S Treasury debt. In simplest terms by buying back our own debt and keeping the 10 year Treasury at 2%, our

government can borrow twice as much as when interest rates were 4% on the 10 year Treasury. With rates at these levels and everyone realizing that when rates do go up, and they will, bonds will lose money and the equity markets become very attractive. Think about it – would you rather own a quality stock paying a dividend of 3% with upside potential or a bond paying 3% that you will have to pay a premium for in today's marketplace, therefore, producing a yield to maturity below your interest rate? It's pretty simple, buy a taxable bond today and adjusted for taxes and inflation, you'll lose money. Obviously not a good time to buy bonds.

What's new at EEFG

As we enter our 34th year in business, I can look back and see a job well done, not perfect, but well done. The average relationship we have with a management client is 19 years, with a portfolio value of just under \$2,000,000. Years ago we instituted a rigorous selection process for adding on new clients and it has served us well; when someone becomes a client they normally stay with us for decades. The industry average for client relationships is seven years with an advisor so this reinforces to me that our service model works.

The strength of our business is our staff. My son, Joe, starts his 8th year with us and besides managing over 50 client relationships, Joe supervises our advisory team. Colin Moors continues to be our research analyst along with assisting me in servicing some of my personal accounts. Ernie Vorpahl and Meredith Diamond continue to split time between our East Hampton and Riverhead offices. As CFPs, they are fully trained to handle the most complex financial planning situations and between them manage over 100 client relationships. My son, Jack, enters his 3rd full year with us and has assisted both Joe and I with our client servicing as well as coordinating the service work for our 401(K) plans.

I've always said the strength of our firm is our service model and I give full credit to Annmarie Zilnicki for the management of our service team. Most of you have worked with Annmarie so I don't have to list what she does because there's not enough room in this letter to accurately detail her job description. She is the best person at client service I've met in my 41 years in the financial service business. Her team is incredible. Margret Loper has been with us now for 18 years, handles client account service, preparation of our quarterly reports and a great deal of my personal secretarial work. Mary LaFemina has proved to be an outstanding addition to our team since joining us in 2011 and works with Annmarie and Margret on all levels of client service. In March she was blessed to give birth to a beautiful girl, Juliette, and is in the process of moving into a new home in Laurel. Hopefully she will be rejoining us some time in July or August.

Vi Nicoll, my long time personal administrative assistant, retired in July and we've spent the last six months trying to find a replacement. I told her she was a tough act to follow so I've asked her to come back for three months to personally assist us in the recruitment and hiring process for her replacement. She will be back with us starting April 2nd through July.

The Evolution of EEFG

In 1980 EEFG was primarily a sales organization using commissionable products to provide investment and financial planning solutions. Life insurance, load mutual funds (commissionable),

Annuities and private placements were used in most of our accounts. In 1991, with the hiring of Rosemary Bloem, we began to build the fee based component of the business.

Twenty two years later, our fee based advisory business produces over 70% of our revenue. Commissionable service fees on 401(K) plans and old accounts account for the other 30%. New commissionable business makes up only about 10% of our revenue.

We are continuing to move our business model to a fee only planning firm with a minimum account of currently \$500,000 for new clients. It is impossible to do a good job for clients being “all things for all people”. As our model continues to evolve, that minimum will probably increase to \$750,000 or \$1,000,000 for new clients. Small boutique firms like ours need to focus on providing the highest level of service and advice to a controlled number of clients. You cannot mass market what we do for clients; it’s highly personal and specialized. So as time goes on, some existing clients may be “priced out” as we increase account minimums and fees associated with those minimums. It’s critical in business to know the marketplace and the type of client relationship we best serve. The fee based relationship versus the commission based wirehouse mentality is the route we have decided on.

Client Questionnaire – How are we doing?

We haven’t asked for the completion of a client questionnaire for at least ten years so I’ve provided one for your review with a return envelope. You will notice there is no name on the questionnaire so I ask you to be brutally honest in your response. Please give us your honest input with suggestions on how we can improve your relationship with EEFG.

Update on GLK Foundation and Giving Back

For those of you who have been with us for many years, you should be fully aware of our charitable endeavors. Once a year I like to give a quick update on what we are doing as a firm and with the Gwen Kosinski Foundation, our 501(c)3 non-profit foundation for brain cancer research.

The Foundation continues to be our focus. We have now raised over \$550,000 and just finished our second three-year grant at Memorial Sloan Kettering. My daughter, Jaime, is finalizing a caregivers grant at Sloan which will provide much needed funds for financial support for families that will help with travel and living expenses while undergoing treatment for brain cancer. Our 12th annual GLK golf outing will again be held at Noyac Golf Club in Sag Harbor on September 17th, so all you golfers mark the date now.

Four years ago EEFG became involved with “Face of America”, an organization assisting handicapped veterans returning from Iraq and Afghanistan. The funds raised from their various biking events goes directly to assist these courageous young Americans who have given so much for our country. This year Colin Moors and I will head off on Saturday, April 27th from the Capitol building in Washington DC and ride to the battlefield at Gettysburg, PA on the 28th with approximately 1,000 other riders assisting hundreds of wounded vets who will cycle with us. Our goal is to raise \$20,000 and a separate email blast will be forthcoming asking for your help.

Annmarie continues to be an active member of Rotary. Joe works with the east end summer baseball league and, as always, we continue to sponsor a fair number little league and robotics teams. I am

attempting to single handedly (just kidding) figure out the finances for St. Andrews in Sag Harbor as well as continuing to serve as a Eucharistic minister for the church. It's all about giving something back. Charitable work and community involvement remains at the top of our list.

The Future

I will be 63 in September. With 41 years in the industry and 34 years at EEFG, all good things must come to an end and I'm planning for the transition of my responsibilities to my sons.

Over the last year a number of our long time clients have passed away and, for the first time, close friends and peers are a part of this group. The target zone for health issues for men is age 60 – 70, which puts me firmly in this range.

My wife, Cindy and I just spent the weekend meeting with contractors in Vermont to discuss renovating a loft in our barn and putting an extension on the house. The goal of all of this is to provide a place that my grandchildren can come to in Vermont and spend quality time with us. Joe and his wife, Kirsten, have "Mr. JJ", real name Jonathan, who is now 16 months old. In May, his little brother will arrive. Jack and Dana Rose welcomed the beautiful Olivia Rose to the family in December. By this time next year there will be three grandchildren along with our group of five children and spouses. From the prospective of someone who lost his father at the age of ten, I want to spend time with these children and be a large part of their lives.

So the plan is in place – 2013 and 2014 full time and effective 2015, 2 days a week. Work with a limited number of accounts and serve as a mentor to our advisory team. Try that on for size for a few years. Don't get in the way of new ideas, but bring the knowledge to the firm that can only be gained through decades of experience.

Thank you for your loyalty and trust. The best part of this business is working with you and your families to assist you in achieving your goals and objectives. Hopefully we can continue to assist you and your children for another 34 years.

With best regards,

John J. Kosinski

John J. Kosinski, CLU, ChFC, MSFS
President

JJK/vkn

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