



WINTER 2010

trust & investment
perspectives

Changes and Opportunities: What Lies Ahead in 2010

by Willard N. Woolbert



Atemptation at year end is to find points of change to distinguish the year just finished from the opportunities or risks in the year ahead. In assessing the transition into 2010 we do not have to conjure differences. This year end, we believe that the capital markets have arrived at an inflection point. The liquidity-driven rally that characterized most of 2009 is likely to give way to a more fundamentally based market advance as the economic recovery matures.

We have seen a hint of what 2010 might be in the markets during December. The clearest indicator of a shift has been the rally of the U.S. dollar that began in early December. This recent recovery in the dollar, and we think at least a stabilization in its value in 2010, is a function of signs of economic improvement in the U.S. We are not in the so called "W", or double dip recession, camp. High levels of consumer debt, the prospect of higher taxes, political uncertainty, commercial real estate issues, and persistent unemployment will all contribute to a sub-par recovery. However anemic the recovery does turn out to be, we expect economic growth to improve as 2010 progresses, due to the lagged effect of the stimulus

effort, improving export demand, and some early signs of improvement in employment. The recovery should be sufficient to advance the debate about when, not if, the Federal Reserve will begin to withdraw funds from the market and eventually raise short-term interest rates. This prospect of higher rates in the U.S. should place further support under the dollar. Why is this trail of a better economy, higher short-term interest rates, and a resulting stronger dollar important to the market in 2010?

In 2009, the various markets all benefited from a surge in liquidity. Money became very inexpensive and available through not only traditional easing on the part of the Fed and other central banks,

but also from the programs such as the Term Asset-Backed Loan Facility (TALF) that provided funds for purchases of illiquid securities. This surge of funds that served to stabilize the financial system also drove asset prices higher, producing a very strong year in virtually all asset classes. A renewed sense of stability, and the flood of dollars needed to create this stability, resulted in a dollar decline beginning in March and lasting through the beginning of December. The fall in the dollar had the additional effect of further stimulating already growing developing economies that had currencies pegged to the dollar. What resulted was the so-called carry trade, using the dollar as the currency to borrow **continued on page 4**

Looking at the environmental policy climate with Christine Todd Whitman

Christine Todd Whitman is passionate about energy and environmental issues. At our 6th Annual Investor Seminar, she shared her thoughts on *Staying Ahead While Going Green*. The former New Jersey Governor and past Administrator of the EPA urged the creation of a culture of environmental stewardship, an increasing possibility as more companies become committed to improving environmental policies. She provided an insightful assessment of today's environmental climate and the opportunities and obstacles that lie ahead for businesses and investors. Currently, Whitman oversees the Whitman Strategy Group, a consulting firm specializing in energy and environmental issues.



President's Message: Review and Resolutions



The close of the year invariably invites reflection which comes in many ways. And, this being the close of a decade, even greater focus will be on the events of the past ten years. The media will review the year in photographs, note the passing of prominent individuals, celebrate performers of the year, recap sporting events, highlight political moments, and the big stories of the year. Certainly, the economy tops many lists, including *Time* magazine which recently named Federal Reserve Chairman Ben Bernanke its *Person of the Year*, for one who has "most influenced the news during the past year, for good or ill." It has indeed been quite a year. A new president took office during the worst financial crisis since the Great Depression. The year ended with a faltering economy amidst bank rescue plans, auto industry bailouts, economic stimulus plans, burgeoning federal deficits, and high unemployment, not to mention that we are fighting wars on two fronts.

A brief look back at my letters to you in this past year's issues of *Trust and Investment Perspectives* also provides a timeline. In the spring, we squarely faced the difficulties of the economic crisis and cautioned of a new economic paradigm, or the "new normal." As we moved into summer, our fragile economy offered an ever-so-faint glimmer of hope for recovery. The global economy was showing signs of growth. By fall, we allowed ourselves a guarded breath as greater signs of stabilization surfaced. And so the year closed. While the economy is far from

being fixed, there are reasons to look forward with positive expectancy.

November unemployment figures were better than expected, although unemployment's near-record highs remain a concern. Manufacturing productivity grew at a 13.4% annual rate. Retail sales rose 1.9% in November compared to last year and personal consumption also rose slightly. Personal income grew by 3.3%. Consumer confidence and spending will continue to be closely monitored and play a significant role in the economic recovery. The housing market remains tenuous and while existing home sales increased during the fourth quarter, negative equity and the specter of foreclosure remains a lingering problem. Lastly, as corporate profits begin to revive and as companies begin to have cash available for capital spending, there is greater potential for growth. In this issue, Chief Investment Officer Bill Woolbert offers a closer look at what lies ahead in the markets and Randy Thomas, head of our tax practice, keeps us current with his highlights of income tax rules and regulations.

I find particular satisfaction in revisiting what Pennsylvania Trust has accomplished during the past year. One significant undertaking was an extensive revision of our strategic plan which

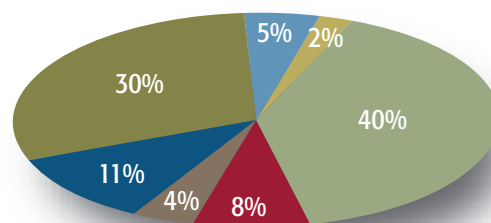
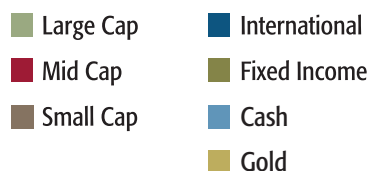
allowed us to take a close look at the mission and vision of Pennsylvania Trust, to better serve clients, and how we execute on those important elements of achievement. We identified our key strengths – commitment to client service, industry expertise, exceptional staff – and looked at ways to improve on them. To that end, we have made staff additions that will increase our professional level of expertise, improving on our capacity to serve our clients. In addition, we continue to update and revise our technological capabilities in order to offer state-of-the-art systems and information. As we worked on articulating our strategies and goals, one common theme kept coming through: our goal of enriching the lives of our clients through strong personal relationships and focused care, a commitment that I am confident to say, is consistent year after year.

As the year end allows reflection on how events of the past affect our lives, the beginning of a new year also offers possibilities to enrich the relationships of those we serve.

Richardson T. Merriman

President and Chief Executive Officer

Balanced Asset Allocation



TRUST TALK

Reviewing Income Tax Rules and Regulations by Randy G. Thomas, CPA, CFP®



Now that the 2009 tax year has ended, it might be helpful to review some individual income items that could impact your 2009 tax return as well as to note some tax changes that are applicable for the 2010 tax year. There may be additional changes or extensions forthcoming as Congress is debating issues relative to tax breaks that have expired at the end of 2009.

A major tax provision expiring after the 2009 tax year has to do with minimum distributions from qualified retirement accounts. Starting in 2010, qualified retirees must withdraw a mandated amount from qualified retirement accounts or pay a stiff penalty on the required distribution that was not withdrawn. The individual's age and the market value of the account determine the amount that must be withdrawn.

Another provision which expired in December 2009 has to do with individuals over 70½ and their ability to transfer up to \$100,000 directly from an Individual Retirement Account to a qualified charity without income tax liability. Although this provision was not used frequently in 2009 due to the elimination of the required minimum distribution, it may be reinstated by Congress in 2010.

One of the big tax breaks in 2009 that reinvigorated the severely depressed housing market was the First Time Homebuyers Credit. For qualified first-time purchasers of primary residences, there was a credit of up to the lesser of \$8,000 or 10% of the purchase price effective after April 8, 2008 and before December 1, 2009. This tax credit was fully refundable and was available whether or not the purchaser had any tax liability. The credit was phased out, however, for taxpayers with adjusted gross income over certain levels. For 2010, this tax credit has been extended to apply to purchases of a principal residence through May 1, 2010. In addition, the credit has been expanded to existing long-time homeowners who buy a new principal residence. The credit for these home buyers is limited to \$6,500 or 10% of the purchase price. And for home purchases after November 6, 2009, the purchase price of the home is capped at \$800,000 and applicable income levels have been increased. There are also new rules aimed at tightening up the procedures for claiming the credit.

The sales tax deduction for taxpayers who itemize is still available for 2009 but was slated for expiration on December 31, 2009. Taxpayers may elect to

deduct the higher figure of either the appropriate sales tax amount or their state and local income taxes. Should the taxpayer elect to deduct the income tax amount, they may still deduct allowable sales taxes paid on cars and light duty trucks purchased after February 17, 2009 and before January 1, 2010. The purchase price is limited to the first \$49,500 of the vehicle price and the deduction is phased out for high income taxpayers.

2009 is also the final year that joint filers and homeowners who elect the standard deduction can deduct up to \$1,000 of their real estate taxes from their gross income. The amount is \$500 for single filers.

Taxpayers who pay the Alternative Minimum Tax will again receive the benefit of an increased exemption. For joint filers the amount is \$70,950 and \$46,700 for single filers. These amounts will revert back to \$45,000 and \$33,750 for 2010.

These are just a few of the many requirements and rules to be considered when completing your 2009 tax return. As regulations on distributions and deductions continue to change, income tax preparation becomes increasingly complex. Our tax experts at Pennsylvania Trust are skilled professionals with a great depth of knowledge in the tax field as well as sensitivity to clients' personal situations and needs. We are available to help you navigate this complicated process and look forward to hearing from you.

Mr. Thomas is Senior Vice President, Tax Administration, at Pennsylvania Trust.

George McFarland and Fred Dittmann Recognized by *Philadelphia Magazine*

George McFarland, Senior Vice President, Portfolio Management, and Director of Trust and Account Administration, and Fred Dittmann, Senior Vice President, Portfolio Management, were selected as 2009 FIVE STAR Wealth Managers by *Philadelphia Magazine*. Using an independent market research firm, the magazine polled a large sampling of high net worth individuals from the Philadelphia area as well as regional financial service providers to determine "best in client satisfaction." The results, representing less than 4% of local wealth managers, appeared in the magazine's November issue.

continued from page 1 in order to purchase more volatile assets, in many instances those related to the developing economies. Currencies, commodities, foreign markets all benefited handsomely from this trade. If, as we enter 2010, the dollar is bottoming or even improving in value, what does this suggest for investments in 2010?

Critical to a stabilized dollar is an improvement in the U.S. economy and the prospect for higher interest rates. We do not expect the Fed to raise rates until well into 2010, but the prospect of an increase will impact bonds well in advance. As in 2009, we believe that opportunity in the bond markets will be most apparent in the corporate and municipal markets. The yield differential between corporate and treasuries remains above normal. In an improving economy these spreads should continue to narrow

and cushion, not eliminate, the impact of the higher rates we are likely to see on Treasuries as we go through the year.

In equity markets we see two important changes coming. We advocate of investment in developing markets such as China, Brazil, and India. In 2010 we expect to retain these commitments but anticipate finding additional value in buying domestic companies with important exposure to these economies, rather than buying into the markets directly. This is a way for us to continue to benefit from the growth coming from these economies, but limiting exposure to what may be cyclically extended markets.

The liquidity-driven market of 2009 encouraged a speculative edge to investments. Smaller companies with weaker financials were among the best performing of stocks. The surge in commodity prices, and to a certain extent, the devel-

oping markets, was part of that speculation. We see 2010 as the year in which stronger financial and earnings characteristics will play a more central role in stock performance.

There are structural issues for both the U.S. and other developed economies looming which will impact investment decisions in the future. For 2010, we need to address the opportunities in front of us. Exposure to corporate and municipal credits will provide a relative advantage in bonds. In stocks, quality equities and yield are on sale. Internationally, developing market economies should continue strong growth. In 2010, as the dollar stabilizes, the incremental opportunity to participate in this growth may lie in U.S. equities.

Mr. Woolbert is Senior Vice President and Chief Investment Officer at Pennsylvania Trust.



Roland Becerra, *Paper Boys*

Pennsylvania Academy of the Fine Arts Lends *Paper Boys*

Acknowledging Pennsylvania Trust's appreciation for fine art, The Pennsylvania Academy of the Fine Arts (PAFA) recently offered a two-year loan of *Paper Boys*, a vibrant work by Roland Becerra. Becerra, a Cuban American painter, is known for his engaging narrative style.

Becerra studied at the Cleveland Art Institute, the School of the Art Institute of Chicago, the Pennsylvania Academy of the Fine Arts, and the Yale School of Art where he received a Master of Fine Arts degree. He is currently a professor at the Lyme Academy College of Fine Art in Lyme, Connecticut.



PENNSYLVANIA TRUST

Five Radnor Corporate Center
Suite 450
100 Matsonford Road
Radnor, Pennsylvania 19087
610.975.4300
800.975.4316
610.975.4324 F
www.penitrust.com

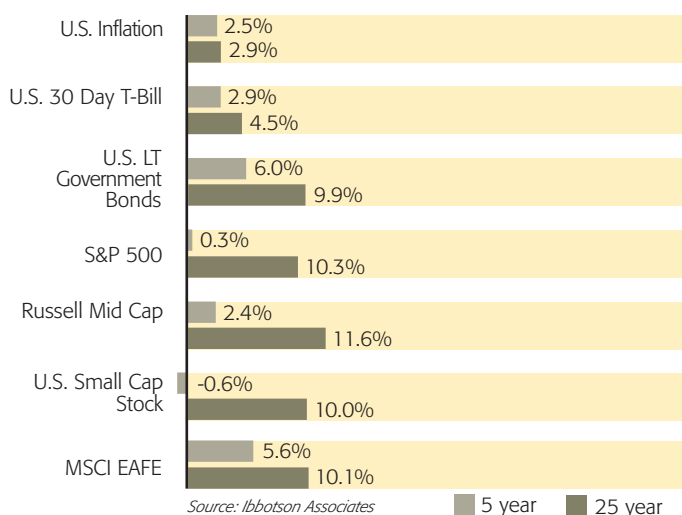
Pennsylvania Trust is committed to conduct all our relationships with integrity and to maintain the highest ethical standards; provide outstanding professional and personalized services; produce superior investment results consistent with client objectives; and retain exceptionally skilled individuals, empowering them with state-of-the-art technology.



Market Indicators

	Current	Three Months Ago	One Year Ago
Stock Indices	12/31/09	9/30/09	12/31/08
Dow Jones Industrial Average	10,428	9,712	8,776
Standard & Poor's	1,115	1,057	903
U.S. Treasury Yields			
2 Year	1.1%	0.9%	0.8%
5 Year	2.7%	2.3%	1.5%
10 Year	3.8%	3.3%	2.2%
30 Year	4.6%	4.1%	2.7%

ANNUALIZED RETURNS OF SELECT ASSET CLASSES



CORE LARGE CAP DIVERSIFICATION

In order to maintain a well diversified large cap common stock portfolio, we recommend the following relative sector weightings within the Standard & Poor's 500:

S&P 500 Sector Weightings	Pennsylvania Trust	
Consumer Discretionary	9.6%	—
Consumer Staples	11.4%	=
Energy	11.5%	=
Financials	14.3%	—
Health Care	12.6%	+
Industrials	10.3%	=
Information Technology	19.8%	+
Materials	3.6%	=
Telecommunication Services	3.2%	=
Utilities	3.7%	=

PENNSYLVANIA TRUST



Richardson T. Merriman
President and Chief Executive Officer

Lee J. Anderson, CFA
Senior Vice President
Chief Information Officer

William H. Haines, IV
Senior Vice President
Director of Client Services

Irwin S. Love, Esq., CTFA
Senior Vice President
Chief Fiduciary Officer

George C. McFarland, Jr., Esq.
Senior Vice President
Portfolio Management
Director of Trust and Account Administration

Barbara S. Wood, CPA
Senior Vice President, Treasurer
Chief Financial Officer

Willard N. Woolbert
Senior Vice President
Chief Investment Officer

Pierce Archer
Senior Vice President
Portfolio Management

Nils L. Berglund
Senior Vice President
Portfolio Management

Douglas H. DeLong, CFA
Senior Vice President
Portfolio Management

Frederic N. Dittmann, CFA
Senior Vice President
Portfolio Management

JoAnne T. Fredericks, CFA
Senior Vice President
Portfolio Management

Jean E. Hunt, Esq., CPA
Senior Vice President
Trust and Account Administration

Charles L. Sheppard, II
Senior Vice President
Director of Investment Research

Randy G. Thomas, CPA, CFP®
Senior Vice President
Tax Administration

Radclyffe F. Thompson, CFP®
Senior Vice President
Business Development

J. William Widing, III, Esq.
Senior Vice President
Trust and Account Administration

Carolyn L. Wyeth
Senior Vice President
Trust and Account Administration

Kenneth R. Brightcliffe
Vice President
Equity and Fixed Income Trading

Karen H. Harr
Vice President
Trust Operations

Monica P. Ruggio
Vice President
Trust Operations

Debra S. Tongue
Vice President
Trust and Account Administration

Noni-Kai S. Williams
Operations Officer
Trust Operations

Kristen L. Behrens, Esq.
Trust Administrator
Trust and Account Administration

Adam T. Rogers
Account Manager
Portfolio Management

CONSULTANTS

Kevin R. Fisher
Senior Technology Consultant

Francis R. Grebe, Esq.
Senior Trust Consultant

Donald E. Lewin, Ph.D.
Senior Investment Consultant

Newbold Strong
Senior Investment Consultant