



FALL 2011



trust & investment
perspectives



Lehman Redux? by Willard N. Woolbert

It was three years ago that the collapse of Lehman Brothers precipitated a financial crisis, first in the U.S., but ultimately globally. So called "risk" assets, such as stocks, corporate bonds, and commodities, fell uniformly as institutions and investors scrambled for liquidity. Lehman was of course short-hand for the mortgage debt crisis that eventually took down many other financial institutions and gave rise to a global recession. Today, Greece has become a Lehman-like avatar for a new crisis, that of unsustainable levels of government debt in several European countries.

The fear of a Greek default comes at a difficult time for markets globally. In the U.S., we are struggling with our own fiscal problems. The debt ceiling debate and subsequent downgrade of Treasury debt by Standard & Poors (S&P) highlighted our

own looming debt crisis. Markets have been frustrated by the inability of politicians to adequately address the longer-term problems.

With the developed economies of Europe and the U.S. struggling, investors have also begun to question the strength of the emerging economies, with China being the principal focus. There, manufacturing activity seems to have slowed. Inflation remains an issue and concerns have risen about the health of the Chinese banks.

The recent riot in global equity and commodity markets has its roots in each of these three concerns but owes most of its strength to fears of an imminent Greek restructuring. We have felt that the strategy in Europe has been to postpone what is an almost inevitable default until other weak links in the European financial sys-

tem, including many banks, could be strengthened to withstand the default. What appears to have happened is that the timeline has accelerated with much of the desired strengthening yet to occur. This has raised concern of a 2008-like liquidity crisis. There are multiple signs of such a crisis. Yields on Spanish and Italian debt have increased while U.S. Treasury yields have fallen to record lows. European banks have been unable to attract dollar deposits, resulting in the European Central Bank (ECB) needing to provide dollar funding to several banks. European banks have been reluctant to lend to each other, as evidenced by growing deposits at the ECB, and European officials have been unable to agree on measures sufficient to stem this ongoing deterioration.

The decline in global equity markets since June has **continued on page 4**

Media Expert Jeffrey Rayport Offers Commentary at Fall Investor Seminar



Nationally recognized thought leader and practitioner in digital marketing, media, and commerce, Dr. Jeffrey Rayport, provided the audience at Pennsylvania Trust's Annual Investor Seminar with thoughtful insights into the permanent changes in the media landscape and how the evolution of the social, mobile, and digital world has radically changed the way we live and conduct business. A question and answer session followed his remarks which also touched on the client experience, privacy matters, and business innovations.



Confidence

Several weeks ago an article titled 'All the Ways That Stocks Churn Your Stomach' appeared in *The New York Times*. And after a tumultuous third quarter where the Dow Jones Industrial Average dropped 1,501 points, some 12.1%, internal stress is to be expected. A quick accounting of the pressing economic issues making headlines does little to alleviate indigestion.

The stock market posted the worst quarter since the 2008 financial crisis and economists are debating the possibility of double dip recession. The debt crisis in Europe continues to smolder amidst paralyzing disagreements over solutions. Partisan squabbling over U.S. economic policy offers little hope of resolution to our own fiscal woes. August saw no job growth and the consumer confidence index hovers at a dismal 45.4%.

In his most recent report, economist David Hale describes our current dilemma as a "crisis of confidence." Interestingly, confidence has played a role many times over in modern economics. A book review of Sylvia Nasar's new book, *Grand Pursuit: The Story of Economic Genius* recently caught my attention. Nasar surveys economic thinkers over the ages including Charles Dickens, in his role as social reformer, John Maynard Keynes, Paul Samuelson, and Milton Friedman among others. She divides the evolution of economic thought into what she terms three acts: the hope espoused during the Victorian Age's focus on social reform; the fear that characterized post World War I and the Great Depression; and finally, the

confidence-based views of post World War II Keynesian economists. Whether you are interested in economic theory or not, it sounds like a fascinating and relevant history and I will add it to my reading list.

Despite the aforementioned dizzying litany of concerns, David Hale remains optimistic that our apprehensions will not be self-fulfilling. He offers several arguments against a recession. Housing, auto sales, and business investment have not fully recovered and therefore cannot decline sharply. Interest rates are at record lows, with government assurances to maintain these levels for two more years. Households continue to reduce debt, offering potential for increased consumer spending. And finally, U.S. banks are making a robust recovery from 2008/2009 losses and show increased equity to assets ratios as well as return on assets. Hale's pragmatic approach is mildly encouraging but scores of economists line up on both sides of the aisle and we continue to closely analyze a staggering array of data, trends, and opinions to stay fully informed.

But in the short term, what about those stomach-churning knots? Ron Lieber, the author of *The New York Times*

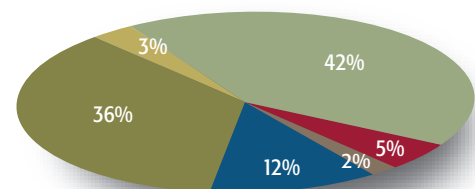
article, points to what he terms, "the default of advice of remaining calm," a state he admits is easier said than done. He goes on to share his own range of solutions, including the importance of admitting when you don't fully understand what is happening, as well as maintaining a rational mind and focusing on financial tasks that you can control. No doubt good advice, and this issue of *Trust and Investment Perspectives* seeks to provide you with both knowledge and practical planning. Bill Woolbert offers more insight into the global financial arena in language that we can all understand while Fiduciary expert Leslie Gillin Bohner addresses the importance of contingency planning with a very doable list of information.

The financial landscape will continue to challenge our sensibilities. At Pennsylvania Trust, our goal is to assist you, our clients, in understanding the realities of the market as it pertains to you and your individual wealth management goals. Consistency and care will always be foremost as we go forth with confidence.

Richardson T. Merriman
Chairman, President,
and Chief Executive Officer

Balanced Asset Allocation

- Large Cap
- Mid Cap
- Small Cap
- International
- Fixed Income
- Gold



Contingency Planning: Make Sure Your Family Is Prepared

by Leslie Gillin Bohner, Esq.



Having just experienced an earthquake, a hurricane, and record flooding, we are reminded of the necessity of disaster planning. You have most likely seen news stories suggesting exit routes, communication plans, and stocking up on necessities. But it is equally important to think about contingency planning – making sure your family is prepared and taken care of in the event of your death or disability. While this is not an easy topic to think about, it is important to have a plan in place. The following are some simple and immediate steps you can take to ensure the security of your family in the future.

I. Create a List

The easiest way to begin contingency planning is by creating a list of important information and giving it to your spouse, designated family member, or trusted advisor for safekeeping. Although any such list can be tailored to your own needs and preferences, we would suggest that it contain at least the following information:

- **Contact Information** for your attorney, accountant, investment advisor, insurance agent, executor, and funeral home.
- **Location of Key Items/Documents:** Location of your safe deposit box and key, estate planning documents (wills, trusts, powers of attorney, living wills and letter of intentions), business agreements (e.g. partnership or LLC agreements, buy-sell agreements), real estate and loan documents (deeds, mortgages), vehicle titles, burial plot deed/title, and family heirlooms.

- **Insurance Information (Life, Health and Long-Term Care):** Location of policy or insurance card, name of carrier, policy number, and benefit amount.
- **Retirement Asset Information (401(k), 403(b), IRA, Pension):** Name of custodian, account number, and beneficiary.
- **Investment Assets/Bank Accounts/Credit Cards:** Location of accounts and account numbers
- **Trust Interests:** Name of trust, interest, and contact information for trustee(s)
- **Passwords:** Do you store your passwords in your brain or on a post-it note somewhere near your computer? Storage methods range from the low-tech to the high-tech and depend upon the level of security you require. Whichever method you choose, it is important to ensure that someone can access your computer and accounts if you are unable to do so. Include the access information on your list.

II. Answer these Important Questions:

The next step is to answer some basic questions about your estate plan to ensure that it is up-to date and carries out your intent.

- Do you have a current estate plan, including a will, revocable trust (if appropriate), financial power of attorney, healthcare power of attorney, and living will?
- Has there been a change in circumstances since your plan was drafted, such as a marriage or divorce, birth

of child, change in your domicile or assets, or change in tax laws?

- Does your plan take care of your family and charities in the way that you intended?
- Do you have the right team in place? Is your named executor, trustee, agent, surrogate, or guardian still living, and, if an individual, does he or she have the skills and time to handle the job? Should you name a corporate fiduciary?
- Do you have the right amount of life insurance? After payment of taxes, debts, and expenses, will your family be able to maintain their current lifestyle in your absence?
- Are your retirement plan and life insurance beneficiary designations up to date and coordinated with your estate plan?
- Is the titling of your real estate and accounts coordinated with your estate plan?

Pennsylvania Trust's team of professionals has a breadth of experience in estate planning and trust and estate administration. We welcome the opportunity to guide you through the contingency planning process and can help with the creation of your list and answering these important questions. You can find a sample template of a contingency planning list on our website: http://penntrust.com/downloads/Contingency_List_PATrust.pdf

Ms. Bohner is Senior Vice President and Chief Fiduciary Officer at Pennsylvania Trust.

continued from page 1 brought valuations to historically attractive levels. Measures of price to earnings or cash flow, and certainly dividends yields compared with interest rates, suggest that the impact of the financial crisis might be priced into the markets. We believe that these are important metrics for the market, but recognize that any valuation measure depends on the level of earnings. What the market is telling us is that it has little confidence in the level of economic activity necessary to support earnings expectations. With concern about these issues almost universal, we have to ask what events might change attitudes enough to sustain better markets. We see three that could change attitudes and the direction of global economies.

The most urgent problem is the fear of a full-blown financial crisis beginning in Europe. This could be precipitated by a refusal by the International Monetary Fund to extend additional credit to Greece. To date, the ECB has been very reluctant to

take several of the steps that the Federal Reserve did to control the mortgage crisis in the U.S. They have the capacity to reduce interest rates. They have the capacity to engage in their own quantitative easing. Either or both of these actions would improve prospects in Europe and with it investor confidence.

In the U.S., we are now less than two months away from the deadline for the super-committee of Congress to produce a plan for long-term budget repair. Expectations for a creditable program are justifiably low, but serious negotiations apparently did occur during the debt ceiling debate, and a positive outcome would be bullish for equity prices.

Lastly, the recent evidence of slowing in the Chinese economy could prompt authorities there to begin easing monetary policy. China until recently has been using various measures to reduce credit growth. This tightening has been in response to higher activity but, more importantly, higher

inflation. Any sign of easing inflation could lead to stimulative monetary policy and greater enthusiasm for growth in the emerging economies.

The markets are currently hostage to critical macro trends and decisions that are largely unpredictable. This uncertainty has produced a fear of a financial accident and crisis that can only be reversed by action on the part of elected officials and central bankers. This is an uncomfortable position and has caused the sharp sell-off in global markets. In the current environment, where confidence is low and fear high, we want to be alert to events that could reverse the outlook. A change in any of the three issues that have been pressing on the markets could produce attractive returns from these depressed levels.

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



Cruisin' by George Rothacker, 16" x 20" Acrylic on Canvas

Pennsylvania Trust is co-sponsor of the exhibition, "Havana-59,[®]" which will open Sunday, November 13, 2011 in the Warner Library of Eastern University and be on display through December 13th. The exhibition includes more than 35 paintings of Havana, Cuba, created by Delaware County artist George H. Rothacker over the past two years, and focuses on the art, history, architecture, cars, and people of this beautiful, yet deteriorating country.

Proceeds from the opening event at the Bolingbroke Mansion in Radnor on November 11th, and from the sale of paintings and prints, will benefit the "David R. Black Academic Enrichment Fund" at Eastern University, which will provide educational support for individuals with complex learning profiles, such as Asperger's. For more information visit: <http://havana-59.blogspot.com/>

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

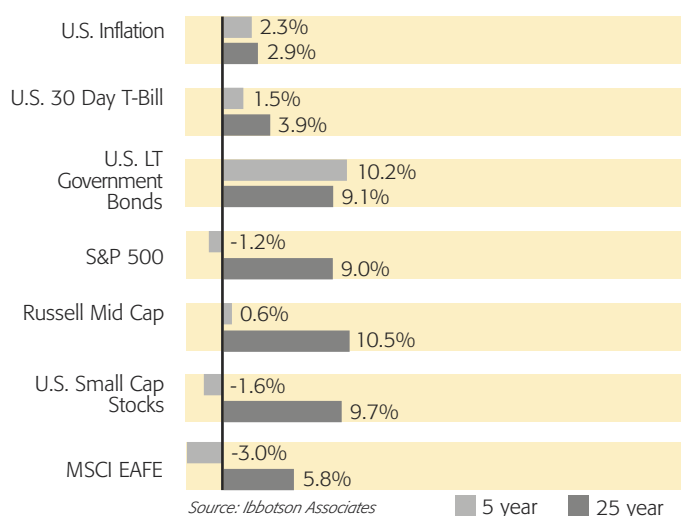
Pennsylvania Trust is committed to conduct all our relationships with integrity and to maintain the highest ethical standards; provide outstanding professional and personalized services; produce superior investment results consistent with client objectives; and retain exceptionally skilled individuals,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



Market Indicators

	Current	Three Months Ago	One Year Ago
Stock Indices	9/30/11	6/30/11	9/30/10
Dow Jones Industrial Average	11,154	12,414	10,788
Standard & Poor's	1,160	1,321	1,141
U.S. Treasury Yields			
2 Year	0.2%	0.5%	0.4%
5 Year	1.0%	1.8%	1.3%
10 Year	1.9%	3.2%	2.5%
30 Year	2.9%	4.4%	3.7%

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	10.8%	+
Consumer Staples	12.6%	-
Energy	11.2%	=
Financials	13.2%	-
Health Care	12.0%	+
Industrials	10.0%	=
Information Technology	19.8%	=
Materials	3.3%	+
Telecommunication Services	3.2%	=
Utilities	3.9%	=

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Trust and Account Administration

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Vice President
Trust Operations

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Vice President
Tax Administration

Debra S. Tongue

Vice President
Trust and Account Administration

Adam T. Rogers

Portfolio Manager
Portfolio Management

CONSULTANTS

Kevin R. Fisher

Senior Technology Consultant

Francis R. Grebe, Esq.

Senior Trust Consultant

Jean E. Hunt, Esq., CPA

Senior Trust and Tax Consultant

Donald E. Lewin, Ph.D.

Senior Investment Consultant

I. Wistar Morris, III

Senior Investment Consultant