PENNSYLVANIA TRUST

FALL 2012

trust & investment
perspectives

Compromise Redux

by Willard N. Woolbert

Sometime between November 6th and December 31st, the U.S. Congress and the Administration will hopefully come to a compromise on tax rules and spending cuts that are scheduled to expire or take effect at year-end. This is an historic moment. Taken together, the various policies that have an effective date of December 31, the "fiscal cliff," would, if not postponed or changed, reduce GDP by approximately 4%. For perspective, the largest tax increase since WW II was 1.7% of GDP in 1968. As well, this potential 4% impact will occur at a time when nominal GDP is growing less than 4%.

Something is expected to happen during these 55 days. The outcome of the election, both presidential and congressional, will affect the nature of the compromise, but the consequences of allowing the full impact of the "cliff" to hit the economy are serious enough that even a divided government should be able to act. Indeed, we came to this moment as an act of compromise. The "Bush tax cuts" were scheduled to expire at the end of 2010. The fate of the cuts had not been determined by the mid-term election. The rout of the House Democrats that year led to an agreement to extend the tax provisions until the end of 2012, presumably hoping that their fate could be decided well before then. In July and August of last year, compromise was again required to get us through the U.S. debt ceiling crisis. In this case, lawmakers agreed to an increase in the ability of the U.S. to sell bonds, with the stipulation that spending for defense and health care would be reduced automatically and substantially on December 31, 2012, if a super committee from the Senate and House could not produce a budget that addressed long-term imbalances in government spending. They could not, and so we are here, with tax cuts expiring and spending to be reduced, and 55 days to finally fix it all.

Hopefully this will not happen. Most probably a significant portion, but not all, of the expiring provisions and cuts will be extended for some period of time into 2013. What will be extended — and for how long — will be influenced by the election outcome. Current thinking has the impact of items unlikely to be extended, such as the 2% reduction in the payroll tax, to be roughly 1-1.5% of GDP. Even this amount will have a negative impact on the economy in the first part of 2013.

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Left to right, George McFarland, Rich Merriman, Bill Woolbert and Chip Sheppard

George McFarland honored as Five Star Wealth Manager

In the November issue of *Philadelphia Magazine,* Pennsylvania Trust President George McFarland was recognized as a recipient of the 2012 Five Star Wealth Manager Award in their yearly review of area top financial service professionals. Award candidates must satisfy a broad range of eligibility and evaluation criteria, including a survey of peers in the financial services industry. This is the second time George has received this important award.

Electing Integrity

I recently had the pleasure of introducing renowned political analyst David Gergen as the keynote speaker at Pennsylvania Trust's annual Investor Seminar, where he offered a measured perspective on the landscape of American politics. As you read this, the outcome of our country's 57th presidential election is about to be decided. And as I noted in David's introduction, one third of U.S. Senators, over 435 members of Congress, 11 governors, and scores of state and local legislators participated in a political process that began here in Philadelphia 225 years ago with the ratification of the United States Constitution.

Our founders would no doubt be disappointed to read the results of Gallup's yearly poll that asks Americans to rate the honesty and ethics of members of Congress. Representatives were found to have low or very low standards of integrity by 64% of those queried. While in the 30-plus-year history of the poll Congress has never had positive results, the proportion of Americans giving low or very low ratings has grown three-fold. This same survey looks at numerous other professions. It should come as no surprise that also scoring low were financial service professionals, reputations damaged by fallout from the moral and ethical failures that continue to shake our economy. The decline of integrity is mourned from Washington to Wall Street.

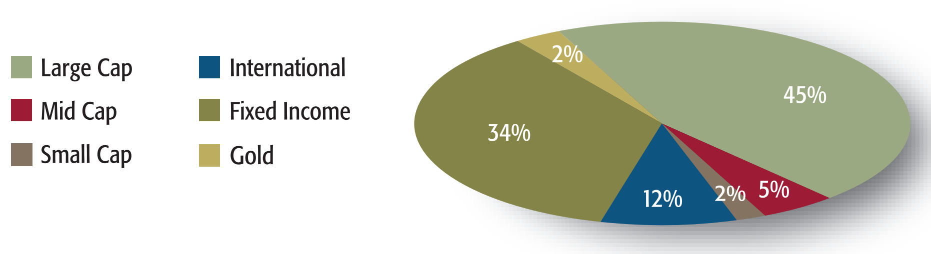
While the cause of America's financial woes are too complicated to attribute to a single factor, certainly a disregard for fiduciary responsibility owns a place at the top of the list. Amidst calls for greater oversight and regulation, Keith Darcy, professor of ethics and leadership at The Wharton School at The University of Pennsylvania, challenges organizations to go beyond mere compliance and to strive for what he terms "a value based culture." He contends that ethics and profits are not as mutually exclusive as one might be led to think given the endless reports of excess and hubris in many once-esteemed institutions.

Certainly, and in many cases deservedly, there has been an erosion of trust among consumers and investors. Yet there are many organizations that do exercise the highest degree of integrity. Darcy goes on to posit, and I agree, that a responsible company culture is the key factor in long-term success. From Pennsylvania Trust's outset we have set high standards for integrity and personal and professional service to clients. It is the essence of who we are and we give constant care and attention to upholding these core values. Our history of continued growth and success can be directly attributed to thoughtful and consistent practices. I am immensely proud of the team of professionals who day in and day out practice this ethos because they, like me, believe that it is right.

The author of *The New York Times Magazine's* 'The Ethicist' column, Randy Cohen, holds out hope for the future of integrity, believing that "ethics is not a moving target, unique to time or place, but a set of principles so profound and so essentially moral that he could go anywhere and persuade anyone that they should apply." I am quite certain that our founding fathers would agree.

Richardson T. Merriman
Chairman and Chief Executive Officer

Balanced Asset Allocation



Trust Talk

Protect Your Assets With a Financial Power of Attorney

by Leslie Gillin Bohner, Esq.

Do you have a financial power of attorney? Having one would allow you to choose someone you trust to handle your affairs when you can't. It is a written legal document that gives another person – your "agent" or "attorney in fact" – the ability to make binding legal and financial decisions on your behalf. Without a power of attorney, if you become physically or mentally unable to manage your affairs, your family may have no choice but to ask a court to appoint a guardian to handle those affairs. This can be a time-consuming, unpleasant, and expensive legal process. Regardless of your age or health, it is important to plan now for the unexpected.

There are several important questions you should consider when preparing a financial power of attorney:

"What type of power of attorney do I need?"

A durable financial power of attorney takes effect when you sign it and remains in effect during your lifetime, even if you become incapacitated. You are not giving up the ability to handle your affairs, just ensuring your agent will have the ability to act when necessary.

A springing power of attorney begins when a specific event happens, such as when you are declared incapacitated by a licensed physician. The problem with a springing power is that someone must decide that the triggering event, i.e. your incapacity, has occurred. This can lead to disputes and impose an impediment to the use of the power of attorney, perhaps at the time you need it most.

Regardless of which type of power of attorney you choose, you can revoke the power of attorney at any time and it ends at your death.

"Who should be my agent?"

You should choose someone you trust completely: a spouse, close family member or professional advisor. Don't make the same mistake as wealthy socialite Brooke Astor, whose own son was convicted for stealing millions as her agent. Financial exploitation is a real and dangerous problem, and if you have concerns about a specific individual, you should consider naming someone else. Your chosen agent should be capable of handling the required duties and keeping accurate records. You might also consider naming joint agents (you may require them to act together), and it is wise to name a substitute agent to serve in the event your primary agent is unable to do so.

"What powers should my agent have?"

You should consider authorizing your agent to take any financial actions you could take, e.g. banking, investments, real estate, taxes and insurance. The document should permit your agent to access electronic records and online accounts, as appropriate. It is important to consult with an attorney if you desire to give your agent the power to make gifts and/or do estate planning on your behalf. It may be important for your agent to have these powers to react to changes in the gift and estate tax laws. Additionally, many states require special language in power of attorney documents to permit an agent to make gifts in excess of limited amounts or to the agent himself or herself, or to change beneficiary designations for life insurance and retirement benefits.

"Is my power of attorney valid in every state?"

Not necessarily. Do not assume that a power of attorney signed in one state will be valid in another. For example, if you live in Pennsylvania, but maintain a second residence in Florida, be sure that your power of attorney meets the requirements for both states. Finally, financial institutions may attempt to require their own forms in addition to a power of attorney. Read any such forms carefully before signing.

We recommend that you act now to put a power of attorney in place, or review existing powers of attorney to ensure that they are valid and meet your current needs. Pennsylvania Trust's knowledgeable and experienced team of trust professionals is available to assist you with this process. In the next issue of *Trust and Investment Perspectives*, we will discuss the importance of healthcare powers of attorney and living wills.

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

continued from page 1 Why are we bouncing from crisis to deadline and back to crisis? We have dealt with these issues in the past, why can't we find a compromise that lasts beyond a year? It seems that we are in a different place than we have been over the last 70 years. During an interview on CNBC on October 11th, Erskine Bowles, co-chair of the Bowles-Simpson Committee that was charged by President Obama with finding a long-term budget compromise, summarized the problem this way: "Senators and Congressmen in the past have always attempted to 'bring home the bacon,' but now the pig is dead." The pig of course is the public purse that has been first strained by the enormous deficits required to stabilize the U.S. economy since 2008 and will soon be further tested by the accelerating demands of the retirement entitlement programs of Medicare and Social Security. In this context, the Simpson-Bowles Commission, the messy debate around the debt-ceiling extension in 2011, and even the current "fiscal cliff," are the beginning of a long process of, if you will, finding how to live without a pig. The current Presidential election reflects the deep differences in how this might be accomplished and suggests that any resolution remains elusive.

As investors, we are likely to have to deal with this deadline/crisis model for some time. The current "cliff" will in all probability be pushed into 2013. But, without greater consensus around a long-term budget solution, whatever the deadline becomes in 2013 will be another "cliff" to be avoided. The end game to this, the ultimate cliff, is what we see in Europe: debt grows to a point that it cannot be paid back and the bond markets demand higher rates or simply will not buy debt. In the U.S., it would more likely be a dollar crisis that would result in higher interest rates. As troubling as the recent efforts to improve our budget situation have been, they have been part of a difficult, even necessary, process to get us to a new consensus. When found, the solution to the budget problem should be hugely beneficial to financial markets.

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

Impending Deadline for Year-End Gifting

In our Spring 2012 issue of this newsletter we discussed 2012 tax planning opportunities. As of the date of this publication, the future of federal estate and gift tax law remains uncertain, and it is possible the current $5,120,000 gift tax exemption will not be in place after 2012. Accordingly, you may wish to consider 2012 gifts, outright or in trust, before year end. If you are interested in exploring this opportunity, please contact us immediately.

(The Spring 2012 newsletter is available at http://www.penntrust.com/downloads/Spring%202012_web_TIPS.pdf)

2012 Investor Seminar

Over 300 clients and guests of Pennsylvania Trust attended our ninth annual Investor Seminar which featured a presentation by David Gergen, senior political analyst for CNN and past advisor to four presidents.

His illuminating presentation, entitled *The 2012 Election: Issues and Answers*, provided important insights on the upcoming presidential election.

PENNSYLVANIA TRUST

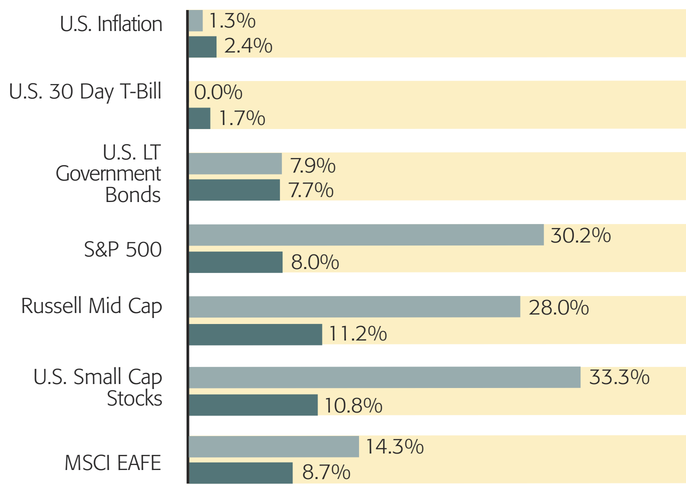
Five Radnor Corporate Center
Suite 450
100 Matsonford Road
Radnor, Pennsylvania 19087
610.975.4300
800.975.4316
610.975.4324 F
www.penntrust.com

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	9/30/12	6/30/12	9/30/11
Dow Jones Industrial Average	13,437	12,880	11,154
Standard & Poor's	1,441	1,362	1,160
U.S. Treasury Yields			
2 Year	0.2%	0.3%	0.2%
5 Year	0.6%	0.7%	1.0%
10 Year	1.7%	1.6%	1.9%
30 Year	2.9%	2.8%	2.9%

ANNUALIZED RETURNS OF SELECT ASSET CLASSES



Source: Ibbotson Associates

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**