PENNSYLVANIA TRUST

FALL 2014

trust & investment
perspectives

A Mighty Dollar?

by Willard N. Woolbert

It has been a very long time since we have seen persistent strength in the U.S. dollar. It was the second half of the 1990s when the trade-weighted dollar rose by roughly 50% over a five-year period, peaking in 2000 coincident with the end of the technology "bubble." We do not yet have such a rally in the dollar. In fact, we have yet to break out above levels reached in 2008 and 2010 during periods of global financial crisis. But since June of this year, we have had an abrupt 8% rally that has taken us close to those last two peaks. We believe that the current economic environment has the potential to support a continued rally in the dollar, perhaps not of the magnitude of the late 1990s, but sufficient to foster a change in expectations for interest rates and equity markets over the next several years.

We would not be very good currency traders. Day-to-day movements are influenced by a myriad of factors beyond our knowing. But longer term, changes are influenced by economic and monetary trends that can be judged. We look to three key variables to support our view that the dollar is beginning a prolonged rally.

First, within the developed markets the U.S. has clearly the stronger economy. Expectations for U.S. growth fall in the 2–3% range. In contrast, Europe is struggling to avoid a third trip into recession in the past 10 years. Longer-term issues of population growth, sclerotic labor markets and disparate political agendas suggest that Europe will have difficulty generating meaningfully better growth beyond 2015. Japan has been struggling since the early 1990s to reestablish growth. The Abe government is attempting to revive growth with very easy monetary conditions, similar in plan to the Federal Reserve's (Fed's) efforts since the 2008–09 recession. Japan is confronting its own structural issues that will slow their return to growth as well. This relative economic advantage for the U.S. also impacts the position of the respective central banks, their stance on short-term interest rates, and the general level of interest rates in each economy.

Beginning in late 2008, the Fed began buying government and mortgage debt. This was to provide stimulus beyond their zero-interest-rate policy. By 2012, QE3 (Quantitative Easing) had the Fed buying $80 billion a month in government and mortgage debt. That buying program ended in October and speculation has begun as to when the Fed will begin to raise short-term interest rates. In contrast, the European **continued on page 4**

Francis X. Mehaffey Joins Tax Services Team

With over 35 years of experience and expertise in fiduciary tax preparation, Fran Mehaffey, Vice President, is a welcome addition to Pennsylvania Trust's tax services team. He joins us from Glenmede Trust Company, where he spent 23 years applying his tax expertise in the preparation of tax returns for high net worth clients. At Pennsylvania Trust, his responsibilities include the preparation of individual, fiduciary, foundation and charitable trust tax returns.

Thinking Ahead

With the prevalence of social media and the speed at which knowledge is shared, we have seen marked shifts in the ways that investors, particularly those in the younger demographics, communicate and consume information. Video chat platforms replace in-person meetings, text and email supplant telephone conversations, and newsfeeds and tweets provide the sound bites that fuel the daily flow of world news.

At Pennsylvania Trust, as we embrace the digital world we live in, we realize the importance of maintaining an equilibrium between what is and what will be, both in our firm and in the wealth management industry as a whole. We continually evaluate the traditional and digital communication landscapes to ensure that we provide timely information and outstanding personalized services to meet the wealth management needs of our clients, today and tomorrow.

Many of the clients who joined me when I started the firm remain with us to this day, and we have had the privilege of serving them as they moved through the wealth cycle of their lives. As we look to the future, we are committed to servicing the wealth management needs of current and future generations as they move through this cycle, facilitating the enrichment of their lives, care for their families, and the achievement of life's goals.

Reflecting on our own growth in recent years, we have added many new talented professionals, providing fresh inspiration while positioning us to serve the needs of individuals, families, and family offices well into the future. For example, Leslie Bohner, Chief Fiduciary Officer, provides specialized estate planning education and guidance to women; and, Investment Officer August Gerhardt has recently attained the CFA Level III credential, adding to the depth of our investment expertise. We have also committed resources to the review of our investor outreach and communications strategies to ensure the best use of technology in providing value to our clients.

In line with our ongoing commitment to the effective use of technology, we are looking forward to 2015, when Pennsylvania Trust will be implementing SEI's state-of-the-art Wealth Platform, a high-end platform that will enable growth, innovation, adaptability, and responsiveness to evolving market conditions and client needs.

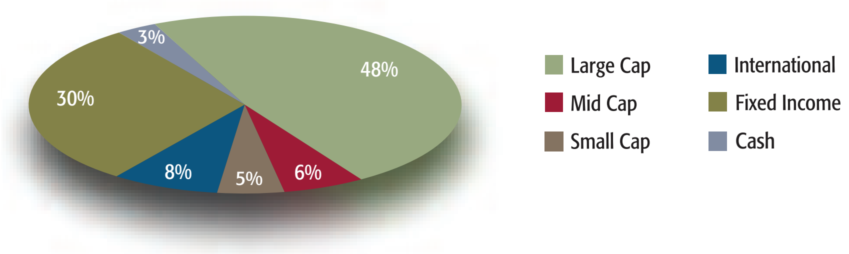
As surely as the seasons change, there will be changes in the global economy, market conditions, and technology that influence our day-to-day lives. In this issue of *Trust and Investment Perspectives*, you will find Chief Investment Officer Bill Woolbert's thorough commentary on the strength of the U.S. dollar. Also in this issue, Leslie Bohner details an excellent framework for bringing focus and organization to the gift and estate planning process. I'm confident that you will find these articles beneficial as we look forward to beginning a new year.

As we move forward with a balance of established wisdom and new knowledge, stability and progression, historical erudition and forward thinking, assurance and creativity, I have never been more confident in Pennsylvania Trust's ability to serve our current clients and the clients of the future with respect, professionalism, compassion, and expertise.

On behalf of everyone at Pennsylvania Trust, I wish you a beautiful fall season and Happy Thanksgiving.

Richardson T. Merriman
Chairman and Chief Executive Officer

Balanced Asset Allocation



Trust Talk

A Framework for Gift and Estate Planning

by Leslie Gillin Bohner, Esq.

The gift and estate planning process can be overwhelming for a number of reasons. We do not want to face our own mortality. The decisions are difficult. We will get to it "tomorrow." An organized framework can assist you with this process. Start with the following question:

Will my plan carry out my intent for self, family, and community?

1. Focus on SELF:

Start by focusing on yourself. Get organized. A good place to start is the creation of a net worth statement that identifies all of your assets and liabilities. Next, be sure you are tracking your income and expenses in the form of a budget. Do you know how much money you are spending and how much you need? Finally, make sure you have a contingency plan in place. Create a list to record and track important contact information, key documents, account information, assets, and passwords (find our Contingency Plan list here). Once you have assembled all of this information, you will be in a much better position to answer the following questions:

- What are my short, intermediate, and long term goals?
- Do I have enough to meet my goals?
- If my spouse dies, what assets will be available to sustain my lifestyle?
- Are my assets liquid or illiquid? If they are illiquid, is there a plan in place to provide liquidity if needed?
- If you are married, should assets pass to you at the death of your spouse outright or in trust?
- What are the reasons for holding assets in trust—tax reasons, creditor protection reasons, other reasons?
- Who should serve as the trustee of any trusts used in your plan?
- Do you want to, or can you, serve as trustee of any such trust during your lifetime?
- Should a co-trustee serve with you?
- Should a corporate trustee serve as a sole trustee or co-trustee?
- How do life insurance and retirement assets fit into your plan, and are the beneficiary designation forms coordinated with your plan?

2. Focus on FAMILY:

Once you have taken care of yourself, consider planning for your family. You have spent your lifetime preparing the money for your family, but it is equally important to prepare your family for the money. Ask yourself:

- What is your family legacy, or what do you want it to be?
- How will you educate your family about this legacy?
- How do you want to take care of your family now?
- Are you currently making gifts to your children and grandchildren for tuition and other items?
- How much is enough?
- Before embarking on a gifting program, have you made sure there is enough to meet your goals for yourself?
- How do you want to take care of your family after you are gone?
- Should you leave assets to your children outright or in trust? Do you have creditor protection or divorce concerns?
- Should you treat your children equally if they have different financial circumstances?
- Do you have disabled children or family members with special needs, for whom you should plan differently? (Find more information on estate planning for families with special needs here.)
- Who will carry out your intent for your family? Have you named the right person(s) or entity(ies), with the right qualifications, to serve as executor or trustee?
- How will you communicate with your family about your plan? Prepare your family for the money.

3. Focus on COMMUNITY:

Having taken care of yourself and your family, you will then know how much time, talent, and treasure you have to support your community goals.

- What are your charitable goals?
- How much can you afford to give?
- If you were to craft a charitable mission statement, what would it say?
- Do you want to support charities during your lifetime, or at your death, or both?
- How will you involve your family in your charitable giving plan?

Of course, the questions set forth above are only a starting point. But hopefully they will help you establish a framework for communicating with your family and advisors about your goals and plan. Pennsylvania Trust's team of professionals has a wealth of experience working with clients in establishing their gift and estate planning goals. We welcome the opportunity to guide you through the planning process.

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

continued from page 1 Central Bank and Bank of Japan are early in their monetary stimulus programs, with very little prospect of short-term rates rising in the next year. Similarly, a 10-year U.S. government bond now yields roughly 2.2%. An equivalent German bond yields 0.9%, and in Japan the comparable rate is 0.5%. Higher interest rates attract capital and that movement of money supports currencies.

Lastly, the energy boom in the U.S. is having a very positive impact on our national current account balance. According to OECD statistics, the U.S. current account deficit reached almost 6% of GDP in 2005 and 2006. At the end of 2013 it was 1.9%. There are a variety of issues that have impacted this, but the most significant is the reduction in oil imports and, more recently, a pick-up in the actual export of oil. In effect what has happened is that we have reduced the incremental supply of dollars.

The U.S. has become a yield and economic haven. A strong currency is the consequence of those facts. If the dollar is to begin an advance similar to the experience of the late 1990s, what impact will that have for dollar-based investors? For fixed income investments, we believe that interest rates will remain lower for a longer period than they would have in a neutral currency environment. This was true in the late 1990s as the Greenspan Fed took into account global weakness in setting policy. Recent comments from Fed governors, particularly comments from the Vice Chair Stanley Fischer, point to both a history of reacting to foreign economic events and to a current concern.

With capital flows from dollar strength and a Fed monitoring the impact of foreign weakness on the U.S. economy, we see rates below levels historically associated with 2–3% economic growth. Commodities and commodity producers are likely to be under-performers. General global weakness of course will impact demand, but periods of dollar strength have been associated with poor returns for commodities. Conversely, those that consume commodities, both companies and countries, would be expected to do relatively well. Domestic companies and those with a higher proportion of domestic business should do well. Not only would they be exposed to a stronger economy, but the translation of foreign earnings back into dollars during periods of dollar strength will depress results of companies with substantial foreign exposure.

These are trends, not absolutes, and there will be investment opportunities outside of these favored areas. But, if we keep in mind the likely consequences of dollar strength in our asset allocation and security selection, it should provide an advantage over time.

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

Wealth Management from a Woman's Perspective

Recognizing that one size does not fit all, Pennsylvania Trust is focused on meeting the unique needs of all of our clients. Pennsylvania Trust's Chief Fiduciary Officer Leslie Bohner, and Senior Vice President Juliana Karnavas, recently presented *Lessons from Downton Abbey: Inheritance, Investment, and Taxes*, a wealth planning event for women. Leslie and Julie have developed a specialized framework to assist women of every generation in setting and achieving their wealth planning goals. We are eager to continue this conversation in the future.

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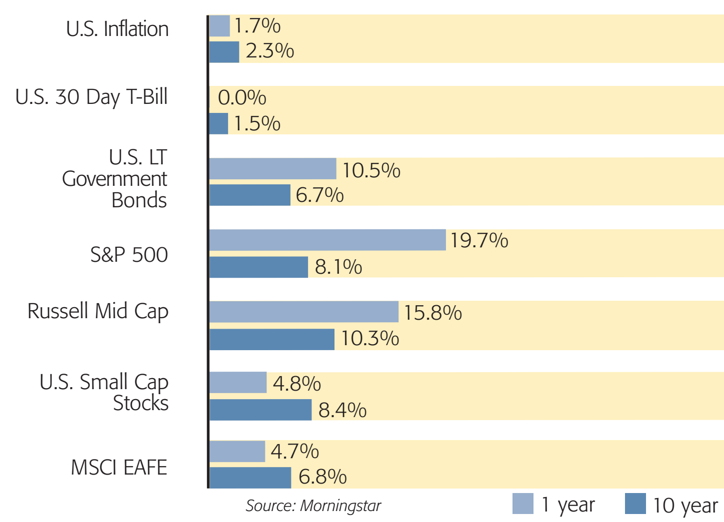
Pennsylvania Trust is committed to conduct all our relationships with integrity and to maintain the highest ethical standards; provide outstanding professional and personalized services; produce superior investment results consistent with client objectives; and retain exceptionally skilled individuals,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

Market Indicators

Stock Indices	9/30/14	Year End 2013	9/30/13
Dow Jones Industrial Average	17,043	16,577	15,130
Standard & Poor's	1,972	1,848	1,682
U.S. Treasury Yields			
2 Year	0.6%	0.4%	0.3%
5 Year	1.8%	1.7%	1.4%
10 Year	2.5%	3.0%	2.6%
30 Year	3.2%	4.0%	3.7%

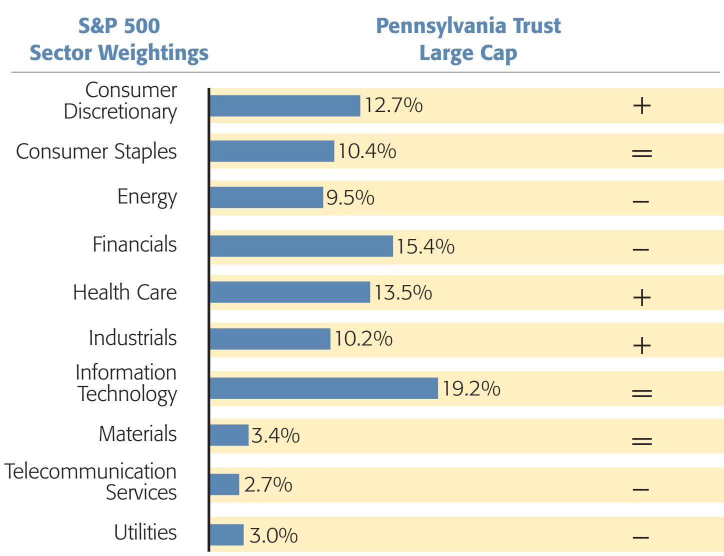
ANNUALIZED RETURNS OF SELECT ASSET CLASSES



Source: Morningstar

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:



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