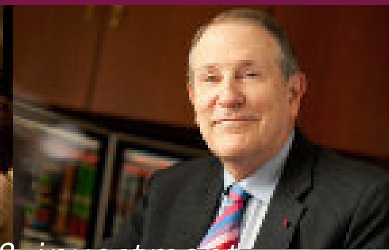
PENNSYLVANIA TRUST
25 YEARS

SPRING 2012

trust & investment perspectives


Thinking Beyond the Present

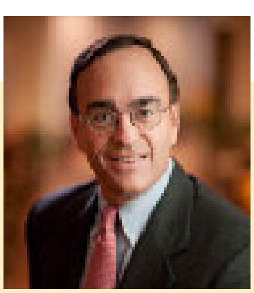
by Willard N. Woolbert

A good case can be made for at least a pause in the equity markets. An almost 13% advance in the S&P 500 in the first quarter has left equities vulnerable to the uncertainty surrounding fiscal policy as we enter both the election season and the possible end of many of the tax regimes that have existed over the past ten years. Add the fragile financial state of Europe and various geopolitical risks and some replay of the weak summers of the past two years is certainly possible. If we concede that there could be near-term weakness, how should we view the market from a longer investment horizon; should we be looking for points of exit during a bout of market weakness or should we see market corrections as opportunities to add to stocks?

The bearish case for stocks is easy to make. Earnings growth from the March 2009 low has been dramatic, with operating earnings per share for the S&P 500 increasing by almost 100%. Unfortunately, revenue growth per share has increased by only 1%, implying doubling of operating margins. This pace of margin growth is unsustainable. Without revenue growth, earnings growth is likely to falter. Population trends are moving against equities and in favor of fixed return investments. The retirement of the "baby boom" is just beginning and will create a supply of stock as boomers transition their portfolios to bond-like investments. In response to accounting changes and recent volatility, institutional investors such as pension funds and foundations have adopted asset/liability matching and risk mitigation techniques that favor bonds over stocks, reducing the demand from this area. Foreign investors have radically shifted their buying in the U.S. from equities to bonds over the past ten years. And, perhaps most disturbing, the ability of the developed nations to use monetary and fiscal policy to stimulate growth and the financial markets, appears to be ending. For most of the past seventy years, the process of using debt and deficits to enhance economic growth has come to a dramatic halt, first with the bursting of the credit bubble in the U.S. in 2008, and more recently the sovereign debt crisis in Europe. An extended period of deleveraging by both governments and individuals, along with the potential for deflation, will leave the developed markets in an investment environment not unlike the experience of Japan since the peak in their market in 1990: a decades-long bear market.

The bullish case has to acknowledge some portion of the bears' argument, but also has to ask at what level some of these trends are priced into the market. Earnings growth will likely slow, the urge to find a secure source of income by retirees and institutions will not abate, and economies will

continued on back



George McFarland Named President of Pennsylvania Trust

The Pennsylvania Trust Company Board of Directors has named George C. McFarland, Jr., Esq. to serve as President. In this new role, George will assist with internal management and firm administration while retaining his current responsibilities as lead portfolio manager of the Growth portfolio and Director of Trust and Account Administration. He also serves on the Pennsylvania Trust Board of Directors. George joined Pennsylvania Trust in 1998 as Director of Marketing and Sales following a successful 14-year legal career.

Choosing Leaders

Voter Portraits: The 2012 Primaries, an on-line feature from *The New York Times*, shows a montage of compelling photographic images: portraits of Americans. They are asked what is driving them to the polls and whom they are considering as their candidate. "Campaign 2012" has captured the country's attention, overtaking concerns of the European debt crisis, conflict in the Arab world and perhaps even the rising price of gasoline.

As I follow the GOP campaign, I am reminded of the vast and varied nature of our nation. Electing a President, it seems, asks us to define or redefine ourselves as a country and as voters. Sociologists and students of public policy are even suggesting that the ideological definitions may be changing. Are we Democrats, Republicans, social conservatives, moderate liberals, red state, blue state? Many fascinating and sometimes controversial studies are looking at the changing face of American politics and what it means to be an American today.

The voters pictured in *The New York Times* feature are diverse in their professions and political affiliations, but the overwhelming majority lists the economy as their chief concern. In fact, a recent study suggests that the best single predictor of presidential re-election results was the percentage change in the stock market that preceded Election Day. Certainly the economic challenges of the past several years have taken a toll on the collective psyche of our country and although we seem to be heading into positive territory, many questions and concerns remain. In his article for this publication, Bill Woolbert examines some of the factors challenging the global economy and markets.

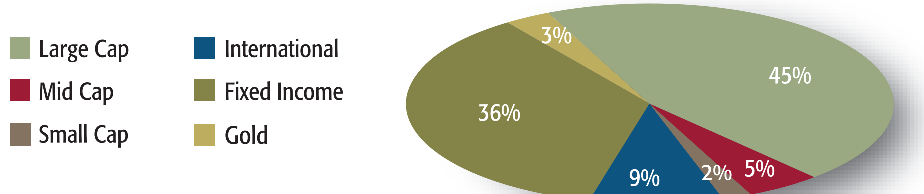
Whoever is selected as America's next leader will face innumerable challenges, among them strong voices and opinions that must be melded into a collaboration that works for the greater good. Dov Seidman, CEO of the consulting firm LRN and author of a book titled "How" that looks at the way businesses do what they do, believes that "the days of leading countries or companies via a one-way conversation are over. Leaders cannot impose their will but must work to create a framework that enables the freedom and creativity to build success." One might look to the economic struggles of Greece and Spain or the political upheaval in Egypt and Russia to find examples of the consequences of failed leadership.

While the title of Chairman and Chief Executive Officer follows my name at Pennsylvania Trust, I have the good fortune to be working with a talented and committed group of leaders. Leslie Bohner, Pennsylvania Trust's Chief Fiduciary Officer, is one such example. In this issue, she shares her expertise in estate and gift tax planning in an article I am certain you will find valuable. We have worked diligently to maintain a well-defined corporate culture that values integrity and communication. Our overarching goal of providing outstanding professional and personalized services that are consistent with our client objectives has always been clear. The addition of a single talent or the commitment to expand a business line is rooted in measured consideration. I firmly believe that our continued success, of which I am most proud, is due to thoughtful evolution.

Recently, I was very pleased to announce the appointment of George McFarland as President of Pennsylvania Trust. George has long been lauded for his leadership, as a portfolio manager, as Chair of the Investment Committee, Director of Trust and Account Administration, a member of the Executive Management team and, most recently, as a director on our board. George and I, along with all the members of the Pennsylvania Trust team, are enthusiastic about our promising future, as we continue to serve you, our valued clients and friends, with commitment and inspiration.

Richardson T. Merriman
Chairman and Chief Executive Officer

Balanced Asset Allocation



TRUST TALK

Estate and Gift Planning in 2012 – Don't Miss the Opportunity

by Leslie Gillin Bohner, Esq.

Many clients are asking what will happen with estate and gift taxes after 2012. Unfortunately, we cannot predict what Congress will do, especially leading up to the November elections. We encourage you to review your plan to ensure that it meets your estate planning goals regardless of the gridlock in Washington.

In the 2010 Tax Act, Congress made the following significant changes to the gift, estate and generation skipping transfer ("GST") tax rates:

- Increase of the estate, GST and gift tax exemptions to $5 million per person for 2011 and 2012 (increased to $5.12 million for 2012)
- Reduction of the estate, gift and GST tax rates to 35%
- Reunification of estate and gift tax exemptions so that an individual can give away up to $5.12 million during lifetime or at death in 2012
- Portability of the estate tax exemption between spouses. If a deceased spouse does not use part or all of his or her exemption, the surviving spouse's estate can take advantage of the unused exemption of the first spouse to die. This can shelter over $10 million from estate tax at the death of the surviving spouse.

These changes sunset on December 31, 2012, and if Congress does not intervene, the following exemptions and rates will take effect:

- $1 million estate and gift tax exemption and $1.36 million GST tax exemption
- Maximum estate, gift and GST tax rate of 55%
- No portability.

For guidance on what might happen after 2012, it is instructive to note that the Obama Administration's Fiscal Year 2013 Revenue Proposals (the "Green Book") include the following:

- Restore estate, gift and GST taxes to 2009 levels
  - Estate and GST tax exemption of $3.5 million
  - Gift tax exemption of $1 million
  - Maximum rate of 45%
- Make portability provision permanent
- Require a minimum ten-year term for Grantor Retained Annuity Trusts (GRATs)
- Restrict valuation discounts of closely held interests, i.e. family limited partnerships.

If you want to take advantage of the $5 million gift tax exemption that is available only through the end of this year, now is the time to act. Here are some options to consider: making outright gifts; forgiving loans to family members; funding trusts for family members, including life insurance trusts; and transferring equity interests in closely-held entities. Remember that the $5 million exemption is in addition to the $13,000 annual exclusion gift that each individual may give per year, per donee, free of gift tax (or $26,000 per year, per donee, if the donor's spouse joins in the gift).

In addition to the potential sunset of the favorable provisions in the 2010 Tax Act, asset values remain depressed and interest rates remain historically low. All of these factors make it a perfect time to consider some or all of the following techniques:

Intrafamily Loan: The Applicable Federal Rate (AFR) for April for a mid-term loan (3-9 years) is 1.15%. You can loan a family member funds to pay off high interest debt, like a mortgage, or invest in an asset that is likely to produce a higher return than the AFR over the loan term.

Grantor Retained Annuity Trust (GRAT): You might have read about the founders of Facebook potentially moving $200 million out of their estates using GRATS. But a GRAT can be an effective tool even for a moderate sized estate. You transfer assets into a trust and the trust pays you back an annuity based on the IRS "7520" rate (120% of the mid-term AFR). The 7520 rate for April is at an historic low of 1.4%. After a specified term, usually longer than 2 years, the GRAT ends and the assets remaining after the annuity distributions are distributed to the GRAT beneficiaries (either outright or in trust). By placing assets that will earn more than 1.4% into a GRAT, all future appreciation is removed from your estate and passes to your beneficiaries tax–free. However, if you die before the trust term ends, the assets are included in your estate. Given the looming Green Book proposal for a minimum 10-year GRAT term, consider funding a GRAT sooner rather than later.

Sale to Intentionally Defective Grantor Trust (IDGT): Using this technique, you can sell assets to a trust and take back an installment note that bears interest at the AFR. Many attorneys recommend that you make a seed gift to the trust equal to 10% of the value of the assets sold to the trust. This gift can be made free of gift tax using the $5 million gift tax exemption. Assets remaining in the trust after the loan is repaid are distributed to the trust beneficiaries free of gift and estate tax.

Charitable Lead Annuity Trust (CLAT): This type of trust permits a transfer of assets to both charities and family members and removal of those assets from the donor's estate. The charity receives a guaranteed annuity payment from the trust for a period known as the lead term, which can be a specified number of years or during the life or lives of certain individuals. Upon the termination of the lead term, the remaining assets are distributed outright or in trust to non-charitable beneficiaries, typically family members. A charitable gift tax deduction is available for the present value of the annuity stream payable to the charity (calculated using the 7520 rate). The lower the 7520 rate, the higher the present value of the annuity passing to charity, and the greater the charitable gift tax deduction.

The future of the transfer tax regime is uncertain. Nevertheless, through the end of 2012, an unprecedented opportunity exists to make significant lifetime gifts and move high-value assets out of your estate, including the appreciation on those assets, without incurring gift tax. We look forward to helping you achieve your estate planning goals regardless of what happens in Washington.

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

Checking Out Charities

by Bruce M. Brown

It's happened to each of us. We donate to the same, favorite charities annually. We might also maintain a flexible budget for additional requests, fundraisers, and the numerous walk and run sponsorships. Then, unexpectedly, an appeal arrives in the mail, online, or from a friend that does precisely what it's supposed to: engages us just enough to avoid instant rejection.

Let's call this type of charity "APP" (also known as Another Positive Pitch). It may be the compelling text, a cause new to us, or one that resonates with some part of our personal past. We'd like to know more, but what is the best, fastest, and easiest method to deal with APP?

As is the case with many things, we're all self-taught experts when it comes to America's 1.5 million, tax-deductible charities. However, the bigger our potential commitment, whether it be in time or dollars, the more our decision making can benefit from having information. Fortunately, there are "best practices," well-honed by professional grant makers, that we can borrow to dissect APP.

First: read everything you've received very closely, especially the "fine print." The art of solicitation relies more on emotion than intellect, but when encountering a charity for the first time you want clarity about its longevity, mission, programs, goals, budget, financials, who's in charge and staff size, coverage area, and how APP measures and evaluates success.

Second: questions in hand, decide whether to seek answers online, by phoning or writing APP, communicating directly with a Board member or staffer you know, or using an independent charity evaluator such as the Better Business Bureau Wise Giving Alliance (www.give.org), GuideStar (www.guidestar.org) or Charity Navigator (www.charitynavigator.org). Don't overlook two other local, knowledgeable sources: private foundation trustees and staff you know, or corporate giving staff where you work or invest.

Third: if this secondary screening isn't sufficient to reveal all APP's details, you can delve deeper into APP through a "site visit." Kicking the tires in person is always better before making any major decision in life and investing in a charity with your money or time is no different. Charities are gratified to be looked over in person by prospective donors. You learn what the written word can't convey. They get a chance to ask you for non-monetary counsel. Besides, it can be an enjoyable experience.

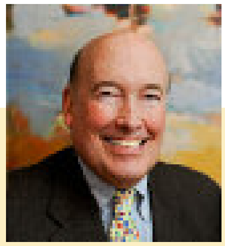
If you would like more information about conducting due diligence for charities you currently support or ones you are considering, please contact me at, brown@penntrust.com.

Mr. Brown is Senior Philanthropy Consultant at Pennsylvania Trust.

continued from page 1 suffer as governments are forced to curtail spending. Today, the price/earnings multiple on the S&P 500 is approximately 14 and the dividend yield is 2%. Neither, from an historic perspective, suggests the market is inexpensive. But valuation is always a relative proposition and in the current environment these levels do look attractive. The 10-year Treasury bond now yields approximately 2%. While this rate is arguably depressed by the actions of the Federal Reserve, it is very unusual for the dividend yield of the market to equal that of the 10-year Treasury. Not since the 1950s has this relationship existed on a consistent basis. The low level of interest rates should also have an impact on valuation of the market. Several theories of stock valuation use the level of interest rates as a way to value corporate cash flows. In this way, P/E ratios are really a proxy for a discount rate. Lower discount rates, or interest rates, imply a higher P/E. Today, a 14 P/E suggests a Treasury yield well above that of the current 2%, or earnings that are meaningfully below present levels. Yields may rise and earnings may fall, but much of this potential adversity has already been priced into the market. Lastly, many have already abandoned stocks. Since the beginning of 2009, a period that has seen the market almost double, investors have taken roughly $170 billion from equity funds and purchased over $800 billion of bond funds. Certainly some of the bond purchases were investors looking for cash alternatives. But it is apparent from these figures that a shift in asset allocation towards bonds has occurred.

John Maynard Keynes opined that markets could remain irrational longer than you can remain solvent. Short-term, there are issues that could take the market lower and some defensive measures to insure "solvency" are appropriate. We think, however, that a rational case, based on relative valuation and investor attitudes can be made for stocks on a longer-term basis.

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



Bruce Brown to Add Focus on Philanthropy

Recently named Senior Philanthropy Consultant, Bruce M. Brown will provide expert direction to Pennsylvania Trust's charitable giving, an important commitment to our community that has grown in scope over the years. In addition to lending guidance on our giving emphasis, Bruce will assist with the company's Community Service Program and also be available for client inquiries on philanthropic matters. Bruce's credentials make him well suited to this focus as he served as Vice President of Charitable Trusts at CoreStates and is a founding trustee of the HBE Foundation. He is active in numerous organizations including The Hoxie Harrison Smith Foundation, Presbyterian Children's Village, Kearsley Christ Church Hospital, Delaware County Community Foundation and the Chester Community's Salvation Army.

Art Ability Exhibit Showcases Artists with Disabilities

Pennsylvania Trust recently played host to an exhibit of paintings, sculptures and photographs created by artists with a wide array of physical challenges, including traumatic brain injury, spinal cord injury, multiple sclerosis, stroke, and other neurological injuries and disorders. Bryn Mawr Rehab Hospital's Art Ability program, established in 1996, includes an international juried exhibition as well as satellite shows like the one at Pennsylvania Trust. In addition to offering a showcase for these talented artists, the program serves to educate the community about the capabilities of people with disabilities.

Above: Jo Ann Welch, Nantucket, MA, *Linda Loring Toile*, oil painting.

PENNSYLVANIA TRUST
25 YEARS

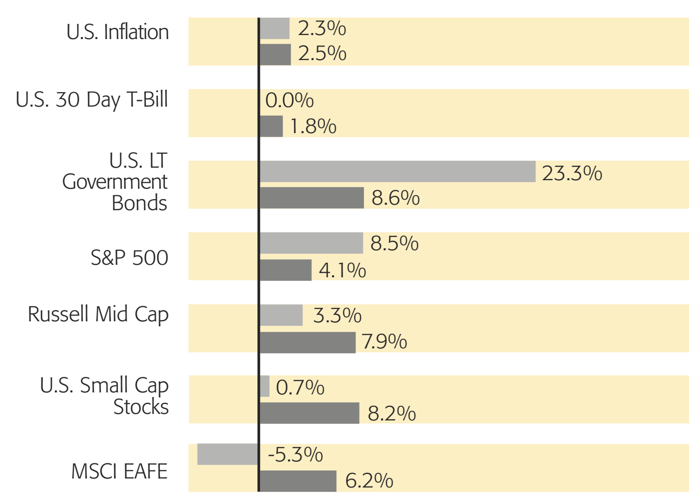
Five Radnor Corporate Center
Suite 450
100 Matsonford Road
Radnor, Pennsylvania 19087
610.975.4300
800.975.4316
610.975.4324 F
www.penntrust.com

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	3/31/12	12/31/11	3/31/11
Dow Jones Industrial Average	13,212	12,217	12,320
Standard & Poor's	1,408	1,257	1,326
U.S. Treasury Yields			
2 Year	0.3%	0.2%	0.8%
5 Year	1.0%	0.8%	2.3%
10 Year	2.2%	1.9%	3.5%
30 Year	3.3%	2.9%	4.5%

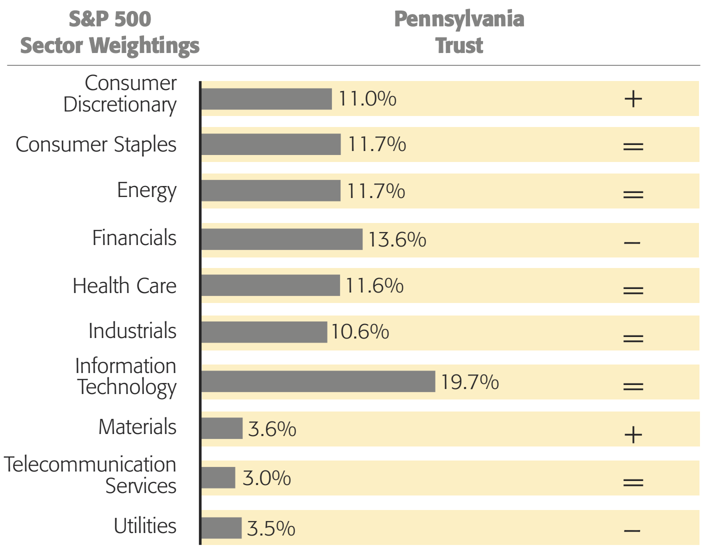
ANNUALIZED RETURNS OF SELECT ASSET CLASSES



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:



PENNSYLVANIA TRUST
25 YEARS