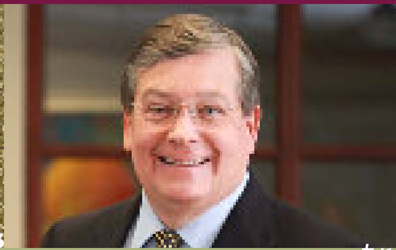
PENNSYLVANIA TRUST

SPRING 2013

trust & investment
perspectives



Lazy Money

by Willard N. Woolbert

On April 4, the new governor of the Bank of Japan (BOJ), Haruhiko Kuroda, followed through on the promise of Prime Minister Shinzo Abe's government to stimulate the economy through their own form of quantitative easing. In announcing that the BOJ would be buying the equivalent of $79 billion of various securities per month, Japan joined much of the rest of the developed world in trying to stimulate growth through monetary activity. The Federal Reserve and Bank of England have been engaged in such activity since early 2009. Last June, Mario Draghi, President of the European Central Bank (ECB) began, at least verbally, to move the ECB towards easing. Japan really had no choice but to join the group. A significant consequence of Japan's reluctance to aggressively use monetary policy was a currency that had appreciated against most of their trading partners. For the period from March 2009, the beginning of Federal Reserve quantitative easing, to November 30, 2012, two weeks before the Abe government was elected, the Yen had appreciated by 16% against the U.S. dollar, 6% against the British Pound and 18% to the Euro. The consequence of this was two-fold. A rising currency makes imports less expensive. This reinforced the deflationary trend already in place in Japan. Second, it makes products meant for export more expensive. Cars, electronics, and machinery all became relatively more costly to non-Japanese buyers. While the impact on energy sourcing from the natural disaster in 2011 was a contributing factor, Japan's balance of payments went negative for the first time since 1980. Japan's economy, already in a weakened state, was getting worse.

No central bank will admit to using policy to manage their country's currency. The Bank of Japan has described the actions taken as a way to impact the Japanese economy, not as one to weaken the Yen. However, in a world where the scarce commodity is demand, currency becomes a critical variable for growth. Virtually all the developed economies have struggled to produce growth in the post financial crisis world. A combination of household demand suppressed by still high levels of debt and sluggish employment metrics, governments that have begun to either withdraw fiscal stimulus made available during the financial crisis or those who must do so to receive support from the ECB or International Monetary Fund (IMF), and corporations continued on page 4

Hear Daily Market Updates

Every day, at the close of trading, a look at current market activity and trends is available via a podcast accessed on the Pennsylvania Trust website. Chip Sheppard, Senior Vice President and Director of Investment Research provides audio highlights that include NASDAQ, S&P and Dow activity as well as stocks of note, recent released statistical data and earnings reports. Simply go to the Pennsylvania Trust homepage and click on Daily Market Update Podcast. A subscription to iTunes, for which there is no fee, is necessary to facilitate access. (www.penntrust.com)

Fighting Fiscal Fatigue

What is it about spring that urges us to shake off winter's accumulation of lethargy and look ahead with renewed intention? Of course, spring can be fickle, as T.S. Eliot offers us in his oft quoted poem *The Wasteland*, reminding us that the tease of warm sunshine can be immediately followed by a cold wind. Recently, a baseball game in the Midwest was cancelled due to snow. Fortunately, spring seems to have reached Philadelphia, as it has been a particularly long winter.

Perhaps the rhythm of a new season will allow us to put behind the seemingly endless rounds of fiscal showdowns that have consumed our nation's leaders, threatening government shutdowns and economic crisis. It seems that both sides in the battle have yielded for now, a truce described recently in *The New York Times* as "fiscal peace through political exhaustion." After five years of turmoil, Americans' capacity to maintain interest, let alone confidence, in the economy is diminished. Writer and humorist Gavin Shulman puts a more colloquial spin on the notion of economic malaise in a piece titled *Fiscal Cliff Fatigue – Wake Me When We're Over It.* He writes, "We are all burned out. Leave us alone and figure it out!" We are still far from sound fiscal policy, with future "cliffs" over budget issues and the debt ceiling to come, but perhaps, for now, it is time to move on.

Putting a positive spin on consumer confidence, a recent Gallup poll tells us that although they are still more negative than positive about the economy, Americans are as upbeat as they have been at any point in the last several years. Gallup's Economic Confidence Index is based on Americans' ratings of current economic conditions in the U.S. as well as their assessment of whether the economy is getting better or worse. In Gallup's most recent survey, 44% of Americans say the economy is getting better and 51% say it is getting worse. It is interesting to note that at no point in the last five years has the public said that the economy was getting better than getting worse.

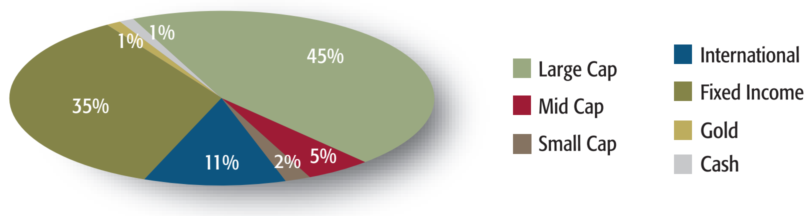
The stock market remains strong. In fact in March, the U.S. stock market reached a new high, exceeding its 2007 peak. The Dow Jones industrial average also noted a record high. Much credit for this recovering strength has been given to the U.S. government as well as to the corporate sector for the urgency of the response to the causes of the 2008 financial crisis. Interestingly, the Bank of Japan has just introduced monetary easing, discussed in greater detail in Bill Woolbert's article in this issue. Continuing in the positive vein, the housing market continues a slow recovery with new starts at an annual rate of more than 1 million units for the first time since June of 2008.

As for the negative side of the equation, we are mindful of the European debt crisis, with Italy and Cyprus drawing recent flags over government and banking stability. Geopolitical uncertainty, in the Middle East and particularly in North Korea, is also of continued concern. At home, fiscal drag, new taxes and questions over sequestration are troubling consumers and investors. All told, this adds up to a sure recipe for fiscal fatigue.

But the days are getting longer and spring blooms and buds on the trees are providing much-needed color. Is it possible that something as non-quantitative as a seasonal change can improve our outlook and buoy our spirits? At Pennsylvania Trust, we strive to remain resilient no matter the season or the challenge of market conditions. Our focus, executed with energy, intention, and professionalism is to provide our clients with the expertise and capabilities that create opportunity and help them achieve their wealth management goals.

Richardson T. Merriman
Chairman and Chief Executive Officer

Balanced Asset Allocation



Who Will Make Health Care Decisions When You Cannot?

by Peter J. Johnson, Esq.

In the Fall edition of this newsletter, we discussed the importance of a financial power of attorney — a document by which you give a trusted individual the ability to make financial decisions if you become unable to manage your affairs. It is equally important to ensure that you give a trusted individual the ability to make medical decisions if you are unable to, and that you are able to preserve your intentions about end of life care in a way that binds those caring for you to follow your instructions. A carefully drafted health care power of attorney and living will help ensure that your health care intentions will be followed.

Health Care Powers of Attorney

Most states give you the ability to name a health care agent who is required to make decisions on your behalf in accordance with a properly executed health care power of attorney. The form of a health care power of attorney is governed by state law. Generally, such a document should give you (the principal) the power to name an individual to make health care decisions for you (the agent), describe limitations you wish to impose on your agent's ability to act on your behalf, and describe specific forms of health care actions you wish your agent to take (or not take). The document can also require your agent to consult with a relative, cleric, physician, or other trusted individual in connection with health care decisions, set forth your intention regarding end of life care, and nominate an individual to serve as the guardian of your person should the need for a guardian arise. As with a financial power of attorney, a health care power of attorney may be "durable" (effective the moment you sign it), or "springing" (effective when a specific event occurs, such as incapacity).

Living Wills

A "living will" is a document by which you provide instructions for your health care agent and your treating physicians with respect to end of life care. Such instructions may include whether to provide (or withhold) end of life care, and specific requests as to the type (and level) of pain management you desire. Although Pennsylvania law allows the combination of a health care power of attorney and living will in one document, many practitioners suggest separating the document for privacy concerns, particularly if you do not wish to inform your medical providers of your wishes regarding end of life care until the time end of life care is required. You should discuss your wishes about the structure and terms of these documents with your estate planner and medical providers.

A Note About Guardianships

As discussed above, a health care power of attorney gives you the ability to name an individual to act as guardian in the event a guardianship is necessary. In Pennsylvania, the existence of health care and financial powers of attorney typically obviates the need for a guardianship. A guardianship can be an extremely restrictive relationship that prevents an individual from making any independent decisions. It is critical to put health care and financial powers of attorney in place to avoid the need for a guardianship.

Hospital Form Powers of Attorney

Hospitals often ask their patients to sign health care powers of attorney in connection with medical treatment. You should think twice before signing a hospital's form, particularly if you have an existing power of attorney, as many powers of attorney contain language that revokes previously-signed powers. If you have these documents in place, be sure to inform your health care agent and medical providers of their existence. You may wish to provide a copy of your health care power of attorney (and living will, if it is a separate document) for your medical file.

As with other parts of a thoughtful estate plan, the seemingly simple need to sign a health care power of attorney can involve complex decisions, and should be considered carefully. Pennsylvania Trust's administrative team has considerable expertise with these issues, and looks forward to assisting you with this process.

Note: Fall 2012 Trust Talk/Importance of Financial Power of Attorney is available at http://www.penntrust.com/downloads/Fall%202012_Web_TIPS.pdf

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Mr. Johnson, Esq. is Senior Vice President at Pennsylvania Trust and head of the Special Needs Trust/Guardianship Unit.

continued from page 1 who in reaction to the reduced demand have been reluctant to invest capital, has kept global demand well below trend. One avenue that is left is the chance to sell one's own goods to a foreigner, and a quick way to improve or destroy competitiveness is through currency. The appreciation of the Yen over the years relative to Japan's principal trading partners had left them in a difficult position, one that had to be addressed to revive growth.

Now that Japan has joined other major developed market central banks in creating money to depreciate its currency, what impact will that have on other markets and inflation?

To the extent that Japan is successful in stimulating growth through the devalued Yen, we would think that the ECB would be the next central bank to engage in quantitative easing and money creation. To date, while the Euro has fallen from pre-financial crisis levels, it remains surprisingly strong given the series of crises, Cyprus being only the most recent, that have plagued the Continent. Europe is in recession and needs a source of growth. It seems only a matter of time before the ECB moves from rhetoric to actions that will reduce the value of the Euro.

According to Milton Friedman, inflation is always a monetary phenomenon. His license plate had the equation MV=PQ, money times velocity equals price times quantity. In a world where most of the central banks are creating significant amounts of money, where is the inflation? One of the explanations is that we are in a world of lazy money. Lazy in the sense that the velocity of money, the number of times a dollar is used in the economy, has fallen. Velocity is defined a number of ways, but solving the equation, it is economic activity divided by money supply. If money supply is rising and prices are not, then either we have too much quantity or money is not moving very quickly. We see this laziness of money as reflected in weak loan demand and large deposit balances at banks. Unless and until we see loan demand increasing, inflation is unlikely to be created from central bank activity.

Japan has joined the other developed market central banks in creating money and adjusting its currency value. We see this as necessary for Japan and likely to create a response from Europe. The fear that such monetary policies will of themselves create inflation is unlikely in a world lacking demand, and investments that depend on inflation should be expected to underperform.

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

Economic Outlook and Review Offers Quarterly Perspective

New to Pennsylvania Trust's website is a comprehensive summary of valuable economic topics and relevant market data for the quarter. Major market returns, best and worst performance ratings for equity funds, ETF and commodities, S&P, sector ratings, Fed statement, and outlook and recommendations are all discussed, giving investors useful data and forecasting opinions that facilitate greater market understanding. Access is via the Pennsylvania Trust homepage. Click on *Quarter 2 Outlook and Review*, found in the left-hand column on the homepage. (www.penntrust.com)

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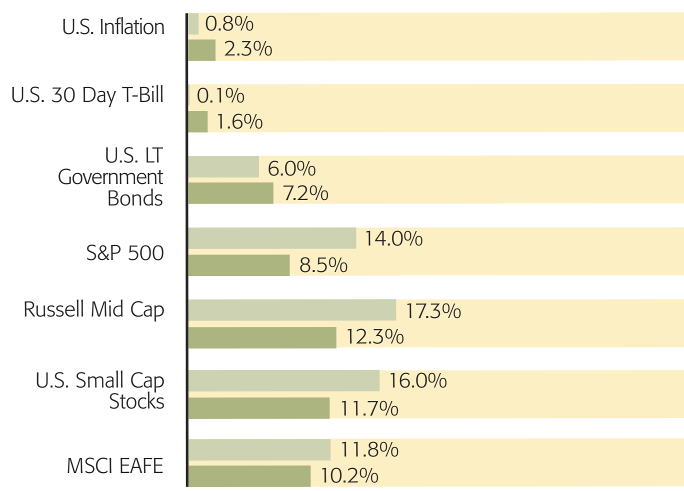
Market Indicators

	Current	Three Months Ago	One Year Ago
Stock Indices	3/31/13	12/31/12	3/31/12
Dow Jones Industrial Average	14,578	13,413	13,212
Standard & Poor's	1,569	1,462	1,408
U.S. Treasury Yields			
2 Year	0.2%	0.2%	0.3%
5 Year	0.8%	0.7%	1.0%
10 Year	1.8%	1.8%	2.2%
30 Year	3.1%	3.0%	3.3%

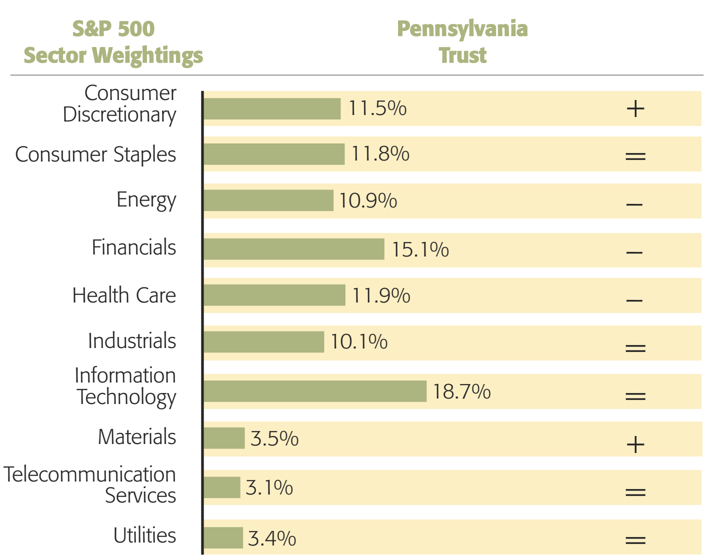
ANNUALIZED RETURNS OF SELECT ASSET CLASSES



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:



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