PENNSYLVANIA TRUST

SUMMER 2013

trust & investment perspectives

Language of the Market

by Willard N. Woolbert

Our economic vocabulary continues to grow. Last year we were trying to understand the meaning of "fiscal cliff." In the first quarter of this year it was "sequestration" that was on investors' minds. Now, in the summer of 2013, we are struggling to comprehend the idea of "tapering". To taper, according to my old American Collegiate Dictionary, is to gradually make smaller at one end. During a press conference following a Federal Reserve (Fed) policy meeting in June, Chairman Bernanke gave great detail on how the Fed might reduce, or taper, its bond buying. In the fall of 2012, the Fed began buying approximately $85 billion of Treasuries and Agency mortgages a month in an effort to further stimulate the economy by suppressing longer-term interest rates. The Chairman's message in June was that the Fed had judged that economic activity had progressed to the point where the Fed could consider reducing the buying, perhaps as soon as September, and that they could completely eliminate the buying by the middle of 2014. Financial markets reacted immediately to the announcement. The ten-year treasury rate that in early May had touched 1.7%, increased by a breathtaking full 1% within a week. The U.S. equity market, over the same time period, fell by 5%. Gold fell by 20% and foreign markets such as emerging market debt and equity, holdings that had been supported by the belief that the Fed would keep the U.S. bond market quiet for an extended period, sank. We certainly can debate the relative strength of the U.S. economy, and perhaps the sharp reaction in the markets was a reflection that investors did not share the Fed's optimism. But, it is undeniable that the Fed has shifted the debate. Globally, the developed market central banks are engaged in some form of monetary easing. Most famously the Bank of Japan began a program of quantitative easing in April, the Bank of England has been buying bonds for quite a while and the European Central Bank is grudgingly moving towards a similar program. We think that the Fed's message since Bernanke's press conference is that they are ready to begin to exit this group: when and how they do so is less important than the change in intent. As the only major central bank now committed to reducing stimulus, the Fed has likely changed the investment landscape and encourages us to look differently at asset classes.

We draw three conclusions from the Fed's actions:

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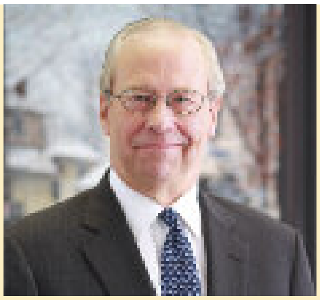
Bayard Fiechter Joins Investment Management Team



Recent addition to the investment management team at Pennsylvania Trust, Bayard R. Fiechter, Senior Vice President, brings over 30 years of wealth management experience and expertise. He serves as portfolio manager and member of the investment team that develops and implements investment policy, strategy and security selection. Mr. Fiechter was previously with Hawthorn, a member of PNC Financial Services Group, where he managed portfolios for ultra high net worth individuals.

He is a graduate of Trinity College and serves on the Investment Committee of the Curtis Institute of Music.

There's an App for That

A few weeks ago, Apple's "App Store" marked its fifth anniversary. In 2008, the iPhone was just a year old and was being offered with ten pre-loaded software applications. The store launched with 500 apps. Ten million were sold the first weekend. Smart phones and apps based on Google's Android mobile operating system followed close behind. Today, Apple "App Store" downloads surpass 50 billion of these fascinating bits of software which allow users to perform a specific function, such as a game or a search for directions. Google boasts similar sales numbers.

As one who is committed to technology and an active user, I was interested to discover what I will term "The Apps of Summer." As an example, if traveling is in your summer plans, you can send a Postagram by taking a photo of yourself or a local site and, using your phone, type in a short message and enter a recipient's address. A personalized postcard will appear in their actual mailbox, combining modern technology with old-school postal delivery.

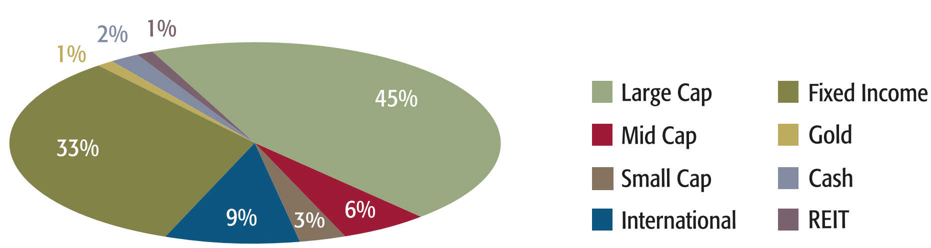
Dozens of apps exist for travel: from help creating a packing list to language translation. The ultimate Travel Appbox, termed "the Swiss Army Knife of travel apps," offers a flight tracker, currency converter, tip calculator, offline maps, public transport layouts and more. Should you be home working in the garden and battling mosquitoes, there is an anti mosquito app that emits a high frequency sound to repel the insects.

While we may be amused at their range and specificity, the app era clearly illustrates how technology has changed how, when and where we get information. Even the demographics of who is using technology have expanded exponentially. "Digital immigrants," a term to describe those of us born before the introduction of digital technology, have become technologically fluent. A recent study suggests that more than half of adults 60 and older consider themselves "technology embracing." Younger "digital natives" simply expect to communicate through digital channels.

Keeping pace with technology is an ongoing priority at Pennsylvania Trust. As a wealth management company, technology gives us an information advantage, allowing us to receive, analyze and communicate data and information faster and smarter via multiple modes, traditional and digital. But here's where close attention must be directed to the relational aspect of our business. Technology indeed offers us an enormous boost in the input and output of material but it will never be at the expense of the personal connection that is an essential element of the ethos of Pennsylvania Trust, one that we know our clients appreciate. Pennsylvania Trust is, above all, people. The overarching goal of our team of experienced and committed professionals is to work together with you, our valued clients to help meet your wealth management goals. Collaborating with technology offers us the ability to improve analytics and personal connections using communication that best suits each individual. It is an exciting partnership.

Richardson T. Merriman
Chairman and Chief Executive Officer

Balanced Asset Allocation



Trust Talk

Saving for College: Options to Consider

by Aaron H. Fox, Esq.

As any parent with a college-bound child can tell you, the costs involved can be staggering. The average tuition increase at public universities was 4.8% for the 2012-2013 academic year, and the cost for four years of private secondary education in 18 years is projected to be in excess of $360,000. Although the numbers can be daunting, there are several worthwhile options to consider.

529 Plan

A 529 Plan is a tax-advantaged education investment vehicle designed to encourage saving for future education expenses for a beneficiary you designate. Although the name comes from a section of the Internal Revenue Code, the plans are administered by individual states, and the person who creates the account can choose whatever state's plan they feel is best for their particular situation.

An advantage of a 529 Plan is that the money in the plan grows free of federal and state income tax, and all withdrawals used for qualified higher education expenses (this includes tuition, fees, room and board, books, etc.) are exempt from income tax. Additionally, Pennsylvania residents who contribute to a 529 Plan can deduct their contributions to the account from their state taxable income (up to $28,000 for married couples, assuming each spouse has income of at least $14,000). Individuals may also make five years' worth of annual exclusion gifts (currently $70,000) at one time into these plans, which may be ideal for grandparents. From a tax perspective, it is difficult to conceive of a better deal.

While there are several other advantages to 529 Plans, it is worth noting that these plans have a few disadvantages. For instance, the funds cannot be used for K-12 education costs, and the investment choices are generally limited. Also, if non-qualified distributions are made, there will be a 10% penalty assessed on any earnings on funds withdrawn for non-education expenses, and any tax credits previously taken may be recaptured as income.

Uniform Transfers to Minors Act (UTMA Account)

These accounts differ somewhat from state to state, but in Pennsylvania, the law allows individuals to segregate funds for the benefit of a minor child until the child reaches age 21 (or 25 under certain circumstances). They can be set up at any bank or trust company by designating a custodian for the funds and naming the beneficiary. The custodian controls when funds can be taken from the account, and there are no restrictions on how the funds are used, as long as they are expended for the benefit of the minor.

Although UTMAs provide flexibility on how funds are used, there are three significant drawbacks. First, account assets must be turned over to the child at the designated age when the child may not be mature enough to manage the funds. Second, UTMAs are generally taxed at the parents' income tax rate once a certain level of income is reached. Third, UTMAs are considered to be an asset of the child, and this may negatively impact the child's eligibility for financial aid.

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Also known as a minor's trust, this type of college savings vehicle requires an attorney to draft the document, but has several advantages. For instance, the trustee has greater flexibility on investments and distributions than in a 529 Plan, and the trust can be drafted so that a beneficiary's creditors would be unable to get to the assets while they are held in trust. Additionally, the trust may contain provisions that allow it to continue after the beneficiary has reached age 21, assuming the beneficiary was given a window of opportunity to withdraw the funds. Unfortunately, these trusts are not as tax-advantageous as 529 Plans, and like UTMAs, they will be considered as an asset of the child with respect to determining financial aid.

Given the pros and cons of each college savings vehicle, it is important to choose the plan that best fits your family's specific needs. Pennsylvania Trust's experienced advisors welcome the opportunity to provide additional information and to answer any questions you might have regarding college savings options. As always, it is our charge to develop personalized plans and solutions to help our clients meet their individual financial goals.

Mr. Fox is Senior Vice President of Trust and Account Administration at Pennsylvania Trust.

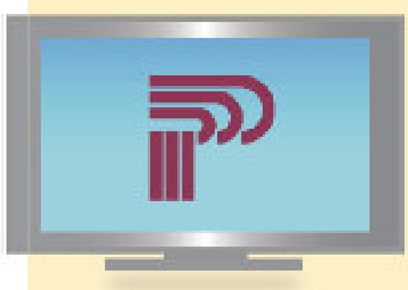
continued from page 1 the U.S. economy is gradually improving, intermediate and longer-term interest rates are likely to move higher; and, as a consequence of the first two, the U.S. dollar should continue to strengthen. When we look at interest rates it is important to distinguish between short- and long-term rates. Part of the Fed's message is that short-term rates are likely to remain near zero for an extended period of time. Quantitative easing may end, but Fed fund rates are not expected to rise until at least 2015. Investors will need to continue to take risks to earn income, either through stocks or longer-dated bonds. Non-core fixed income, such as high yield, convertibles, loans and global funds, may produce better results in a gradually rising yield environment. While rates may be rising in the U.S., continued weakness globally creates an interest rate environment, in Europe or Japan for instance, that may be friendlier to bond investors.

The potential for continued U.S. dollar strength is important in evaluating where and how to invest globally. This strength is not new as the trade-weighted dollar has been improving since 2011. The combination of relatively better economic activity and higher interest rates should keep the dollar appreciating relative to key global currencies. This environment is likely to favor U.S. equity markets and foreign investments hedged back to the dollar. Historically, periods of dollar strength do not support commodity investments or markets that are biased towards commodity producers. Additionally, weak global growth would also lead us away from commodity-based investments. Stocks of companies that are users of commodities should do better than those that either produce commodities or depend on commodity production for revenue. Internationally, this also takes us away from certain of the emerging markets. Several of the major components of the emerging market indices, such as South Africa, Russia and Brazil, are replete with stocks of commodity producers. As in the U.S., we would lean towards companies and markets that are consumers of commodities rather than producers. The theme of consumption growth in the emerging markets continues to be a strong one.

We do not know when or by how much the Fed will begin its "tapering" process. We think it is more important that the Fed has indicated that it will begin. In doing so, the rules under which investors must operate have changed. Interest rates should be higher, the dollar stronger, and with it, U.S. based investments will have an advantage.

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

Pennsylvania Trust Webinars Offer Real-Time Learning Opportunities



Now you can join the investment discussion by logging in to Pennsylvania Trust webinars where Investment Policy Committee members provide insight and commentary on our economy and markets, as well as discussing with you where investment opportunities lie. "Best Investment Ideas for 2013" was offered this spring and was led by Chief Investment Officer, Bill Woolbert and Jon Heckscher, Director of Fixed Income. The most recent interactive conference discussed the Federal Reserve's plans for "tapering" and what it might mean to markets and the economy. Look for information on upcoming webinars on the Pennsylvania Trust website.

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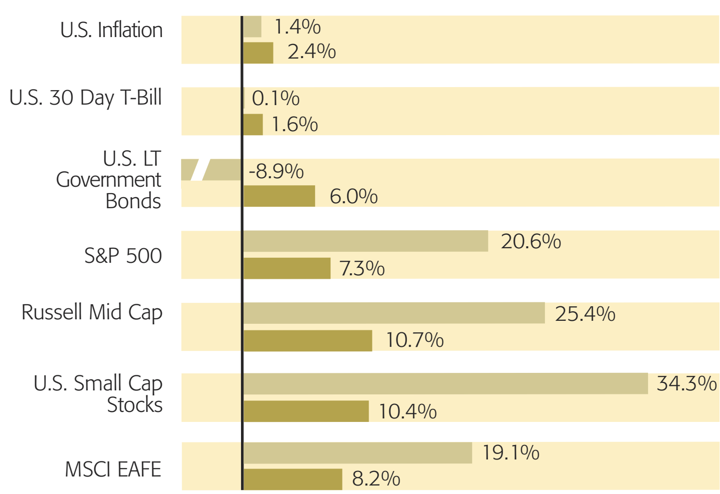
Market Indicators

	Current	Three Months Ago	One Year Ago
Stock Indices	6/30/13	3/31/13	6/30/12
Dow Jones Industrial Average	14,909	14,578	12,880
Standard & Poor's	1,606	1,569	1,362
U.S. Treasury Yields			
2 Year	0.4%	0.2%	0.3%
5 Year	1.4%	0.8%	0.7%
10 Year	2.5%	1.8%	1.6%
30 Year	3.5%	3.1%	2.8%

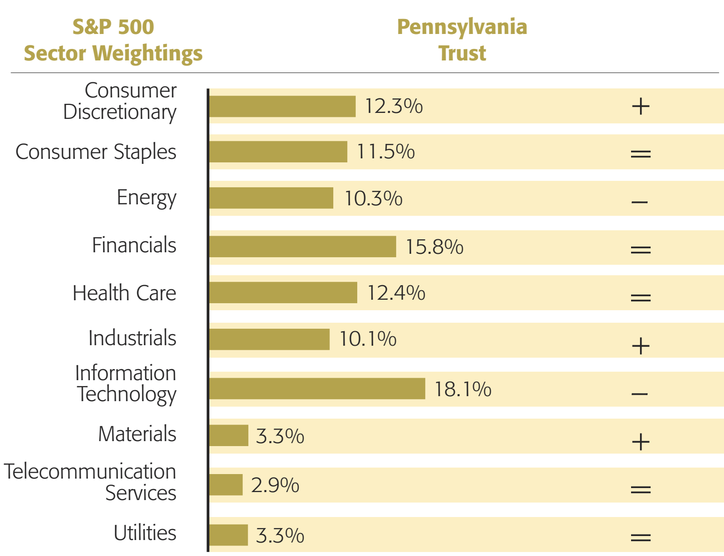
ANNUALIZED RETURNS OF SELECT ASSET CLASSES



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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