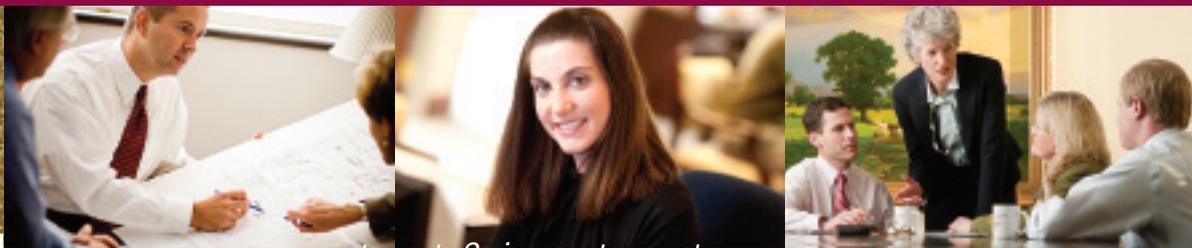




WINTER 2011



trust & investment
perspectives



A Good Start to 2011 by Willard N. Woolbert

Forecasts for the year ahead are a staple for the financial press. While watching and reading, we have been impressed by the enthusiasm of several well-known market strategists for the U.S. equity market in 2011, several seeing market gains robust enough to return us to 2007 market levels. Although not willing to be quite that enthusiastic, we do understand and agree with the economic and market forces that should create a strong market in 2011.

The case for a strong U.S. equity market, one that could compete with most in the world for 2011, rests on three legs: a Federal Reserve that continues to provide liquidity to the markets; a fiscal policy that remains stimulative; and corporate profits that continue to out-run expectations.

November and December brought us two events that helped secure the outlook for 2011. The first was the Federal Reserve's decision to implement a second round of quantitative easing. No longer able to reduce short-term interest rates, the Fed has turned to increasing the amount of money in the economy through the purchase of Treasury debt. Through this process, they hope to raise economic activity by keeping interest rates below where they might otherwise be

and by inflating asset prices. Consumer attitudes towards spending and saving are certainly tied to income but they are also influenced by wealth. Part of the Fed's logic appears to be that if it can raise the value of financial assets and even real estate, then spending should also increase. Regardless, the Fed is clearly supportive of the equity market as we enter 2011.

Perhaps it will be the high point of bi-partisan co-operation between the President and new Congress, but the compromise on the Bush-era tax cuts reached last month provided both fiscal stimulus and a positive surprise for the market. Following the November election, there was widespread anticipation that the tax cuts would be extended, although the majority felt that it would require the seating of the new Congress in January to actually pass the measure. Not only were

the parties able to pass the tax bill by year-end, but the bill was also more generous than expected. Individual taxpayers received the full extension of the tax cuts for two years, a reduction on the FICA tax of 2% for 2011 to further stimulate spending, and companies received an unexpected break on depreciation of equipment for 2011 as a way to encourage expansion.

Both of these measures, an even more aggressive Fed, and a more generous tax package, have economists increasing their expectations for economic growth in 2011. From a projected level of perhaps 2-3% real growth in 2011, forecasts have been raised to 3-4% with better expectations for employment and spending. This improved growth forecast supports the third leg of the story, corporate profits. During 2009-2010 profit growth was principally a cost-cutting phenomenon. Margins **continued on page 4**

Celebrating a Silver Milestone

25 years ago, Pennsylvania Trust was founded with the intent of creating a highly personal trust and investment management business that offered not only top quality wealth management but also highly individualized client service. From 1986 and a staff of four people with \$50 million under management, to today's 45 employees, responsible for over \$1.7 billion in client assets, our mission of professional commitment and responsibility to our clients has remained the same. Look for more reflections on our "Silver Anniversary" in this year's Annual Message.



President's Message: By the Numbers

With the turn of the calendar page to the New Year comes an inevitable flood of lists and assignations. It seems everyone, running the gamut from the world of pop culture to the economic realm, relishes a look back. *The Wall Street Journal*, in a recently published "Words of the Year" list, featured terms that frequented their pages during the past year. Several familiar financial references caught my eye. Near the top of *The Journal's* list and appearing in 170 articles, was "flash crash," the nickname for May 7, when the Dow plunged 900 points and then immediately recovered. The popular PBS radio segment "A Way With Words" also noted numerous financial terms in its yearly word review, some you may recall referenced in this year's editions of this newsletter. Double dip recession, Summer of Recovery, ETF's (Electronically Traded Funds) and QE2, the acronym for Quantitative Easing, all entered the year's vernacular.

The term "Great Recession" saw such widespread usage that it was added to the Associated Press stylebook as an official reference based on documented journalistic entries, appearing nearly 10,000 times in 2009 and approximately

1,500 in January 2010 alone. Hopefully, this is one term we will hear less of in the coming year. But it is interesting how a few simple words, from the Great Recession to flash crash to QE2, can offer brushstrokes of the year behind us. I can't help but wonder what terms and acronyms 2011, or "twenty eleven" as the wordsmiths are suggesting, will hold.

As intriguing as words can be, the economy itself provides the greater deciphering challenge. Yet there are reasons for optimism. Corporate profits continue to rise. The manufacturing sector shows sustained growth, with the auto industry in particular posting continued earnings. Holiday retail sales were robust and the stock market finished strong in December. The Dow Jones Industrial Average was up 11%, 20% higher than July's low for the year. The S&P offered a 15% gain for the year. The tax stimulus program, resulting from an agreement between the Obama administration and Congress, offers an extension of the Bush tax cuts, extends unemployment benefits, and offers incentives to support economic growth. This late-breaking agreement, coupled with the Federal Reserve's Quantitative Easing program, has many econo-

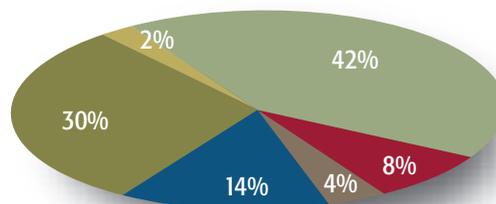
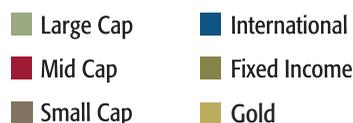
mists upgrading their forecasts. Yes, the economy does seem to be on firmer footing. Yet continued high unemployment and a depressed housing market counsel caution. Additionally, we keep a conservative eye on European markets, oil prices, and interest rates. Tempered optimism. Informed perspective.

In this issue, Bill Woolbert offers further and more in-depth analysis of the economic forecast for the year ahead. And Randy Thomas, head of our Tax Department, provides an overview of the Tax Relief Act of 2010 and the possible implications for taxpayers.

For Pennsylvania Trust, this New Year holds special significance as we mark 25 years of providing wealth management services, to you, our valued friends and clients. While markets have risen and fallen and terms and technology have changed from year to year, our vision of providing unparalleled investment service is unchanged. Twenty eleven promises the same.

Richardson T. Merriman
President and Chief Executive Officer

Balanced Asset Allocation



TRUST TALK

Tax Relief Act Extends Tax Cuts and Offers Potential Benefits

by Randy G. Thomas, CPA, CFP®



Taxpayers received an early holiday gift when President Obama signed the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (The 2010 Tax Relief Act) into law on December 17. This legislation, following months of speculation and debate, extends many individual, business, and estate tax breaks slated for year-end expiration and provides new economic stimulus incentives. It is estimated to cost over \$1 trillion and inject \$845 billion into the economy. However, this bill is intended to only be a temporary reprieve while the debate on more lasting tax law revisions continues.

The following is a brief summary of some of the key tax provisions:

Income Tax:

The income tax rates in effect in 2010 have been extended and will remain the same through the end of 2012. This includes the favorable tax rate on qualified dividends and long term capital gains. The new law also extends the expanded Child Tax Credit, Dependent Tax Credit, Earned Income Tax Credit and various educational tax credits and deductions.

The 2010 repeal of the phase-outs on itemized deductions and the personal exemptions for higher income individuals has been extended through 2012. The itemized deduction for state and local sales taxes has been reinstated for 2010 and extended through 2011. The increased Alternative Minimum Tax (AMT) exemption remains in effect for 2010 and 2011.

Social Security Payroll Tax:

For 2011 only, the tax rate paid by employees for social security taxes (the old age, survivors, and disability insurance portion of FICA taxes) will be reduced from 6.2% to 4.2%. Self-employed individuals' self-employment rates drop from 15.3% to 13.3%. These changes may result in total social security tax savings of up to \$2,136.

Estate Tax:

For 2011 and 2012, the estate tax exemption amount (applicable exclusion amount) will be \$5 million per person. The top estate and gift tax rate for these years will be 35%. The \$5 million exemption amount and 35% top estate tax rate will apply retroactively to 2010 as well but estates of persons dying in 2010 can choose whether to have the new law or the old law (no estate tax and carryover basis rules). The new law allows the estate of a decedent dying on or after January 1, 2011 and before December 31, 2012 to transfer any unused portion of a deceased spouse's exemption amount to the surviving spouse.

Gift Tax:

The gift tax exemption amount will be increased to \$5 million in 2011 and 2012. This exemption amount is not retroactive for 2010. (Gifts made in 2010 receive the basic exemption of \$1 million and a top tax rate of 35%.) The new "reunification" of the exemption amounts means that individuals can use the single \$5 million amount to cover taxable gifts during life or

estate at death or a combination of both. The top gift tax rate is also 35% for 2011 and 2012.

Generation Skipping Tax (GST):

This tax is separate from the estate and gift taxes and applies when a person makes taxable gifts or leaves all or part of their estate to grandchildren when parents are still alive. The new law also increases this exemption to \$5 million in 2011 and 2012 with a top GST rate of 35% for 2011 and 2012. Although the GST is reinstated for 2010, the rate is 0%.

Charitable Giving:

Taxpayers age 70½ and older will be allowed to make tax-free distributions to charity from an IRA of up to \$100,000 per taxpayer per year in both 2010 and 2011. This distribution also counts toward the taxpayer's minimum distribution requirement.

This myriad of changes can have a significant effect on an existing estate plan and can potentially offer increased tax benefits with proper planning. Pennsylvania Trust's experienced staff of tax professionals is well versed in the details of tax legislation both new and old. We look forward to the opportunity to work with you to ensure that your current estate and tax plan is best suited to meet your needs and financial goals.

Mr. Thomas is Senior Vice President, Tax Administration, at Pennsylvania Trust.

continued from page 1 widened as revenue growth stagnated. This is a finite opportunity. Companies need revenue growth to sustain the profit growth and only in the past few quarters have we seen this occur. The stronger economic forecast should sustain an attractive level of profit growth.

In an environment of modest but improving growth, benign core inflation, a Fed openly supportive of asset prices, and fiscal stimulus, the case for a stronger U.S. market is well founded. What could go wrong? There are a myriad of events or issues that could impact the market, three of which seem the most important as we enter 2011: risk to growth in the emerging markets; policy mistakes from a still very divided Washington; and consequences of further financial crisis in Europe.

While growth in the U.S. is improving, the strength of demand coming from the developing economies, and in particular China, has and will be critical to our recovery. China, India, Brazil and other

developing economies are in a different part of their growth cycle. All have had the first surge of growth from the lows of 2008 and are in position to need slower growth to control inflation. Some fear that this tightening could create a sharp decline in Chinese growth, impacting a U.S. recovery. We see this as a normal response to an economic cycle, but realize that any serious challenge to Chinese growth would undermine the U.S. market.

Whether due to the 2008-2009 financial crisis or the preferences of the current Administration, the government has taken a larger role in economic activity. Issues that are certain to impact the market in the first half of 2011 include: expansion of the federal debt ceiling and a related battle over expenditures; a challenge to the purview of the Fed from portions of the now Republican House; and efforts to amend the new health care regulations. A state-level liquidity crisis could also erupt.

Lastly, we see the rolling financial crisis in Europe as postponed, not solved.

In 2010, the markets fell on first the Greek and, more recently, the Irish crisis. So far the European Union has dealt, sometimes grudgingly, with the problems. But there are other potential problem countries. And, the structural challenges in both Greece and Ireland continue to present the potential for ongoing problems from Europe. This situation is not unique to Europe either. Japan, and certainly the U.S., face structural budget problems related to aging populations and entitlements. These issues are serious enough to limit our optimism to the current period of cyclical rebound.

The market never presents a perfect story. We see the potential negatives in 2011 as more likely to challenge our confidence than upset the prospect of a stronger market. Reaching the 2007 market highs seems too optimistic, but a market that continues higher in 2011 is the most likely path.

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

Sharing Holiday Spirit

Once again Pennsylvania Trust joined Santa's Brigade to brighten the lives of those less fortunate in our community during the holiday season. Santa's Brigade is a cooperative effort of 34 companies and organizations supporting 13 local charities in the Delaware Valley. Pennsylvania Trust has been a proud participant since 2006. Pennsylvania Trust coordinators were Pat Barlow and JoAnne Fredericks.



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

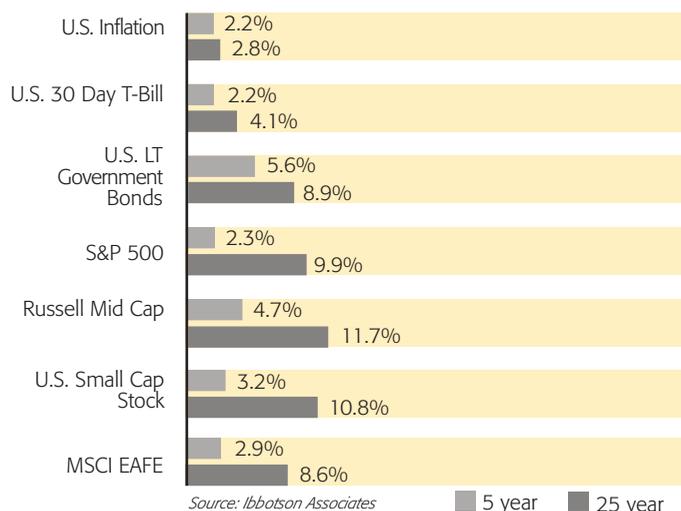
Pennsylvania Trust is committed to conduct all our relationships with integrity and to maintain the highest ethical standards; provide outstanding professional and personalized services; produce superior investment results consistent with client objectives; and retain exceptionally skilled individuals,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



Market Indicators

	Current	Three Months Ago	One Year Ago
Stock Indices	12/31/10	9/30/10	12/31/09
Dow Jones Industrial Average	11,578	10,788	10,428
Standard & Poor's	1,258	1,141	1,115
U.S. Treasury Yields			
2 Year	0.6%	0.4%	1.1%
5 Year	2.0%	1.3%	2.7%
10 Year	3.3%	2.5%	3.8%
30 Year	4.3%	3.7%	4.6%

ANNUALIZED RETURNS OF SELECT ASSET CLASSES



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	
Consumer Discretionary	10.9%	=
Consumer Staples	11.2%	-
Energy	11.6%	+
Financials	16.2%	-
Health Care	10.5%	=
Industrials	10.6%	+
Information Technology	19.2%	+
Materials	3.6%	+
Telecommunication Services	3.0%	=
Utilities	3.2%	-

PENNSYLVANIA TRUST



25 YEARS

Richardson T. Merriman
President and Chief Executive Officer

Lee J. Anderson, CFA
Senior Vice President
Chief Information Officer

William H. Haines, IV
Senior Vice President
Director of Client Services

Irwin S. Love, Esq., CTFA
Senior Vice President
Chief Fiduciary Officer

George C. McFarland, Jr., Esq.
Senior Vice President
Portfolio Management
Director of Trust and Account Administration

Barbara S. Wood, CPA
Senior Vice President, Treasurer
Chief Financial Officer

Willard N. Woolbert
Senior Vice President
Chief Investment Officer

Pierce Archer
Senior Vice President
Portfolio Management

Nils L. Berglund
Senior Vice President
Portfolio Management

Douglas H. DeLong, CFA
Senior Vice President
Portfolio Management

Frederic N. Dittmann, CFA
Senior Vice President
Portfolio Management

JoAnne T. Fredericks, CFA
Senior Vice President
Portfolio Management

Charles L. Sheppard, II
Senior Vice President
Director of Investment Research

Randy G. Thomas, CPA, CFP®
Senior Vice President
Tax Administration

Radclyffe F. Thompson, CFP®
Senior Vice President
Business Development

Cole P. Vastine
Senior Vice President
Trust and Account Administration

J. William Widing, III, Esq.
Senior Vice President
Trust and Account Administration

Carolyn L. Wyeth
Senior Vice President
Trust and Account Administration

Kenneth R. Brightcliffe
Vice President
Equity and Fixed Income Trading

Karen H. Harr
Vice President
Trust Operations

Monica P. Ruggio
Vice President
Trust Operations

Jeanne M. Stagloff
Vice President
Tax Administration

Debra S. Tongue
Vice President
Trust and Account Administration

Noni-Kai S. Williams
Operations Officer
Trust Operations

Kristen L. Behrens, Esq.
Trust Administrator
Trust and Account Administration

Diane A. Ferrie
Senior Tax Accountant
Tax Administration

Adam T. Rogers
Portfolio Manager
Portfolio Management

CONSULTANTS

Kevin R. Fisher
Senior Technology Consultant

Francis R. Grebe, Esq.
Senior Trust Consultant

Jean E. Hunt, Esq., CPA
Senior Trust and Tax Consultant

Donald E. Lewin, Ph.D.
Senior Investment Consultant

Newbold Strong
Senior Investment Consultant