PENNSYLVANIA TRUST

WINTER/SPRING 2014

trust & investment
perspectives

One Step Back, Two Steps Forward

by Jonathan M. Heckscher

Last year's returns of the U.S. stock market were impressive when one considers that economic growth was hardly robust, taxes were raised, spending was cut, Washington was shut down for 16 days, terrorists attacked the Boston Marathon, Syria used chemical weapons, the Federal Reserve announced tapering, and ten-year interest rates nearly doubled (breathe out now).

While "volatility" was not in the market's vernacular last year, it may be returning as we enter 2014. The market was jolted in January by an emerging market currency crisis that has many investors on edge. While the actual cause cannot be pinpointed, there are a number of far-reaching issues that will continue to weigh on emerging markets. These include a perceived weakening of Chinese growth, Federal Reserve tapering, geopolitical risks, domestic political issues, as well as structural risks such as capital controls and account deficits.

This volatility served to initiate the pullback that many market participants had been anticipating. We recognized that a market correction of 5% to 10% was a distinct possibility, but remain optimistic about the long-term prospects for the market. While not advocating market timing, we view this and subsequent pullbacks as selective buying opportunities. Many stocks will continue to be richly valued which is why we think stock-picking will prove to be very important in 2014.

We believe that 2014 is poised to be a healthier year for the U.S. economy although we would be surprised to see another banner year in the stock market. A continually supportive Federal Reserve, now under Janet Yellen's leadership, and less fiscal drag are important policy underpinnings for stronger U.S. growth.

Deleveraging in the developed world has led to only moderate growth of its economies, enough to hold down default rates and improve credit conditions, but not enough to boost corporate earnings on a broad scale. With loose central bank monetary policy spilling over into 2014, companies will benefit from low debt-servicing costs, as well as the expected speed-up in the global recovery. The resulting increase in consumer and investor confidence may further reduce the risk premium demanded for equities.

Our tactical preference has been a heavy U.S. focus recently, but we are increasingly attracted to European equities and global bonds. In addition, the Japanese market continues to be attractive as Prime Minister Abe's "Fed-like" policies appear to be working and have produced above-trend growth. continued on page 4

Pennsylvania Trust Honored by Bethesda Project

Bethesda Project
A Caring Family for Philadelphia's Homeless

Pennsylvania Trust will serve as Honorary Chair for Bethesda Project's 17th Annual Gala on April 28th. Chairman and Chief Executive Officer Rich Merriman will represent Pennsylvania Trust and offer opening remarks. Rich notes, "We are honored to support Bethesda Project in their mission to find and care with dignity for the abandoned poor and to be family to those that have none." *www.bethesdaproject.org*

Keeping Time

With New Year's celebrations and resolutions now firmly behind us, the inevitable comparisons and predictions that move one year to the next are in full swing. Weather has seized the front page and while, surprisingly, 2014 is not topping the record books for snowfall thus far, it was the third snowiest January on record in more than 140 years. I could go on. No doubt the school children among us will fondly remember "the year when we had four-and-counting snow days!"

Interesting how we lean toward recalling the details of years based on the events that occurred during that particular moment in time, both good and bad. This past November, many of us of a certain generation, paused to remember where we were when the news of President John F. Kennedy's assassination broke. Certainly there are other solemn moments in time etched in our collective psyche, among them significant disasters like Hurricane Sandy as well as 9/11. I am sure most of my colleagues can provide clarion details about a certain week in September 2008 when Lehman Brothers declared bankruptcy and market volatility was the norm in the midst of the financial crisis and global recession.

If I turn my thoughts about time in a more positive direction, there are undoubtedly simple family events and personal milestones that color my memories, along with those on a bigger stage. Perhaps like me, you are a Beatles fan and noted that it was 50 years ago this February that the "Fab Four" first appeared on The Ed Sullivan Show.

"Timekeeping is part of what makes us human," writes Denis Feeney, author of *Caesar's Calendar: Ancient Time and the Beginnings of History.* "Every society attempts to track time, even the first societies discovered in the middle of Papua New Guinea knew when to plant and when to harvest. No one just drifts through time, not even hunter-gatherers."

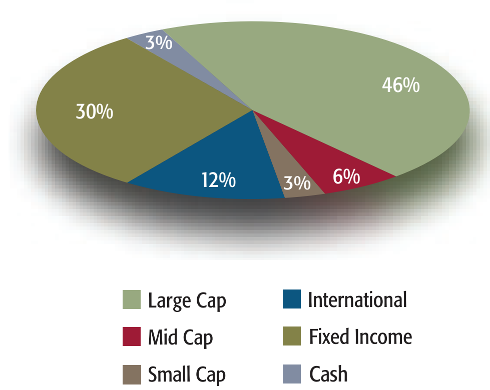
Time offers us the benefit of perspective, a gift that can be particularly useful for those of us in the wealth management business. The ability to analyze past data, to track trends and to look at the economic continuum is invaluable. In this issue of *Trust and Investment Perspectives*, Director of Fixed Income, Jonathan Heckscher, does that by offering a look at what we think the opening months of 2014 might portend. Peter Johnson, head of our Special Needs Trust and Guardianship Unit, takes us in a contemporary direction, discussing the timely topic of digital assets. You might also visit our website to see a 2014 Market Forecast offered by Gilpin Bartels, Pennsylvania Trust's Multi-Cap Value Portfolio Manager.

Denis Feeney goes on to discuss how, for much of human history, local cultures came up with their own ways and dates to mark time. The Aztecs and Babylonians celebrated the New Year in March when the crops were planted. The Persian calendar also opened the New Year in March with celebrations that included bonfires to cleanse bad things from the previous year. The Balinese began their year with a day of silence.

However you capture and celebrate the progress of time, know that Pennsylvania Trust continues to honor the commitment we made over 25 years ago to you, our friends and clients. From 1986, with a staff of four, to today's team of skilled industry experts averaging over 30 years of experience, our intent remains to provide not only top quality wealth management but also highly individualized client service. For me, that's chronology worth noting.

Richardson T. Merriman
Chairman and Chief Executive Officer

Balanced Asset Allocation



TRUST TALK

Protection in a Digital World

by Peter J. Johnson, Esq.

Have you ever used the internet to make a purchase? To get directions to a specific address? To send an email message? In this digital age, many of us use the internet for the majority of our communication with the outside world. We make purchases and interact with our financial institutions, checking our accounts, paying our bills, and making investments. But what happens if you become incapable of accomplishing these online tasks during your lifetime? Who will be empowered to administer your digital assets when you die? Although the law governing these issues is unsettled and varies from state to state, you can take several precautions to ensure continuity in the event of incapacity, and provide certainty to your loved ones after your death.

What is a digital asset?

Although no state or federal law presently defines this concept, the Uniform Law Commission Drafting Committee (an organization dedicated to drafting uniform laws such as the Uniform Trust Act and the Uniform Commercial Code) has suggested a definition of a digital asset as "an electronic record to which an account holder is entitled to access." If you begin to consider it, you quickly realize this comprehensive definition includes, but is in no way limited to, email accounts; online bank and investment accounts; photographs, music, and documents stored on a computer; voicemail; and digital forms of information that may not yet exist.

What is the concern?

Three simple variables can be cause for uncertainty. First, the state of the law governing digital assets is unsettled. Second, the law that does exist can impose liability on those who are unaware of it. Finally, the concept of a digital asset is unclear.

Federal law may impose criminal penalties for unauthorized access to digital assets. The Stored Communications Act, which is part of the Electronic Communications Privacy Act, generally creates a criminal offense for intentional, unauthorized access to digital assets. In addition, custodians of digital assets are prohibited from providing access to digital assets without explicit consent of the owner. *See 18 U.S.C. §2701-02.* As a result, online custodians of digital assets (such as Yahoo, for email; Pennsylvania Trust, for access to investment accounts; Apple, for iTunes; and Flickr, for photographs) are unlikely to provide access to an individual's accounts in the event of incapacity or death, absent a court order or other document, such as a carefully drafted power of attorney or language in a will. At the same time, agents under powers of attorney, or executors of estates, should be concerned about personal liability for accessing such accounts absent explicit authority.

What can you do?

Regardless of the state of the law or concerns discussed above, there are several things you can do to ensure you are protected.

Take a digital inventory. Spend some time making a list of the websites you visit that require a user name and password (including financial institutions, credit card accounts, and social networking websites). Make a list of those websites and the login information required to access them. Understand the locations of your digital music, photograph, and document files; if they are located on your personal computer, consider making a list of the locations of the documents, and if they are located in the "cloud," ensure the method to access those documents is included on your list. Include your email addresses, and consider noting the purpose of each email address (such as personal, business, or online shopping).

Consider a digital power of attorney. If you have named a relative or trusted individual agent under a general power of attorney to act for you in the event you are incapacitated, review that document to determine whether it specifically gives your agent the power to access your digital assets. If it does not, consider consulting with your attorney to include appropriate language. If you have not yet executed a power of attorney, consider doing so, and in the process, ask your attorney to give your agent the explicit power to access your digital assets.

Provide for the disposition of your digital assets at death. Your digital assets have value, just as your home and investments. You may have spent years accumulating frequent flyer miles, money building an iTunes library, and time creating priceless digital photographs. You have the ability to dispose of those assets at your death, and you should consult with your attorney

continued on page 4

continued from page 1 The unprecedented monetary easing by the Bank of Japan — which is set to become the most aggressive central bank in the world as the Fed begins to taper its balance sheet expansion — improved sentiment in Japan, caused the yen to weaken, and bolstered the markets while stimulating inflation.

As has been well documented, the unprecedented central bank policies of the developed world drove bond yields to record lows. As a result, investors realized a dilemma in 2013 that should continue in 2014 once the emerging market issues become contained: the traditional strategy of holding ultra-strong credits (government and/or municipal bonds) for capital protection has become less attractive as the exposure to rising rates has created an environment where portfolio yields cannot keep pace with declining prices. The result should be another year that rewards equities and higher risk bonds more than government, agency, and municipal bonds which likely will see another year of negative real returns.

To plan for this within a bond portfolio, we maintain our preference for credit versus interest-rate-sensitive securities and recommend that if a portfolio can tolerate greater credit risk and volatility, one might want to consider short- to intermediate-term investment-grade bonds, high coupon preferred stock, and high yield loans (aka leveraged loans). Despite periods of somewhat dramatic price changes, over a market cycle, the higher current income should contribute to the overall total return.

While rising rates seem inevitable, it is also important to point out that most developed economies have an interest in keeping government bond yields low to support their deficit reduction efforts and keep economic recoveries intact, while preventing budgets from tipping further out of balance and endangering their debt sustainability.

As a result, we feel that while rates will continue to revert to a more normalized level, this move will not be dramatic. That being said, we continue to recommend lessening duration during periods of market strength. We believe bonds that offer adjustable coupons are attractive in this environment as the coupon will reset as rates rise, thus compensating you for owning the bond.

How quickly bond yields normalize will differ from region to region depending on the speed at which each is recovering. Since we see the U.S. farthest along in its economic recovery, we expect U.S. rates and bond yields to rise more than European rates, with Japanese bond yields lagging on the way to normalization.

While no one knows when or by how much rates will rise, bonds will likely underperform stocks while rates are rising, but it should make sense to accept the relative underperformance from that portion of your portfolio for the diversifying benefits of bonds when and if the environment changes and stocks struggle.

Mr. Heckscher is Senior Vice President and Director of Fixed Income.

continued from page 3
to ensure that just like other family heirlooms, the disposition is designed with your intentions in mind.

The concept of digital assets is relatively new to many of us and is certainly a topic that should be addressed with thoughtfulness. Pennsylvania Trust's team of experienced professionals welcomes the opportunity to assist you in considering the administration and disposition of digital assets.

Peter J. Johnson, Esq. is Senior Vice President and head of the Special Needs Trust/Guardianship Unit.

PENNSYLVANIA TRUST

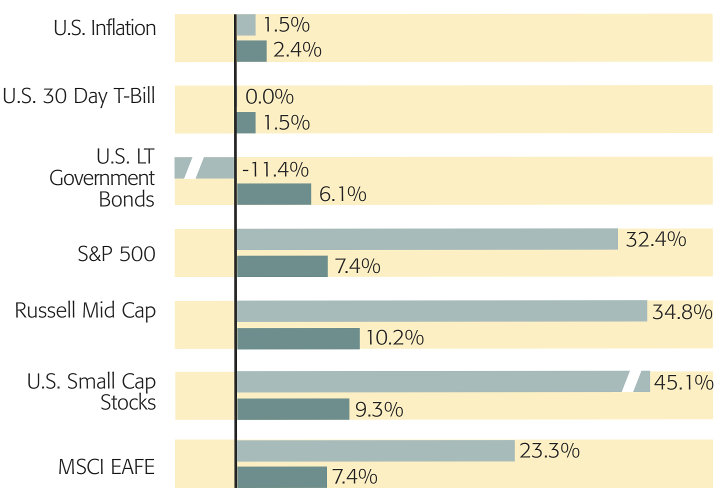
Five Radnor Corporate Center
Suite 450
100 Matsonford Road
Radnor, Pennsylvania 19087
610.975.4300
800.975.4316
610.975.4324 F
www.penntrust.com

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

Stock Indices	12/31/13	9/30/13	12/31/12
Dow Jones Industrial Average	16,577	15,130	13,413
Standard & Poor's	1,848	1,682	1,462
U.S. Treasury Yields			
2 Year	0.4%	0.3%	0.2%
5 Year	1.7%	1.4%	0.7%
10 Year	3.0%	2.6%	1.8%
30 Year	4.0%	3.7%	3.0%

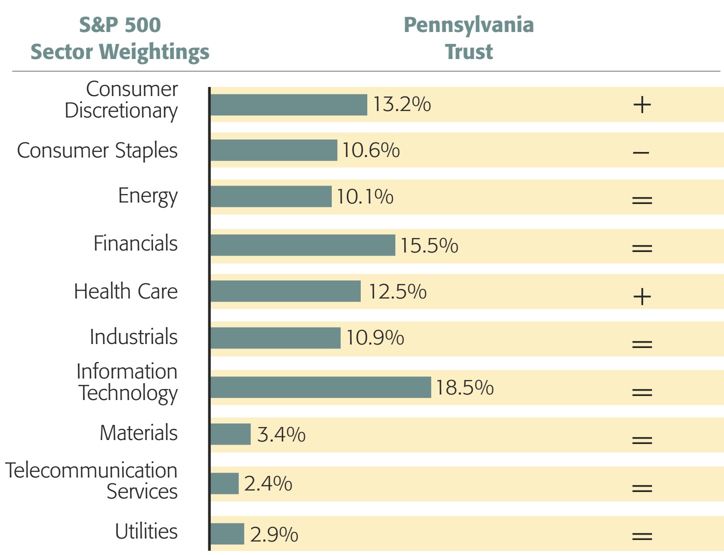
ANNUALIZED RETURNS OF SELECT ASSET CLASSES



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

Richardson T. Merriman
Chairman and CEO

George C. McFarland, Jr., Esq.
President

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

Leslie Gillin Bohner, Esq.
Senior Vice President
Chief Fiduciary Officer

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

David M. Robinson
Senior Vice President
Chief Strategy Officer

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

Willard N. Woolbert
Senior Vice President
Chief Investment Officer

Gilpin W. Bartels
Senior Vice President
Multi-Cap Value Portfolio Mgr.

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

Bayard R. Fiechter
Senior Vice President
Portfolio Management

Aaron H. Fox, Esq.
Senior Vice President
Trust and Account Administration

JoAnne T. Fredericks, CFA
Senior Vice President
Portfolio Management

Jonathan M. Heckscher
Senior Vice President
Director of Fixed Income

Peter J. Johnson, Esq.
Senior Vice President
Trust and Account Administration

Juliana S. Karnavas
Senior Vice President
Portfolio Management

Charles T. Lee, III
Senior Vice President
Portfolio Management

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

Newbold Strong
Senior Vice President
Portfolio Management

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

Cole P. Vastine
Senior Vice President
Trust and Account Administration

Carolyn L. Wyeth
Senior Vice President
Trust and Account Administration

Susan L. Bartels
Vice President
Information Systems and Human Resources

Kenneth R. Brightcliffe
Vice President
Equity and Fixed Income Trading

Sheila Gibson
Vice President
Trust and Account Administration

Karen H. Harr
Vice President
Trust Operations

Patricia A. Markell
Vice President
Portfolio Management

Monica P. Ruggio
Vice President
Trust Operations

Debra S. Tongue
Vice President
Trust and Account Administration

Caroline W. Fortin
Senior Trust Operations Officer
Trust Operations

Marc D. Zlatkin
Senior Information Systems Officer
Information Technology

J. August Gerhardt
Investment Officer
Portfolio Management

Lucas J. Saunders
Strategic Technology Officer
Information Technology

CONSULTANTS

Bruce M. Brown
Senior Philanthropy Consultant

Kevin R. Fisher
Senior Technology Consultant

Francis R. Grebe, Esq.
Senior Trust Consultant

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

I. Wistar Morris, III, CFA
Senior Investment Consultant

Radclyffe F. Thompson, CFP®
Senior Business Development Consultant