



SUMMER 2009



## trust & investment perspectives

### Opportunity in the Emerging Markets **by Willard N. Woolbert**



The fear of deflation and depression that characterized the market low of early March is giving way to hope for recovery. Credit markets have returned to some sense of normalcy. Early indications of a turn in the economy have renewed investors' appetite for risk and led to a surge in a variety of asset classes. Prominent in this advance have been the equity markets of developing economies such as those of China, Brazil, India, and others. Developing or emerging markets have been very volatile over many years, so that a strong advance from the lows should not be a great surprise.

Since the beginning of the MSCI Emerging Markets Index in 1990, the annual standard deviation of return of this index has been 70% higher than that of the S&P 500. The volatility has been based on both the more fragile nature of the economies and the impact of a periodic surge in funds into these relatively smaller capital markets. However, underneath the market volatility of the past twenty years, both the economies and financial systems of these markets have been maturing. During the next market cycle we believe that investment in these markets directly or through companies that have an exposure to the products

and services they require will be an important positive factor in investment performance.

Part of the attraction of emerging markets is related to our view that the United States will experience a historically weak and prolonged recovery from the recession. Economic recovery in our country has typically begun with an easing of monetary conditions that permits consumers and businesses to assume debt. The added debt allows for the purchase of houses and cars that re-stimulate the economy. This process of re-acceleration was magnified during the most recent cycle by historically low interest rates and equally low hurdles for the extension of credit. Consumers were so anxious to

take advantage of these conditions that the savings rate fell below 0% in 2006. This surge in demand for credit was supported by wealth created from the rapid appreciation in real estate prices and growth in financial assets coming out of the market lows of 2000-2002.

Unfortunately a massive bubble in home prices was created by this borrowing and is currently in the process of deflating with all the ugly effects on the financial system that have plagued us over the past year. Much of the press focuses on the dire conditions of many financial company balance sheets and the various programs in place to support them. Equally as serious is the state of the consumers' **continued on page 4**



### Christine Todd Whitman Slated to Speak at Upcoming Investor Seminar

Christine Todd Whitman is familiar to many of us for her years as Governor of New Jersey, serving as our neighboring state's first female governor from 1994 to 2001. Among her many accolades are praises for her commitment to environmental initiatives. From the governor's office she went on to chair the Environmental Protection Agency under President George W. Bush. Currently she directs the Whitman Strategy Group, a consulting firm specializing in energy and environmental issues. Whitman joins us in October for our 6th Annual Investors Seminar. She will discuss *"The Shifting Environmental Policy Climate. Staying Ahead While Going Green."*



## President's Message

**T**he *New York Times Summer Book Review* beckons to me from its spot on my credenza. Should I prefer electronic information, *The Times* offers *Paper Cuts*, a blog about books currently highlighting "top summer picks." National Public Radio is conducting a poll of the best beach books of all time and a recent *Newsweek* article titled "Now Read It Again" touts the restorative powers of revisiting favorite classics like Dickens, Shakespeare, and Austen. I hearken back to the not-so-long-ago days when my children would arrive happily home on the last day school, final grades in hand along with a summer reading list: one book from List A; another from List B; and the favorite, a personal choice. I make a mental note to locate my old friend *Moby Dick*. Summer travel... a trip to the ocean... a leisurely afternoon with a good read. There is nothing like summer to encourage us to take advantage of reading opportunities.

One might not think of articles of economic research and market analyses as traditional summer reading, but these pieces are as compelling for the timeliness of their message as any book featured in *The New York Times Summer Book Review*. Even the well-known mutual fund manager, Murray Stahl, is suggesting summer reading. His list contains attention-grabbing titles such as *The Wall Street Journal Guide to the End of Wall Street as We Know It* and *The Trillion Dollar Meltdown: Easy Money, High Rollers and the Great Credit Crunch*. These dire titles share a common theme: economic

uncertainty — and no doubt say something about public demand.

More to my liking, respected economist David Hale offers a measured yet positive perspective on the economy in his June *Monthly Report*, titled "Bellwethers of a Recovery." Hale, along with other prominent economists, is seeing indications that the U.S. economy is headed toward recovery. Inventory liquidation is slowing, making way for growth. Although the housing market continues to show signs of weakness, new and existing home sales have been stable for the past six months. The corporate and household sectors are beginning to stabilize. Corporations have reduced their debt; personal savings rates have increased; and May employment reports show the smallest number of job losses since last fall. Of noted interest is the global economy, where in particular, countries in the Asia Pacific region are showing signs of positive growth. In this issue, Bill Woolbert provides additional insight on developments and opportunities in emerging markets.

Without a doubt, my summer reading list will be weighted with financial publications, but I am also hopeful to

spend some time reading about energy and environmental issues, not only because it is a timely topic, but in preparation for our upcoming fall Investor Seminar. Former New Jersey Governor and past Administrator of the Environmental Protection Agency, Christine Todd Whitman, will discuss challenges and solutions to the environmental issues facing businesses and governments.

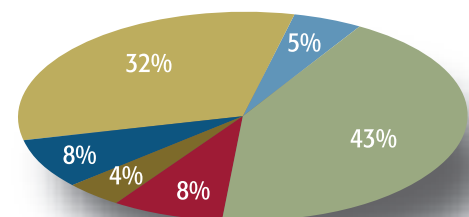
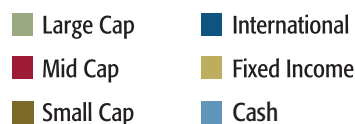
Finally, you will notice that Pennsylvania Trust tax expert, Larry Lehrfeld, is suggesting that some of our time this summer might be well spent thinking ahead to the next tax season and I echo his sentiments. There is no better time to review and regroup, and we are here to answer your questions and to help with planning suggestions.

I trust that the summer will bring you time to read and reflect. My colleagues and I here at Pennsylvania Trust will endeavor to do the same, all the while remaining committed to serving our clients with the high level of investment and wealth management services that we provide throughout the year.

**Richardson T. Merriman**

President and Chief Executive Officer

## Balanced Asset Allocation



## TRUST TALK



### Planning Ahead for Tax Season by Larry H. Lehrfeld

**T**ax season is a term familiar to many of us. But tax season is a misnomer. In reality, every day is tax season. And while April 15th is barely behind us, it is not too early to be thinking about tax year 2009.

Rather than throwing all of your medical and charitable receipts into a drawer that you won't open until next March, consider starting the record keeping for your 2009 tax return now. Create separate files for medical expenses, charitable gifts, and other tax-deductible items. For example, before you drop off items at the local thrift shop, take a photo of what is being donated. This will enable you to assign a value to the merchandise and give you documentation should the tax authorities come knocking on your door.

No one likes paying taxes but the assistance of a knowledgeable professional can help you to use the Tax Code to your advantage and make the tax preparation process as smooth as possible.

One element of any tax plan is the utilization of the annual gift tax exclusion. For 2009, gifts of up to \$13,000 per person are covered by the exclusion and can be made free of succession taxes. If you are married, this amount can be doubled to \$26,000, with the consent of your spouse. Under current law, each individ-

ual has a lifetime gift tax credit exemption of \$1 million. This is in addition to the annual gift tax exclusion.

Another gifting opportunity with tax benefits is to make gifts to public charities of appreciated securities that have been held more than one year. Under current law long-term capital gains are taxed at 15%. (There are proposals that may increase the rate.) By making the gift to charity, the donor gets an income tax deduction for the value of the security of up to 30% of their Adjusted Gross Income, removes the value of the security from their estate and does not pay the capital gains tax on the appreciation.

In the area of Individual Retirement Accounts, for individuals who have reached age 70 1/2, there are no 2009 Required Minimum Distributions. Also for 2009, Congress has extended the ability for those over age 70 1/2 to make charitable gifts of up to \$100,000 and exclude the distribution from income. The distribution must be made directly to a qualified charity. However, because the distribution is excluded from income the individual is denied a charitable deduction. In many cases this is still a desirable result as it reduces the IRA owner's estate, is part of their charitable giving plan, and lowers Adjusted Gross Income. (Adjusted Gross

Income is used to measure several thresholds for the deductibility of an individual's itemized deductions.)

Tax return preparation is more complicated and time-consuming than ever. Ongoing changes to the Tax Code are increasingly expanding reporting requirements placed upon companies and custodians of investment portfolios. This additional required information often results in substantial delay in receiving the tax information needed for your tax return and shortens the window of time for your tax preparation. Your portfolio may hold investments that may be affected by these intensified tax-reporting issues.

Advance preparation, such as having your records organized, can streamline the process. Take a minute and reflect on the preparation of last year's tax return. Was it a stressful experience? If so, plan ahead for next year. Find a professional tax preparer whose style matches yours. Design a tax plan and follow it. Pennsylvania Trust has been providing counsel on tax law and preparation for many years, with the highest degree of personal service. Let us work with you to create a plan and process that meets your needs.

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*Mr. Lehrfeld is Senior Vice President for Tax Administration at Pennsylvania Trust.*

## Bill Haines Lauded for Volunteer Efforts



Bill Haines, SVP and Director of Client Services, was recently recognized as "Volunteer of the Year" by the Philadelphia Arts and Business Council's Business Volunteers for the Arts for his work in developing a strategic plan for Historic Philadelphia Inc. (HPI). HPI is comprised of Betsy Ross House, Franklin Square, Lights of Liberty, and Once Upon A Nation. Business Volunteers for the Arts allows business professionals to serve the community by offering their experience and expertise to a regional arts organization.

**continued from page 1** balance sheets. Having taken on record amounts of debt supported largely by the value of real estate, consumers aren't able to fulfill their traditional function of restarting the economic cycle. They are focused on reducing rather than increasing leverage and rebuilding savings devastated by the equity market's decline. Despite an initial surge off of the market low, returns from segments of the U.S. market that would typically lead a recovery such as housing, autos, retail, and finance are likely to be muted this cycle.

In contrast, renewed growth has begun in some of the emerging markets, most notably China. The Chinese economy was certainly hurt by the fall of export demand as western economies faltered. GDP growth fell from a double digit rate to a recent quarterly low of 6%.

Prompt action by the Chinese government to ease monetary conditions and to provide fiscal support has begun to show results. Demand for imports has surged and improvement has been seen in the real estate sector. The Chinese economy, and for that matter many of the emerging economies, is not encumbered by the financial system stress prevalent in the U.S. and Europe. In many cases these countries have positive trade balances that make their currencies more stable than in past recessions.

Lastly there is the gradual appearance of domestic demand. There is no doubt that the health of these emerging economies relies on their ability to export to the U.S., but along with the dramatic growth experienced during the last recovery, domestic spending increased as well. Anecdotally, more cars were sold

in China during the first quarter of 2009 than in the U.S. Whether demand from emerging markets will be sufficient to fully off-set sluggish U.S. and European growth is unclear. However, what is apparent, is that growth will increasingly come from these emerging economies.

The needs of these developing markets are different than those in the U.S. As a consequence, opportunities for equity investors will also be different than in past cycles. Companies able to meet the needs of these developing economies, either in the form of domestic demand or products and material necessary to support their export growth, are likely to be the winners in the next leg of global and market growth.

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

## Painting Profile



Michael Pyrdsa, *Wild Flowers Off Snowdrift Road*, oil on canvas

**P**ennsylvania Trust is proud to feature the work of artists such as Michael Pyrdsa. Born in Elizabeth, New Jersey in 1953, Pyrdsa's passion for art was fueled by the gallery of works being displayed by his fellow Trenton State students. Beginning with surrealism, Pyrdsa's work eventually evolved into photo realism which he has now refined into hyper realism.

**He has received many awards for his work, among them the New Jersey Council for the Arts Edwin Seltzer Memorial Award and the Monmouth County Council on the Arts Grand Prize. He is represented in numerous collections, including that of the Butler Institute of American Art in Youngstown, Ohio.**



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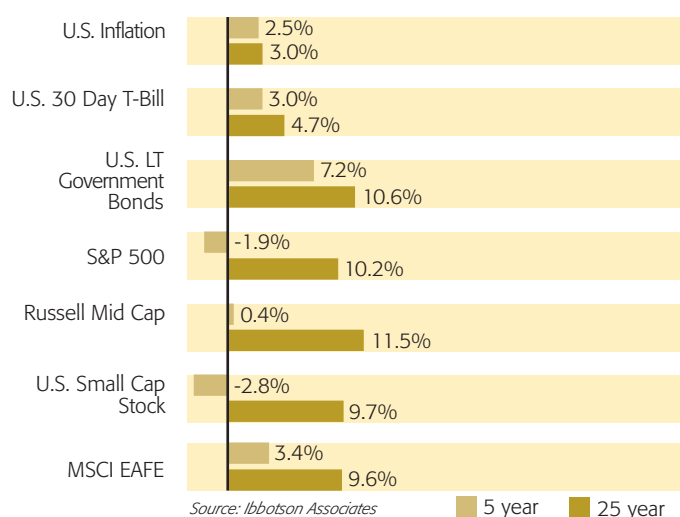
Pennsylvania Trust is committed to conduct all our relationships with integrity and to maintain the highest ethical standards; provide outstanding professional and personalized services; produce superior investment results consistent with client objectives; and retain exceptionally skilled individuals,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



# Market Indicators

	Current	Three Months Ago	One Year Ago
<b>Stock Indices</b>	6/30/09	3/31/09	6/30/08
Dow Jones Industrial Average	8,447	7,609	11,350
Standard & Poor's	919	798	1,280
<b>U.S. Treasury Yields</b>			
2 Year	1.1%	0.8%	2.6%
5 Year	2.5%	1.7%	3.3%
10 Year	3.5%	2.7%	4.0%
30 Year	4.3%	3.5%	4.5%

## 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	9.0%	—
Consumer Staples	12.0%	—
Energy	12.4%	+
Financials	13.6%	—
Health Care	14.0%	=
Industrials	9.9%	+
Information Technology	18.3%	=
Materials	3.2%	+
Telecommunication Services	3.5%	—
Utilities	4.1%	=

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