

### This Issue

- Is the S&P 500 a good measure of the stock market? Of course, but you may want to look a little deeper.

*Edward A. Burgess, CFA  
Chief Investment Officer*

- Market Diary

- Federal estate tax; changes coming in 2010. Roth IRAs can offer advantages; and timing of conversion from traditional IRAs is important.

*Cynthia L. Jones  
Sr. Vice President*

*“Success is a lousy teacher. It seduces smart people into thinking they can’t lose.”*

— Bill Gates

## *A Mismatch of Market Leadership and Investment Fundamentals*

We pride ourselves on following a strict discipline of only selecting stocks of companies with solid fundamentals: sales growth, earnings growth, margins, rational balance sheets and safe dividends. Managers of our select mutual funds have similarly demanding standards. Nonetheless, our common stock performance this year has been below that of the S&P 500. Listed below are the best and worst 10 stocks among the largest 100 in the S&P 500 since the March 6, 2009 low:

	Since 3/6/09	Since '08 High
<b>The Best</b>		
Bank of America	+438.85%	-62.47%
Citigroup	+369.90%	-83.81%
Capital One Financial	+329.96%	-43.73%
Ford Motor Co	+324.12%	-17.97%
Dow Chemical	+266.67%	-38.63%
American Express	+230.41%	-35.59%
Wells Fargo & Co	+227.29%	-36.94%
MetLife Inc	+211.54%	-41.88%
JPMorgan Chase	+175.08%	-13.45%
Alcoa Inc	+151.34%	-70.69%
<b>The Worst</b>		
Southern Co	+12.91%	-22.00%
Exelon Corp	+11.13%	-46.14%
Verizon Comms	+10.96%	-31.66%
Baxter Int'l	+9.80%	-20.30%
McDonald's Corp	+9.50%	-14.82%
Monsanto Co	+8.03%	-46.91%
ExxonMobil Corp	+7.15%	-28.62%
Gilead Sciences	+5.84%	-19.31%
Abbott Labs	+5.50%	-19.02%
Wal-Mart Stores	+0.37%	-23.12%

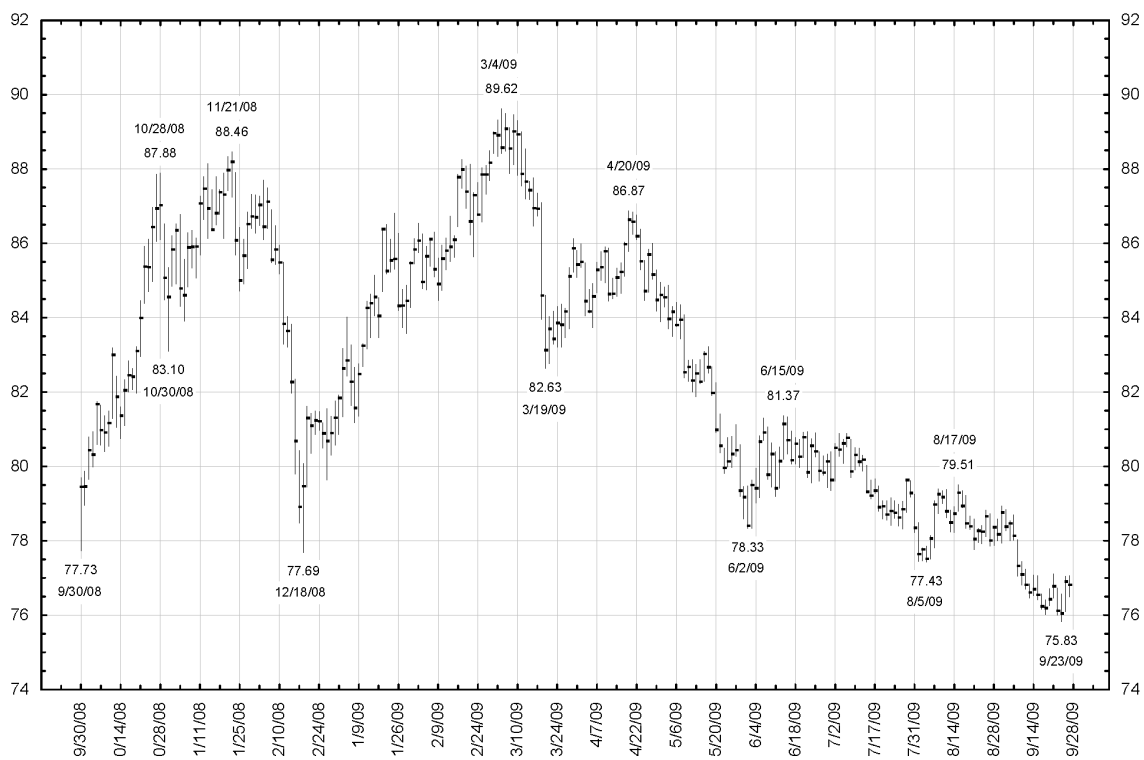
Did the financial stocks rally the hardest because they had fallen the most during the market's dive? Perhaps, but, as a group, they are still significantly below their highs while the stocks at the bottom of the list are much closer on average to their highs. Did the fundamentals of

## Equitable Trust Quarterly Review and Outlook

these companies improve drastically over the last six months? Not really. When one-time transactions are taken out of the profit picture, earnings at financial institutions continued to be hampered by lack of demand for loans and a tremendous rise in payment delinquencies arising from surging unemployment and impaired collateral. If one looks closely at the footnotes associated with many banks' financial statements, one will see that capital is not nearly as robust as stated on the books.

decline of the U.S. dollar against other currencies (see chart below). The dollar index is down 15% from its March high. In theory, this should make our exports more attractive on the world stage and cause the prices of goods we import, e.g. oil, to go higher. Unfortunately, a weakening dollar might also lead foreign investors to dump their U.S. investments, setting up a nasty correction in both stocks and bonds and lead to significantly higher U.S. interest rates. If the Fed were to back off its quantitative easing

U.S. Dollar Index (DX)



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Sometime, perhaps soon, fundamental realities will again matter in stock valuation. We have raised our equity allocation over the past quarter, but our attitude about the stock market was best stated by Howard Simons of Bianco Research. "We are renting stocks, not owning them." We are prepared to vacate the premises quickly if market breadth, liquidity, trend, volatility or volume deteriorate.

We are following another trend which is likely to have a profound impact not only on every investable asset class but the real economy as well – the ongoing

program (printing money), it might lead to a stronger dollar, but rates will still likely go up, given the huge federal budget deficit that must be financed.

We see one of two unattractive scenarios as most likely. The recession could continue unabated and stocks retreat on reduced inflation and earnings expectations, or the economy could recover, causing inflation to accelerate or the Fed to "slam on the brakes." We are prepared to be decisive, nimble in our trading and responsive to all of your questions.

## Market Diary Period Ending September 30, 2009

	CLOSE	RATES OF RETURN				
Equities	9/30/09	Last 3 Mo.	YTD	1 year	3 years	5 years
U.S. Stock Market (S&P 500)	1057.08	15.61	19.26	-6.91	-5.43	1.02
U.S. MidCap Stocks (Russell Mid-Cap)	4427.77	20.62	32.63	-3.55	-4.07	3.88
U.S. Small-Cap Stocks (Russell 2000)	604.28	19.28	22.43	-9.55	-4.57	2.41
International Stocks (MSCI EAFE)	1552.84	18.80	25.49	-0.02	-6.26	3.33
Emerging Markets Stocks (MSCI Emerging Markets)	914.05	20.06	61.20	16.15	5.51	14.51
Alternatives	9/30/09	Last 3 Mo.	YTD	1 year	3 years	5 years
Gold (London Precious Metal Fix)	995.75	6.55	14.49	12.58	18.44	19.09
Crude Oil (West Texas Intermediate)	70.61	1.03	58.32	-29.84	3.92	7.30
Real Estate (Dow Jones REIT)	136.15	30.15	12.35	-30.88	-17.91	-5.39
Commodities (Dow Jones UBS Commodity)	127.68	4.20	8.90	-23.90	-7.24	-3.58
	YIELDS					
Fixed Income	9/30/09	6/30/09	12/31/08	9/30/08	9/30/06	9/30/04
U.S. Treasury Bills 91 days	0.14	0.19	0.11	0.91	4.89	1.71
2 Year US Treasury	0.95	1.11	0.76	2.00	4.71	2.63
10 Year US Treasury	3.31	3.53	2.25	3.85	4.64	4.14
Investment Grade Taxable Bonds (Barclay's Aggregate)	3.55	4.12	3.99	5.27	5.32	4.27
10 Year AA Municipal Bonds (Moody's)	2.83	3.69	3.99	4.23	3.78	3.52

Rates of Return for Equities and Alternatives for periods longer than 12 months are annualized. Data provided by Bloomberg L.P., The Chart Store, Interactive Data Corp. and U.S. Treasury Department.

## Major Estate and Income Tax Planning Changes for 2010

- The Federal Estate Tax is eliminated for estates of individuals who die in 2010. The maximum tax rate and applicable exclusion amounts return to their 2001 levels in 2011 (55% tax over \$1,000,000).
- The stepped-up tax cost basis as of death is also set to expire in 2010.

*It is anticipated that the Obama administration and Congress will not allow these repeals to take place in 2010, and many speculate the current estate tax exclusion amount of \$3.5 million and maximum tax rate of 45% will be retained.*

*We recommend that you periodically review and revise estate planning documents to reflect changes in personal circumstances and estate tax laws. A review of your estate planning documents will be especially timely once these tax laws have been clarified.*

- In 2010, a traditional IRA holder can convert to a Roth IRA without level of income restrictions that would otherwise prohibit conversion. Also, by special ruling, income tax that results from the conversion can be spread over two years.

Disclaimer: Any performance data quoted herein represents past performance, does not guarantee future results, nor can its accuracy be guaranteed. The commentary represents the opinions of Equitable Trust and is subject to change based on market and other conditions. These opinions are not intended to be a forecast of future events nor future results. Estate, trust and tax planning related material is provided for discussion and information only. Competent legal and accounting advice should be acquired before adopting any of the strategies or approaches described. These materials are provided for informational purposes only.

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