Quarterly Review and Outlook

April 2014

EQUITABLE Trust

Trustees and Investment Advisors

This Issue

"Our flag is symbolic of our taxes. We get red talking about them, white when we receive tax bills, and blue after we pay them."

— An unknown Dutchman

Equities Still the Go-To Asset Class

Despite economic weakness in the first quarter, probably attributable to weather and tension over Crimea, the Fed continued to taper and remains on course to end quantitative easing by year-end. The uncertainty caused taxable and municipal bonds to rally, making up for some of last year's lost ground. The 10-Year Treasury yield settled in around 2.7%. Meanwhile, global equities eked out a marginally positive total return in the first quarter. Inflation continues to tick downward while inflation expectations, as measured by the 10-Year TIPs breakeven, remain subdued. However, commodities, real estate and gold prices rose sharply, reflecting global tensions and possibly underlying economic strength.

While we don't expect a sudden jump in interest rates, we must acknowledge that "returning to normal" means higher rates in the long-term. Bond prices are still elevated and money market funds yield next to nothing. These facts make equities the go-to asset class. While not cheap in and of themselves, stocks fill the "there is no alternative" bill.

A gradually improving economy at home and in the rest of the developed world, coupled with low inflation, offers a suitable environment for rising corporate profits. Also, growing energy production in the U.S. should deliver gains in the energy sector and opportunities for controlling costs in all the others. Of course, there are always risks to any forecast, and the risks we can foresee include being wrong about the economy, difficulties in the emerging world spreading to the developed world, and war over Ukraine or other geopolitical issues. More important, perhaps, are the risks we cannot foresee but nonetheless exist.

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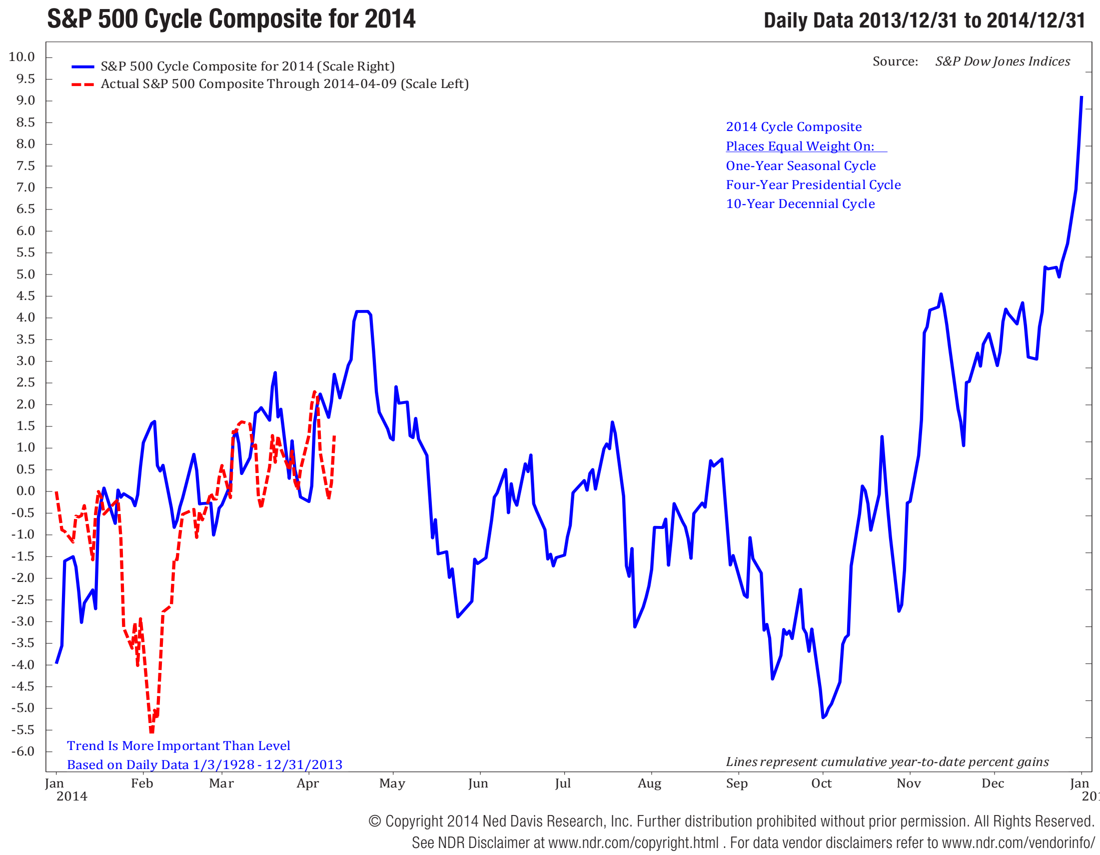
Equities Still … (continued)



In mid-term election years, the U.S. equity markets are often weak in the 2nd and 3rd quarters and finish strong in the 4th quarter (see the chart above). Given that it has been nearly two years since the last 10% correction in the S&P 500 Index, one could be forgiven for believing a correction is overdue.

Our target asset allocations haven't changed since last quarter. We are making sure our clients' accounts are not over-exposed to risk assets in preparation for the normal seasonal pattern. When and if a significant correction arrives, we will then check accounts to make sure they have appropriate exposure. We believe the cyclical uptrend in stocks will persist.

Given the recent media focus (or obsession) with the topic of high frequency trading (HFT), we believe it is necessary for us to assess how the practice affects our clients. First, the facts: HFT has been around for years. At present, HFT is not illegal. Whether HFT adds liquidity to the markets (as its proponents proclaim) or merely adds to investors' costs (as detractors insist) is not settled. Claims that the market is "rigged" only serve to damage the public's confidence.

Our take is that HFT probably adds to the costs of trading by something less than one penny a share. As such, we are not for it. On the other hand, we also recognize these trading techniques have already become less profitable for HFT firms and economics, rather than new regulation, might bring the practice under control. Most importantly, when we buy a stock or employ a mutual fund or investment manager to do so, we are expecting to capture a large move in the stock's price over several years. Tiny inefficiencies in trading don't change the economics of a long-term approach and don't undermine our overall confidence in the markets.

Market Diary Period Ending March 31, 2014

	CLOSE	RATES OF RETURN				
Equities	**3/31/14**	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**
Global Stock Market (MSCI All Country World)	742.02	1.21	1.21	17.17	9.14	18.43
U.S. Stock Market (S&P 500)	1872.34	1.81	1.81	21.86	14.66	21.16
U.S. Mid-Cap Stocks (Russell Mid-Cap)	9479.94	3.53	3.53	23.51	14.39	25.55
U.S. Small-Cap Stocks (Russell 2000)	5477.96	1.12	1.12	24.90	13.18	24.31
International Stocks (MSCI EAFE)	6756.72	0.77	0.77	18.06	7.72	16.56
Emerging Markets Stocks (MSCI Emerging Markets)	1949.08	-0.37	-0.37	-1.07	-2.54	14.83
Alternatives	**3/31/14**	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**
Hedge Funds (HFRX Global Hedge Fund)	1239.14	1.11	1.11	4.63	0.46	3.80
Gold (SPDR Gold Trust ETF)	123.61	7.41	7.41	-19.51	-3.92	6.68
Crude Oil (West Texas Intermediate)	101.57	3.46	3.46	4.45	-1.47	15.39
Real Estate (Dow Jones REIT)	7043.03	10.35	10.35	4.35	10.27	28.92
Commodities (Dow Jones UBS Commodity)	270.88	6.99	6.99	-2.10	-7.37	4.24
Fixed Income		**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**
Barclays 1-10 Year Muni Blend Bond Index		1.60	1.60	0.78	3.89	4.02
Lipper High Yield Bond Index		2.90	2.90	7.50	8.20	16.90
Barclays Aggregate Bond Index		1.84	1.84	-0.10	3.75	4.80
Barclays Global Aggregate ex US Bond Index		2.79	2.79	3.24	2.06	5.25

Rates of Return for periods longer than 12 months are annualized. Data provided by The Chart Store, Hedge Fund Research, Informais, and Morningstar.

Professional Trust and Estate Services Offer Long-Term Returns

A recent court decision in Florida highlights the perils of attempting to cut costs on professional trust and estate services.

The Supreme Court of Florida, applying the same rule of law that exists in Tennessee, held in favor of two nieces who challenged the will of their aunt, which was created in 2004 using an online do-it-yourself will program called "E-Z Legal Form." In the will, the aunt attempted to devise all of her property to her brother (the nieces' uncle). While the will specifically mentioned all of the aunt's property at the time of its execution, it failed to include a residuary clause (a standard "sweep-up" provision that indicates how any remaining property should be distributed).

While the court acknowledged that it was the aunt's likely intent to pass all of her property to her brother, the lack of a residuary clause meant that property not mentioned in the will (which included property inherited by the aunt after the will was executed) would pass under the state's intestacy statutes that dictate how property should be distributed in the absence of a will. Under these terms, the nieces inherited a share of the additional assets.

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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.

Professional Trust and Estate Services ... *(continued)*

The decedent's understandable but misguided efforts to save money echo a similar recurring theme frequently seen in the naming and appointment of fiduciaries. In efforts to save heirs money, individuals often will name family members (typically a spouse or child) as the executor of their estate or trustee of their trust. Ignoring the burden this places on the sometimes unwilling appointee, the motivation to cut costs often results in the unintended opposite effect.

Unless the appointee has extensive experience as a fiduciary, the trust or estate will likely employ a number of outside agents – attorneys, CPAs, and financial advisors – to advise the fiduciary. These agents may represent the fiduciary very well, but without experience in selecting the agents and coordinating their efforts, these costs may well exceed the cost of a professional fiduciary. A professional fiduciary has the depth of experience to perform some of these tasks as a part of its fees and is able to make efficient use of these services that are still required. These issues, combined with the high potential for conflicts of interest, result in a much higher probability for family conflict and litigation. These events certainly have the potential to drain the funds of the estate or trust and create irreparable family strife. Finally, the resignation, incapacity, or death of the appointed family member can lead to additional costs and disruption. A professional fiduciary is able to provide a team of advisors that ensures continuity, thereby avoiding these issues.

A concurring opinion in the previously cited case noted that the case served as a "cautionary tale" and "reminded (her) of the old adage 'penny wise and pound-foolish.'" The extra expense spent on experienced trust and estate planning and administration can go a long way toward preventing anxiety over the long term.

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