Quarterly Review and Outlook

July 2011

EQUITABLE Trust

Trustees and Investment Advisors

This Issue

"The only investors who shouldn't diversify are those who are right 100% of the time."

— John Templeton

Life After the Great Monetary Stimulus

The two-year stock market rally took a breather from its climb during the second quarter. The S&P 500 Index was barely positive (plus 0.1%) after an impressive "last-minute" surge. In contrast, the fixed income markets marched ahead. For example, the 10-Year Treasury returned 3.6% during the quarter, including price change.

Data on the economy have been mixed, with both signs of strength and evidence of weakness. Improvement is found in the Index of Leading Economic Indicators, Total Non-Farm Employment and a drop in Initial Unemployment Claims. However, bad news is found in the auto sales, house prices, consumer sentiment and inflation measures. The Urban Consumer Price Index is now up 3.44% year-over-year.

On June 30, the Federal Reserve ended its quantitative easing program. While we expect the Fed to buy additional securities to offset maturities, the Great Monetary Stimulus, which in our opinion bore much of the responsibility for the bull market in stocks, is now behind us.

The Great Fiscal Stimulus is probably largely behind us as well. No later than August 2, the Congress will have to agree on some package of spending cuts and/or revenue increases in order to win an extension of the Federal debt ceiling. Whatever the final mix, it will not look like stimulus.

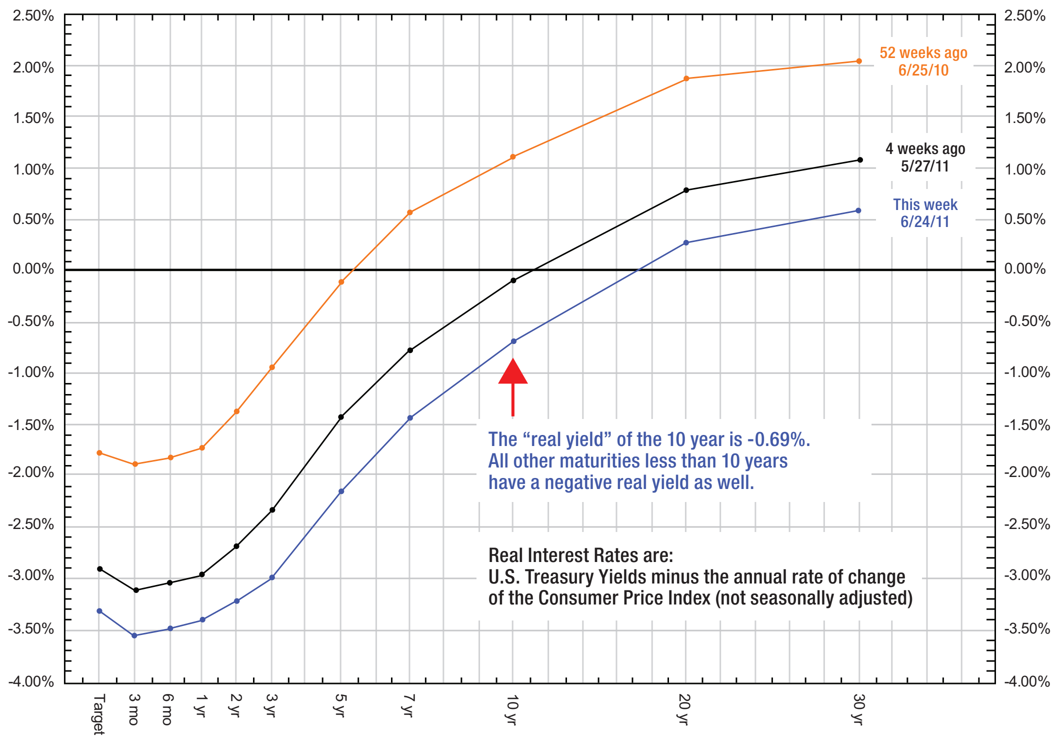
In the coming months, we see money markets continuing to yield essentially zero, the rally in bond markets ending and the stock market muddling ahead, perhaps for no better reason than the lack of a viable alternative.

The economic data, the end of monetary stimulus and the curtailment of fiscal stimulus have motivated the Investment Committee to ponder the outlook for bonds. Yields, in fact, on investment-grade bonds are near historic lows and are unlikely to go lower in the absence of stimulus. We can identify several plausible scenarios where yields will climb (and bond prices fall). Consumer Price Inflation at more than 3% means that we don't expect returns from new bonds purchased in our customary

Life After ... *(continued)*

10-year maturity range in this environment to offer positive rates of return, adjusted for inflation. Investment-grade municipal bonds face the same problem. See the chart below.

Real U.S. Treasury Yield Curve



If the Fed decides to fight rising inflation, it will raise interest rates. Rising yields may be good news for new purchasers but bad news for people who already own bonds. If we were to suddenly experience an increase in interest rates, the impact on bond prices would be significant.

The Potential Impact of Rising Interest Rates

	Yield	Par Value	Price When Up 1%	Price When Up 2%	Price When Up 3%
2-Year Note	1.00%	$100	$98.05	$96.15	$94.29
10-Year Note	3.00%	$100	$91.82	$84.41	$77.68

Source: Wells Fargo Advisors

It is not our plan to sell bonds from client portfolios. These securities, bought over time, have generally attractive coupons, are solid credits and were bought at favorable prices and times. We are confident that new bond purchases will mature at par and pay their interest, however, our concern is that investment-grade bonds purchased with maturities extending out to 10 years will be assured of losing purchasing power in the current inflationary environment. For accounts traditionally holding a blend of stocks and bonds, we will not reinvest proceeds from bonds that mature or are called into bonds until the yield-vs.-inflation picture looks more attractive.

For some accounts, this might lead to the buildup in cash reserves. In these cases, we will likely purchase lower-risk multi-strategy mutual funds, higher-yielding quality stocks or dividend-oriented mutual funds.

Market Diary Period Ending June 30, 2011

	CLOSE	RATES OF RETURN				
Equities	**6/30/11**	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**
U.S. Stock Market (S&P 500)	1320.64	0.10	6.02	30.69	3.34	2.94
U.S. Mid-Cap Stocks (S&P 400 Mid-Cap)	978.64	-0.73	8.56	39.38	7.82	6.60
U.S. Small-Cap Stocks (S&P 600 Small-Cap)	444.69	-0.16	7.54	37.03	8.16	4.61
International Stocks (MSCI EAFE)	1708.08	0.33	3.00	26.70	-4.60	-1.29
Emerging Markets Stocks (MSCI Emerging Markets)	1146.22	-2.11	-0.45	24.86	1.78	8.92
Alternatives	**6/30/11**	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**
Gold (London Precious Metal Fix)	1505.50	4.62	7.11	21.02	17.41	19.67
Crude Oil (West Texas Intermediate)	95.42	-10.59	4.42	26.17	-12.00	5.22
Real Estate (Dow Jones REIT)	188.88	1.69	7.03	26.33	-0.43	-3.79
Commodities (Dow Jones UBS Commodity)	462.51	-6.06	0.47	35.05	-1.19	10.83
	YIELDS					
Fixed Income	**6/30/11**	**3/31/11**	**12/31/10**	**6/30/10**	**6/30/08**	**6/30/06**
U.S. Treasury Bills 91 days	0.03	0.09	0.12	0.18	1.90	5.00
2 Year U.S. Treasury	0.45	0.80	0.61	0.61	2.63	5.16
10 Year U.S. Treasury	3.18	3.47	3.30	2.97	3.99	5.15
Investment Grade Taxable Bonds (Barclay's Aggregate)	2.83	3.08	2.97	2.83	5.07	5.79
10 Year AA Municipal Bonds (Moody's)	3.12	3.42	3.93	3.14	4.03	4.20

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.

Trusts Are NOT All About Tax Planning

Trusts serve many purposes, with the management of death taxes being one of the best known. However, even if you are not concerned with reducing estate or inheritance tax and have very responsible adult children as the primary focus of your estate plan, trusts should be given careful consideration in accomplishing whatever concept you have for your legacy. A trust can be the perfect tool to brand your legacy with your goals, objectives, values, support, encouragement and incentives for your family, and the trust does not have to be unnecessarily complicated to do the job.

Examples of ways in which trusts can be used to implement a lasting legacy are almost as numerous as the variety of circumstances, needs and objectives of different families and their relationships among each other. For starters, it might be a good idea to consider the advantages offered by a few trusts that we have seen recently:

- Trusts can protect family assets from loss due to claims by creditors of family members or due to bankruptcy that could be caused by anything from unforeseen medical expenses, an automobile accident or a failed business venture;
- Trusts can protect a family legacy from loss due to divorce of a family member;

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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.

Trusts Are NOT ... *(continued)*

- Trusts can provide professional management of assets for the family as a unit rather than fractionalized shares;
- Trusts can provide resources to family members who may have special needs without disqualifying those individuals from their basic governmental benefits or supplementary services;
- Trusts can provide a structure to permit the family business to be under the control of those children (or child) that is most involved in the business while also providing a "fair" legacy to those children who have not been involved in the business;
- Trusts can provide an efficient way to pass on ownership of real estate in other states without the necessity of probate in a court of the state where the property is located.

These are only a few examples of the uses and purposes for trusts that are unrelated to "complicated" estate tax planning. We do recognize that trusts do not necessarily play a role in every estate plan, but contrary to some popular myths, many valuable and long-term goals can be best addressed through relatively simple and often totally revocable trusts. Equitable Trust is always ready to provide you with information and ideas about how trusts might serve your personal legacy plan so that you can be confident that you have given thorough consideration to all of the issues and opportunities that might apply specifically to your family.

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