

This Issue

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“Civilization is a race between education and catastrophe.”

— H. G. Wells

Greek Tragedy or China Syndrome?

The second quarter was marked by weakness in bonds and relative stability in equity markets, at least until the latter part of June. Alternative investments were generally steady. Stock volatility, as measured by the VIX index, rose noticeably, albeit from a low level. As we write in early July, the media and market pundits are obsessed with Greece.

Our take on this Mediterranean country is that clearly it is unable to pay its debts, but the austerity imposed upon it will make it unlikely to ever experience sufficient growth to pay them, now or later (if Germany and the rest of Europe agree to restructuring the debt). We don't think there is a good outcome available to the Greek people. We also believe that much has changed in Europe since the first Greek crisis in 2011. Banks are no longer holding as much of Greece's debt, and the European Central Bank is taking an aggressive stance to stimulate the economies of the Eurozone. Greece is already in default, and if the country leaves the EU, the fallout will be felt mostly in Greece and not elsewhere.

Just as significant, and possibly more, is the meltdown taking place in the equity markets of China, the world's second-largest economy. Despite aggressive actions by the People's Bank of China, the markets are down 30%, and 50% of the stocks listed there have requested trading suspensions. The world is waiting to see if China will remain stable or enter a period of volatility that could affect its trading partners, especially neighboring emerging market countries.

Back in the U.S., the government released a solid but unspectacular employment report for June. The unemployment rate dropped to 5.3%, close to what the Fed considers full employment. Unfortunately, the drop was caused entirely by a decline in the labor participation rate to 62.3%, the lowest since the 1970s.

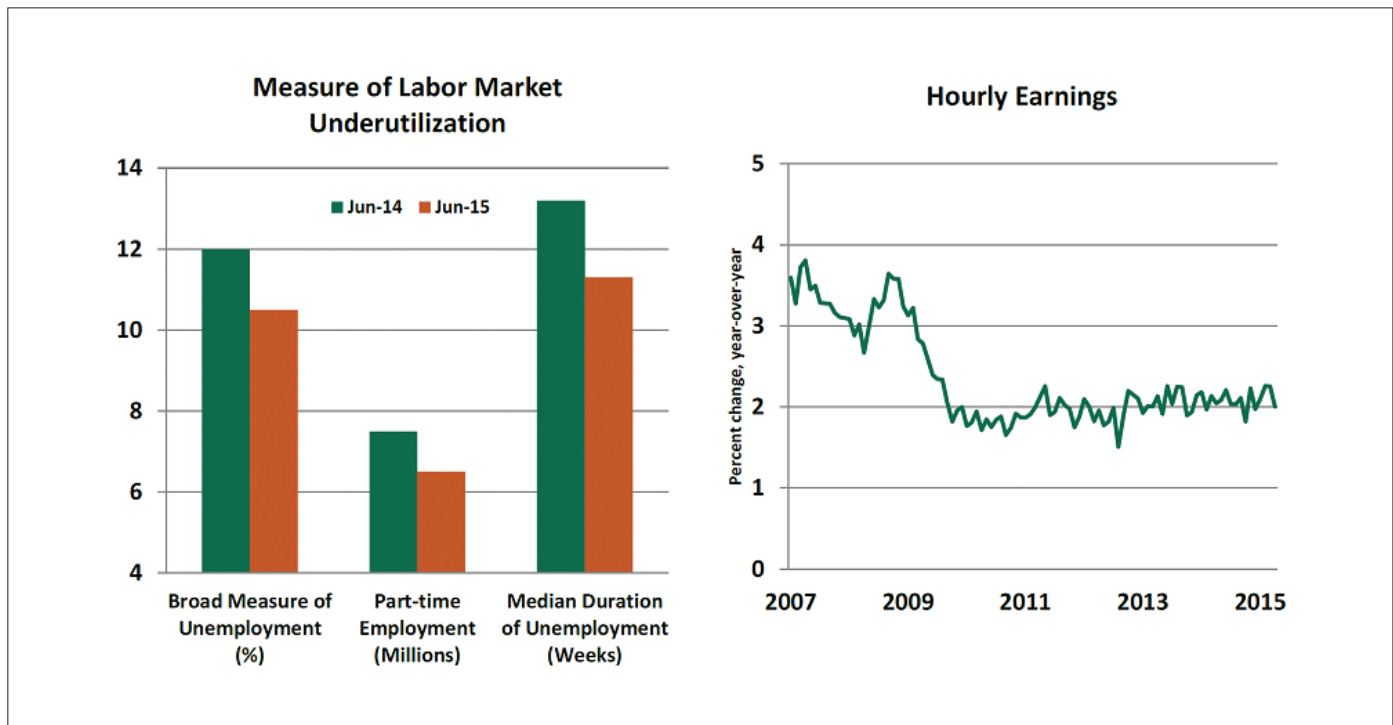
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Equitable Trust Quarterly Review and Outlook

Greek Tragedy ... (continued)

The good news was that the labor market underutilization statistics showed marked improvement. The broadest measure of unemployment declined 0.3% to 10.5%, the lowest since July 2008. The median duration of unemployment stands at 11.3 weeks, the lowest in nearly seven years. Part-time employment, at 6.5 million, is at a new low for this business cycle.

The bad news is that there were downward revisions to the employment estimates for April and May. Also, hourly earnings were flat in June.



Source: © 2015 Haver Analytics, Northern Trust

How the Fed interprets these numbers, and any other economic data released preceding their September meeting, will determine whether the central bank will be ready for the "liftoff" in short-term interest rates then or will wait until later. Continued turmoil in Greece and in China's stock market are also likely to influence Fed thinking.

Despite volatility and uncertainty, and holding to our long-term thinking that eventually interest rates will rise, and with no recession in sight, we are keeping allocations to bonds small and are adding to stocks and alternative investments on dips.

Market Diary Period Ending June 30, 2015

Equities	RATES OF RETURN					
	Last 3 Mo.	YTD	1 year	3 years	5 years	10 years
Global Stock Market (MSCI All Country World)	0.50	2.98	1.31	13.69	12.58	7.08
U.S. Stock Market (S&P 500)	0.28	1.23	7.42	17.30	17.32	7.89
U.S. Small-Cap Stocks (Russell 2000)	0.42	4.75	6.49	17.83	17.08	8.38
International Stocks (MSCI EAFE)	0.80	5.93	-3.59	12.68	10.23	5.85
Emerging Markets Stocks (MSCI Emerging Markets)	0.81	3.05	-4.81	4.04	4.01	8.45
Alternatives	Last 3 Mo.	YTD	1 year	3 years	5 years	10 years
Hedge Funds (HFRX Global Hedge Fund)	-0.80	1.30	-1.10	3.20	1.50	1.00
Global Real Estate (FTSE/EPRA NAREIT)	-5.72	-1.91	1.01	9.07	11.53	6.13
Commodities (Bloomberg Commodity)	4.66	-1.56	-23.71	-8.76	-3.91	-2.62
Energy (Bloomberg Commodity - Energy)	10.92	1.83	-43.20	-11.69	-12.44	-15.45
Gold (Gold Spot)	-0.96	-1.04	-11.36	-9.93	-1.22	10.36
Fixed Income	Last 3 Mo.	YTD	1 year	3 years	5 years	10 years
Barclays Aggregate	-1.68	-0.10	1.86	1.83	3.35	4.44
Barclays Municipals	-0.89	0.11	3.00	3.10	4.50	4.45
Barclays High Yield	0.01	2.53	-0.39	6.81	8.58	7.90

Rates of Return for periods longer than 12 months are annualized. Data is provided by Northern Trust and Hedge Fund Research.

Your Digital Life

What happens to our online presence when we are unable to continue to manage it ourselves? This is an ongoing question that technology companies, state and federal legislators, financial institutions, and estate planners continue to debate. There is an inherent difficulty with developing planning strategies and fundamental guidelines around something that evolves so quickly. The continuing exponential growth in technology and innovation has the potential to render any sort of standard paradigm useless within a matter of months.

For example, as internet security and encryption technology continue to evolve into biometric passwords (such as Apple's TouchID security), how can you grant an authorized family member or a fiduciary access in the event of incapacity or death, absent a secondary authentication method?

Needless to say, planning for one's digital estate requires near constant monitoring to stay abreast of changes

in technology, evolving website terms of service, and updates to state and federal law. However, there are a few steps one can take to begin to get a handle on planning for digital assets:

- 1. Inventory:** Just as you create a list of financial assets as a first step in developing an estate plan, it is wise to first identify and inventory all digital assets and online accounts, including email, social media websites, web access to online accounts, personal file structures, as well as photos, music, documents, and videos, all of which may be held online or on computers, external hard drives, or phones. This list could also include ATM pin numbers and home security system passcodes. Keep a running written list (easier said than done) of passwords or use an online password management service such as Last Pass or KeePass, which allow a user to create a single password to access an evolving list of passwords that can be updated automatically as they are changed.

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Your Digital Life ... (continued)

2. Back Up Files: If possible, it can be helpful to back up files such as documents and photos held in online cloud based services to a local storage device, such as a computer or external hard drive. Periodic printing and filing with important papers is also not a bad idea. This can grant family members and fiduciaries easier and quicker access.

3. Make Plans to Grant Your Fiduciaries Access and Authority: After accounts and assets are properly inventoried, it makes sense to work with an estate planning attorney to update estate documents to grant attorneys-in-fact, executors, and/or trustees authority to access digital assets. Part of this process should also be developing a method to provide access to these accounts. This may be done in a number of ways, including sharing a master password to a password management service, or providing a letter of instruction including the location of a list of accounts and related passwords. It may also be useful to review the terms of service of frequently visited sites. For example, Facebook recently developed a process to allow a user to specify if an account should be permanently deleted at death, as well as to grant limited access to a "legacy contact" who can look after the account if it is memorialized.

4. Provide Instructions: To the extent possible, provide instructions to fiduciaries and family members regarding the management of specific digital assets. Instructions may include whether to continue or close sites, items that should not be deleted, assets that are subject to specific bequests, and how to monetize digital assets that may have economic value.

As a final note to potential fiduciaries or family members with access to accounts: it is wise to review terms of service for specific accounts carefully. A conglomerate of federal laws such as the Electronic Communications Privacy Act, the Computer Fraud and Abuse Act, and the Stored Communications Act can make it a criminal act for someone to exceed authorized access that does not comply with specific terms, even if that person is acting on someone else's wishes. A number of states have passed versions of the Uniform Fiduciary Access to Digital Assets Act, which would grant specifically appointed fiduciaries limited authority to access, control, or copy digital assets. In 2014, the Tennessee General Assembly filed a version of the uniform act, known as the Digital Asset Protection Act; however, it was not passed into law. It will be worth watching to see if the General Assembly takes up the issue of digital assets again in 2016.

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