Quarterly Review and Outlook

October 2011

EQUITABLE Trust

Trustees and Investment Advisors

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  Chief Investment Officer
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  T. Richard Travis, JD
  Senior Vice President

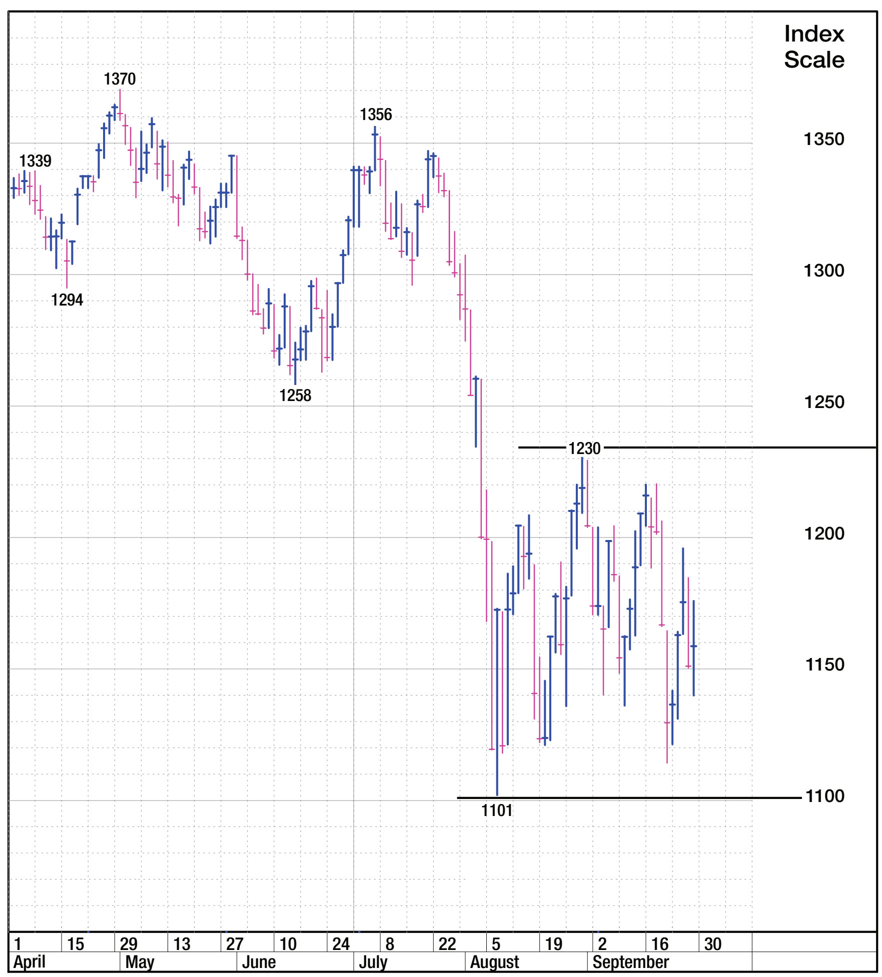
"Politics – Strife of interests masquerading as a contest of principals."

— Ambrose Bierce

What Would Cause Us to Become Bullish on Stocks? What We Are Doing in the Meantime

The second quarter began positively enough. The S&P 500 Index quickly rallied to 1356 despite the end of QE2 and a deadlock in Congress over funding the budget. But soon after, the market began a "waterfall" decline of almost 19% before regaining its footing. Since early August, the market has been trading in a range between 1100 and 1230 (See chart below). Institutional investors explained this behavior as the market's appraisal of the messy agreement in Washington, the looming

S&P 500



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What Would Cause ... *(continued)*

sovereign/banking crisis in Europe and new fears of a double-dip recession in the U.S.

Recently reported economic releases have been mixed, with industrial production and employment showing weakness and with bank credit and median home prices revealing some strength. Economists are beginning to become more concerned about the appearance of a recession. The President's proposed "jobs" bill, if passed, would only partially offset the fiscal drag caused by the expiration of previously enacted stimulus bills. If a new recession comes, consensus S&P 500 earnings estimates of $94 are too high and will be adjusted downward, possibly to as low as $80.

At the end of the last quarter, we discussed the relative unattractiveness of locking in bond yields at rates below the stated rate of inflation. During the 3rd Quarter stock market turmoil, and after the Fed's "Twist" program was announced, yields have fallen even further below the inflation rate. We have continued to seek current income with high-yield and emerging-market bond funds as well as dividend-paying stocks. Only higher yields and/or lower inflation expectations would whet our appetites for investment-grade bonds.

As long as the stock market remains in the trading range, we favor buying lower-risk assets at the lower end of the range and selling some of the higher-risk holdings toward the upper end of the range. (See chart again). Since our base case wavers between slow growth and recession, stocks could be vulnerable to a lower low over the next several quarters. This would be the result of reduced earnings expectations and possibly lower price-earnings multiples. As a result, we favor lower-volatility, higher-yielding equities and multi-strategy funds.

Gold remains an important part of most portfolios. It has corrected sharply in the waning days of the quarter, nonetheless, the precious metal is still up 14% year-to-date. Our base case is that the macroeconomic factors which caused gold to rise in the first place are still present for the long term. We see the recent drop as a normal price correction only.

What would cause us to be bullish on the market in the near- to medium-term?

- No recession (current earnings and price multiple expectations hold)
- Grand compromise on Federal tax/spending policy
- Resolution to sovereign/bank credit stalemate in Europe

Be assured that we are watching these indicators and many others closely. Your investment officer would be delighted to explain further our views and how they pertain to your portfolio.

Market Diary Period Ending September 30, 2011

	CLOSE	RATES OF RETURN				
Equities	**9/30/11**	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**
U.S. Stock Market (S&P 500)	1131.42	-13.87	-8.68	1.14	1.23	-1.18
U.S. Mid-Cap Stocks (S&P 400 Mid-Cap)	781.26	-19.88	-13.02	-1.28	4.05	2.20
U.S. Small-Cap Stocks (S&P 600 Small-Cap)	355.39	-19.83	-13.79	0.21	0.77	0.27
International Stocks (MSCI EAFE)	1373.33	-19.60	-17.18	-12.02	-4.02	-6.14
Emerging Markets Stocks (MSCI Emerging Markets)	880.43	-23.19	-23.53	-18.14	3.81	2.50
Alternatives	**9/30/11**	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**
Gold (London Precious Metal Fix)	1620.00	7.61	15.26	23.95	22.35	22.01
Crude Oil (West Texas Intermediate)	79.20	-17.00	-13.33	-0.96	-7.68	4.71
Real Estate (Dow Jones REIT)	159.63	-15.49	-9.54	-3.84	-6.77	-8.30
Commodities (Dow Jones UBS Commodity)	412.71	-10.77	-10.35	6.63	5.45	9.41
	YIELDS					
Fixed Income	**9/30/11**	**6/30/11**	**12/31/10**	**9/30/10**	**9/30/08**	**9/30/06**
U.S. Treasury Bills 91 days	0.02	0.03	0.12	0.16	0.91	4.89
2 Year U.S. Treasury	0.25	0.45	0.61	0.42	2.00	4.71
10 Year U.S. Treasury	1.92	3.18	3.30	2.53	3.85	4.64
Investment Grade Taxable Bonds (Barclay's Aggregate)	2.35	2.83	2.97	2.56	5.27	5.32
10 Year AA Municipal Bonds (Moody's)	3.55	3.12	3.93	2.68	4.23	3.78

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.

Qualified Charitable Distribution

As we approach year end, it is worthwhile to review the tools and techniques available to manage tax liability.

The qualified charitable distribution and its derivation can be a valuable tool for charitable-minded individuals who are required to take distributions from their IRA accounts. The qualified charitable distribution, which was originally scheduled to last only from 2006 through 2009, has been extended for the current year. However, the Tax Hike Prevention Act extended this benefit, and many IRA owners may be losing this benefit because they are unaware of its continued availability. The extension is scheduled to expire at the end of this year.

If you are over age 70 (actually the year in which you reach 70½), normally you would be required to take a taxable distribution from your IRA, but the qualified charitable distribution provides some element of control. If you are currently making annual charitable contributions, the distribution from your IRA to a qualified charity can count as your required minimum distribution, making your IRA more tax

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Qualified Charitable ... *(continued)*

efficient and providing more control over next year's tax bill.

Of course, as is the case with most useful tax-planning techniques, there are limitations and requirements that must be met in the process. A few important essentials: (1) the amount that you wish to transfer to the charity must come directly from the IRA to the charity; (2) the maximum value of the qualified charitable distribution cannot exceed $100,000 per year, and; (3) the charitable organization must qualify as a recipient. For example, a qualified charitable distribution cannot name a donor-advised fund or most private foundations as a recipient.

Naming a charity as the beneficiary of your IRA is a different technique from the qualified charitable distribution discussed here, but either can be a tax-effective means to benefit a charity. In the case of either the qualified charitable distribution or a charitable beneficiary designation, assets can pass to a named charity entirely free of income tax, estate tax and inheritance tax, but close attention must be paid to the details of structure.

Equitable Trust Company
One Belle Meade Place
4400 Harding Pike, Suite 310
Nashville, Tennessee 37205

www.equitableco.com
Telephone: 615-460-9240
Fax: 615-460-9242
Toll Free: 1-866-442-3564