Quarterly Review and Outlook

January 2014

EQUITABLE Trust

Trustees and Investment Advisors

This Issue

"We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."

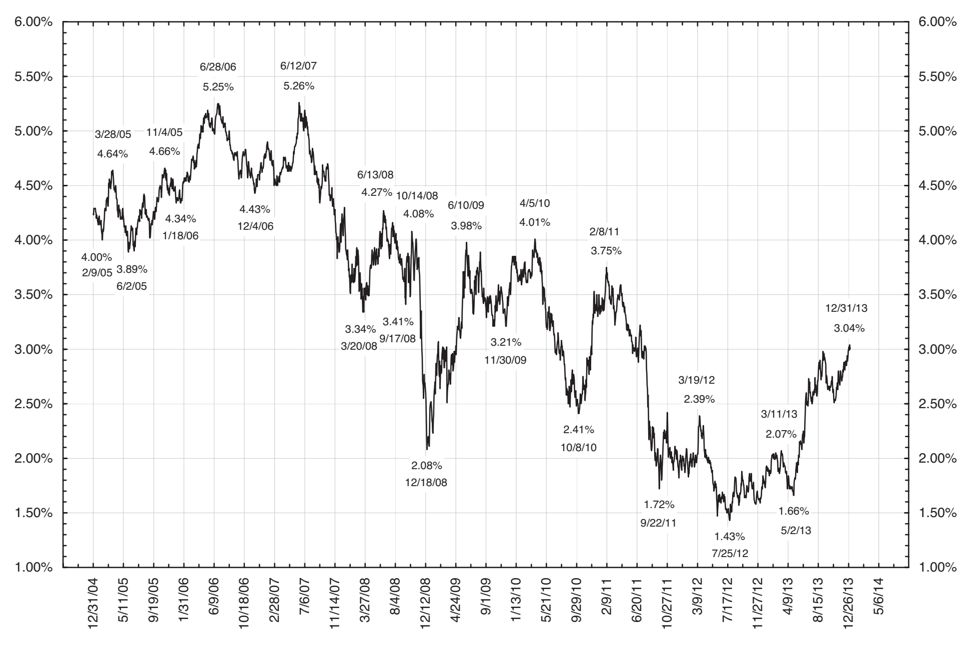
— Warren Buffet

The Fed's Still In Control

2013 was a glorious year for investors owning stocks but more forgettable for those owning bonds, commodities and gold. The S&P 500 Index provided a 10.51% return for the fourth quarter, making the total return for the entire year 32.39%. The 10-Year Treasury market total return was -7.60%. All the major commodity indices dropped while gold bullion shed more than 27% of its value.

A year ago, we stated our belief that the secular, or long-term, bull market for bonds was over. Now, there is evidence that a new secular bear market for bonds has begun. Chart 1 (below) shows the downtrend for yields was broken during the summer and that a new pattern of higher highs and higher lows is in place. We believe this argues for bond investors to keep their maturities short and to employ high-yield strategies.

U.S Treasury Yields
10 year constant maturity



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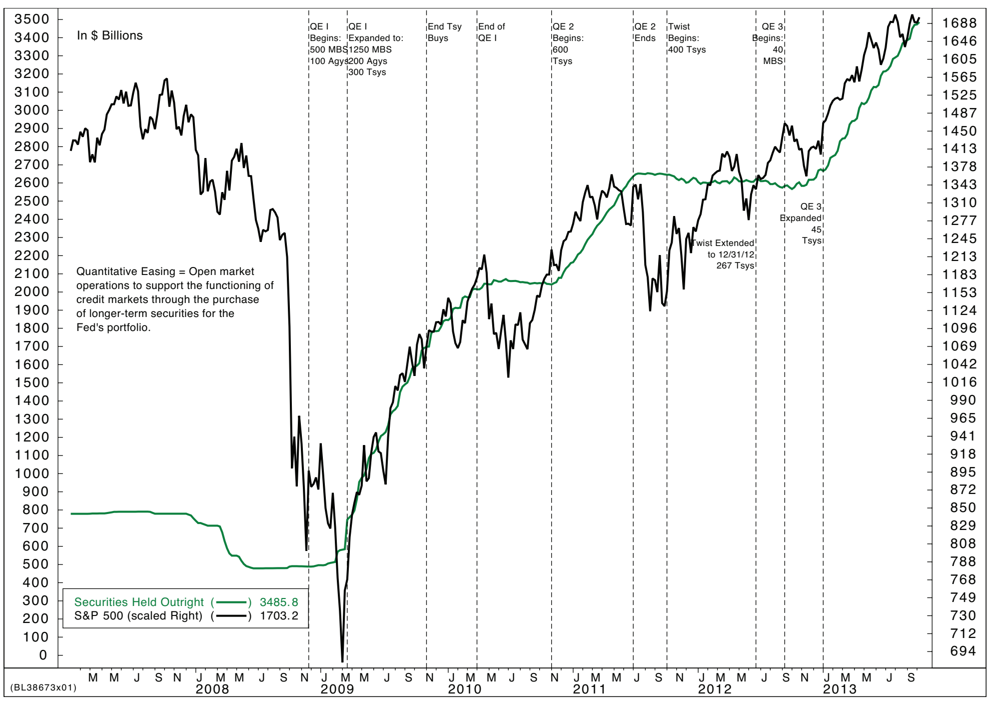
The Fed's ... (continued)

A powerful driver for stock market returns in 2013 was the Federal Reserve's policy of quantitative easing. On chart 2 below, the relationship between the S&P 500 Index and the size of the Fed's balance sheet is clearly shown. Since 2009, when aggressive Fed balance sheet-building began, there has been a high correlation between the Fed's balance sheet and the stock market. When the Fed was very aggressive, the stock market experienced its largest gains. When the Fed "leveled off" its bond purchases, the stock market experienced a "hiccup" and then traded sideways.

S&P 500 Securities Held by the Federal Reserve
Weekly Data 1/05/2007 - 10/11/2103



The Fed announced last month the long-awaited "taper," which means it will reduce its bond buying to $75 billion a month from $85 billion. If history is any guide, the stock market could experience a correction before resuming its uptrend, presumably at a slower rate (just like the Fed).

There are other reasons to believe that stock returns will be more modest in coming years. First, high current valuations portend lower expected returns. Next, bullish investor sentiment is rampant and is typically an effective contrarian indicator. Finally, the current cyclical bull market, which began at the March 2009 low, has now run longer than average and is, at least, average in overall gains. It is reasonable to assume that the market could pull back some time this year.

Our game plan is unchanged. We buy equities in diverse markets, especially on dips. Where we own bonds, we concentrate on short to intermediate maturities and high-yield securities. We try to keep cash at modest levels because of money market funds' low yields. As an alternative to bonds, we rely more on multi-strategy funds to moderate portfolio risk while providing a higher expected return.

Please feel free to contact your investment officer to see how our thinking relates to your portfolio. Happy New Year!

Market Diary Period Ending December 31, 2013

	CLOSE	RATES OF RETURN				
Equities	**12/31/13**	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**
Global Stock Market (MSCI All Country World)	733.15	7.42	23.44	23.44	10.33	15.53
U.S. Stock Market (S&P 500)	1848.36	10.51	32.39	32.39	16.18	17.94
U.S. Mid-Cap Stocks (Russell Mid-Cap)	9156.82	8.39	34.76	34.76	15.88	22.36
U.S. Small-Cap Stocks (Russell 2000)	5417.36	8.72	38.82	38.82	15.67	20.08
International Stocks (MSCI EAFE)	6705.11	5.75	23.29	23.29	8.66	12.96
Emerging Markets Stocks (MSCI Emerging Markets)	1956.22	1.86	-2.27	-2.27	-1.74	15.15
Alternatives	**12/31/13**	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**
Hedge Funds (HFRX Global Hedge Fund)	1225.49	2.30	6.72	6.72	0.22	3.70
Gold (SPDR Gold Trust ETF)	116.12	-9.52	-28.09	-28.09	-5.58	6.37
Crude Oil (West Texas Intermediate)	98.09	-4.18	6.81	6.81	2.39	20.10
Real Estate (Dow Jones REIT)	6382.72	-1.09	1.22	1.22	9.04	16.36
Commodities (Dow Jones UBS Commodity)	253.19	-1.05	-9.52	-9.52	-8.11	1.51
Fixed Income		**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**
Barclays 1-10 Year Muni Blend Bond Index		0.32	-0.32	-0.32	3.57	4.19
Lipper High Yield Bond Index		3.50	7.70	7.70	8.50	17.00
Barclays Aggregate Bond Index		-0.14	-2.02	-2.02	3.26	4.44
Barclays Global Aggregate ex US Bond Index		-0.72	-3.08	-3.08	1.73	3.51

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

The Tennessee Secret: A Top Jurisdiction For Trusts

You and your family may have read about the most "friendly" state for your family's trust. Trust havens such as Delaware, Alaska, and South Dakota are often cited as the most favorable jurisdictions in which to establish a trust in the United States. Usually not mentioned, however, is that Tennessee is at least as "trust friendly" as any of those states and is in many aspects superior to each of them.

Since 2004, when Tennessee became only the fifth state at the time to adopt a version of the Uniform Trust Code, the Tennessee General Assembly has proactively improved the state's trust laws to ensure the state's ongoing competitiveness with other favored trust jurisdictions. In July of 2013, the state legislature passed another round of sweeping legislation to further its contention as a leading U.S. trust state. Some of the primary factors that make Tennessee such an attractive trust jurisdiction include:

Income Taxes – Tennessee is one of nine states that does not tax capital gains realized by the sale of assets in trusts. While most are aware of the 6% state tax on interest and dividends, the "Hall Tax" as it is popularly known, does not apply to Tennessee trusts with beneficiaries who reside out of state.

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Dynasty Trusts – In 2007, Tennessee extended its Rule Against Perpetuities from the traditional 21 years to 360 years. This effectively allows for the creation of trusts in Tennessee to pass assets to multiple generations free of federal and state transfer taxes.

Creditor Protection – If a trust is properly drafted in Tennessee, a beneficiary's creditors will have very limited, if any, ability to reach the beneficiary's interest. Tennessee is also one of fifteen states that allows for self-settled asset protection trusts. These trusts allow a grantor to transfer assets to a trust in which the grantor is also a beneficiary, while effectively keeping those assets protected from creditors.

Directed Trusts – Tennessee allows for certain parties specified in a trust document, typically called "trust advisors" or "trust protectors," to direct the trustee with regard to investments or trust distributions, effectively bifurcating specific fiduciary responsibilities of the trustee.

These are just a few of the newer and advanced provisions. As we move forward into another new year, ask your planner and your trust officer about how Tennessee's trust provisions can benefit your estate plan. More importantly, speak with your family and friends outside of Tennessee about how a Tennessee trust can provide trust options that they might not be able to find anywhere else.

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