Quarterly Review and Outlook

January 2015

EQUITABLE Trust

Trustees and Investment Advisors

"Never make predictions, especially about the future."

— Casey Stengel

A Year of Superlatives

By almost anyone's standards 2014 was an extraordinary year. The Federal Reserve ended its quantitative easing program and tensions escalated between Russia and Ukraine, between China and Japan and between ISIS and just about everyone. The markets also provided many surprises. Our friends at Ned Davis Research compiled a list of 10 superlatives for the year:

1. The S&P 500 was up at least 10% for the third year in a row. This represents the first time this has occurred since a five-year period from 1995-99.

2. There were no more than three consecutive down days for S&P 500, representing the fewest on record. Patience punished investors like us who try to buy stocks during market dips.

3. It was the first time since 1982 that long-term Treasury bonds outperformed S&P 500 at least 10% when the market itself was up by 10%. This item was especially outside of the consensus view because everyone "knew" interest rates would rise when quantitative easing ended.

4. The U.S. large-cap stock market (S&P 500) outperformed the developed international stock market (EAFE) by the largest spread since 1997.

5. The U.S. dollar saw its strongest year since 1997.

6. The S&P GSCI (Goldman Sachs Commodity Index) suffered its second-worst year on record.

7. Oil prices underwent a decline not seen since 2008.

8. Large-company stocks outperformed small ones by the largest margin since 1998.

9. 2014 was the first time in history that utilities were the top-performing sector when the market itself was up at least 10%.

10. Energy was the worst-performing sector for first time since 1991.

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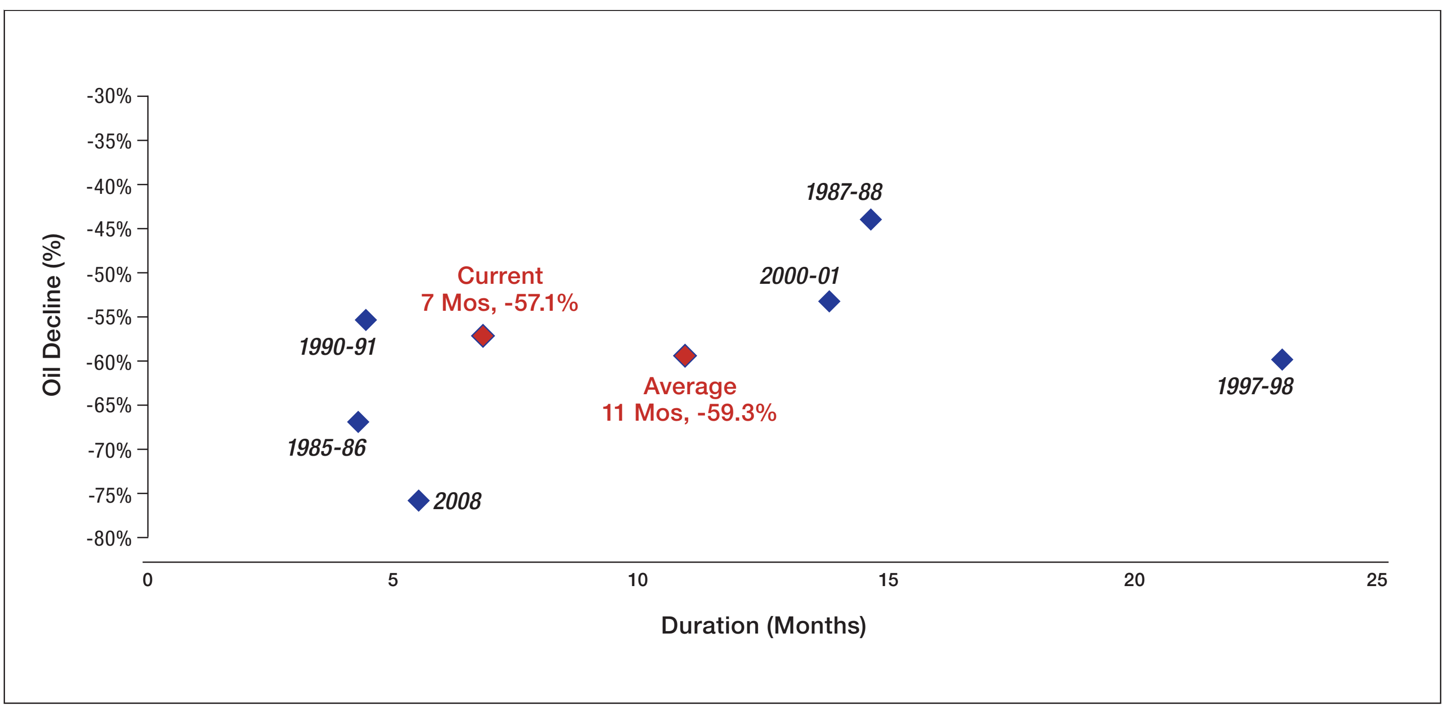
A Year of Superlatives *(continued)*

We think it is likely that nearly no one predicted the events above. Anyone who had made these predictions in January of 2014 would have been dismissed as a "kook." As legendary investor Howard Marks has said, "Forecasters usually stick too close to the current level and, on those rare occasions when they call for change, they often underestimate the potential magnitude."

The collapse in the global price of oil will provide turbulence in both the economy and the markets. Lower prices lead to lower revenues for major exporting countries and reduce costs for big oil-importing countries. Oil exploration and production companies will suffer while refiners and heavy energy users, such as airlines, prosper. All of these effects are self-correcting if markets are allowed to function freely. For example, a decline in the price of fuel encourages drivers to drive more and with bigger, less efficient vehicles. Ultimately, low prices drive an increase in demand and lead to higher prices. Further, low prices will encourage producers to stop exploring for new supplies or to shut wells. These supply cuts will also eventually lead to higher prices.

To put it mildly, forecasting well is nearly impossible. Consequently, we do not rely on macro forecasting for making our most important investment decisions. Instead, we pay attention to our best estimates of value among asset classes and individual securities while remaining mindful of well-established trends. In keeping with this approach, we do not anticipate a need to make significant changes in our clients' portfolios in the coming quarter.

Major Crude Oil Price Declines



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Market Diary Period Ending December 31, 2014

	CLOSE	RATES OF RETURN				
Equities	**12/31/14**	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**
Global Stock Market (MSCI All Country World)	767.65	0.52	4.71	4.71	14.72	9.74
U.S. Stock Market (S&P 500)	2,058.90	4.93	13.69	13.69	20.41	15.45
U.S. Mid-Cap Stocks (Russell Mid-Cap)	10,367.13	5.94	13.22	13.22	21.40	17.19
U.S. Small-Cap Stocks (Russell 2000)	5,682.50	9.73	4.89	4.89	19.21	15.55
International Stocks (MSCI EAFE)	6,404.51	-3.53	-4.48	-4.48	11.56	5.81
Emerging Markets Stocks (MSCI Emerging Markets)	1,920.69	-4.44	-1.82	-1.82	4.41	2.11
Alternatives	**12/31/14**	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**
Hedge Funds (HFRX Global Hedge Fund)	1218.41	-1.70	-0.60	-0.60	3.20	1.00
Gold (SPDR Gold Trust ETF)	113.58	-1.52	-0.58	-0.58	-9.04	1.26
Crude Oil (West Texas Intermediate)	53.45	-41.37	-45.55	-45.55	-18.53	-7.61
Real Estate (Bloomberg REIT)	8,425.10	15.09	32.00	32.00	16.10	16.99
Commodities (Bloomberg Commodity)	210.12	-12.10	-17.01	-17.01	-9.43	-5.53
Fixed Income		**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**
Barclays 1-10 Year Muni Blend Bond Index		0.57	4.66	4.66	2.61	3.70
Lipper High Yield Bond Index		-1.00	2.20	2.20	8.30	8.50
Barclays Aggregate Bond Index		1.79	5.97	5.97	2.66	4.45
Barclays Global Aggregate ex US Bond Index		-2.99	-3.08	-3.08	-0.75	1.38

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

Tennessee Asset Protection Trusts Continue to Gain Traction, National Recognition

Among the many benefits available through trust planning is the ability to safeguard one's assets from potential creditors. While the legal framework behind spendthrift protection for trusts created for the benefit of third parties, such as spouses and children, is well-established, traditional principles of domestic trust law have historically prohibited an individual from creating a trust for one's own benefit that also shields the trust's assets from creditors.

Seeking a workaround in the late 1980s, asset protection practitioners began moving trusts to offshore jurisdictions that permitted such "self-settled" asset protection trusts. To counteract the outflow of trust business to foreign locales such as the Cook Islands, states began enacting legislation that permitted domestic self-settled asset protection trusts. Such statutes set forth stringent criteria and required the trust to be administered in and governed by the relevant state. In 1997, Alaska became the first state to enact legislation that could feasibly compete with the offshore jurisdictions, followed shortly by others such as Delaware and Nevada.

In 2007, Tennessee became one of the first of several states to ratify a domestic asset protection trust statute. Known as the Tennessee Investment Services Act of 2007, the Act allows a grantor to create a trust in Tennessee for one's own benefit, provided it satisfies the specific rules set forth in the statute. In order to create a Tennessee Asset Protection Trust, the grantor must create and fund an irrevocable spendthrift

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trust that expressly incorporates Tennessee law. The trust must have at least one trustee that is a Tennessee resident or a corporate trustee authorized to administer trusts in Tennessee. Finally, the trust grantor or anyone transferring assets to the trust must execute a qualified affidavit stating, among other assurances, that he or she does not intend to defraud a creditor by virtue of the disposition to the trust and that the transfer of assets will not render the transferor insolvent.

While the law requires that any transfers to the trust be irrevocable, the transferor/beneficiary may retain a number of rights and powers. These include: the right to receive income and/or a specified amount up to 5% of the value of the trust; the right to receive principal payments at the discretion of the qualified trustee or another advisor; the right to remove a trustee; and the right to appoint trust assets to another individual or other individuals, either during one's life or via a testamentary appointment in a will.

Creditor claims against a qualified disposition to a Tennessee Asset Protection Trust must clear a number of complex hurdles. Any claim against property transferred to a Tennessee Asset Protection Trust must be brought within two years from the date of transfer. In the case of creditors with claims arising prior to the qualified disposition of property to the trust, claims may also be brought within six months of discovery of the transfer. In order to bring any action that is not time-barred, a creditor must prove by clear and convincing evidence that the transfer was made with the intent to defraud the specific creditor bringing the action.

The Tennessee General Assembly enacted subsequent amendments in 2008, 2010, and 2013, which have continued to strengthen Tennessee's domestic asset protection trust regime. Because of this proactive approach, Tennessee is consistently referenced as one of the most accommodating states in the nation for asset protection trusts, and these trusts have become an increasingly popular planning strategy among professionals in our state. Equitable Trust currently serves as a qualified trustee and investment advisor for a number of Tennessee Asset Protection Trusts and has depth of experience in all aspects of their administration.

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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