Quarterly Review and Outlook

April 2013

EQUITABLE Trust

Trustees and Investment Advisors

This Issue

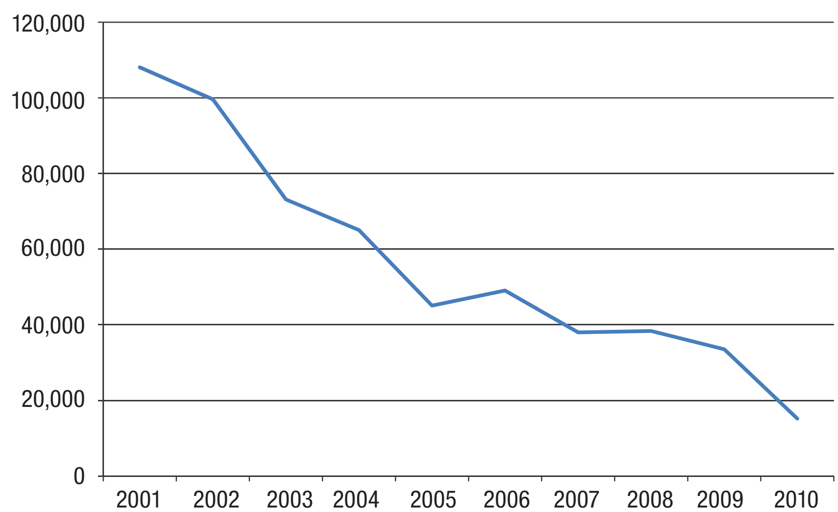
"Spring is the time of plans and projects"

— Leo Tolstoy, Anna Karenina

Estate Planning is More Than Just Tax Planning

The "Death Tax" does not impact as many of us now as it did just a few years ago. The Federal Estate Tax exemption now exceeds $5 million per person and is "portable" between spouses. The chart below, from the IRS, graphically illustrates the trend. The number of Federal Estate tax returns dropped by more than 80% from 2001 to 2010. Furthermore, Tennessee will have phased out the state Inheritance Tax by the year 2016. This is good news for taxpayers, but in recent conversations with estate planning attorneys, a recurring theme is that individuals may be making the mistake of thinking that because of these developments they need not be concerned about addressing the sometimes uncomfortable issues of trusts, wills and estate planning.

Number of Estate Tax Returns Filed (2001-2010)



Among the non-tax issues to consider in your estate plan, regardless of your exposure to estate tax, is the current and adequate identification of the beneficiaries of your estate. Wills should be regularly reviewed. Beneficiary designations for an IRA, retirement plan or life insurance

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Estate Planning ... *(continued)*

policy may be inadequate or inconsistent with current will or trust documents. All too often, an otherwise straightforward estate may wind up in litigation over an inadequate, unclear or inconsistent beneficiary designation. Beneficiaries may be minor children or individuals with special needs without clear and adequate structure for the holding and management of benefits. A new family member by adoption or the death of a named beneficiary, or a divorce, may introduce uncertainty for the family without well thought-through provisions.

Of course, family holdings of a business enterprise or real estate assets call for detailed planning for future ownership, management, voting control and/or a liquidation process as a part of a complete estate plan. Buy-Sell agreements and funding structures are certainly best addressed during the lifetimes of individuals managing those enterprises or properties. Timely planning and detailed documentation are essential to properly address the objectives and concerns of the business and the family.

For the family with revocable (or irrevocable) living trusts created during the grantor's lifetime, regular review of the trust documents and asset titles are vital to the continued effectiveness of those instruments. In addition to the general need to review and update the structure of the estate plan, new developments in Tennessee trust law provide new attractive opportunities to enhance the benefits of trusts as part of your estate plan, including increased asset protection and significantly increased flexibility for "irrevocable" trusts.

This message is a warning not to be lulled into feeling that estate planning is only about managing taxes. In most cases, surviving families find that non-tax issues are actually more important to the family's well being than tax issues. There are many more non-tax issues for consideration in your estate plan than those briefly mentioned above, and the combination of those issues are as numerous as the number of individuals who have not reviewed their estate plans in the past few years. At Equitable Trust, we are always available to talk with you about your estate plan regardless of the status of the estate and inheritance taxes.

Market Diary Period Ending March 31, 2013

	CLOSE	RATES OF RETURN				
Equities	**3/31/13**	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**
Global Stock Market (MSCI All Country World)	633.31	6.63	6.63	11.19	8.35	2.63
U.S. Stock Market (S&P 500)	1569.19	10.61	10.61	13.96	12.67	5.81
U.S. Mid-Cap Stocks (Russell Mid-Cap)	7675.15	12.96	12.96	17.30	14.62	8.37
U.S. Small-Cap Stocks (Russell 2000)	4385.95	12.39	12.39	16.30	13.45	8.24
International Stocks (MSCI EAFE)	5722.91	5.23	5.23	11.79	5.49	-0.40
Emerging Markets Stocks (MSCI Emerging Markets)	1970.21	-1.57	-1.57	2.31	3.59	1.39
Alternatives	**3/31/13**	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**
Hedge Funds (HFRI Equity Hedge Total)	16266.13	5.70	5.70	7.70	6.20	5.70
SPDR Gold Trust (ETF)	154.47	-4.05	-4.05	-4.25	12.29	10.91
Crude Oil (West Texas Intermediate)	97.24	5.89	5.89	-5.62	5.23	-0.86
Real Estate (Dow Jones REIT)	6749.72	7.04	7.04	13.19	16.94	6.07
Commodities (Dow Jones UBS Commodity)	276.69	-1.13	-1.13	-3.03	1.42	-7.11
Fixed Income		**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**
Barclays 1-10 Year Muni Blend Bond Index		0.49	0.49	3.51	4.66	4.92
Lipper High Yield Bond Index		3.10	3.10	12.50	10.30	9.20
Barclays Aggregate Bond Index		-0.12	-0.12	3.77	5.52	5.47
Barclays Global Aggregate ex US Bond Index		-3.51	-3.51	-0.71	3.80	2.47

Rates of Return for periods longer than 12 months are annualized. Data provided by The Chart Store, Morningstar and Investment Scorecard.

Fundamentals Improve, But Grudgingly

By the indices, U.S. stocks posted robust gains of 10.6% in the first quarter, beating both developed international stocks, which overcame worrisome developments in Europe to return 5.2% and emerging-market stocks, which lost 1.6%. The Barclays Aggregate Bond Index was nearly flat.

Nonetheless we faced three market headwinds: our balanced portfolios are slightly underweight stocks and overweight lower-risk asset classes and investment strategies. Within the equity markets, we are tilted away from small-cap stocks (which performed best) toward large-caps. However, our holdings in unconstrained bond funds continued to add value relative to the core bond index. Positions in high-yield funds were also positive performers.

Supported by an accommodative Federal Reserve, U.S. economic fundamentals have continued to improve grudgingly. The unemployment rate is slowly falling (as much or more from people leaving the workforce rather than from people finding jobs), home prices have been rising and corporate earnings and profitability are near record highs. Fed actions have also continued to support, and drive, strong U.S. stock market gains.

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Fundamentals ... (continued)

Looking ahead, significant uncertainty surrounds fiscal and monetary conditions in terms of what policies will be adopted and their ultimate economic and financial market impacts. How will fiscal deficits in the U.S. and around the world be resolved? Can the Fed and other central banks exit quantitative easing without triggering a recession? More immediately, extremely high global debt levels continue to pose economic challenges.

Against this backdrop, the near-term outlook for stocks has not improved. In fact, many of the mutual fund and separately managed account managers we follow are taking steps to prevent large sums coming their way as they are finding it difficult to put money to work profitably at current stock market levels. A pullback of 5 – 10% is quite possible this year and would likely cause us to put cash to work in the global stock markets. We continue to find emerging-markets stocks attractive, both relative to U.S. stocks and in absolute terms.

A fine "rule of thumb" for total return on the 10-Year Treasury market 10 years out is the current prevailing yield on that instrument. It has consistently yielded less than 2% for about a year. Most parts of the investment-grade bond market offer paltry longer-term return potential and are not likely to keep up with inflation. Given our expectations for rising rates over a five-year investment horizon, we continue to favor short maturity, unconstrained and high-yield bond funds. Current yields offer a scant return, and we prefer to think of investment-grade bonds as a hedge against calamity rather than a source of return.

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