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*Edward A. Burgess, CFA  
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### Think Locally, Invest Globally

This August 21, a total solar eclipse will be seen over Nashville and much of the U.S. The last time a total solar eclipse occurred in the Lower 48 was 1979. The next one won't be until 2045. Almost as rare is the current situation in the financial markets. Interest rates seem to be stuck despite improving global economies, rising corporate profits and central banks like the Fed promising to raise short-term rates.

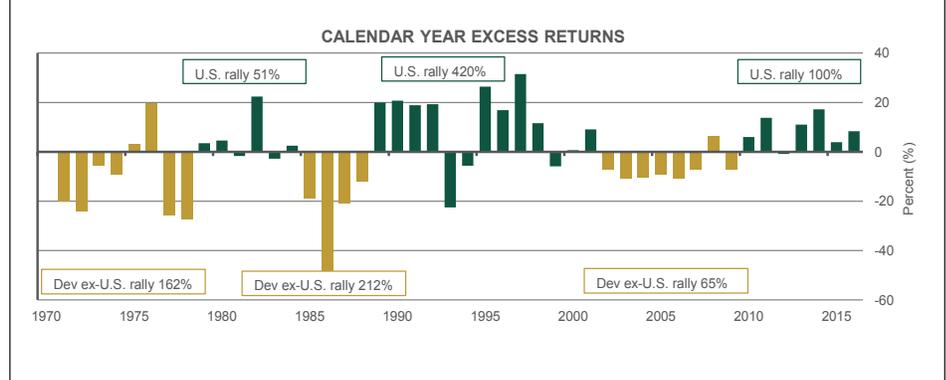
Worldwide equities remained decidedly “unstuck” as the second quarter brought generally positive results. Domestic stocks posted modest gains with large companies outperforming small and growth stocks outperforming value plays. Developed and emerging market stocks continued to outpace domestic issues in the first half. Historically, whenever domestic stocks begin to outperform or underperform foreign stocks, the new trend continues for years (See Chart 1).

*“In the middle of difficulty lies opportunity.”*

— *Albert Einstein  
(1879 – 1955)*

**The Other Half: Non-U.S. Markets Move To The Fore (Chart 1)**

Exhibit 1: U.S. Has Handily Outperformed Since 2010  
Odds start to favor outperformance of developed ex-U.S. equities.

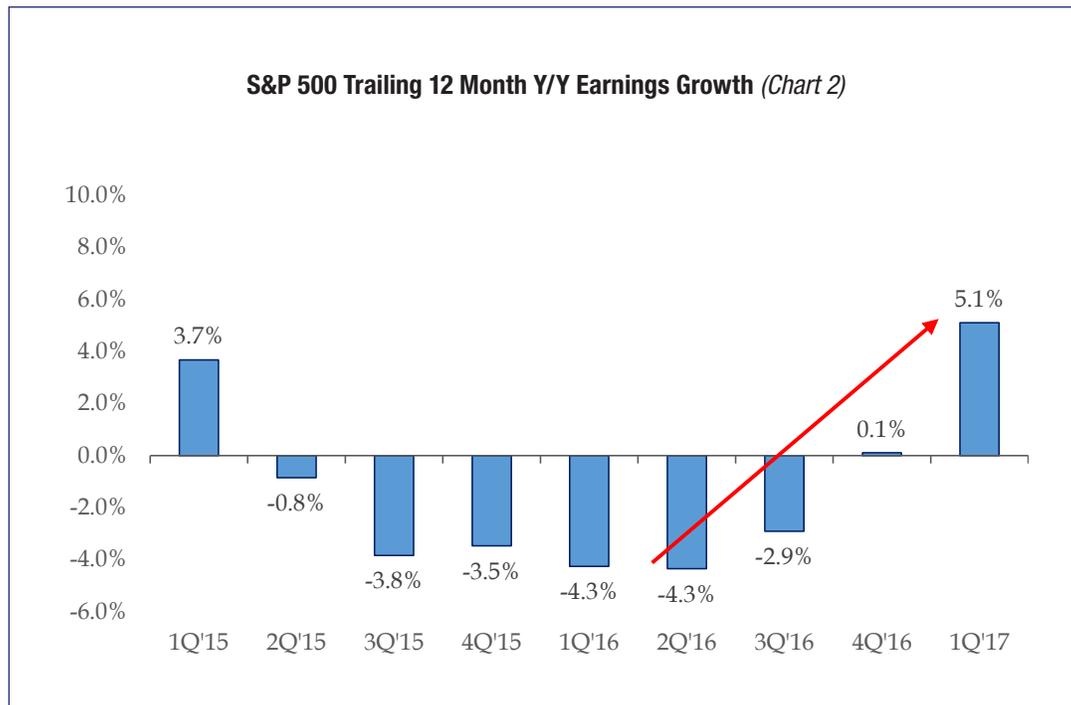


Source: Northern Trust Investment Strategy, Bloomberg. U.S. rally = excess return of MSCI United States over MSCI World ex U.S.

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## Equitable Trust Quarterly Review and Outlook

*Think Locally ... (continued)*



Source: Bloomberg/Strategas Research Partners

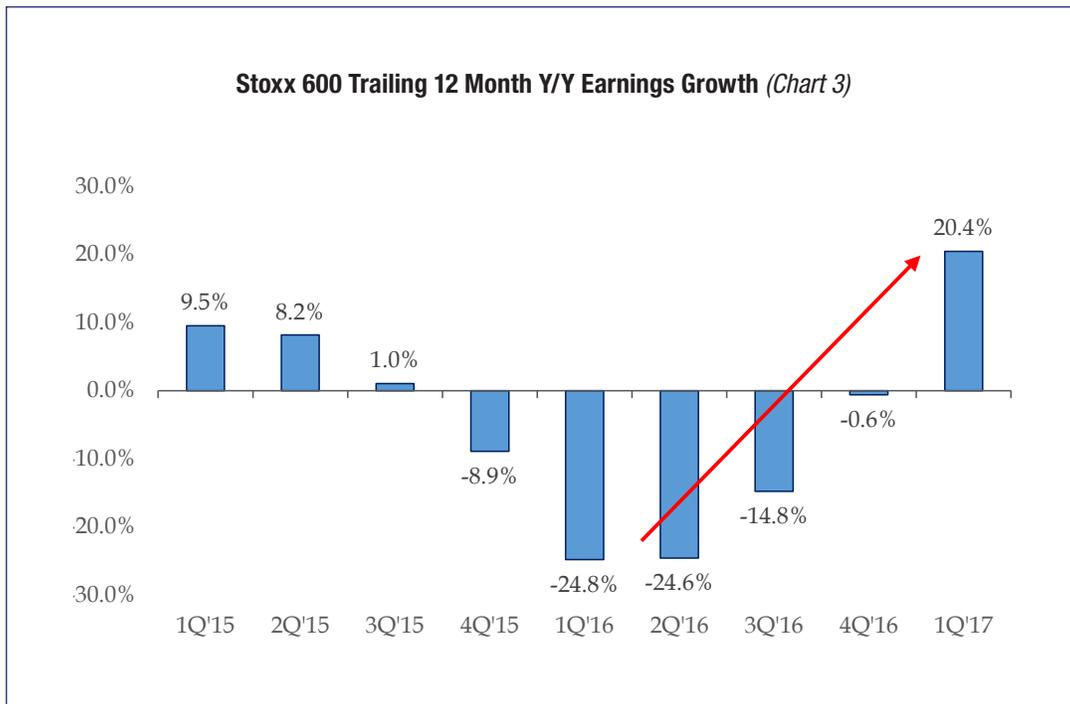
We believe we are likely entering a period of extended international outperformance. While corporate earnings are growing nearly everywhere, the momentum and potential upside is stronger outside the U.S. (See Charts 2, 3 and 4). At the same time, foreign stocks are cheaper than their U.S. counterparts whether one looks at PE multiples, cash flow yields or other measures. Meanwhile, political risks in Europe are receding with most significant elections now in the rear-view mirror. Foreign currencies are historically cheap but strengthening as compared to the dollar.

In contrast, political risk in the U.S. has grown since the presidential election and a weaker dollar is evidence. In the days and weeks following President Trump's election the markets jumped on the assumption that his agenda would proceed

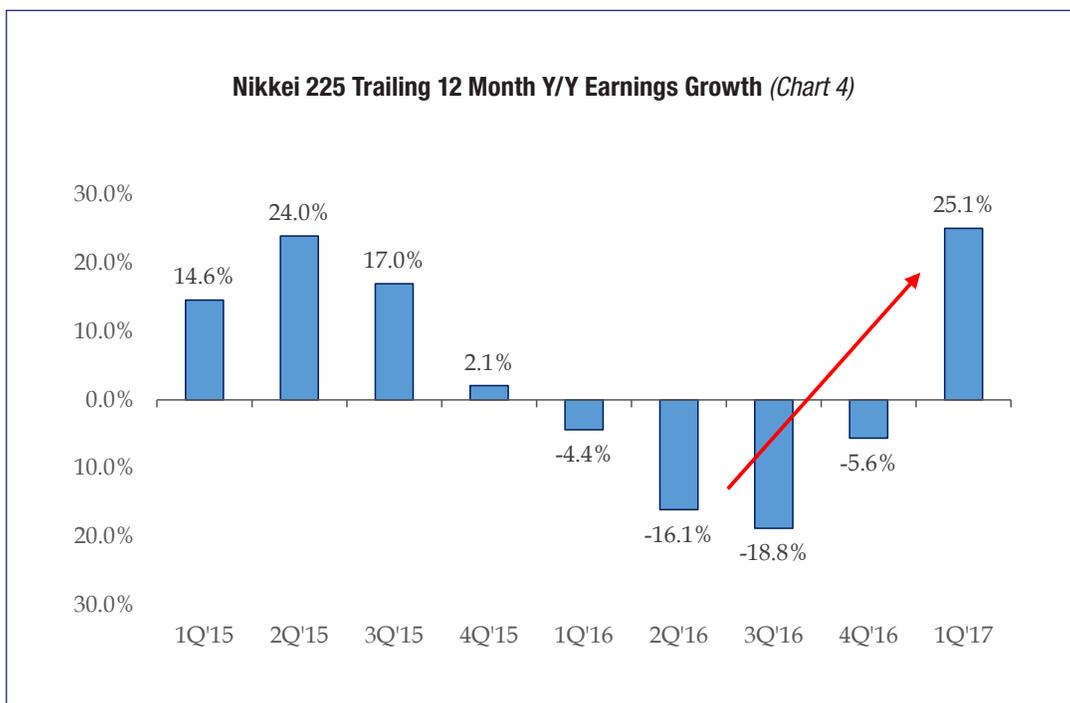
swiftly through Congress. Interest rates rose on expectations that a stimulus bill would be passed, causing the Fed to raise rates at a faster pace. Many healthcare stocks rebounded on the belief that the ACA would be repealed and replaced. Many had faith that the promised tax reforms would jolt the U.S. economy into a faster growth rate. These beliefs led to a very strong dollar and outperformance of U.S. small cap stocks. Now with much of his agenda in doubt, most of these initial market moves have been reversed.

We are not suggesting giving up on the U.S. market. There are many excellent opportunities here. What is being suggested is that a U.S. investor could have ignored the rest of the world for the last several years without giving up performance. We believe it would be a mistake to do so in the years ahead.

Think Locally ... (continued)



Source: Bloomberg/Strategas Research Partners



Source: Bloomberg/Strategas Research Partners

### *Avoiding a Trust and Estate Nightmare*

Recently, one of my colleagues brought an article in Barron's magazine to my attention.<sup>1</sup> The title was one of those that could send shivers down your spine: "*Litigation Lawyers Target Fiduciaries.*" However, that part didn't really seem so newsworthy to me because trust and estate litigation has been a part of my entire career. I have participated on both sides of the battlefield, and fiduciary litigation is not only older than I am, but considerably older than our nation. The article pointed out that litigators have observed that there are a number of causes of conflict in estate succession: individual greed, a Trustee who fails to act with the legally imposed duties of care, loyalty and impartiality or even a "tribal response to the division of family wealth."

The article did strike a chord with me because I have often been asked about conclusions that I find interesting about family conflict from several decades of being involved with estate administration and the succession of family estates of all shapes and sizes. My observation is that there certainly are those cases of exceedingly greedy beneficiaries or criminally fraudulent trustees like those cited in the Article, but by far most of the battling is not between such clearly defined warriors of good and evil. The brewing of those kinds of wars can be seen from miles and years away.

In most cases the battle is really between fine, upstanding people with honestly held perspectives

on the intent and purpose of the deceased creator of the trust estate. Now I will grant that those perspectives are inherently developed from a particularly personal set of experiences, goals, desires and beliefs. With that foundation, it is really not surprising that two equally fair and honest people can be confident that the same words of the deceased were intended to mean very different things. In my opinion, that difference of perspective is THE fundamental source of the great majority of family battles over estate succession.

Regardless of the source of conflict, the author of the article and I do agree on a number of suggestions for avoiding the battle as much as possible. The first is the importance of having an informed respect for the role of the fiduciary. In order to perform the function properly, the appointee is best if equipped with legal expertise in the field, money management, bookkeeping and accounting as well as any particular skills that may be demanded by the particular estate such as real estate, art collectibles or business management and succession. Obviously, these diverse skills are almost never held by any single individual. Even if they were, the probability that such an extraordinary person would be available to serve your family is even more remote. Solving the problem of locating a qualified fiduciary would be impossible in many cases if it were not for the corporate trustee. As the Barron's author pointed out, "Institutional fiduciaries are usually objective,

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<sup>1</sup>Matt Miller, Barron's Penta, June 19, 2017, p. 40 (website version titled "*Are Fiduciaries Setting Themselves Up to be Sued?*"); Please contact Dene Shipp at Equitable Trust if you would like a copy of the article.

## Market Diary Period Ending June 30, 2017

Equities	RATES OF RETURN					
	Last 3 Mo.	YTD	1 year	3 years	5 years	10 years
Global Stock Market (MSCI All Country World)	4.43	11.81	19.44	5.42	11.17	4.32
U.S. Stock Market (S&P 500)	3.09	9.34	17.89	9.60	14.61	7.18
U.S. Small-Cap Stocks (Russell 2000)	2.46	4.98	24.57	7.34	13.69	6.89
International Stocks (MSCI EAFE)	6.31	14.22	20.91	1.73	9.29	1.60
Emerging Markets Stocks (MSCI Emerging Markets)	6.35	18.55	24.14	1.41	4.30	2.24
Alternatives	Last 3 Mo.	YTD	1 year	3 years	5 years	10 years
Hedge Funds (HFRX Global Hedge Fund)	0.90	2.60	6.00	-0.30	1.90	-0.90
Global Real Estate (FTSE/EPRA NAREIT)	3.71	7.23	3.08	4.78	8.12	2.47
Commodities (Bloomberg Commodity)	-3.00	-5.26	-6.50	-14.81	-9.25	-6.49
Energy (Bloomberg Commodity - Energy)	-9.68	-19.99	-14.76	-31.78	-17.39	-17.87
Gold (Gold Spot)	-0.40	7.87	-5.93	-2.05	-4.98	6.68
Fixed Income	Last 3 Mo.	YTD	1 year	3 years	5 years	10 years
Barclays Aggregate	1.45	2.27	-0.31	2.48	2.21	4.48
Barclays Municipals	1.96	3.57	-0.49	3.33	3.26	4.60
Barclays High Yield	2.17	4.93	12.69	4.50	6.90	7.76

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

### *Avoiding a Nightmare ... (continued)*

have training in fiduciary responsibility; and have the infrastructure to implement everything from regulatory compliance to investment review.”

Once again, I agree with the author that the diverse skills required of a fiduciary are such that reliance upon a corporate fiduciary is an excellent step toward avoiding some of the feelings of distrust and family history that might be a part of the different perspectives that can brew in a toxic environment and boil into full-blown battle. The somewhat difficult response coming from an independent third party will likely be received differently than the same answer from a family member who might be perceived as biased in any

number of ways. Again, it is often not actual malice that is the source of the conflict but the perception of malice (or even unfairness), which is every bit as real to participants. To mitigate the effect of any remaining animosity, the fiduciary must be available and communicate with authority. These demands are often overlooked when naming executors and trustees.

Finally, the author and I agree on the benefits of flexibility. In many cases the insight into a particular aspect of the estate is best supplied by a family member. In those cases, appointment of an individual as either a special trustee with specified duties or as a co-executor or co-trustee to act

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## *Avoiding a Nightmare ... (continued)*

with a corporate partner can be most effective. Flexibility is also enhanced by granting the power to remove and replace a corporate trustee. This power may be granted to an individual co-trustee, to a “trust protector,” or often by a majority vote of a class of beneficiaries (for example: “... my then-living adult children”).

Avoiding conflict is always a worthy goal but in many cases conflict simply can not be anticipated.

When conflict does arise, the process is often much less “heated” with an independent third party in the position of responsibility. I would venture to assume that none of us would want to be in that position within our family, or worse yet, appoint a loved one to a role that causes them distress. At Equitable Trust, we can take the heat because we have the experience to anticipate, manage and solve many of the issues that could otherwise be a nightmare virus that infects family harmony.

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