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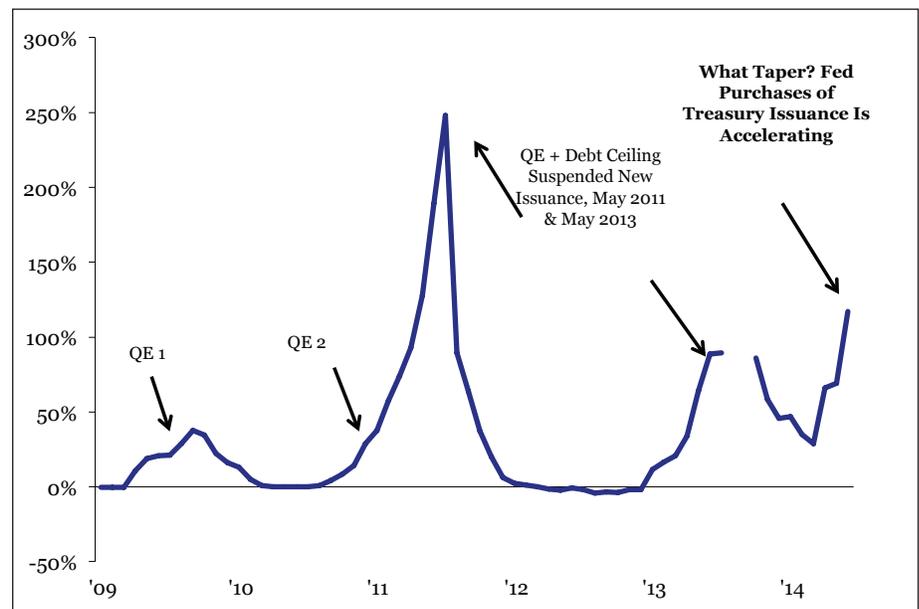
A Bull Market Still, But We're Positioned For Rough Weather

"Sell in May and go away," the well-worn trading adage, was put to the test in the second quarter and failed. Not only did nearly every equity and fixed income benchmark gain in the period, June's rise was particularly positive. Market volatility remained dormant.

The markets brushed off concerns about the recession-like final revision of first quarter GDP, dismissing the report as distorted by unusual weather and as history. Looking forward, signs abound that employment, housing, credit creation and corporate earnings are continuing to recover. Despite earlier concerns about the Federal Reserve's tapering of bond purchases, easing has accelerated. As shown in the chart below, the Fed is once again buying more than 100% of the Treasury's net issuance of debt. This appears to be the result of the shrinking Federal budget deficit reducing the supply of bonds faster than the central bank's reduced demand. We expect this phenomenon to fade as tapering continues.

(continued on next page)

Fed Purchases of Treasuries, Pct of Issuance, Rolling 6 Mo. Average



"Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria."

— *Michael B. Steele,
Investment Counselor*

Equitable Trust Quarterly Review and Outlook

A Bull Market ... (continued)

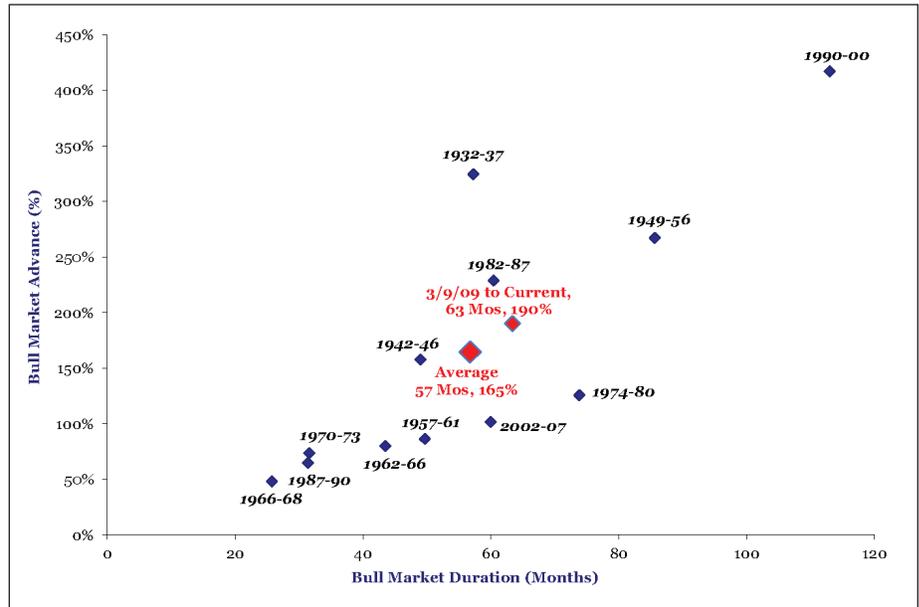
By encouraging risk-taking, the Fed has helped push the current bull market to a gain of 190% since the low in March 2009. While the current bull market has been longer and stronger than average (see chart at right), there have been two post-war bull markets even longer and stronger than the present cycle.

When will the bull market for equities end? Obviously, no one knows. We try to anticipate the risks to portfolios and position them for “rough weather,”

but many risks are not forecastable. However, when an asset class is noticeably valued more dearly than it is on average, that is a risk which can be measured. Looking at the average P/E multiple for the S&P 500 index by decade we find the current decade (so far) slightly above average (see charts below). This implies a somewhat lower than average return and higher potential risk than average going forward.

Bonds have a place in many portfolios for their ability to generate some cash flow and to “zig” when stocks “zag.” Bond P/Es however, are significantly higher than average, meaning yields are exceedingly low.

S&P 500 Historical Bull Markets — 1928 to Present



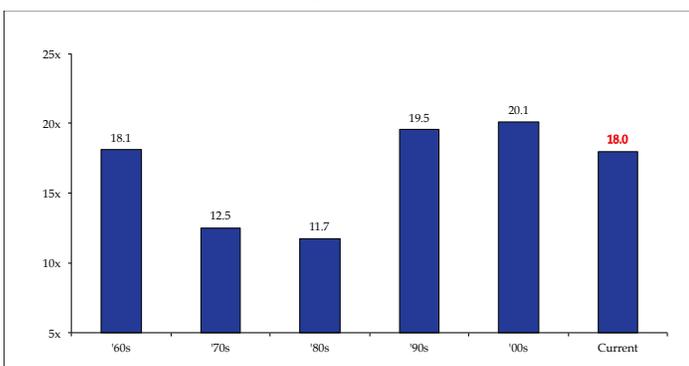
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This indicates little upside and significant risk in fixed income. We have chosen to deal with the interest rate risk in bonds by keeping maturities short and by relying on high-yield bonds and high-yield bond funds.

Many of our portfolios also hold multi-strategy funds which are held to reduce overall portfolio risk while offering better return prospects than bonds.

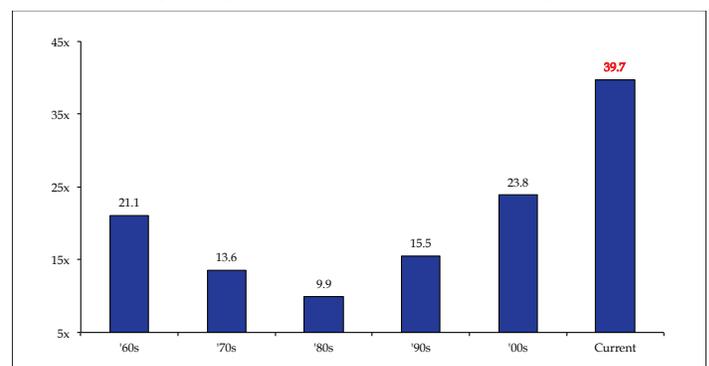
We would use any market correction as an opportunity to commit more capital to equities.

Average Equity P/E by Decade (S&P 500 TTM EPS)



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Average Equity P/E by Decade (100/10-Year Treasury Yield)



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Market Diary Period Ending June 30, 2014

	CLOSE	RATES OF RETURN				
Equities	6/30/14	Last 3 Mo.	YTD	1 year	3 years	5 years
Global Stock Market (MSCI All Country World)	780.83	5.23	6.50	23.58	10.85	14.88
U.S. Stock Market (S&P 500)	1960.23	5.23	7.14	24.61	16.58	18.83
U.S. Mid-Cap Stocks (Russell Mid-Cap)	9951.04	4.97	8.67	26.85	16.09	22.07
U.S. Small-Cap Stocks (Russell 2000)	5590.12	2.05	3.19	23.64	14.57	20.21
International Stocks (MSCI EAFE)	7049.96	4.34	5.14	24.09	8.59	12.27
Emerging Markets Stocks (MSCI Emerging Markets)	2079.79	6.71	6.32	14.68	-0.06	9.58
Alternatives	6/30/14	Last 3 Mo.	YTD	1 year	3 years	5 years
Hedge Funds (HFRX Global Hedge Fund)	1247.16	0.60	1.77	5.27	1.53	3.00
Gold (SPDR Gold Trust ETF)	128.04	1.70	9.24	9.88	-4.79	6.65
Crude Oil (West Texas Intermediate)	106.07	4.43	8.05	10.08	3.63	8.72
Real Estate (Bloomberg REIT)	7546.70	7.15	18.24	13.27	11.38	23.76
Commodities (Bloomberg Commodity)	271.11	0.08	7.08	8.21	-5.17	1.99
Fixed Income		Last 3 Mo.	YTD	1 year	3 years	5 years
Barclays 1-10 Year Muni Blend Bond Index		1.57	3.20	4.27	3.56	4.19
Lipper High Yield Bond Index		2.30	5.30	11.40	8.70	13.20
Barclays Aggregate Bond Index		2.04	3.93	4.37	3.66	4.85
Barclays Global Aggregate ex US Bond Index		2.72	5.59	9.42	1.75	4.37

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

Vacation Homes May Present Planning Challenges

In a recent article for the Wall Street Journal (“‘Wealth Effect’ Drives Vacation-Home Sales,” April 2, 2014), Kris Hudson writes that rising stock prices and the real estate recovery have led to a 30% jump in U.S. sales of second homes in 2013, with 41% of all sales occurring in the southeast.

As more people acquire second homes for personal use, it becomes increasingly important to plan for how these properties are passed down to future generations. In many instances, families develop a sentimental attachment to a home over time, and parents expect children to share in their enthusiasm

for the property. They envision cooperation and harmony as the property is continually used and managed among multiple generations. These assumptions may be ill-advised.

Problems can quickly arise when real estate and other illiquid assets are passed down to heirs without proper communication and planning. Children may be unable to afford the costs of ownership. Disagreements can quickly erupt between co-owners over the share of costs, especially if one owner is able to enjoy the use of the property more than others. One child may want to sell the property, while

(continued on back page)

Vacation Homes ... (continued)

others may prefer to keep it in the family. There are an endless number of pitfalls, and it is a situation rife with potential conflict.

Communication is a key first step to preventing family discord. It is important to open a family discussion regarding plans for family vacation homes and to seek input from potential heirs. It may be that children prefer to simply sell the property. If the property is to be passed on, it would be a good idea to discuss how the costs and beneficial use will be shared.

Once family preferences as to a piece of property are understood, it is important to work with advisors to create an estate plan that reflects these goals. Passing the vacation home to children through co-ownership as tenants-in-common is rarely advisable, as an individual co-owner may be permitted to renovate, transfer an interest, rent or even sell the property without the consent of the other co-owners, depending on governing state law.

A better solution may be to transfer ownership of the home into a trust or a limited liability company (LLC), providing heirs beneficial or ownership interests. The trust instrument or LLC operating agreement can then outline the rules governing ownership, use, management, expenses and disposition of the property. The rules and guidelines may be drafted with cooperation and input of the entire family. These vehicles are also effective in protecting the property from creditors and maintaining family ownership in the event of divorce or death. In addition, there are a number of techniques to both “freeze” and/or discount the value of property in order to reduce transfer tax liability. It is advisable to provide for a liquid maintenance fund as part of the transfer to help prevent conflict over expenses for upkeep.

Real estate often holds an immeasurable value among family members that goes beyond any appraised figure. For this reason it is important to continue an active and open discussion with family members and advisors about the succession plan for real estate ownership.

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