

# Fiduciary Trust Forum Client Conference Call Summary

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Fiduciary  
Trust  
International



**Mackin Pulsifer**, Chief Investment Officer; **Bibi Conrad**, Managing Director;  
**Gail Cohen**, Executive Vice President, General Trust Counsel and Head of Global Wealth Management

**Moderated by: Henry Johnson**, President and Chief Executive Officer

## THE ECONOMIC RECOVERY GAINS A FOOTING

The markets began seriously anticipating recovery in the early spring of this year. Now, we are seeing many signs that a ‘Main Street’ recovery is real. Jobs, hours worked, many leading economic indicators, retail sales, exports, among other measures, have been pointing up.

We have likened this recovery so far to a hothouse plant, flourishing within the glass house—protected and fed by stimulus dollars and government action—while storms and cold weather prevail outside. Soon the artificial greenhouse climate may no longer be needed to sustain recovery.

- The Price/Earnings (P/E) ratio for the S&P 500 at the March low was at about 10x.
- Today, with the S&P 500 P/E ratio near 22x, we are now closer to the long-term average (the 10-year average is 20x).
- The improvement in company earnings announced for the third quarter was based primarily on cutting costs, not on higher sales—however, we believe that sales to real people doing real things and paying for these things will eventually rise.

## SOME FACTORS STILL KEEP OUR APPROACH CONSERVATIVE

U.S. savings have been rising—a necessity—which means less consumption.

- The Fed’s forecast for unemployment through 2011 shows joblessness between 8% and 8.5% in 2011, far above the long-term 5% rate.
- The U.S. is facing a \$1.42 trillion deficit—the highest percentage of GDP since the end of the Second World War.
- When government taxes approach 20% of GDP, as they have been doing, over time, growth slows and inflation tends to rise.
- Globally, there is risk that governments will not effectively exit the markets as economic recovery takes hold.

We have also seen recent weakness in the dollar, but believe there is reason for it to recover lost ground. The dollar has remained the global unit of account for major commodities—most notably oil. It has also been a safe repository for surplus wealth. Since March, it has declined 16% against a basket of currencies of our major trading partners, which can be traced to investors’ increased appetite for taking on more investment risk. In our view, it is likely that funds will begin to flow back into the dollar as the U.S. recovery accelerates.

### **ASSET ALLOCATION: LOOKING TO EMERGING MARKETS**

In a balanced growth portfolio of 60% equity and 40% bonds under 'normal' conditions, we are still maintaining a lower than usual exposure to both asset classes with 50% equity and 30% fixed income.

- Given the severity of the economic crisis, we were not eager to reinvest precisely at the March 9 low, resulting in a higher allocation to cash.
- Over the long term, we believe there are compelling opportunities in the emerging markets and have materially raised exposure there.
- Within bonds, we exposed assets to the massive under-valuation among corporate bonds, and added exposure to non-U.S. bonds.

### **EQUITY INVESTMENT OUTLOOK: WE ARE CAUTIOUS ABOUT CHASING STOCKS IN THIS RALLY**

Emerging Markets have outperformed developed markets since the March low. Domestically, the markets have had a strong rally as investors anticipated an economic recovery. We believe that lower consumption in the medium term will dampen the economic recovery. Longer term, we expect the inherent dynamism of U.S. companies to achieve higher growth through exports.

- We are cautious about chasing stocks in this rally.
- Globally, the best *economies* are not necessarily always the best *investments*: The Brazilian market is up 100%, benefiting from its natural resource base, the win of the next Olympic Games, and a 30% appreciation of its currency, the Real.

- We believe there are a number of sustainable long-term investment themes, including the infrastructure build out, rising consumption globally, technology upgrades, and the agribusiness sector, that have only begun to play out.
- We are less attracted to companies that are in electric utilities in the U.S., companies that rely on U.S. consumption, and companies that make money from real estate.
- Companies are distributing more cash to stockholders as company returns improve, making dividend yields more attractive.
- In our view, selecting the right companies will be critical in this market.

### **FIXED INCOME: AN EYE TOWARD GLOBAL BONDS**

- Global bonds may offer attractive opportunities, in terms of both competitive yields and the potential for capital appreciation.
- Bond funds that invest in a basket of diversified currencies of resource-rich, faster growing countries such as Australia, Canada and Singapore, could provide competitive returns going forward, even if interest rates increase as the global economy recovers.
- We remain cautious on tax-exempt bonds due to the deterioration of state and local budgets. A bright spot remains in pre-refunded municipal bonds, which are secured by U.S. Treasury issues (thereby effectively becoming a U.S. government-guaranteed tax-exempt security).

## ESTATE PLANNING: WAYS TO LOCK IN FAVORABLE ESTATE TAX EXEMPTIONS

The estate planning landscape is scheduled to change significantly. In addition to other changes, today's \$3.5 million Generation Skipping Transfer (GST) tax exemption may be at risk to be lowered to just \$1 million in 2011. At the current 45% GST tax rate (or worse, the proposed 55% rate for 2011), locking in this higher exemption amount now can significantly impact how much is transferred to heirs.

- Clients who are married and would like to make gifts to grandchildren can establish and fund a Qualified Terminable Interest Property (QTIP) trust.
- They may then use what is called a 'Reverse-QTIP' election on their gift tax return to lock in today's \$3.5 million Generation Skipping Transfer tax exemption.

It's important to plan now; there is speculation that Congress may revise or accelerate changes to tax exemption amounts in order to recover badly-needed revenue. These strategies can be complex, but initiating them now can make a significant difference in the amount that ultimately passes to your heirs.

At Fiduciary Trust, every portfolio is individually tailored to each client's unique needs. As always, we encourage you to contact your Portfolio Manager if you have any questions or if you would like to discuss any of the information we have covered on this call.

## FEATURED SPEAKERS



**Mackin Pulsifer**  
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**Bibi Conrad**  
Managing Director



**Gail Cohen**  
General Trust Counsel and  
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**This article, the conference call replay and other information on wealth management can be found at [www.fiduciarytrust.com](http://www.fiduciarytrust.com).**

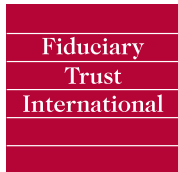
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