



# PERSPECTIVE

## WEBCAST SUMMARY

Fiduciary  
Trust  
International

### HOST



**Henry Johnson**  
President and  
Chief Executive Officer

Our panel of experts shared their perspective during a live webcast, hosted by President and Chief Executive Officer, Henry Johnson, on May 25, 2010.

### Turmoil in Europe Is Causing Headwinds for the Global Recovery

We do not feel the global recovery is broken, nor is it likely to be. However, the recent turmoil surrounding the deficit crisis in Greece and other eurozone countries may slow its pace and result in continued market volatility.

The action by the European Union and the International Monetary Fund to commit €750 billion (\$955 billion) to indebted eurozone countries has alleviated investor anxiety and mitigated the risk of immediate financial market meltdown in the region. However, we believe this does not change the need for governments to stabilize their economies by cutting expenditures or raising revenue. Until this is accomplished, we believe several of these economies will stay in recession for longer periods of time.

- Many sectors, including global and domestic equities, corporate bonds (especially European banks), emerging markets, and high yield bonds, could continue to experience heightened volatility for some time.
- As a result, there may be a flight to safety and quality.
- Our positioning is to favor the U.S. dollar against the euro.

### PANEL MEMBERS



**Mackin Pulsifer**  
Vice Chairman and  
Chief Investment Officer



**Gail Cohen**  
Vice Chairman and  
General Trust Counsel



**Ron Sanchez**  
Executive Vice President  
and Director of Fixed Income



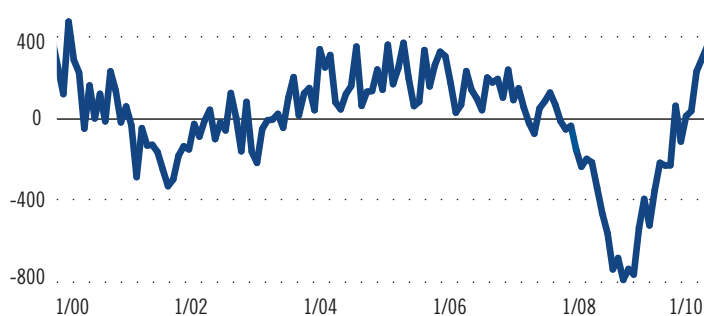
**Stephanie Luedke**  
Executive Vice President,  
Investment Management

**OVERALL, DATA STILL POINTS TOWARD RECOVERY**

- Factory orders in the U.S. were up by +12.5% in March, vs. down -22% at this time last year.
- The value of manufacturers’ shipments was up by 13.6% for the month of March, vs. down -29.6% in March 2009.
- Existing home prices have been stable for a year after a brutal three-year plunge.
- New home inventories fell as March sales surged.
- Most importantly, 290,000 jobs were added to the U.S. economy in April—the largest gain since March 2006 and far more than expected.

**U.S. Job Gains in April Were the Largest since 2006<sup>1</sup>**

Total Non-Farm Payroll (January 2000–April 2010)



1. Source: Bureau of Labor Statistics Data. May 2010.

**ASSET ALLOCATION:  
A SHIFT TOWARD U.S. LARGE CAP STOCKS**

**Example: Balanced Portfolio Allocation**

**Equities**

- We have brought our allocation up from 50% a year ago to 60%, in line with our long-term strategic policy.
- We believe the strong dividends from many large cap stocks can augment portfolio income and benefit returns.
- Our recommended emerging market allocation has been slightly reduced from 12.5% to 10%; we believe valuations are high, and prices could now suffer due to investors’ increased focus on the growing evidence of recovery in other areas.

**Fixed Income**

- Our overall fixed income allocation recommendation is 27.5%, due to the credit and interest rate risk in the sector.
- We have reduced our municipal bond allocation recommendation to 22.5%.
- To increase diversification and increase potential return opportunities, we continue to recommend a 5% allocation to investment grade corporate bonds.

**Cash**

- We have recommended reducing exposure in areas that have experienced strong gains, such as emerging markets and some U.S. sectors.
- This has led to an increase in our cash recommendation from 2.5% in March to 7.5%.

**Example: Balanced Portfolio Allocation**

Asset Class	Long-Term Target	May 2009 Tactical	May 2010 Tactical
<b>EQUITIES</b>	<b>60%</b>	<b>50%</b>	<b>60%</b>
U.S. Large Cap	22%	22.5%	30% ↑
U.S. Small Cap	9%	5%	7.5%
International Large Cap	18%	10%	12.5%
International Small Cap	6%	0%	0%
Emerging Markets	5%	12.5%	10% ↓
<b>PREFERRED STOCK</b>	<b>0%</b>	<b>5%</b>	<b>5%</b>
<b>FIXED INCOME</b>	<b>40%</b>	<b>30%</b>	<b>27.5%</b>
Municipal Bonds	40%	25%	22.5% ↓
Investment Grade Corporate Bonds	0%	5%	5%
<b>CASH</b>	<b>0%</b>	<b>15%</b>	<b>7.5%</b>

**EQUITY OUTLOOK: WE EXPECT STOCKS TO CONTINUE TO BENEFIT FROM THE GLOBAL RECOVERY**

All in all, our outlook continues to favor equities. We believe they are the financial asset that can benefit the most from the recovery in corporate earnings, while being more resilient than bonds to eventual interest rate increases and somewhat higher inflation as business activity gathers steam.

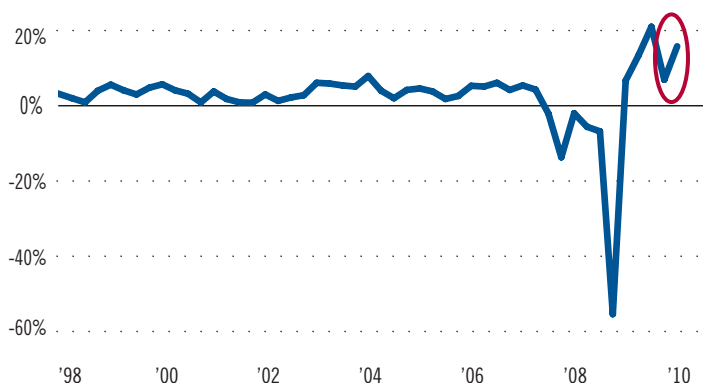
**U.S. Stocks**

- The operating earnings per share of the companies in the S&P 500 has dramatically increased from \$63.02 a year ago to \$89.50 on April 30, 2010.
- On average, S&P 500 companies have beaten their first quarter 2010 earnings estimates by 15.8%.<sup>2</sup>
- Stronger earnings have resulted in increased dividend payments on many large cap stocks.
- Small cap companies tend to outperform in a low interest rate environment; with the economic recovery more firmly established, we expect certain small caps to present opportunity.

## Positive Earnings Surprises Were Strong Among the First Quarter 2010 Earnings Reports

### S&P 500 Earnings per Share Surprise Factor<sup>2</sup>

(% that earnings exceeded expectations)



2. Source: Strategas Research Partners, April 2010

### Emerging markets

- The rapid ascent of emerging markets has been leveling. *For example, the Shanghai Composite's 100.8% recovery run ended August 8, 2009 and the index has been in a flat/down trend since.*
- We see this as an opportunity to shift assets from emerging markets to U.S. large and small cap stocks, which we believe have a lower valuation and stronger gain potential from here.

### International stocks

- We have generally avoided companies that have exposure to Greek debt, or debt of other countries that are at risk of credit turmoil.

### FIXED INCOME OUTLOOK:

#### WE ARE TAKING A CAUTIOUS APPROACH

Overall we believe bonds will offer less opportunity in the near term. In our opinion, municipal bonds are fully valued. We are also careful to avoid states and jurisdictions that we believe are most likely to be downgraded. As the recovery progresses and tax revenues resume, beleaguered states such as California, however, may offer venturesome investors appealing value.

### Municipal Bonds

- In our opinion, state and local governments must take the necessary steps to cut expenses and raise revenues to ultimately increase the credit quality of their bonds.
- Until such actions are taken, we are taking a more cautious view of the tax-exempt sector.

### Investment Grade Corporate Bonds

- We believe default rates should go down as corporate fundamentals continue to improve; many corporations are now flush with cash and earnings are growing.
- We don't expect broad-scale price appreciation; however we anticipate select securities to reward investors.

### ESTATE PLANNING:

#### MAKING THE MOST OF TODAY'S TAX LAWS

There is an unprecedented, temporary one-year repeal of the Federal estate tax this year—under current law, the estate tax is zero for 2010. In addition, the Generation Skipping Transfer tax has also been repealed for 2010. And, while the Federal Gift Tax was not repealed, it was reduced from 45% to 35%. All three of these taxes will come roaring back at a higher maximum rate of 55% in 2011 and a reduced estate exemption of \$1 million. Additionally, only a limited amount of appreciated assets will receive a step-up in their cost basis if death occurs in 2010. There are several actions to consider taking now, until more clarity emerges around the fate of these taxes:

- **Assure that your estate plan takes into account the elimination of the estate and generation-skipping transfer taxes, and the limited step-up in cost basis.**
- **Consider avoiding outright distribution of property** by having the entire estate go into one or more trusts for the benefit of a surviving spouse to avoid estate tax entirely.
- **Consider making taxable gifts.** You can significantly increase the after-tax amount transferred to heirs by taking advantage of this year's lower gift tax rate if death occurs after 2010.

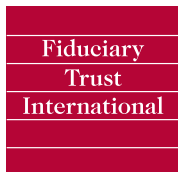
It's important to plan now; there is speculation that Congress may revise or accelerate changes to tax exemption amounts in order to recover badly-needed revenue. Initiating planning strategies that take advantage of the tax law situation can make a significant difference in the amount that ultimately passes to your heirs.

**At Fiduciary Trust, every portfolio is individually tailored to each client's unique needs. As always, we encourage you to reach out to your Fiduciary Trust contact if you have any questions or if you would like to discuss any of the information we covered in our webcast.**

A replay of the webcast is available at [www.fiduciarytrust.com](http://www.fiduciarytrust.com).

**FIDUCIARY TRUST COMPANY INTERNATIONAL** was founded in 1931 to specialize in investment management and administration of assets for individuals and families. A bank charter permits Fiduciary Trust to act as executor and trustee, providing continuity of wealth management through multiple generations. Fiduciary Trust offers the following services to clients throughout the world:

- Investment Management
- Private Banking
- Trust and Estate Administration
- Manager Selection and Oversight
- Strategic Wealth Planning
- Master Custody
- Tax Reporting and Services



**Fiduciary Trust  
Company International**

600 Fifth Avenue  
New York, New York 10020  
tel (877) 384-1111  
[www.fiduciarytrust.com](http://www.fiduciarytrust.com)

**Los Angeles**  
tel (800) 421-9683

**Miami**  
tel (800) 618-1260

**San Mateo**  
tel (877) 284-2697

**Sarasota**  
tel (800) 618-1260

**St. Petersburg**  
tel (800) 618-1260

**Washington, DC**  
tel (888) 621-3464

**Wilmington**  
tel (866) 398-7414

**Grand Cayman**  
tel (345) 914-9483

**Hong Kong**  
tel (852) 2877-1931

**London**  
tel (44-20) 7073-8500

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

This communication is intended to provide general information. The information and opinions stated are as of May 25, 2010, unless otherwise indicated, and do not represent a complete analysis of every material fact concerning any industry, security or investment. Statements of fact have been obtained from sources deemed reliable, but no representation is made as to their completeness or accuracy. The opinions expressed are not intended as individual investment advice or as a recommendation of any particular security, strategy or investment product. Please consult your personal advisor to determine whether information in this newsletter may be appropriate for you. IRS Circular 230 Notice: Pursuant to relevant U.S. Treasury regulations, we inform you that any tax advice contained in this communication is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

**Fiduciary Trust Company International is a member of the Franklin Templeton Investments family of companies.**