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### Last year was so long ago...

In our previous quarterly letter we pointed out that 2014 would be remembered for:

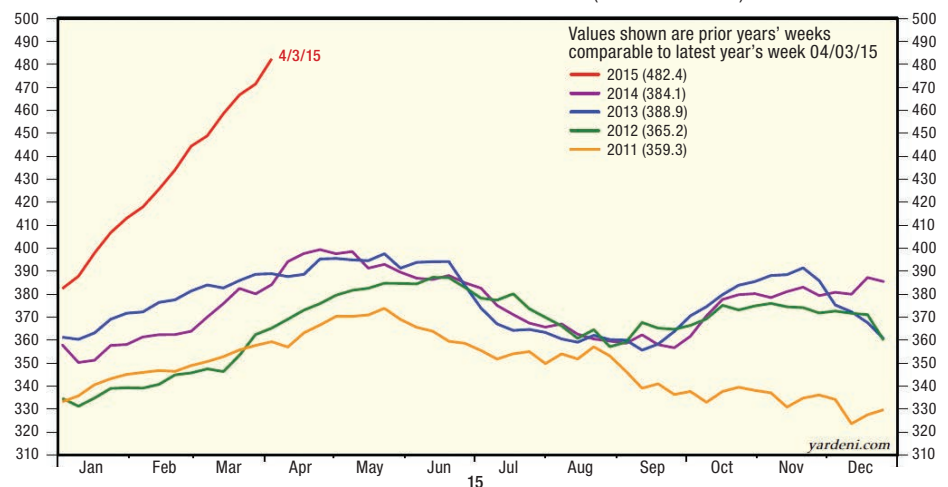
- having no more than three consecutive down days in the S&P 500 Index
- being the first year since 1982 that Treasury bonds outperformed stocks by more than 10% when stocks, themselves, were up at least 10%
- large-cap stocks outperforming small caps and developed international stocks by the largest margin in 15 years and
- utilities being the top-performing sector even though the market wasn't "on defense."

All that has changed. Volatility has roared back with large-cap stocks moving 1% or more in 19 out of 61 trading days in the quarter (72% more than the first quarter of 2014). Bonds are no longer outperforming global equities or alternative investments. U.S. small-cap, developed international and emerging markets stocks are outperforming the S&P 500 this year. The utility sector lags far behind all the others including the energy sector. Dividend-oriented equity funds have suffered as well.

*"The only way  
to make sense of  
change is to plunge  
into it, move with it,  
and join the dance."*

— Alan Watts,  
English philosopher  
1915-1973

US Petroleum Stocks: Crude Oil\* (million barrels)



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## Equitable Trust Quarterly Review and Outlook

### Last year ... (continued)

What has caused these dramatic reversals? It's not interest rates in the U.S. They are at about the same level they were at year-end. The market still anticipates the Fed will increase short-term rates this year, although now the consensus is this will occur later than June. European rates, by contrast, have been pushed down hard by the European Central Bank as it engages in its own Quantitative Easing program. It is no surprise that the U.S. dollar rallied sharply. It is surprising that international stocks have done so well in the strong-dollar environment. Optimism about the effect of monetary policy in Europe and Japan has blossomed.

Meanwhile, the U.S. economy continues to expand at a modest pace, with notable improvements in employment, wages and homebuilding. Most foreign economies look at least stable, with the exception of China's widely-anticipated slowdown.

Energy prices remain at depressed levels. While lower energy costs generally help the economy, the results are uneven. Consumers and businesses, which are users of energy, find lower prices most helpful. Oil refining companies are delighted to have the cost of their raw material plunge so that their profits soar. However, oil producers and service companies are already doing what we predicted in our last letter, cutting production. Their earnings are under pressure. Despite production

cuts, the domestic petroleum inventory has soared. (See *Petroleum Stocks Chart*)

We expect energy to be a "swing" factor with earnings this year. U.S. corporate profits are expected to be nearly flat when compared to last year. However, if the energy sector is excluded, another solid increase is in the offing for the remaining sectors.

When the Fed does begin to raise interest rates, it will be a slow process toward normalization. Money markets aren't likely to provide an attractive return for a long time. Bonds will struggle against rising interest rates, making it difficult for investors to earn the returns they came to expect from fixed income investments over most of the last 30 years. Equity investors, however, should continue to experience generally positive returns but with increased volatility. The dollar is likely to be stronger over the long-term (See *Dollar Index Over Time Chart*). Strength in the greenback usually favors U.S. companies that aren't multinational, especially small caps. However, the move up in the dollar has been so steep as to invite a correction, perhaps this year. Such a retrenchment would favor multinationals, developed international and emerging market stocks. With foreign central banks now employing Quantitative Easing, foreign company earnings should rise smartly. Consequently, we have added to international holdings in client portfolios.

Dollar Index Over Time



Source: © 2015 Northern Trust.

## Market Diary Period Ending March 31, 2015

	RATES OF RETURN					
Equities	Last 3 Mo.	YTD	1 year	3 years	5 years	10 years
Global Stock Market (MSCI All Country World)	2.45	2.45	6.04	11.46	9.68	7.13
U.S. Stock Market (S&P 500)	0.95	0.95	12.72	16.11	14.45	8.01
U.S. Small-Cap Stocks (Russell 2000)	4.32	4.32	8.21	16.28	14.56	8.79
International Stocks (MSCI EAFE)	5.04	5.04	-0.30	9.74	6.86	5.69
Emerging Markets Stocks (MSCI Emerging Markets)	2.22	2.22	0.75	0.65	2.09	8.86
Alternatives	Last 3 Mo.	YTD	1 year	3 years	5 years	10 years
Hedge Funds (HFRX Global Hedge Fund)	2.10	2.10	0.40	2.80	1.10	1.00
Global Real Estate (FTSE/EPRA NAREIT)	4.04	4.04	14.80	11.78	11.03	7.70
Commodities (Bloomberg Commodity)	-5.94	-5.94	-27.04	-11.52	-5.71	-3.56
Energy (Bloomberg Commodity - Energy)	-8.20	-8.20	-46.56	-17.31	-15.32	-16.87
Gold (Gold Spot)	-0.08	-0.08	-7.82	-10.83	1.22	10.68
Fixed Income	Last 3 Mo.	YTD	1 year	3 years	5 years	10 years
Barclays Aggregate	1.61	1.61	5.72	3.10	4.41	4.93
Barclays Municipals	1.01	1.01	6.62	4.05	5.11	4.85
Barclays High Yield	2.52	2.52	2.00	7.44	8.56	8.17

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

## Comic Books, Coins, and Cars: Planning for Tangible Personal Property

In a recent column in the New York Times (“When Heirs Fight Over Assets With Sentimental Value,” April 3, 2015), columnist Paul Sullivan discusses the fallout in a legal battle over the late Robin Williams’ personal effects. Among the items in dispute: Mr. Williams’ wedding tuxedo, comic books, and theater masks.

Disposition of tangible personal property often represents the most contentious and difficult part of the estate administration process. Yet, it is often an aspect of one’s estate plan that planners and clients gloss over. In many instances, testamentary documents dictate that tangible personal property is to be distributed “in equal shares” to children or grandchildren. The question then becomes, who determines what is equal? How does one place a

value on sentimental items or even items that may be difficult to properly appraise in monetary terms? Deciphering this language is often left to some discretion of the executor. However, this does not really solve the problem.

There are steps that can be taken, both in the planning and administration process, which can help maintain family harmony in the distribution of tangible personal property. The distribution of personal effects often has as much to do with a family’s interpersonal relationships as it does with the intrinsic value of the items to be distributed. As with most planning issues, the best results occur when there is advance and proactive planning. Many planners suggest seeking direct input from family members as to which personal items they are interested in. In some

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## *Comic Books, Coins ... (continued)*

instances, it can be advantageous to appraise items with high monetary or sentimental value and to have potential beneficiaries take turns making selections. Afterwards, when it is understood who gets what, these specific bequests can be formalized in a Will or Trust. Communication may also allow a parent to explain to children the reasoning behind specific bequests, so that there is no surprise or hurt feelings when the bequest becomes effective at death.

In the instances where lifetime communication is ill-advised or not desired, it is a good idea to document how specific items of personal property are to be distributed. Including all of these gifts in the Will or Revocable Trust may be cumbersome, with each change necessitating a new codicil or revision. In many cases it may be advisable to include a "side letter of wishes," that may be referenced in a Will or Trust. The side letter is not a binding testamentary document, but it may aid the executor in the general application of the "divide among my children" clause by making specific reference to the disposition of items of tangible personal property. While it is usually not a good idea to bequeath items of high

monetary value in this manner, a side letter is often helpful for bequests of most general items of personal property. The side letter can be an evolving document with a high level of detail as to which items are going to whom and why. This detail may help minimize tension and ambiguity down the road.

If a subjective term such as "equal" or "equitable" is used, it is often helpful to dictate the method by which these residual items that are not specifically referenced in the Will or side letter are to be further divided among the beneficiaries. Methods may include drawing lots and selecting items in order, or having the executor conduct a silent auction. An experienced executor can prove invaluable in these instances in their role as an impartial referee.

Keep in mind that it is often the items one least expects (such as a tuxedo) that lead to conflict. Planning and communication regarding these items can play a major role in ensuring that the distribution of tangibles is about legacy and harmony, as opposed to serving as a catalyst for conflict and strife.

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