Quarterly Review and Outlook

October 2010

EQUITABLE Trust

Trustees and Investment Advisors

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  Edward A. Burgess, CFA
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"The public is right during the trend but wrong on both ends."

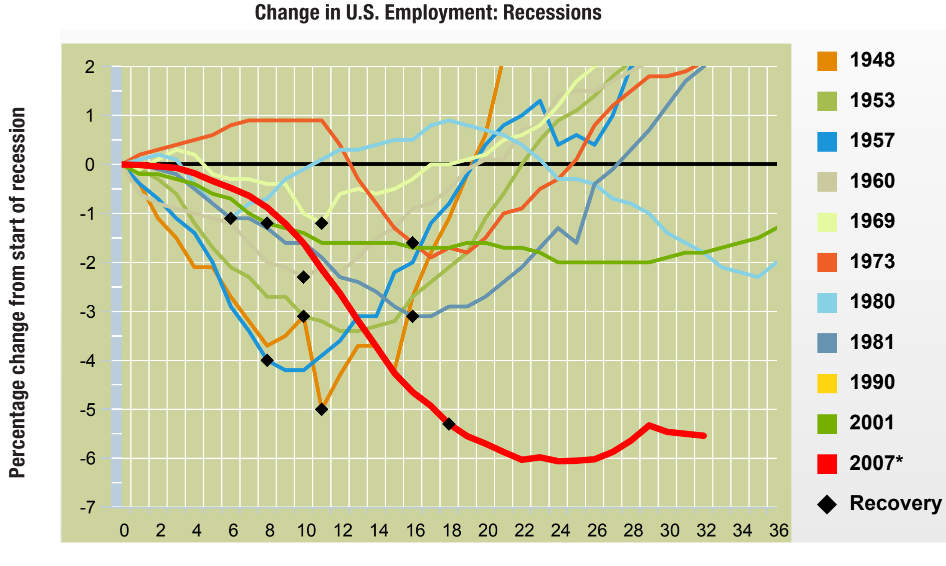
— Humphrey Neill,
The Art of Contrary Thinking

Investment Caution in a Sea of Cash

The S&P 500 Index experienced a strong 3rd quarter, up 11.3%, buoyed by the strongest September in 71 years, up 8.9%. The domestic bond market also finished strong with the U.S. 10 Year Treasury note yielding a very low 2.51% as of September 30.

Was this quarter the product of wonderful news and boundless optimism? The answer is, probably not. The Tea Party movement experienced a great deal of success in making life complicated for incumbent politicians in the U.S. over concerns about deficits, debts and growing government control over many aspects of life. Coupled with high (Exhibit #1) and persistent (Exhibit #2) unemployment, and continued softness in the housing market, consumers and voters are dissatisfied, to say the least. Attitudes are no rosier abroad. Demonstrations (and in some places, riots) over government spending cutbacks, food shortages and rising fuel prices show that unhappiness is not a uniquely American reality.

Exhibit #1
Change in U.S. Employment: Recessions



*Start of the recovery for the 2007 recession is June 2009. Source: Federal Reserve Bank of Minneapolis. Updated September 20, 2010

It's not for lack of effort that our government and others are facing displeased voters. Since the financial crisis began, every national government has employed fiscal stimulus (deficit spending and/or tax cuts) to drive consumer and investor demand while employing "quantitative easing" to help on the monetary side with unimaginable bank reserves and low interest rates. It is this sea of cash that is causing markets to rise.

However, credit is mostly available to those who don't want or need to borrow. Those who wish to borrow are not able because they often have bad credit scores or impaired collateral. As such, the tremendous excess reserves of banks aren't being lent. In the U.S., uncertainty about tax policy and the future value of the dollar are keeping credit-worthy consumers and businesses on the sidelines.

Where does all of this leave investors? We think that current conditions will lead to a continuation of the secular bear market for stocks, which is now 10 years old. We think the S&P 500 Index is confined to a range of 900 to 1200 for the foreseeable future. On the fixed income side, total returns will be hard pressed to match those of the past 10 years.

We would like to share with you our thoughts about the following asset classes:

Cash – There are very few risks in money market funds and even less yield. We are selectively using short-term bond funds and certificates of deposit to enhance cash equivalent returns.

Fixed Income – Yields are historically low, and the potential risks cannot be ignored. We are at the low end of our fixed income allocations for portfolios where we have discretion. We are more inclined to accept credit risk than maturity risk.

Gold – It has been a real champ, and we are happy to own it. With the rapid expansion of the money supply here and abroad, precious metals should do very well over the long term. We are conscious, however, of how rapidly they have appreciated of late. Gold and silver might be due for a "rest" in the short term.

Real estate – The comments above regarding gold also apply to Real Estate Investment Trusts (REITs).

Equities – Prices will be driven by both earnings and the price/earnings multiple investors are willing

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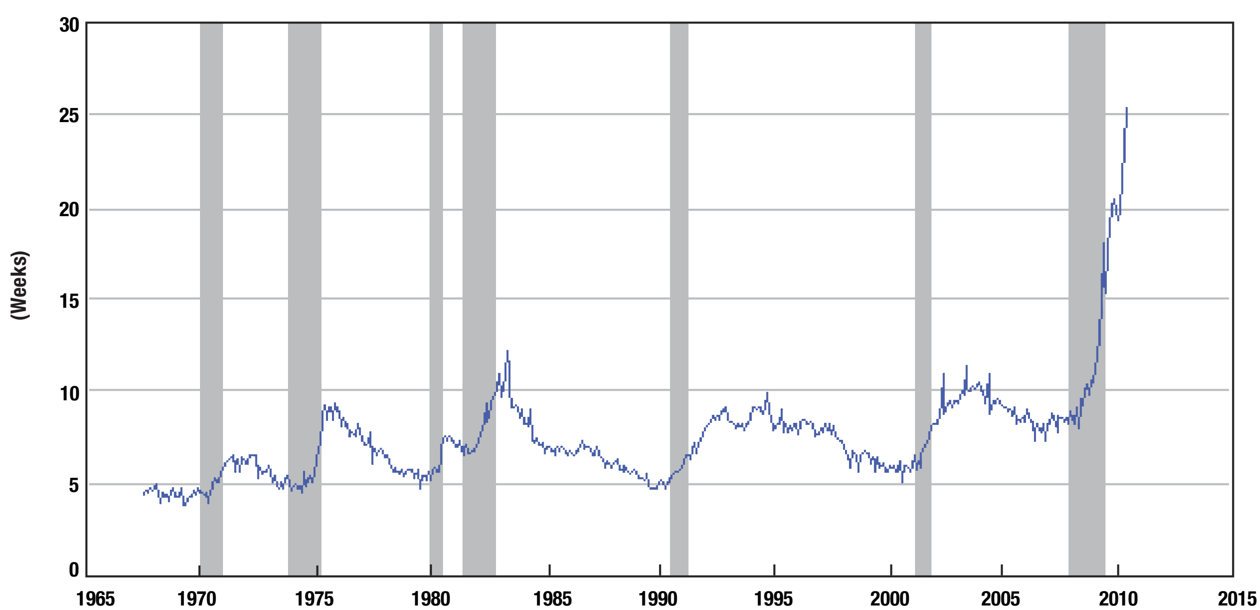
Exhibit #2
Median Duration of Unemployment (UEMPMED)
Source: U.S. Department of Labor: Bureau of Labor Statistics



Shaded areas indicate U.S. recessions. 2010 research.stlouisfed.org

Market Diary Period Ending September 30, 2010

	CLOSE	RATES OF RETURN				
Equities	**9/30/10**	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**
U.S. Stock Market (S&P 500)	1141.20	11.29	3.89	10.16	-7.16	0.64
U.S. MidCap Stocks (S&P 400 Mid-Cap)	802.10	13.12	11.57	17.78	-1.67	3.77
U.S. Small-Cap Stocks (S&P 600 Small-Cap)	358.55	9.62	8.66	14.22	-4.18	1.62
International Stocks (MSCI EAFE)	1561.01	15.80	-1.20	0.50	-12.10	-0.70
Emerging Markets Stocks (MSCI Emerging Markets)	1075.53	17.20	8.70	17.70	-3.70	10.20
Alternatives	**9/30/10**	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**
Gold (London Precious Metal Fix)	1307.00	5.06	20.18	31.26	20.72	22.53
Crude Oil (West Texas Intermediate)	79.97	5.74	0.77	13.26	-0.70	3.84
Real Estate (Dow Jones REIT)	166.00	11.00	14.20	21.90	-11.70	-4.40
Commodities (Dow Jones UBS Commodity)	387.04	13.01	6.27	21.35	4.74	8.84
	YIELDS					
Fixed Income	**9/30/10**	**6/30/10**	**12/31/09**	**9/30/09**	**9/30/07**	**9/30/05**
U.S. Treasury Bills 91 days	0.16	0.18	0.06	0.14	3.82	3.55
2 Year U.S. Treasury	0.42	0.61	1.14	.95	3.97	4.18
10 Year U.S. Treasury	2.53	2.97	3.85	3.31	4.59	4.34
Investment Grade Taxable Bonds (Barclay's Aggregate)	2.56	2.83	3.68	3.55	5.31	4.91
10 Year AA Municipal Bonds (Moody's)	2.68	3.14	3.21	2.83	3.89	3.81

Rates of Return for Equities and Alternatives for periods longer than 12 months are annualized. Data provided by Bloomberg L.P., The Chart Store, Interactive Data Corp. and U.S. Treasury Department.

IRS Interest Rates Applicable to Many Estate Planning Instruments at Historic Lows

If you have ever considered as part of your estate plan a **Grantor Retained Annuity Trust**, a **Charitable Lead Annuity Trust**, an **Installment Sale to a Grantor Trust** or an **Intra-Family Loan**, now is an opportune time in the current low-interest-rate environment to revisit any of these strategies. All involve an IRS-established interest rate, i.e. Applicable Federal Rate (AFR). AFRs are published monthly, and the October rates are at historic lows.

Existing estate planning **Intra-Family Loans** subject to an AFR should be re-examined for the possibility of refinancing at a decidedly more favorable rate.

Investment Caution ... *(continued)*

to place on common stocks. We point out that the earnings growth in the coming year will slow because the comparisons only get tougher (2010 was a strong earnings recovery year). The price/earnings multiple on 10-year smoothed earnings is far enough above average that it is hard to argue that the market is "cheap."

With individual common stocks, we have shifted, on the margin, from the most rapid earnings growers to more consistent earnings growers with rational balance sheets (for future corporate flexibility) and higher dividend yields. In some cases, the common dividend yield is higher than the bond yields of that company.

In many portfolios, we are adding multi-strategy equity mutual funds. For years, we have diversified equity portfolios by size (large-cap, mid-cap and small-cap), by style (growth and value), origin (domestic and foreign) and within foreign (developed and emerging). These funds are all alike, however, in one key respect. If the underlying investments rise in value, the funds perform well. If the underlying assets drop, the fund loses value. This is called traditional long-only investing.

Multi-strategy funds are different. Some are flexible asset allocation vehicles which can invest in almost anything, almost anywhere. One has a fixed asset allocation which always assures representation in stocks, currencies, bonds and precious metals. Some go both long and short with stock investments, while another seeks returns from merger arbitrage opportunities. We typically employ a package of several of these funds to help achieve a goal of mid- to high-single-digit returns even when the stock market is traveling sideways, as we expect it will.

Your portfolio manager stands ready to answer your questions.

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