WORTH MAGAZINE · ESTABLISHED 1992

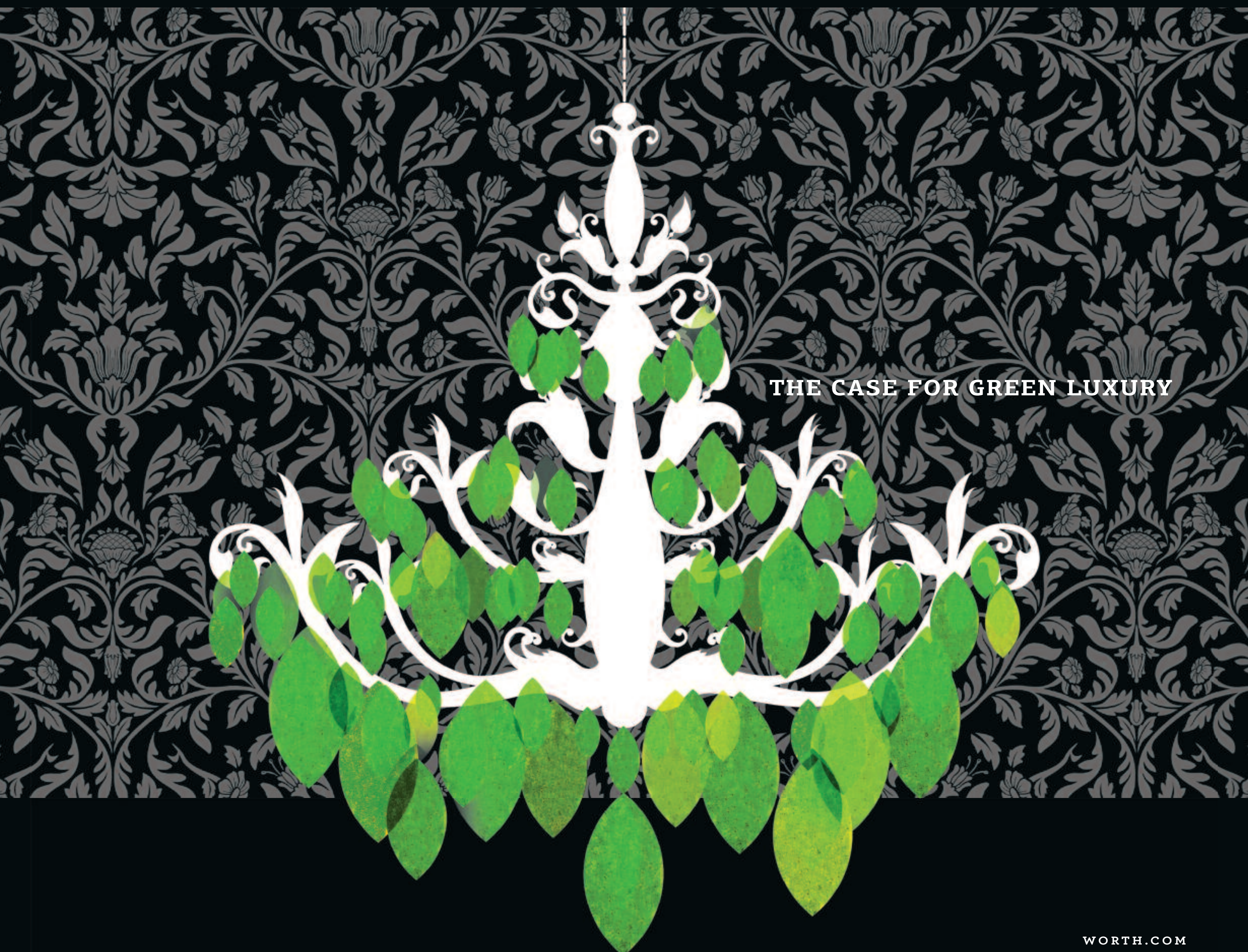
MAKE
Top hotel gyms; Warren Buffett's mysterious new #2; 10 questions for your office designer.

GROW
What the Republicans mean for your money; 2010's most expensive art sales; investing in wine.

LIVE
Eight eco-friendly luxury cars; 10 secret bars and restaurants. Plus: Should your kid skip school?

Worth®

THE EVOLUTION OF FINANCIAL INTELLIGENCE



THE CASE FOR GREEN LUXURY

WORTH.COM

10

VOLUME 20 | EDITION 01

The Haverford Trust Company
Henry Smith, Chief Investment Officer; John Donaldson, CFA®, Vice President and Director of Fixed Income; Jeffrey Bagley, CFA®, Vice President, Portfolio Manager and Senior Research Analyst; Timothy Hoyle, CFA®, Vice President, Research

"Should investors expect another lost decade in the U.S. equity markets?"

By The Haverford Trust Company

It is commonplace to hear investors deride the stock market's future prospects. During the decade of 2000 to 2009, the S&P 500 index declined 9.1 percent, or 0.95 percent annualized. This, the second-worst rolling 10-year period on record, is attributable to two main factors. Most significantly, the S&P 500 entered 2000 priced at 35 times earnings, which in retrospect priced in unsustainable growth and left no room for error. Secondly, the decade was bookended by two recessions, the most recent being so severe as to be named the "great recession." We at Haverford Trust believe that over the next decade equities will return 10 percent annually, very near to their long-term rate of return, with a strong likelihood for above-average returns.

Four factors lead us to conclude that U.S. equities will reward investors in the coming decade:

01 The global economy is growing. Companies in the S&P 500 are globally diversified, having spent the past decade targeting international market growth, and this focus has paid off. Since 2000, the percentage of revenues derived internationally has grown from approximately 30 percent to above 40 percent and will likely approach 45 percent by 2015. Such international diversification means the fortunes of domestic equities are no longer linked solely to the U.S. economy. Consensus views tout a new normal with real GDP growth of only 2 percent for the next decade. The risk to this view lies to the upside. The possibility for global and domestic economic growth above expectations is very real, which would provide additional stimulus to the market.

02 Stocks are attractively priced. Stocks now trade at 13 times earnings, well below the long-term historic average of 16 times, and significantly below the 35 times multiple from the past decade. A prudent expectation for future growth in earnings per share is 6 to 9 percent (3 percent real economic growth plus 3 percent operating leverage plus 3 percent inflation). Based upon this assumption, stock multiples need only to remain where they are for total returns of 8 to 11 percent, which includes a 2 percent dividend yield added to the equation. Considering the current interest rate environment, inflation expectations, and earnings growth expectations, stocks are undervalued.

03 Equities offer superior relative value. Equities represent tremendous value compared to other investable asset classes, namely fixed income. The market's dividend yield is now comparable to the 10-year Treasury. Companies, including Microsoft, McDonald's, IBM, Coca-Cola and Walmart, have recently issued corporate debt at rates well below the yields on their common stock. Based upon this information one would conclude that stocks are discounting lackluster results in the future and an impending recession. We believe neither is the case; instead equities are simply undervalued.

04 One decade of negative returns has never been followed by a second. Prior to 2008 and since 1872, there have been only two years—1938 and 1939—in which the trailing 10-year return was negative, with 12 cases of a trailing annualized return below 3 percent. In each case, the following decade's annualized return has been above 10 percent, with an average of 12 percent. We call this period of performance "catch-up reversion to the mean," and we believe that markets will once again revert to the mean during the coming decade.

Owing to their very nature and by the severity of the recent economic climate, equity returns will continue to be volatile. Notwithstanding volatility, we believe that equity investors with a long-term focus and the luxury of time will be well rewarded in the years to come.

The opinions expressed in this article are those of Haverford. Views and security holdings are subject to change at any time based on market and other conditions. This article is for informational purposes only and should not be construed as investment advice or recommendations with respect to the information or specific securities presented. No forecasts are guaranteed and past performance is no guarantee of future results. Investing outside the United States entails additional risks such as political and economic risks and the risk of currency fluctuations. The S&P 500 Composite Stock Price Index is a capitalization-weighted index of 500 stocks intended to be a representative sample of leading companies in leading industries within the U.S. economy. It is not possible to invest directly in an index.

The Delaware Valley region is defined as the following counties: Pennsylvania—Berks, Bucks, Chester, Delaware, Montgomery, Philadelphia; Delaware—New Castle; Maryland—Cecil; and New Jersey—Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Mercer, Ocean, Salem.

"We believe that equity investors with a long-term focus and the luxury of time will be well rewarded in the years to come."

– The Haverford Trust Company

How to reach The Haverford Trust Company

We can be reached at 610.995.8700.

Seated: Henry Smith. *Standing left to right:* John Donaldson, Timothy Hoyle and Jeffrey Bagley

About The Haverford Trust Company

The Haverford Trust Company provides highly personalized investment management services based on its Quality Investing approach. Refined over three decades, Haverford's Quality Investing strategy is committed to maximizing returns while minimizing risk throughout the entire market cycle. Adhering to this consistent, successful investment philosophy since its inception in 1979 has enabled Haverford's client base and assets under management to continually grow. Today, assets under management exceed $6.5 billion*. The Haverford Trust Company professionals take pride in the fact that the firm is privately owned and believe that independence gives them the flexibility to better serve their many clients, whether individual or institutional.

Assets Under Management
$6.5 billion*

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$1 million

Largest Client Net Worth
$250 million (firm)

Number of Team Members
65

Website
www.haverfordquality.com

Compensation Method
Asset-based fees

Primary Custodian for Investor Assets
The Haverford Trust Company

Professional Services Provided Money management and investment advisory services, including: strategy development, written investment policy, asset allocation, asset management, performance reporting and tax-efficient strategies

Association Memberships CFA Institute

Email hsmith@haverfordquality.com
jdonaldson@haverfordquality.com
jbagley@haverfordquality.com
thoyle@haverfordquality.com

*Including assets under management for The Haverford Trust Company and Haverford Financial Services as of 12/1/10.

The Haverford Trust Company | Three Radnor Corporate Center, Suite 450, Radnor, PA 19087 | 610.995.8700

Henry Smith

John Donaldson, CFA®

Jeffrey Bagley, CFA®

Timothy Hoyle, CFA®

The Haverford Trust Company
Three Radnor Corporate Center
Suite 450
Radnor, PA 19087
Tel. 610.995.8700

Email: hsmith@haverfordquality.com
jdonaldson@haverfordquality.com
jbagley@haverfordquality.com
thoyle@haverfordquality.com
www.haverfordquality.com

REPRINTED FROM

Worth®

THE EVOLUTION OF FINANCIAL INTELLIGENCE

About the Worth Leading Wealth Advisors
The Worth Leading Wealth Advisor admittance process is based on, but not limited to, the Advisor's experience, education, fiduciary status, compliance record, wealth management services, methods of compensation and scope of current business. In order to be considered for the Worth Leading Wealth Advisors Program, financial professionals must be willing to provide complete and full disclosure to investors so that independent analysts from Paladin Registry can thoroughly screen and evaluate their credentials, ethics and business practices. Once admitted, Advisors pay a fee to be included. Investors and potential investors are solely responsible for the decision to select particular Advisors.