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The Haverford Trust Company

Joseph J. McLaughlin Jr., Chairman, Chief Executive Officer; Binney H.C. Wietlisbach, President; Henry B. Smith, Chief Investment Officer, Director; John H. Donaldson, CFA®, Vice President, Director of Fixed Income; Timothy A. Hoyle, CFA®, Vice President, Director of Research

"What should investors do when the bull market arrives?"

By The Haverford Trust Company

This past summer, the economy entered the seventh year of an expansion that began in mid-2009. In terms of longevity, the current expansion is above average when compared to previous business cycles since World War II. But in terms of aggregate growth, this expansion ranks last.

This could be good news! The economy's sub-average growth—the so-called "2 percent" recovery—may be cause for an extra-long expansion. The reason: There has not been enough growth to create the excesses, like inflation, inventory builds and employment that normally would lead to a recession.

Yet the economy's strength is broad enough to sustain external shocks. In 2011, the economy withstood the back-to-back external shocks of the Arab Spring oil spike and the Japanese tsunami. No one will argue that today's economy is in better shape than four years ago.

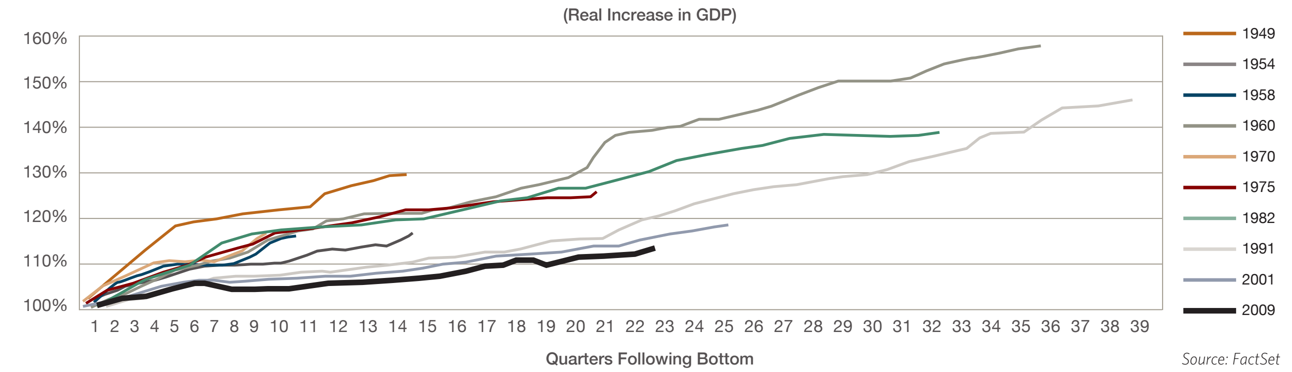
The business cycle is important to the equity market. This bull market, now in its seventh year, has been longer and stronger than average. But bull markets do not die because of age; they almost always end in anticipation of the next recession.

And the traditional economic signposts are not flashing warning signs of an impending downturn. Inflation remains contained. Employment trends are positive. Consumer confidence continues its uptrend. And the yield curve is positively sloped, not close to inverting. When these trends reverse, there is typically a multi-year lead time before a recession.

While this bull market might not be close to ending, expectations for returns should be tempered, given the above-average returns of the past six years. Since the bull market began in March of 2009, the annualized return of the S&P 500 has exceeded 20 percent. Going forward, investors should expect a more modest annualized rate of return in the mid-to-high single-digit range. **That should still beat the alternatives:** cash, which continues to yield next to nothing, and bonds, whose returns will be under pressure as the Fed slowly normalizes interest rate levels.

With more moderate returns in the offing for equity markets, investors should resist the urge to "swing for the fences," with speculative investments. Instead, they should focus on higher-quality, dividend-paying companies, which historically have delivered good risk-adjusted returns. And when the bear market ultimately arrives, high-quality, dividend-paying stocks should offer some downside protection.

THE CURRENT EXPANSION RANKS LAST IN AGGREGATE GROWTH



Source: FactSet

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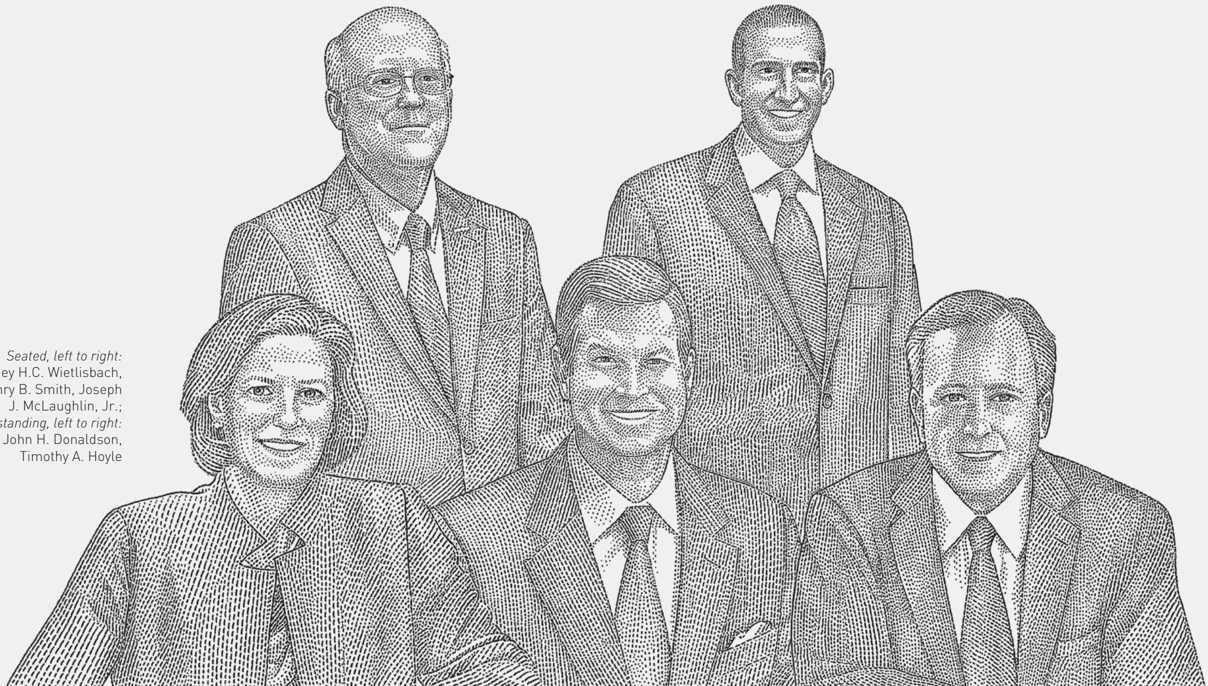
How to reach The Haverford Trust Company

We can be reached at 610.995.8700.



Seated, left to right: Binney H.C. Wietlisbach, Henry B. Smith, Joseph J. McLaughlin, Jr.; *standing, left to right:* John H. Donaldson, Timothy A. Hoyle

About The Haverford Trust Company

The Haverford Trust Company provides highly personalized investment management services based on our *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 our inception in 1979, Haverford has enabled our client base and assets under management to continually grow. Today, assets under management or consultation exceed $8.2 billion.* We take pride in the fact that we are privately owned and believe that independence gives us the flexibility to better serve our many clients, whether individual or institutional.

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$8.2 billion*

Minimum Fee for Initial Meeting
None required

Minimum Investable Assets
$1 million

Largest Client Net Worth
$250 million (firm)

Number of Team Members 77

Compensation Method Asset-based fees

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*Assets under management or consultation as of December 31, 2014.

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