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The Haverford Trust Company

Joseph J. McLaughlin, Jr., Chairman and 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

"Why do bull markets end?"

By The Haverford Trust Company

Bull markets do not end because of duration, magnitude or valuation, as commonly perceived. The current bull market is now in its sixth year and up nearly 200 percent from March 2009 lows. In terms of time and return, the current bull market is only slightly above the historical average but well above the median bull market. As can be seen from the chart, there have been bull runs longer and stronger, as well as shorter and weaker, than the current bull. Despite this impressive run, the S&P 500 valuation remains in line with its historical average of 16X earnings.

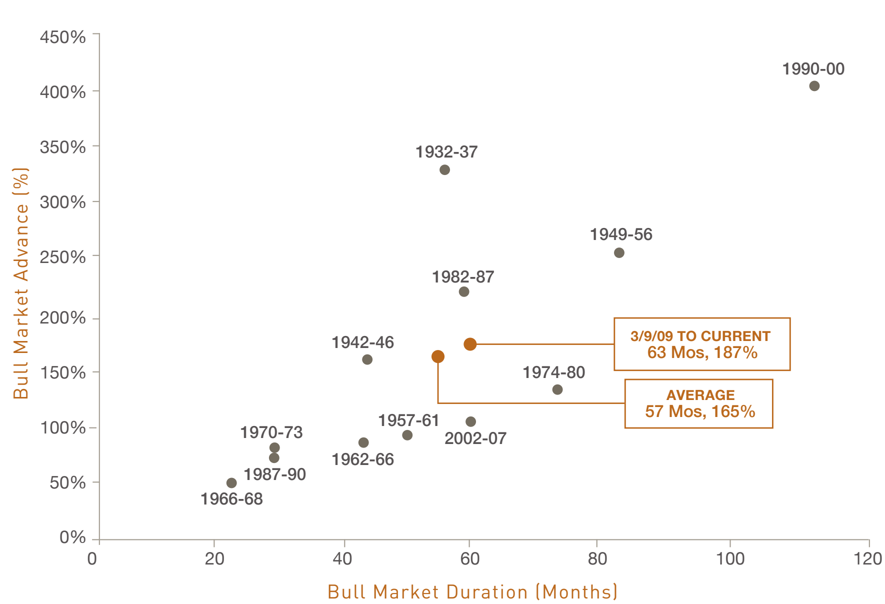
Ultimately, bull markets are followed by bear markets, and vice versa. A bear market is commonly defined by a 20 percent or greater decline from the previous peak. Any decline less than 20 percent is commonly considered a correction or pullback. What causes bull markets to give way to a bear market? Frequently it is equity investors' anticipation of an impending recession. Also, bear markets can occur when the Fed over-tightens. Sometimes it is a combination of both. Rarely do extraordinary exogenous events—natural disasters, geopolitical events, wars, etc.—cause bull markets to end. In modern history (post-WWII), we can think of only one such example—the crash of '87—that ended a bull market.

In the same vein, expansions are followed by recessions, and vice versa. At this point in the economic cycle, we believe the risks of a recession are quite low. Even though we are in the sixth year of an expansion, the GDP growth rate remains sub-par. We believe there is not enough growth to create traditional excesses in areas like inventories or labor that would lead to a recession. At the same time, the economy is strong enough to withstand transitory shocks, such as the weather this past winter.

The risk of the Fed over-tightening is also quite low. The Fed's current interest rate policy is extremely accommodating and, according to its own forecasts, short-term interest rates are not expected to rise for another year or two. Historically, the risk of over-tightening (i.e., rising rates) occurs when short-term rates rise above 4 percent and the 10-year Treasury yields above 6 percent. At the current levels of 0 and 2.6 percent, respectively, we are far from being at risk for a tight monetary policy.

Make no mistake: This current bull market will end, but maybe not for another several years.

S&P 500 HISTORICAL BULL MARKETS 1928 TO PRESENT



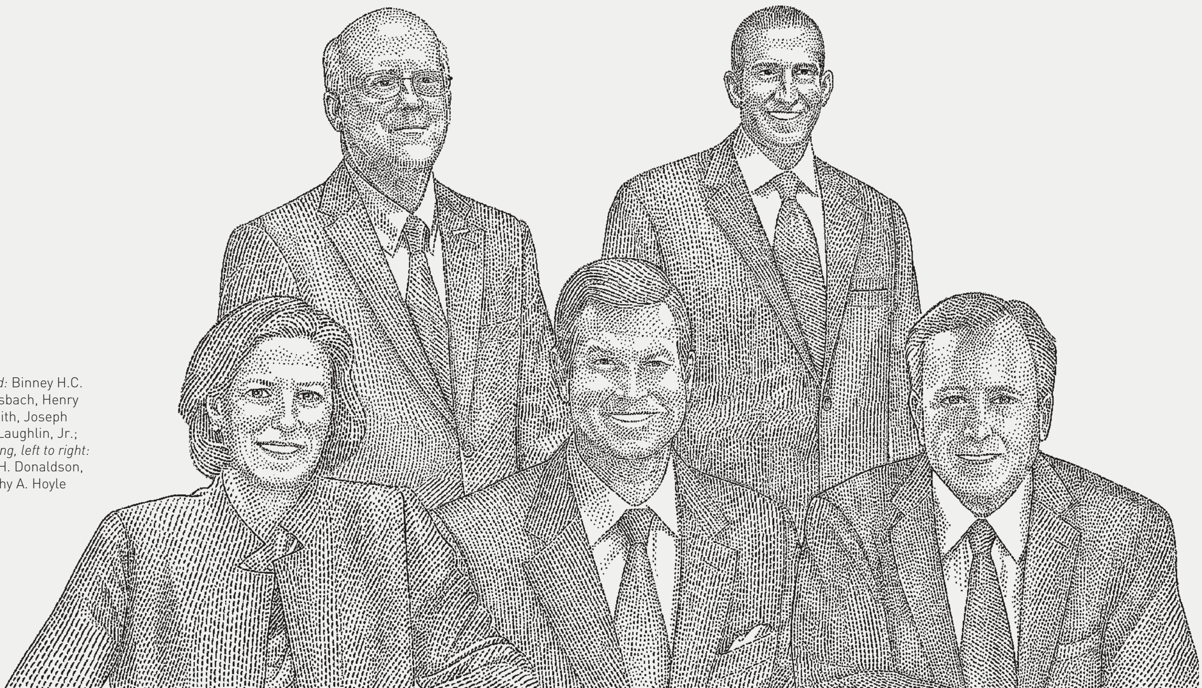
Source: Strategas Research Partners LLC

"At this point in the economic cycle, we believe the risks of a recession are quite low."

—The Haverford Trust Company

How to reach The Haverford Trust Company

We can be reached at 610.995.8700.



Seated: 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 $7.4 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.

Assets Under Management
$7.4 billion*

Minimum Fee for Initial Meeting
None required

Minimum Investable Assets
$1 million

Largest Client Net Worth
$250 million (firm)

Number of Team Members
75

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

Email hsmith@haverfordquality.com

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*Assets under management or consultation as of December 31, 2013.

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