

Q U A R T E R L Y R E V I E W



**CHRISTIANA**Trust

A DIVISION OF WSFS BANK

JUNE 30, 2011



# FINANCIAL MARKETS REVIEW

SECOND QUARTER

JUNE 30, 2011

It took a late-period rally to push domestic large cap stocks just slightly into positive territory for the second quarter, but it was not enough to keep stocks of smaller companies from posting modest losses for the period. Despite renewed problems in Greece, international stocks from developed economies were up moderately. Bonds had solid gains as economic uncertainty sent interest rates lower during the quarter.

Large cap U.S. stocks (+0.1%) just barely registered a gain in the second quarter as investor sentiment swung from optimism to pessimism and back to optimism on the global economy, debt issues here and in Europe and the impact of Japan's earthquake and tsunami. These swings in sentiment made for a volatile period as stocks rallied +3.0% in April, then retreated -6.9% over the next six weeks before rallying +4.4% the last two weeks of the quarter. Mid (-0.7%) and small cap (-1.6%) stocks did not fare as well as they could not overcome their slumps in the middle of the quarter. Amid this uncertainty, it is no surprise that defensive sectors like health care (+7.3%) and utilities (+5.0%) were top performers while more economically sensitive sectors like finance (-6.3%) and energy (-5.1%) struggled.

Developed economies and emerging markets parted company in the second quarter. Despite resurfacing sovereign debt woes in Europe in general and Greece in particular, overseas stocks from developed economies (+1.6%) surprised on the upside. Germany (+4.0%), France (+2.6%) and the United Kingdom (+1.1%) led on signs that Greece's debt problems could be contained rather than spread throughout Europe. On the other hand, stocks from emerging markets (-1.2%) slipped on uncertainty about the health of the global economy. Two major culprits were China (-5.4%) and Brazil (-5.2%) where inflationary pressures combined with global growth concerns caused their stocks to sink for the period.

Bonds (+2.3%) returned to their winning ways in the second quarter as worries about the economy sent investors scurrying for safety. After falling out of favor in the previous two quarters while stocks were rallying, bonds in general and U.S. Treasuries in particular attracted investor attention again as the list of concerns for equities grew in the latest period. More impressive than taxable bonds was the performance of municipal bonds (+3.9%) as budget cuts by states and municipalities caused a supply shortage of these tax-exempt fixed-income securities.

First half performance for U.S. stocks (+6.0%) was impressive given the number of macro issues to be addressed. From the impasse in Washington on how to deal with our mounting debt and deficits to the more urgent sovereign debt crisis in Europe to stubbornly high unemployment, slowing economic growth here and abroad, higher food and energy costs and a moribund housing market, there were many issues that could have tripped up equity markets. Some progress soon on some or all of these fronts will probably be needed to keep stocks advancing in the second half of the year. Against this backdrop, we currently have a moderately defensive position that enables us to participate in any upside but more importantly, protect a little more in any downside.

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## IN THE NEWS

# MarketWatch

July 9, 2011

### Investors look to earnings, jobs for direction

By Wallace Witkowski

**Thomas Nyheim**, portfolio manager at **Christiana Trust**, said he's looking to earnings to provide a clearer picture of the economy given the disconnect between ADP and nonfarm payroll numbers.

"With earnings, people are tempering back expectations," **Nyheim** said. "When we see earnings from larger corporations, most growth is coming from overseas and it's been that way for the last few quarters. Domestic growth has been very slow in the single digits."



June 9, 2011

### US Stocks Surge After Six-Session Decline

By Jonathan Cheng

Earlier, Federal Reserve Bank of Philadelphia President Charles Plosser said that the recent weakness in the economy was likely just a "temporary soft patch," which isn't uncommon during recoveries, and that growth should resume and strengthen.

Some investors disagreed, pointing to recent data to argue the market had further to fall, in spite of Thursday morning's rebound.

"I've seen a lot of things that together make me think this is not a soft patch; it's more of a slowdown," said **Scott Armiger**, vice president and portfolio manager at **Christiana Trust**. **Armiger** said he was discouraged by the rise in wholesale inventories, which he said shows that "stuff is not moving off the shelf."

"Then we have the disappointing employment number and housing and its ripple effect," **Armiger** said. "We've had six down days in a row, and hopefully we'll break that string and get a bit of a snapback, but that doesn't change my outlook-the GDP outlook consensus is still too high."



June 28, 2011

### US STOCKS-Futures point to higher open on Greece optimism

By Ryan Vlastelica

U.S. stock index futures pointed to a higher open on Tuesday as optimism grew that the Greek parliament would adopt a deeply unpopular austerity plan, easing concerns about a debt default.

"There's some follow-through from yesterday's gains on the expectation that the measures are going to pass," said **Scott Armiger**, portfolio manager at **Christiana Trust** in Greenville, Delaware.

## Bloomberg

April 29, 2011

### U.S. Stocks Advance as Caterpillar Rallies on Earnings Results

By Nikolaj Gammeltoft and Inyoung Hwang

'Inflation Risk'

Energy stocks surged 1.5 percent, the biggest rally out of 10 industries in the S&P 500, as the price of oil climbed higher, capping an unprecedented eighth straight month of gains.

"Earnings numbers are so far looking pretty strong," said **Thomas Nyheim**, a Greenville, Delaware-based money manager for **Christiana Trust**, which oversees \$7.5 billion.

"But the one thing that keeps coming up is inflation risk, and we're beginning to see some of that cost pressure coming through in the reports. There's still a lot of caution in the market."

To view more quotes by our investment team,  
please visit the "In the Media" page on our  
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[www.christianatrust.com](http://www.christianatrust.com)

# LARGE-CAP GARP EQUITY COMPOSITE

JUNE 30, 2011

## INVESTMENT STYLE

### GROWTH AT A REASONABLE PRICE

The primary objective of the Large-Cap GARP Equity style is growth of principal. This style's goal is to identify companies that have demonstrated superior operating characteristics and long-term prospects. We strive to purchase them at a fair price. These companies will generally have a market capitalization in excess of \$5 Billion. Sector weightings may differ significantly from the S&P 500 Index. Individual issues are identified and selected using quantitative proprietary screens with growth and value factors and fundamental research.

## PORTFOLIO CONSTRUCTION

Portfolios will generally contain 30 to 45 issues. A portfolio's dividend yield will generally be slightly lower than the S&P 500 Index. Turnover is moderate. Over a full market cycle, a portfolio would be expected to demonstrate controlled volatility, a higher ROE, and a moderately higher P/E ratio than the benchmark S&P 500 Index.

## PORTFOLIO CHARACTERISTICS

	<u>Composite</u>	<u>S&amp;P 500</u>
Price/Earnings	15.99	15.03
Price/Book	2.73	2.22
Price/Sales	1.48	1.35
Beta	1.01	1.00
Yield	1.50%	1.92%
*EPS Growth	11.70%	6.00%
Median Market Cap. (\$Millions)	\$43,551.41	
Turnover	25-40%	
Composite ROE	24.07%	

\*5-Year Growth Estimate

## SECTOR WEIGHTINGS

Basic Materials	4.3%
Industrials	13.1%
Telecommunications	1.5%
Consumer Discretionary	6.4%
Utilities	1.0%
Financial	9.1%
Consumer Staples	11.8%
Energy	12.5%
Health Care	8.7%
Technology	26.7%
Cash Equivalents	4.8%

## TOP 10 EQUITY HOLDINGS

Thermo Fisher Scientific	4.1%
Procter & Gamble	3.9%
Oracle Corp.	3.8%
Danaher Corp.	3.1%
EMC Corp.	3.1%
Walt Disney Co.	3.1%
Altera Corp.	3.0%
Ball Corp.	2.9%
Linear Technology Corp.	2.8%
United Technologies Corp.	2.7%

## PERFORMANCE

	<u>CT</u>	<u>LCC**</u>	<u>S&amp;P 500</u>
1999	34.21%	22.35%	21.04%
2000	1.71%	-8.96%	-9.09%
2001	-12.05%	-13.76%	-11.88%
2002	-23.87%	-23.49%	-22.10%
2003	25.76%	25.59%	28.68%
2004	8.71%	7.79%	10.88%
2005	4.95%	4.85%	4.91%
2006	6.88%	13.50%	15.80%
2007	8.21%	5.80%	5.49%
2008	-32.28%	-37.23%	-37.00%
2009	20.88%	27.14%	26.46%
2010	12.81%	12.90%	15.06%
2011 (6 Mo.)	7.90%	5.30%	6.02%
<b>ITD*</b>	<b>3.36%</b>	<b>1.39%</b>	<b>2.38%</b>

\*Inception to date (1999) annualized

\*\*Large-Cap Core equity mutual fund average from Lipper

Investment products:

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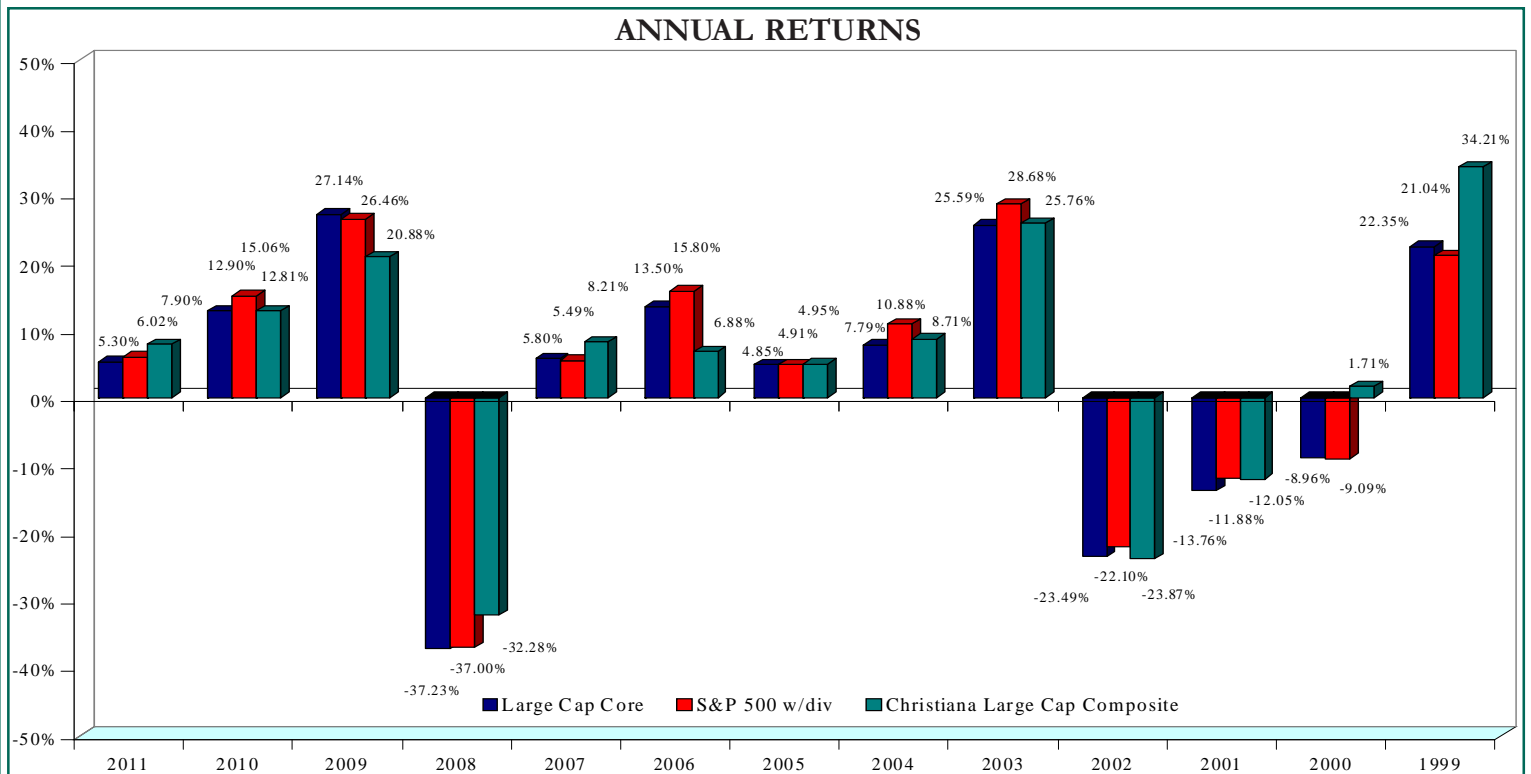
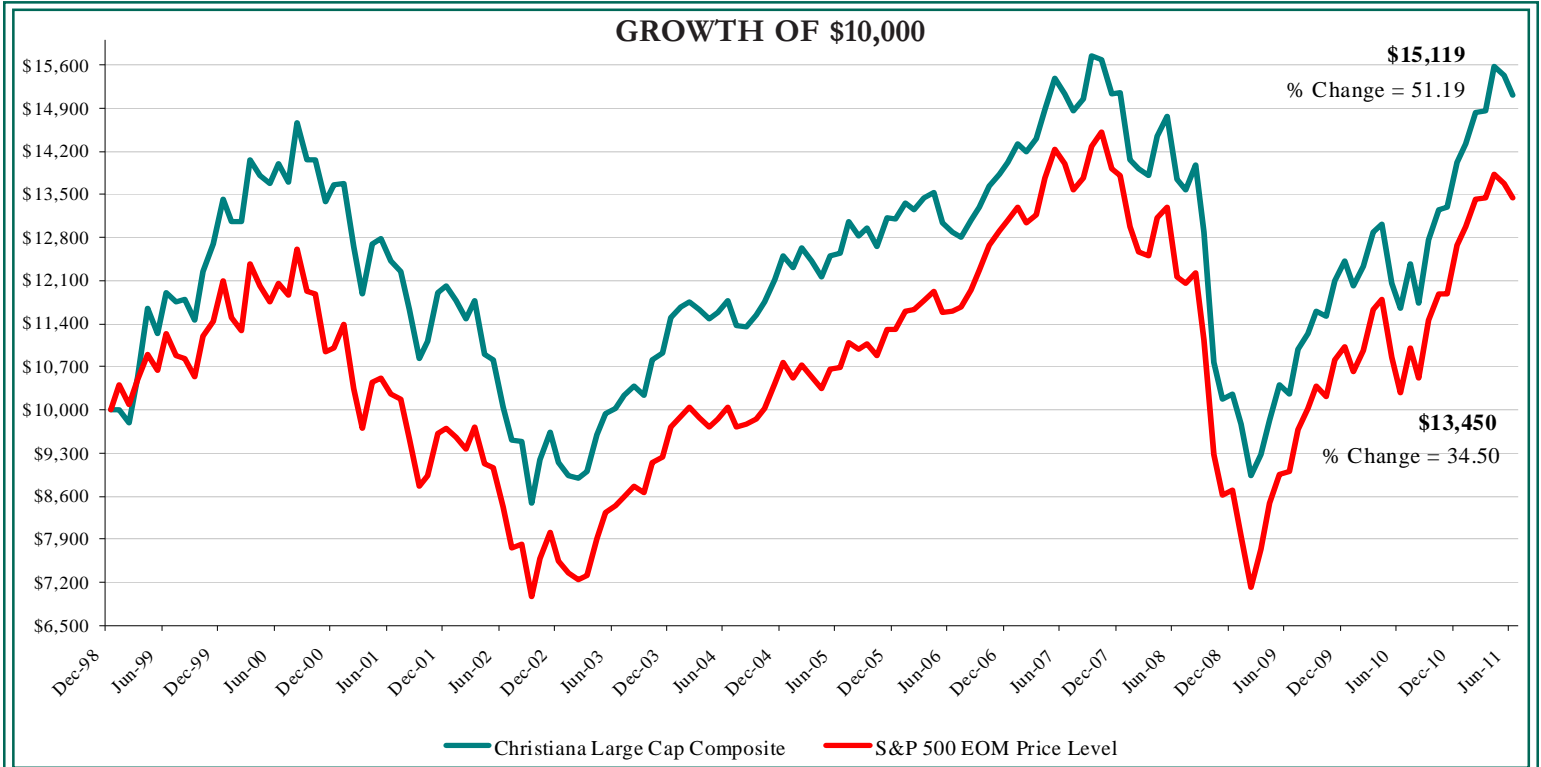
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# LARGE-CAP GARP EQUITY COMPOSITE

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Large-Cap Equity composite returns represent a dollar weighted composite of all equity accounts where Christiana Trust has full investment discretion. Performance does not reflect the deduction of investment management fees. Leverage is not used in this composite. Composite returns reflect the reinvestment of interest, dividends and capital gains. Past performance is neither a guarantee nor a prediction of future results. The source of returns for the large-cap core equity mutual fund average is Lipper.

JUNE 30, 2011

### INVESTMENT STYLE

The primary objective of the Fixed Income style is to generate current income consistent with managing portfolio volatility. The principal characteristic of the process is a quest for value. The process invests by looking at historical spreads as they apply to particular issues as well as relevant trends on a comparative basis.

### PORTFOLIO CONSTRUCTION

Portfolios utilize investment grade and highly liquid issues. All fixed income market sectors are reviewed. Maturities are spread across the yield curve. High quality, liquid issues are actively managed with the objective of identifying the best relative values. Credit and yield spread analysis is the basis for portfolio construction.

### PORTFOLIO CHARACTERISTICS

	<u>Composite</u>
Average Maturity (years)	1.3
Yield to Worst	1.66%
Yield to Maturity	4.2%
Duration (years)	1.2
Current Number of Issues	91
Duration Emphasis	Intermediate
Turnover	20%
Current Term Structure	Ladder
Average Quality Issue:	BBB+
Minimum Quality Issue:	BBB-

### QUALITY ALLOCATIONS

AAA/Aaa:	2.5%
AA/Aa:	11.8%
A:	23.8%
BBB/Baa:	41.1%
BB/Ba:	0.0%
B:	0.0%
FDIC Insured Certificates of Deposit:	17.9%
Not Rated	0.0%
Cash Equivalents	2.9%

### SECTOR ALLOCATIONS

US Govts/Agencies:	0.0%
US Inv. Grade Corporates:	79.2%
US High Yield Corporates:	0.0%
US MBS/ABS:	0.0%
Certificates of Deposit:	17.9%
Mortgage Pass Thrus/TBA:	0.0%
Municipals:	0.0%
Emerging Market Debt:	0.0%
Cash Equivalents	2.9%

### PERFORMANCE

	<u>CT</u>	<u>IB*</u>	<u>B**</u>
1999	-4.41%	-1.32%	0.39%
2000	12.50%	9.74%	10.10%
2001	8.76%	7.57%	8.98%
2002	10.05%	8.14%	9.82%
2003	5.51%	4.55%	4.30%
2004	2.93%	3.83%	3.04%
2005	1.95%	1.77%	1.57%
2006	4.72%	4.00%	4.07%
2007	5.01%	4.70%	7.40%
2008	3.11%	-4.43%	5.08%
2009	4.63%	12.89%	5.25%
2010	5.17%	7.70%	5.89%
2011 (6 Mo.)	4.27%	2.80%	2.47%
<b>ITD***</b>	<b>5.03%</b>	<b>4.86%</b>	<b>5.43%</b>

\*Intermediate Bond mutual fund average from Lipper

\*\*Barclays Intermediate Government/Credit Index

\*\*\*Inception to date (1999) annualized

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# FIXED INCOME COMPOSITE

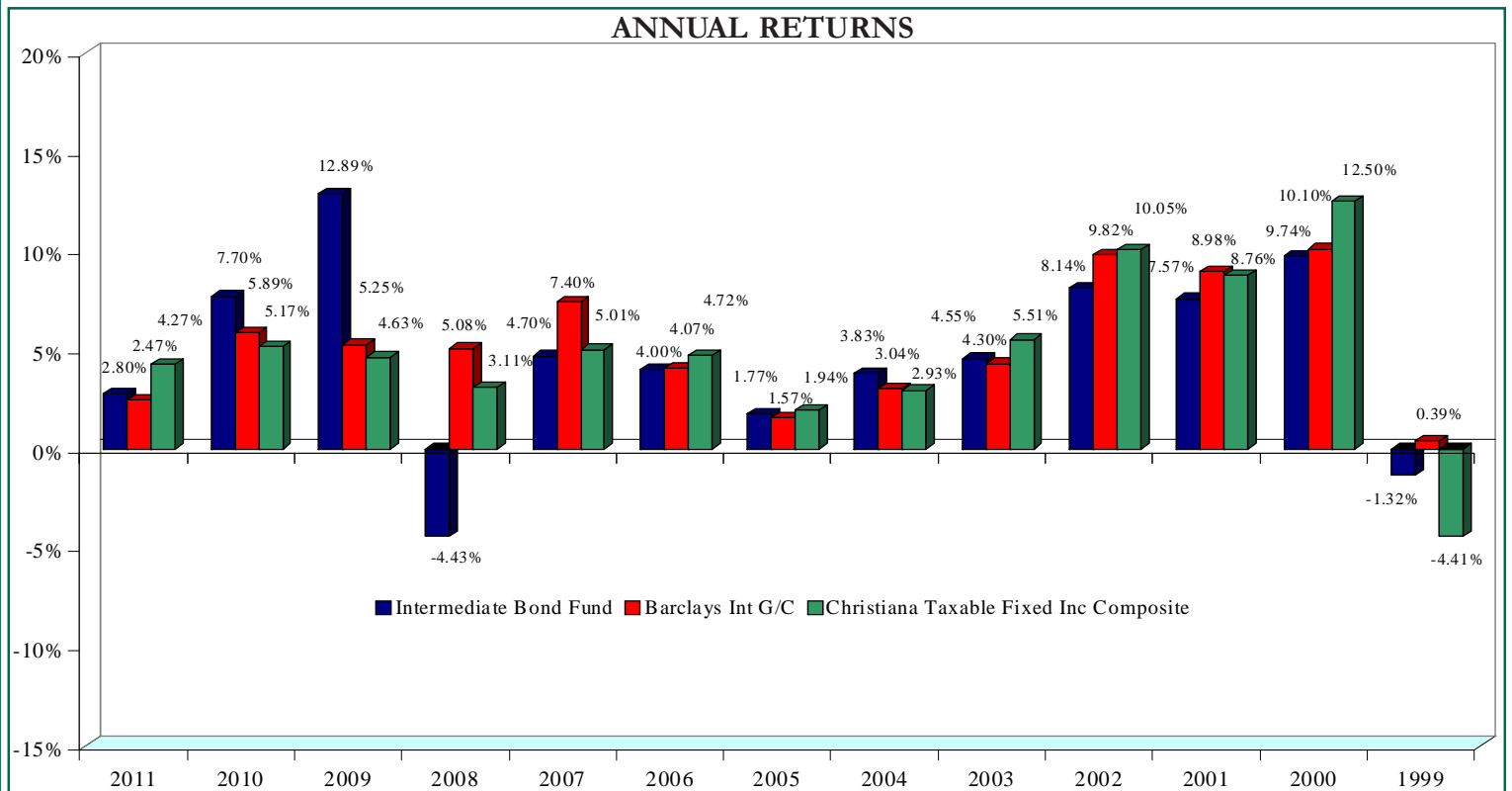
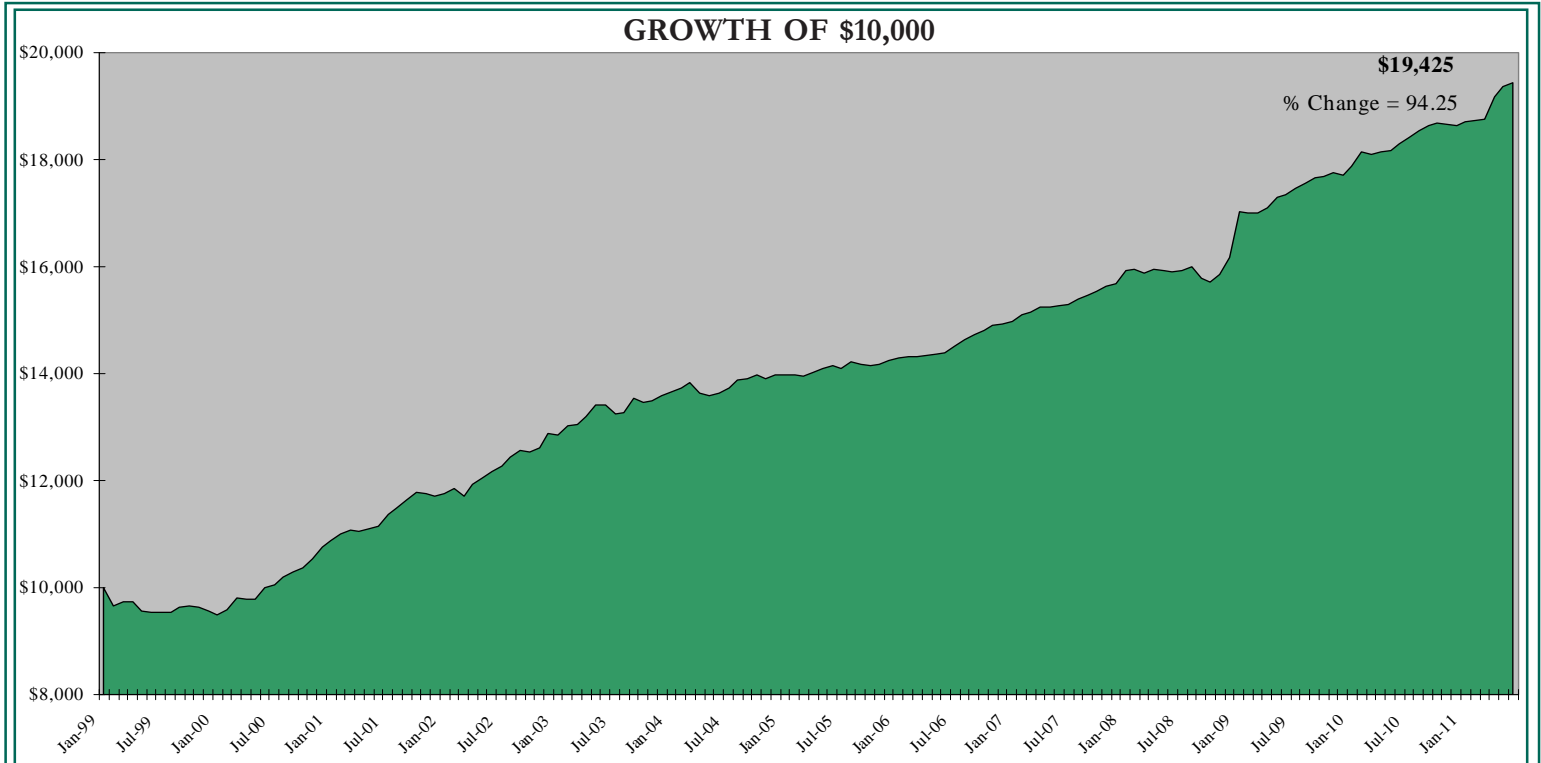
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JUNE 30, 2011

**INVESTMENT STYLE**

The primary objective of the Tax-Exempt Municipal Bond style is to generate current income consistent with managing portfolio volatility. The principal characteristic of the process is a quest for value. The process invests by looking at historical spreads as they apply to particular issues as well as relevant trends on a comparative basis.

**PORTFOLIO CONSTRUCTION**

Portfolios utilize primarily tax-exempt municipal bonds based on client's tax considerations. The composite seeks a high level of income that is exempt from both federal and state income taxes. Maturities are spread across the yield curve. High quality, liquid issues are actively managed with the objective of identifying the best relative values. Credit and yield spread analysis is the basis for portfolio construction.

**PORTFOLIO CHARACTERISTICS**

	<u>Composite</u>
Average Maturity (years)	1.6
Yield to Worst	0.92%
Yield to Maturity	3.8%
Duration (years)	1.4
Current Number of Issues	63
Duration Emphasis	Intermediate
Turnover	20%
Current Term Structure	Ladder
Average Quality Issue:	AA-
Minimum Quality Issue:	BB

**QUALITY ALLOCATIONS**

AAA/Aaa:	1.8%
AA/Aa:	52.5%
A:	15.6%
BBB/Baa:	2.7%
BB/Ba:	0.5%
B:	0.0%
FDIC Insured Certificates of Deposit:	1.9%
Not Rated	14.31%
Cash Equivalents	10.67%

**SECTOR ALLOCATIONS**

Municipals:	92.0%
US Govts/Agencies:	0.0%
Certificates of Deposit:	1.6%
US Inv. Grade Corporates:	0.0%
US High Yield Corporates:	0.0%
US MBS/ABS:	0.0%
Mortgage Pass Thrus/TBA:	0.0%
Emerging Market Debt:	0.0%
Cash Equivalents	6.4%

**PERFORMANCE**

	<u>CT</u>	<u>IMB*</u>	<u>B*</u>
1999 (8 Mo.)	-3.72%	-2.17%	-0.60%
2000	13.47%	8.68%	7.70%
2001	3.56%	4.79%	6.20%
2002	10.53%	8.34%	9.26%
2003	3.51%	4.35%	4.13%
2004	2.13%	2.85%	2.71%
2005	1.80%	2.01%	0.95%
2006	3.34%	3.87%	3.34%
2007	4.29%	2.90%	5.13%
2008	2.91%	-1.79%	5.79%
2009	4.20%	9.90%	7.41%
2010	1.64%	2.10%	3.40%
2011 (6 Mo.)	1.53%	3.60%	3.36%
<b>ITD***</b>	<b>3.97%</b>	<b>4.01%</b>	<b>4.80%</b>

\*Intermediate Muni Bond mutual fund average from Lipper

\*Barclays 5-Yr Muni Bond

\*\*\*Inception to date (May 1999) annualized

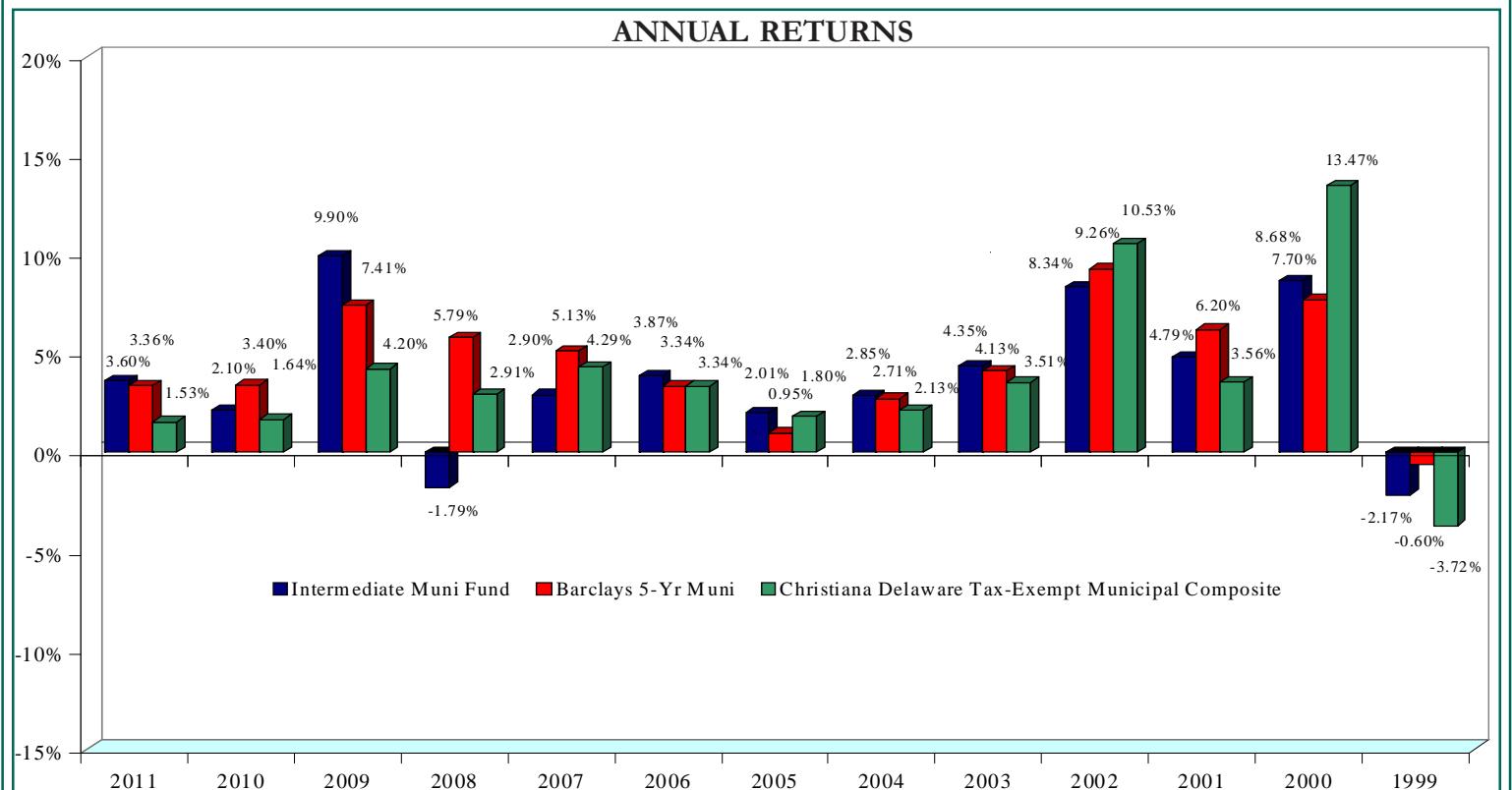
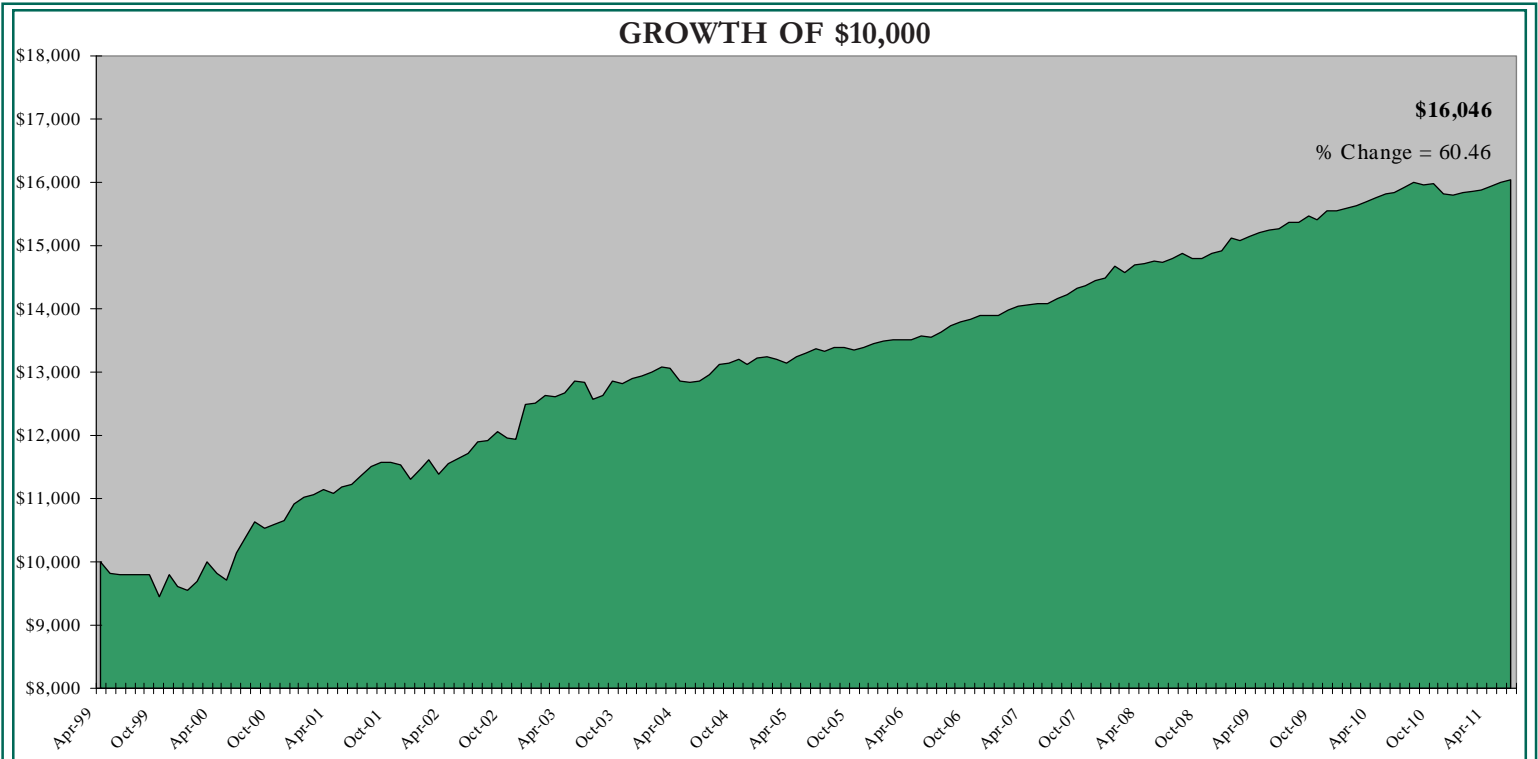
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# TAX-EXEMPT MUNICIPAL COMPOSITE

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