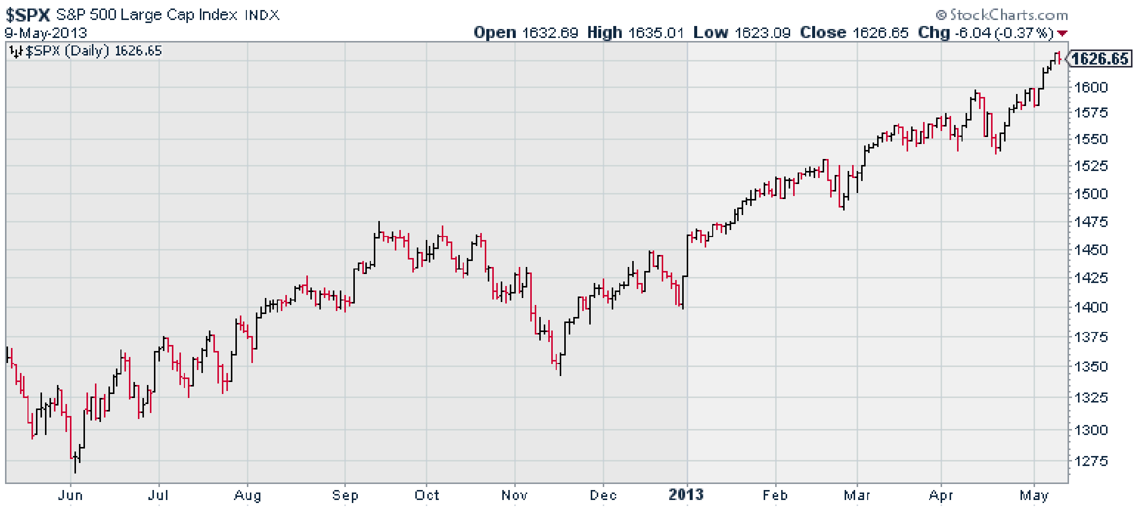
INDEPENDENCE TRUST COMPANY

May 2013

Is This A Bubble Or Not?

“The stock market is filled with individuals who know the price of everything, but the value of nothing.” Philip Fisher

S&P 500 – Trailing 12 Months



It’s completely understandable why so many investors fear the worst as the stock market reaches new highs in 2013. The constant bombardment of bad news ranging from Syria and Cyprus to political gridlock and unemployment would give the most committed optimist reason for pause. It’s only human nature to be influenced by past experiences, especially those experiences as painful as the market corrections in 2000 and 2008. After all, during both periods there was no shortage of experts predicting the market would continue higher or at least continue doing so after a “short breather”.

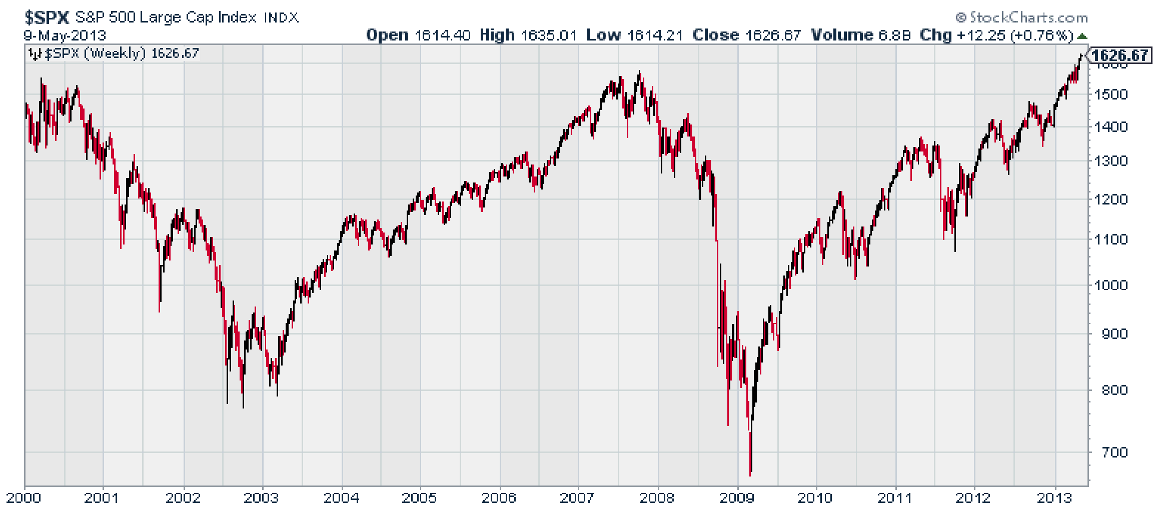
Not surprisingly, comparisons are made now to the easy mortgage lending and bubble producing policies of banks and government agencies in 2007 and the Fed’s unprecedented efforts to keep rates low to aid the economy in 2013. Some of you may even remember former CEO of Citigroup Chuck Prince’s undeniably regrettable quote in July 2007. Prince told the Financial Times that global liquidity was enormous and only a significant disruptive event could create difficulty in the leveraged buyout market. "As long as the music is playing, you've got to get up and dance," he said. "We're still dancing.”

So, are equity investors dancing as the market "rug" is about to be yanked? Or, is this the type of fear mongering that kept far too many investors in cash and bonds from 2009 to now. It is in times like these it is wise to take a step back and view the current state of affairs as objectively as possible. As you might expect, there are reasons for caution as there always will be. However, there is also ample evidence that the current landscape is quite different than what lay in front of investors in 2000 and 2008.

	Mar-00	**Mar-08**	**Mar-13**
S&P 500 Level	1443	1322	1569
U.S. GDP	$9.7 T	$14.3T	$16.0T
S&P 500 P/E Multiple	29.4x	23.9x	17.9x
Earnings Yield (EPS/stock price)	3.70%	4.70%	5.90%
10 Year Treasury	6.00%	3.45%	1.87%

Sources: Treasury.gov, Bureau of Economic Analysis, Google Finance

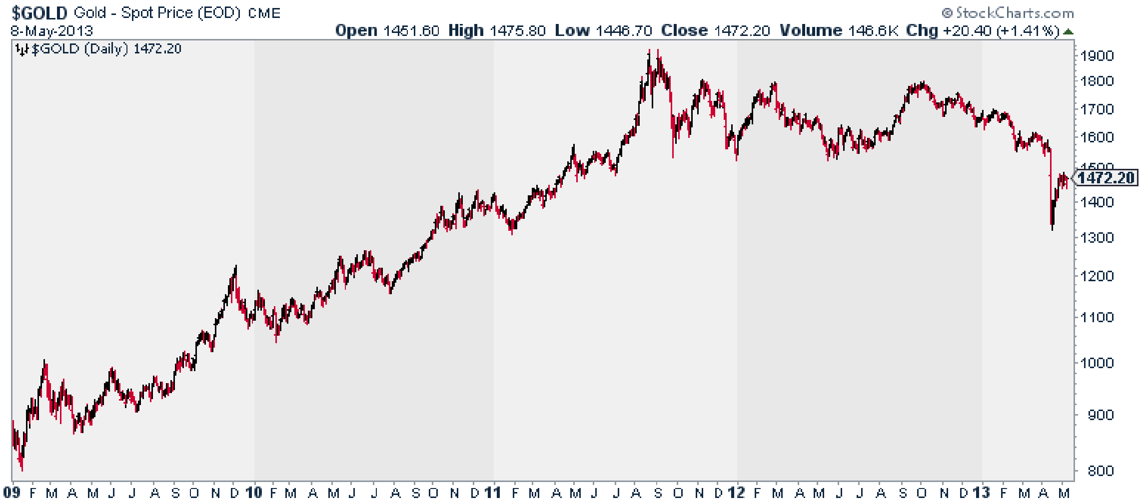
S&P 500 – 2000 To Present



Even a quick glance at the charts above reveals a few things. First, stock prices, while not cheap, are nowhere near the lofty valuations experienced in 2000. Prime examples would be Microsoft and Intel. In 2001 the P/E ratio for both stocks hit highs of 45.29 and 151.12 respectively. Today both are below 12. Second, since 2000 U.S. GDP has grown by 60+% and S&P 500 earnings have doubled. Finally, bonds are far less attractive than in 2000 or 2008 due to the Fed's ongoing actions and minimal inflation concerns in the short term.

This is not to say all stocks are a screaming buy as it turned out they were in March 2009. As we discuss with clients on an ongoing basis, disciplined and selective additions of stocks, as part of an overall investment plan, remain a viable and important strategy. Additions to portfolios which are part of a ongoing holistic plan rarely succumb to the types of irrational exuberance seen in 2000 or the "sell everything" mentality of 2009. In contrast, a disciplined plan views both bear and bull markets as opportunities. Now let's turn our attention to a much heralded shiny object.

Gold Bug Or Gold Bust?



In 2010, when gold was trading around $1,350 an ounce, Warren Buffet was asked his opinion on gold. This was his response: "*You could take all the gold that's ever been mined, and it would fill a cube 67 feet in each direction. For what it's worth at current gold prices, you could buy — not some — all of the farmland in the United States. Plus, you could buy 10 Exxon Mobils, plus have $1* trillion *of walking-around money. Or you could have a big cube of metal. Which would you take? Which is going to produce more value?*"

What's most telling about this analysis is that it reveals the manner in which Buffet views all potential investments. Is it going to produce more value in the future or not? When it comes to gold, no one knows. It's also safe to say the person standing on a street corner wearing a gold suit and waving at cars to market their store's desire to buy more certainly doesn't. This marketing technique, once reserved for pizza and car washes, demonstrates the current mentality surrounding gold.

In closing, our firm continues to be forward looking while not forgetting the lessons of the past. A balanced approach is as important in the current market as it has been in the past, if not more so. Our mission remains to build diversified portfolios for our clients capable of achieving much of the upside of stocks but with better downside performance when the fickle markets decide to change course. We look forward to continuing this discussion with each of you and thank you for your ongoing confidence in our services.