Investment Update

Fall 2011

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Genesee Valley Trust Company®

Market Update and Overview

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The fourth quarter has already seen the markets set a torrid pace, recovering much of what was lost during the third quarter's sharp downward spiral. But, with global markets demonstrating all-too-familiar volatility, consumer confidence remains weak.

Says Lynn Franco, Director of The Conference Board Consumer Research Center, "Consumer confidence is now back to levels last seen during the 2008-2009 recession…as concerns about business conditions, the labor market and income prospects increased." Toss in a destabilized European financial system and a calamitous domestic fiscal situation and investor pessimism pervades.

Our Long-Term Expectations

Investment returns and investor sentiment often move in opposite directions, though, which is why we believe that despite the pervasive gloom and negativity, the stock market should improve over the coming years. If history repeats itself, we'll be well on our way into a recovery before the press and public feel more confident. The stock market really does climb a wall of worry. As Warren Buffett is in the habit of saying, "We simply attempt…to be greedy only when others are fearful".

Manager Stock Selection

GVT's equity managers treat stock selection as ownership interests in real businesses. Their research focuses on assessing the intrinsic (fundamental) value of each business and then comparing that appraisal to the market price of the stock.

The goal is to build portfolios of companies in which value greatly surpasses price. Unfortunately, the notion of price and value are often interchanged in today's 24/7 global marketplace.

Emotional vs. Rational Investing

Specifically, the price of an asset is whatever people are willing to buy or sell it for at any given moment (emotional). The value of an asset is simply the total amount of cash it will generate over its life, discounted to the present (rational).

Price tends to reflect the mood of emotional human beings who buy and sell; value is determined by real operating business cash flows less affected by changing sentiment. Understanding this difference is what drives our managers' confidence in the prospects for their portfolios.

While many stock prices have lagged over the last few years, business value – as measured by sales, earnings, dividends, etc. – has continued to grow. This means the values of companies in the portfolios now significantly exceeds their prices and bodes well for absolute and relative returns in the years to come. As noted value investor Ben Graham famously said, "In the short run, the market is a voting machine. In the long run, it is a weighing machine."

GVT's Perspective

Patient investors who stay the course, diversify their assets, and hold securities of quality businesses with consistent earnings, low debt, and substantial free cash flows, stand a very good chance of being rewarded for maintaining discipline during these challenging and uncertain times. **Contact Geoff with questions or for a portfolio review.**

Welcoming a New Member to the Investment Advisory Group

Dr. Karen Noble Hanson
Chief Investment Officer
Epicipal Diocese of Rochester

Our latest addition to the Investment Advisory Group, Dr. Karen Noble Hanson, joined during the summer of 2011.

Karen brings an extensive background, perspective, and expertise to this esteemed group.

Karen is the Canon and Chief Investment Officer and was previously the CFO and Canon for Finance, Resource and Community Development for the Episcopal Diocese of Rochester, which she joined in 1999.

She attended Syracuse University and earned an undergraduate degree, cum laude from the University of Rochester, and completed the Senior Executive Service, US Government (Senior Management Degree).

Karen also holds an Honorary Doctorate of Humane Letters at St. Augustine's College (Raleigh, North Carolina) and an Honorary Doctorate of Humane Letters from the General Theological Seminary (New York, New York). Karen was also the recipient of the Athena Award: Top Women in Business in 1993.

We are pleased to have Karen join the Investment Advisory Group.

New Addition to Our Website: **Resource Library**

The Resource Library provides you with education and advice on a variety of financial categories:

- Recommended Articles from GVT Professionals
- Economic & Market Commentary
- Investment Advisory Group
- Retirement Services
- Trust and Estate Services
- GVT Quarterly Newsletters

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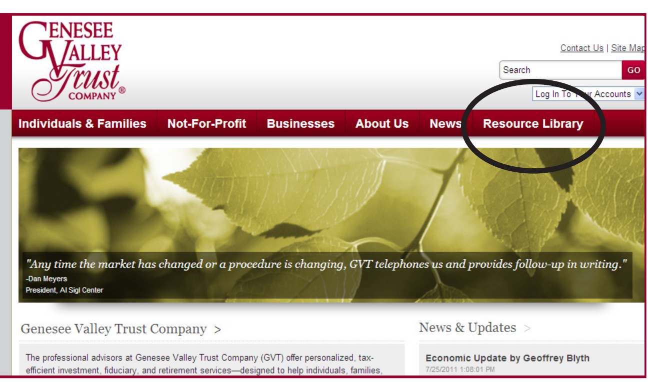

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Target-date Funds, A Solution for Plan Participants

The advent and proliferation of "participant-directed" 401(k) plans have given most retirement plan participants the ability to invest their account balances in a manner they deem appropriate, based upon their own circumstances and risk tolerances.

This important benefit was denied to past generations of defined contribution plan participants (as well as existing participants of defined benefit pension plans), whose account balances were comingled in a single portfolio and invested by the Plan Sponsor or Trustee.

Participants Controlling Their Investments

In some ways, giving participants the ability to invest their account balances has been a mixed blessing. While they have the ability to self-direct their assets, they must shoulder responsibility for their choices.

This often requires individuals with minimal investment knowledge and/or experience to make a variety of crucial judgments and decisions they find disconcerting, and for which they are ill-prepared.

Target-date Funds

In order to address participants' growing confusion and uncertainty, the financial services industry developed and introduced target-date funds; also referred to as "lifestyle funds". Target-date funds are a series of funds that invest in numerous individual stock and/or bond mutual funds, each of which represents a different sector of the stock or bond markets.

As the name suggests, each fund in the series represents a different "target date" (e.g., 2010, 2020, 2030, etc.) that roughly coincides with participants' anticipated retirement dates. Each target-date fund manager invests the fund's assets in a way that is appropriate for investors who intend to retire at or near the specific funds' target date.

Taking Some Pressure Off of Participants

As one might expect, target-date funds may not offer participants a complete solution to their needs, but they do relieve individual participants of the need to make a variety of critical investment decisions. Initially, the funds' portfolio managers determine and allocate the funds' assets among the primary asset classes: stocks, bonds and cash. They also diversify the assets by investing in numerous sectors of the stock and bond markets, and employing differing investment styles.

Since these funds are actively managed, the management team will rebalance the fund on a periodic basis, either using a predetermined schedule or on an "as-needed" basis. This rebalancing normally addresses the fund's general asset allocation and how assets are invested among the various market sectors.

Automatically Become More Conservative

Finally, in deference to the conventional wisdom that participants should reduce their stock allocation as they approach retirement, managers of target-date funds gradually reduce their fund's stock allocation as time passes and the fund's "target date" approaches. In short, target-date funds are designed to implement the primary investment decisions and actions required of retirement plan participants.

Risk Considerations

Despite the inherent benefits offered by these funds, this does not mean that plan participants should invest blindly in a specific fund without considering other investment factors.

Participants must be aware of the risks inherent in these funds and may consider investing a portion of their assets in an individual sector fund(s) to complement their primary holding in the target-date portfolio. Participants should also consider after-tax investments/assets in the context of their overall asset allocation.

Notwithstanding their inherent limitations, target-date funds provide inexperienced and busy participants with a solution that employs the experience and investment expertise of a professional investment manager.

Our Experience

Target-date funds offer a convenient, practical solution to participants who lack the time, inclination and expertise to properly invest their own assets. GVT offers solutions for retirement plans looking to add target-date funds to their investment lineup. **Contact Scott with any questions or to review your plan options.**

Before investing using mutual funds consider the fund's investment objectives, risks, charges and expenses. For more complete information, including charges and expenses, contact your financial advisor for a prospectus. Read the prospectus carefully. Past performance is not indicative of future investment results.

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Planning Considerations for Year-end Gifting

At this time of year, I usually find myself reminding clients to take advantage of the annual gift tax exemption before year end. This year I want to take my usual reminder one step further and encourage clients to give even more consideration to making gifts to loved ones and to charity.

In 2001, President George W. Bush helped to bring into being Federal Estate Tax Laws that would expire at the end of 2010. That meant that Congress had nine years to put into place new Federal Estate Tax Laws. Back in 2001, we were all thinking, "No Problem!" Nine years is plenty of time for Congress to act. As anyone who follows the news knows, we were wrong!!

The new legislation was passed at the very last minute. To make matters worse, the estate tax legislation that they managed to pass expires on December 31, 2012. I don't know of anyone who expects anything other than last minute legislation again at the end of 2012. That means lots of uncertainty in the world of estate planning.

There are a few things that are certain right now and it's helpful to keep those certainties in mind:

- In 2011 and 2012, the Federal Estate Tax exemption is $5M, meaning that each individual can transfer $5M in assets free of Federal Estate Tax to friends and family. For most taxpayers, that means no Estate Tax.
  - For New York residents, the state estate tax exemption is $1M, so extra planning is needed.
- The current laws create a great opportunity for those who plan to make gifts to the next generation. The current law unifies the Federal Estate Tax exemption and Gift Tax exemption through 12/31/12. That means each person can give away $5M free of Federal gift tax while they are living. So, if you are thinking about transferring assets to your children, do it now!
  - New York no longer has a gift tax, so New York residents can give away unlimited assets without incurring a state gift tax.
  - Gifts of assets with "depressed value" are desirable now, especially if you expect the asset value to grow over time.
  - Low interest rates make Grantor Retained Annuity Trusts and Charitable Lead and Remainder Trusts desirable as well.

If you would like to review your estate plan with Joy, please give her a call.