

First Outlook

Timely insight into economic, financial, investment, and banking topics.



Investment Roundtable: A report by First County Advisors



In this issue of First Outlook:

- *Economic picture in Fairfield County.*
- *The European credit crunch and implications for US investors.*
- *International investment opportunities.*
- *The Connecticut real estate market.*
- *Estate tax concerns: will Congress act in 2013?*
- *Nonprofit climate—donor situation critical, but portfolios enjoy boost.*



David M. Metzgar

CFP, CTFA,
Senior Vice President,
Senior Trust Officer
First County Advisors

First Outlook asked Dave Metzgar, CFP, CTFA, Senior Vice President and Senior Trust Officer, and the First County Advisors team for their views on opportunities arising from the economy, financial markets, the situation for nonprofits, and the climate for business.

Dave, please give us a high level overview on these important issues.

Dave Metzgar:

First of all, we are optimistic about the outlook for investments and our views have not changed a great deal since we predicted the slow and steady growth we have experienced since 2009. The national economy has certainly had its up and downs since then, but we have been muddling along towards a recovery.

The stock market has performed well. The S&P 500 was up 16% in 2012 and is off to a good start this year. But even with the recent gains, the market is still trading at fairly modest valuations. Earnings were up 5% last year and we expect them to grow by a similar amount in 2013. Stocks that pay dividends look especially attractive when their total return is compared to yields from bonds and CDs.

Could you review the local economic picture for lower Fairfield County?

Dave Metzgar:

I'll ask Paul Bubniak, one of our trust officers, to handle that one.

Paul Bubniak:

The economic picture for the State of Connecticut, lower Fairfield County, and the City of Stamford is a mixed bag. State unemployment at year-end 2012 was 8.8%, well above the national rate of 7.8%. However, Stamford has fared better with the unemployment rate at 6.9% as of December. These numbers while still high have shown slow but steady improvement.

Dave Metzgar: Paul, what does this mean to local businesses?

Paul Bubniak:

Because of this slow improvement, we believe local businesses should be positive about the year to come; the trend is up, unemployment is inching down, and the outlook is good—meanwhile interest rates are at an all-time low point. This may well be the time to make an investment in your business.

Can you talk a bit about Europe's credit crunch—should we be worrying?

Dave Metzgar:

I think we should watch Europe—because Europe is one of our nation's best customers—accounting for 16% of the sales to companies in the S&P 500—and one of the reasons our economy isn't growing faster is because Europe is not buying from us the way they used to buy.

What is the outlook for international investments?

Dave Metzgar:

While we have seen the actions of the United States Federal Reserve to apply stimulus to the US economy, many other countries around the world have also taken extraordinary stimulus measures. Studies have shown that monetary stimulus and infrastructure development plans typically tend to raise equity prices across most sectors by spurring domestic and corporate demand.

Are there any specific countries in which you see opportunities?

Dave Metzgar:

Strong growth prospects, attractive demographics, a solid sovereign balance sheet, and growing domestic consumption make Mexico attractive. Across the Pacific, in China we have seen some parts of their economy slowing, but China's domestic economy appears to be strengthening, abetted by a booming middle class. The world's second-largest economy continues to expand rapidly as the country shifts its focus from low-end exports to higher value-added goods and to domestic-led growth. While we still have concerns about a European recovery, there are many companies in Europe, particularly in Germany and Northern Europe, which are bright spots that provide attractive long-term opportunities. Given the inherent risks of investing outside the United States, you need to diversify among countries, currencies, and companies.

So what does all this mean for American investors?

Dave Metzgar:

As in the US recovery, I believe Europe's way back will be slow and may even falter a bit this year, but we believe that it will rebound in 2014. Meanwhile, this may be a good time to take a vacation, while the dollar buys so much more than it did a few years ago.

Could you talk about some of the investment opportunities you see arising from these macroeconomic trends?

Dave Metzgar:

We see many opportunities for investment in Europe; we expect modest growth in Germany and France, and don't forget about Northern Europe, which is doing quite well. We also see investment opportunities in emerging markets and in US multinationals with interests in both Europe and Asia. In particular Brazil, India, and China are promising.

What advice would you give a conservative investor who seeks income, but does not want to reinvest in CDs because the interest rates are unattractive?

Dave Metzgar:

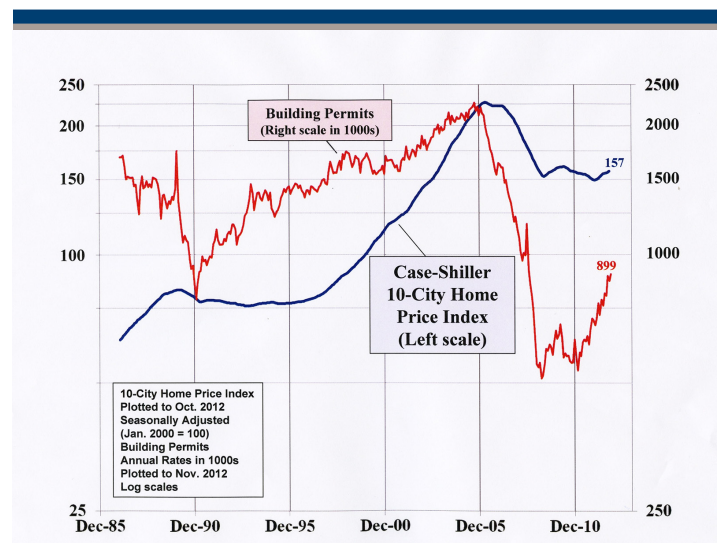
We believe that stocks with a history of paying dividends are a way for the more conservative investor to seek income from the stock market while mitigating the risk. First County Advisors offers a portfolio of solid companies with conservative balance sheets and a history of paying dividends—some for over 100 years. The portfolio currently yields 4.5% and we are finding interest among investors looking for income—and who are disappointed with the low yields available from CDs or money market funds.

Let's talk about real estate. Have we reached a bottom? What is the prospect from here forward in Stamford and surrounding lower Fairfield County?

Dave Metzgar:

Paul, you are closest to this area—what's the picture you are seeing?

Housing Has Already Hit Bottom



Paul Bubniak:

In Connecticut, unit sales have picked up, but average sale prices have continued to fall (slightly). With the national market in recovery we (and our advisors) believe we are at or close to a bottom in real estate, and that this is a good time to buy, especially with mortgage rates at record lows.

What are the major issues that could affect First County Advisors Trust clients?

Ken Griffin:

I'm happy to address that one. The passage of The American Taxpayer Relief Act, effective as of January 1, 2013, has relieved the anxiety of what would have been a drastic reduction in the US Estate and Gift Tax exemption (\$5.12 million down to \$1 million) and increase in Estate and Gift Tax rates from 35% to 55%.

The Act "permanently" provides for an Estate and Gift tax exemption of \$5 million and top rate of 40%. The Act has also confirmed the "Portability" feature of spouses' Estate tax exemptions originating with the 2010 Tax Relief Act, the deduction of the credit for State Death Taxes, conservation easements, provisions related to qualified family-owned business interests, installment payments for Estate taxes owed on closely-held family businesses, and the Generation Skipping Tax.

The personal exemption for State estate and gift tax remains at \$2 million with rates ranging from 7.2% to 12%.

With the frequent shifting of tax laws in this area, it is always a good idea to have counsel review your estate plan (hopefully you have one) to be sure it works under the most recent version of the law. This should be done periodically and certainly if any important changes take place in your life or the estate and tax laws. If you need an attorney and don't have one let us know. We can recommend several trust and estate specialists for your consideration.

What about nonprofits? Will the coming year be a better environment for them?

Dave Metzgar:

We certainly hope so, though charitable giving rose only by 0.9% in 2012 as donors struggle with the recession. Meanwhile because of our experience at the First County Foundation we have a great wealth of knowledge about the needs of nonprofits—which has helped us tailor our offering to the nonprofit community. We not only manage endowment funds but we often can improve a nonprofit's

retirement plan structure to provide for employees while reducing overall long-term plan obligations.

The good news is that many of the nonprofits whose portfolios we manage have had a good investment year—solid double-digit returns.

Thank you all for your thoughts—we'll be back to you soon for another look at the markets from your view.

Dave Metzgar:

Absolutely. We're poised to help our clients navigate the changing investment landscape with the guidance and perspective they value.

Who are First County Advisors?

First County Advisors is the trust and investment arm of First County Bank. We provide conservative advice responsive to our clients' investment objectives—reflecting our knowledge of the markets and understanding of the tax laws—and we also provide responsible guardianship of our clients' trust and fiduciary needs.

While big banks and investment firms have stepped away from servicing local investors, attorneys, businesses and nonprofits, First County Advisors is proud to provide an increased level of investment, trust, and estate services to lower Fairfield County.

First County Advisors is led by Dave Metzgar, assisted by Trust Officers Paul Bubniak, Ken Griffin, and Maria Sturges. The team has more than a century of investment and trust expertise among them, much of it at First County Bank.

First County Advisors is distinguished by our personal service, in-depth knowledge, vast experience, and responsible guidance that has permitted us to weather the economic climate that has characterized the past few years in our country.

Investors with \$250,000 or more should talk with Dave Metzgar at 203.462.4267, or you may email him at dmetzgar@firstcountybank.com. Dave and his team are tuned into the national and international markets; yet are also intimately aware of the investment climate and opportunities right here in Fairfield County.

Meet your First County Advisors



David M. Metzgar, CFP, CTFA, Senior Vice President, Senior Trust Officer
203-462-4267 • dmetzgar@firstcountybank.com

Dave Metzgar has been with First County Bank for over 25 years. Dave manages First County Advisors, the Bank's trust area, as Senior Trust Officer. Dave provides expert investment management, financial planning, trust administration, estate settlement, and fiduciary services. He administers trust accounts by overseeing the prudent investment of trust assets and handling distributions and tax filings.



Kenneth M. Griffin, Vice President, Senior Trust & Estate Officer
203-462-4288 • kgriffin@firstcountybank.com

Ken Griffin has over 40 years of experience in estate planning, trust and estate administration, and investment management. He is responsible for First County Advisors estate planning, and trust and estate administration. Ken assists new clients by reviewing trust accounts, trust investments, and estate and trust planning documents.



Paul J. Bubniak, Vice President
203-462-4294 • ppubniak@firstcountybank.com

Paul Bubniak has over 30 years of experience in the financial services industry. He is responsible for First County Advisors investment management, estate planning, trust and fiduciary services for individuals, families, endowments, and foundations as well as charitable and nonprofit organizations.



Maria L. Sturges, CTFA, Vice President
203-462-4228 • msturges@firstcountybank.com

Maria Sturges has been with First County Bank since 1993. Maria administers trust and estate accounts by overseeing the prudent investment of trust assets and compliance with legal, tax and probate requirements. She is responsible for managing the division's systems and operations functions and implements policy, procedure and analysis of division's financial reporting.



FIRSTCOUNTYBANK.COM



The opinions expressed in this article reflect solely the opinion(s) of the author(s) and may not reflect the opinions of First County Bank. The opinions in this article do not constitute financial advice and are provided for informational purposes only.

Products and/or services offered through First County Advisors at First County Bank are not FDIC insured; not insured by any government agency, not a deposit or other obligation of First County Bank, not guaranteed by First County Bank, and are subject to investment risk, including the possible loss of the principal. First County Bank does not provide investment advice or research, make recommendations, or solicit transactions for accommodation trades.

Past performance is not a guarantee or indicator of future performance. Information described may not be representative of the experience of all clients. Specifically, any decisions you may make to buy, sell or hold a security based on such research will be entirely your own and not in any way deemed to be endorsed or influenced by or attributed to First County Bank. It is understood that, without exception, any order based on such research that is placed with First County Bank for execution is and will be treated as an UNRECOMMENDED AND UNSOLICITED ORDER. Further, First County Bank assumes no responsibility for the accuracy, completeness or timeliness of any such research or for updating such research, which is subject to change without notice at any time. First County Bank does not provide tax or legal advice. Under no circumstance is the information contained within this report to be used or considered as an offer to sell or a solicitation of an offer to buy any particular investment/security.