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# Haverford Outlook

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## Haverford 2012 Outlook

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# 2011: Growth, Despite the Challenges

When we wrote our 2011 *Outlook*, we believed the transition from an economic recovery to a durable expansion was within sight and that we were only months away from the point at which real GDP would exceed its previous peak set in 2007. Despite the myriad issues that the economy faced, both cyclical and structural, GDP did indeed eclipse its previous peak in the third quarter of 2011. GDP growth was slower than we expected due to several unforeseen global challenges. The Japanese earthquake and tsunami disrupted global supply chains, the unrest in the Middle East drove gasoline prices above \$4.00 per gallon, and the heightened Euro debt crisis roiled the financial markets. These uncertainties prompted a “flight to quality” in both the equity and fixed income markets that was prevalent throughout the year.

Despite the market’s relentless volatility and growing investor uncertainty throughout the year, corporate fundamentals remained resilient. Large multi-national companies have learned how to excel in a slow-growth environment, delivering better-than-expected profit growth quarter after quarter. The companies within the S&P 500 index mustered 15% earnings per share growth in 2011. Our expectation that our Quality Dividend Yield Portfolio would be attractive with its generous above-market yield and low valuations proved true as these stocks far outpaced the market. With investors clamoring for higher income and shelter from the unforgiving volatility, money poured into higher yielding, high quality equities.

Although we anticipated the Fed keeping interest rates at the 0-0.25% range for the whole year, we felt the improving economy would lead to higher interest rates. This was not the case as the same combination of natural, political and economic turmoil kept downward pressure on yields, even pushing the 10-year Treasury yield to an all-time low of 1.7% in September.

A year ago, the municipal bond market was roiled by credit concerns and overwhelming supply. Thankfully, we were correct in our belief that these concerns were off-the-mark and backward looking, with the Barclays Muni 1-10 Year Index up over 6% for the year.

# In the Three-Speed Global Economy...

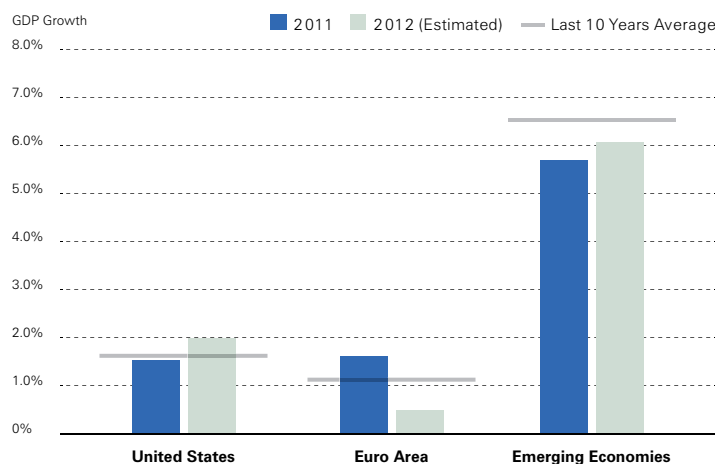
The global economy is growing at approximately 4%, although growth rates differ markedly between regions. While the U.S. is muddling along at slightly better than 2% growth, the developed economies of the Euro Zone will likely experience a recession in the coming year as they attempt to deal with its sovereign debt crisis. On the other hand, emerging economies are growing at a faster rate than the U.S., but they too have their own challenges such as struggling to contain inflation and to orchestrate economic “soft landings” following tighter monetary policy initiatives.

The United Kingdom has put in place a rather severe austerity plan of raising taxes and cutting spending, accompanied by quantitative easing in monetary policy. Growth in the U.K. is in the 1% to 1½% range. Japan, which relies to a greater extent on exports and less on domestic demand than some other economies, is expected to have slightly negative GDP for 2011. The strong Japanese yen hurts exports since Japanese goods become relatively more expensive for consumers in countries with weaker currencies.

To reduce concerns about overinvestment and inflation, many emerging economies took successful steps to slow their economies in 2011. Coupled with declining exports to developed economies, emerging market growth expectations have decreased significantly.

Since inflation expectations have moderated recently, policies are beginning to revert to one of stimulus by lowering interest rates and relaxing credit controls. GDP growth in the three most important emerging economies — China, India and Brazil — should begin to accelerate by mid 2012 as easier monetary policy takes effect. Many emerging countries have strong fundamentals and thus the latitude to apply policy stimulus, which should help them demonstrate more vibrant growth than developed countries over the next several years.

## GDP GROWTH



Source: International Monetary Fund, J.P. Morgan and Haverford estimates. Last 10 years average depicts average annual real GDP

# ...the U.S. is about Average.

U.S. economic growth remains lackluster. The outlook for growth is better than either Europe or Japan, but still below both potential and what is needed to spur significant job growth. GDP growth will likely remain stubbornly low, stuck at a below-average rate of about 2%, although it could range anywhere from 1.5% to 3% throughout the new year. We do not anticipate a recession materializing in 2012, but we do acknowledge the myriad headwinds and the threat of external shocks that could negatively affect our economy, as happened in 2011.

The lingering effects of the global financial crisis and ensuing deleveraging remain the principal reasons for below-average economic performance. Consumer spending makes up the largest driver of GDP, accounting for 70% of activity. Therefore, as consumers continue to pay down debt and their savings rate remains positive, the impact of that deleveraging on the economy cannot be disregarded. The financial system has also written off most of its bad debts and is rapidly rebuilding its capital base. While we are not yet at the end of the deleveraging process, its drag on the economy continues to lessen each year.

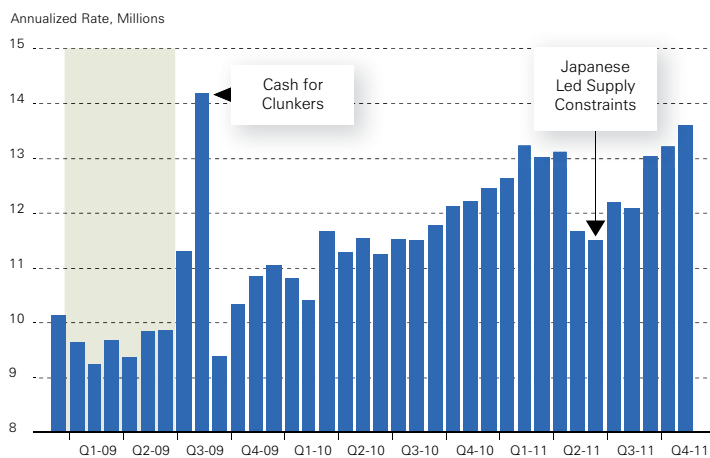
While deleveraging is the biggest drag on the economy, monetary policy remains the strongest engine for GDP growth. For three years, the Federal Reserve has pushed the pedal to the metal, keeping short-term interest rates near zero and employing other techniques (i.e., QE2) to stimulate our fragile economy. While this extraordinary Fed action has had its critics, we believe the alternative — doing nothing — would have proved far worse. In the fall of 2008, Fed policy most likely prevented a depression, and today it is unlikely GDP growth could be sustained without stimulative monetary policy. Fed Chairman Ben Bernanke is said to be a student of the Great Depression, so it is unlikely he will allow the Fed to repeat the policy errors of the mid-1930s that prolonged the Great Depression and contributed to a subsequent recession. Today, inflation remains benign with most commodity prices below year-ago levels, and wage inflation is almost non-existent. The bond market is forecasting negligible inflation 5 to 10 years out as well.

Fiscal policy remains a headwind to greater GDP growth in 2012. Although federal deficit spending could be considered stimulative, both the added costs of new regulations and the uncertainty of the tax code will likely restrain economic growth. Small business is loath to hire amid the added cost of complying with new regulations and the prospect for significantly higher taxes in 2013. At this point last year, after the 2010 midterm election results, we thought the administration would promote pro-growth

initiatives such as lowering the cost of repatriating foreign earnings and corporate tax reform. Little hope remains for any positive change in fiscal policy as the Presidential election battle lines have been drawn and action is unlikely before the 2012 elections. Rhetoric will not help confidence, which is so important for economic growth.

As we enter 2012, GDP is accelerating off the summer soft patch and we may experience growth in excess of 2% in the first half of the year. Most economic data since October have come in better than expected. Notably, average weekly jobless claims have fallen decisively below 400,000 and the unemployment rate has finally broken below 9%. The housing market remains weak, but new home starts are no longer declining and have finally shown some improvement, as have the sales of existing homes. Manufacturing, the star in the U.S. recovery thus far, is experiencing a boost from surging auto sales in the aftermath of the supply chain problems from the Japanese tsunami. Finally, the consumer remains resilient and we are optimistic that holiday sales were strong following the record level of purchases on Black Friday.

## U.S. AUTO SALES LEAD MANUFACTURING STRENGTH



Source: FactSet Research Systems

# Investment Risk vs. Trading Risk

At Haverford we do not think like traders, who focus on short-term market swings and attempt to capitalize on them. Nevertheless, it is difficult to ignore trading risk and daily volatility, which are at all-time highs. Consider that the market experienced moves of more than 1% on more than 90 trading days in 2011, more than twice the historic average. Amazingly, the S&P 500 Index has traveled over 3100 points during the past year on a daily basis — despite closing at the exact level it began the year! We believe the key drivers of increased daily volatility are likely to persist throughout 2012.

The Key Drivers of Increased Volatility are Likely to Persist:

- **Macro-economic concerns:** The European debt crisis will not be solved in one dramatic event, but through a difficult and arduous process.
- **Evolution of exchange-traded funds:** Levered ETFs are increasingly used to trade “the market.”
- **Retail investor exodus:** \$418 billion has flowed out of domestic equity mutual funds since 2006, leaving more assets controlled by traders.
- **High frequency & program trading,** unless better regulated, will continue to add to market volatility.

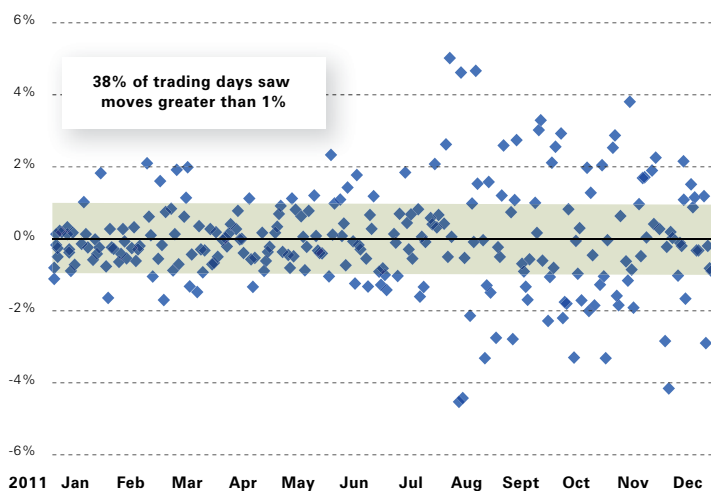
While trading volatility and risk have increased substantially, we have not seen a commensurate increase in what we would describe

as investment risk. Investors, unlike traders, understand that owning equities is one of the best strategies for meeting one’s long-term financial goals. Equities act as a hedge against inflation and may protect purchasing power while providing potential growth. Investors in the equity market, despite the emotional toll of exposure to daily volatility, should be more focused on the risk of missing their longer term goals.

Even with this year’s daily market gyrations, asset prices remain low, fundamentals are strong, and *quarterly* and *yearly* price volatility have not risen significantly. Finally, we believe that for equity investors, dividend income is where the rubber meets the road. Importantly, dividend income has continually risen throughout the past two years while the market has bounced between 1,050 and 1,300.

S & P 500

Each Dot Represents Daily Percentage Change



Source: FactSet, adapted from *The Wall Street Journal*

CBOE MARKET VOLATILITY INDEX (VIX)

CBOE Market Volatility Index (VIX)



Source: FactSet Research Systems

# The Risk-On/Risk-Off Trade

Trapped in a pessimism bubble, exceptional amounts of fear have permeated the market. These fears all reflect valid risks that must be priced into the market. Historically, the pricing of market risk ebbs and flows with time in an orderly fashion. Recently, however, many of these risks are seemingly turned on and off like a light switch in a unique trading environment commonly referred to as the “risk-on/risk-off” trade.

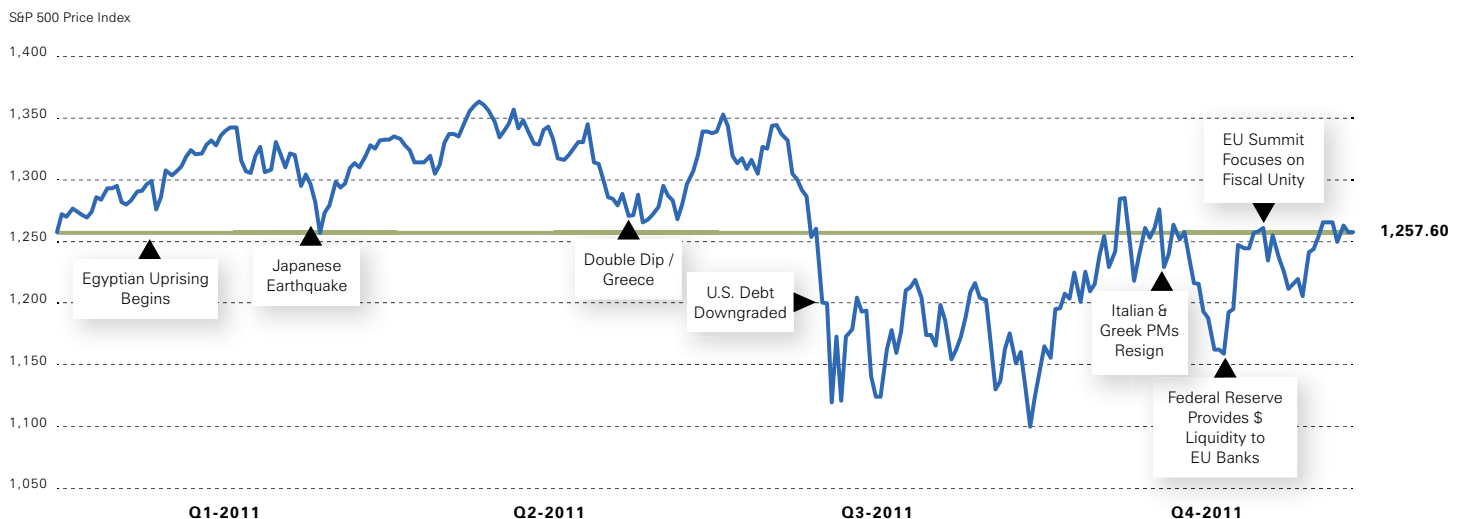
This exceptionally volatile period has been facilitated by technological and financial product innovation (often utilizing leverage) that allows massive amounts of money to be controlled and traded in increasingly shorter periods of time. Traders have decided to place certain assets into distinct “risky” and “not risky” buckets and when news warrants, completely dump their assets out of one bucket and into the other. These buckets of assets explain why we see various correlations today that defy historical precedent, such as the parallel price moves of oil and stocks, or gold and Treasuries.

As we enter 2012, we continue to expect heightened levels of volatility. While we could see a marked decrease in volatility from continued progress in Europe and the implementation of credible reforms, how does one protect their equity portfolio amid the volatility, risks, and uncertainties? In our view, trading in and out of the market (market timing) only increases investor risk. Holding a large percentage in cash — which earns

no return — to invest opportunistically sounds good, but realistically is very difficult to implement. For example, at the end of September, were investors buying into equities to take advantage of the October rally in stock prices? Unfortunately many missed that uptick. Using options to protect an equity portfolio (or individual stocks) is a strategy that can be used, but it is very costly, especially when volatility is very high.

At Haverford, we continue to believe the best way to control risk is through appropriate asset allocation, including a diversified portfolio of quality companies that share the following characteristics: fortress-like balance sheets, excess cash flow, pricing power, dominant brands, global exposure particularly to emerging markets, and growing dividends that reflect management’s confidence in the future. Owning these quality companies should help protect on the downside, and importantly, ensure participation during market advances. Too often, investors overlook the risk of missing market rallies.

## 2011: THE S&P 500 HAS TRAVELED OVER 3,100 POINTS, BUT GONE NOWHERE



Source: FactSet Research Systems

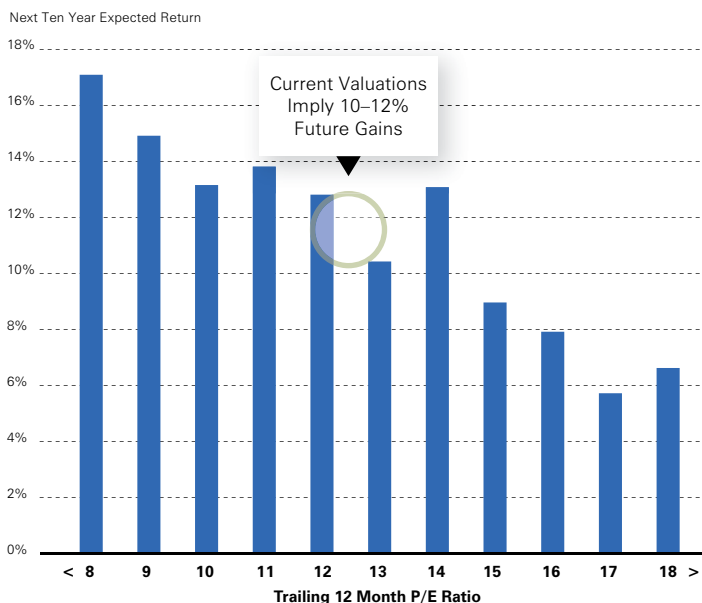
# Valuation Matters

If there is one lesson investors should never forget, it's that valuation matters. In the late 1970s, stocks became exceedingly cheap after high interest rates and a general malaise in the American collective drove equity multiples well below average, setting the stage for exceptionally strong returns over the ensuing two decades. Along the way, investors who purchased at reasonable prices enjoyed healthy long-term returns as valuations reverted to the higher historical average.

The pendulum then swung too far in the late 1990s. Stocks became exceptionally expensive as irrational exuberance over the technological revolution took hold. Equity valuations have fallen dramatically during the past decade and we now find ourselves once again with reasonable valuations in the equity markets with the prospect of attractive returns in the coming years for long-term investors. In fact, today's environment, including the global macro headwinds, low consumer confidence, and general lack of confidence in our leaders and the future, reminds us very much of the late 1970s. The major exception, of course, is that interest rates are extremely low and inflation is not a problem. This, generally speaking, is conducive to capital formation and market strength.

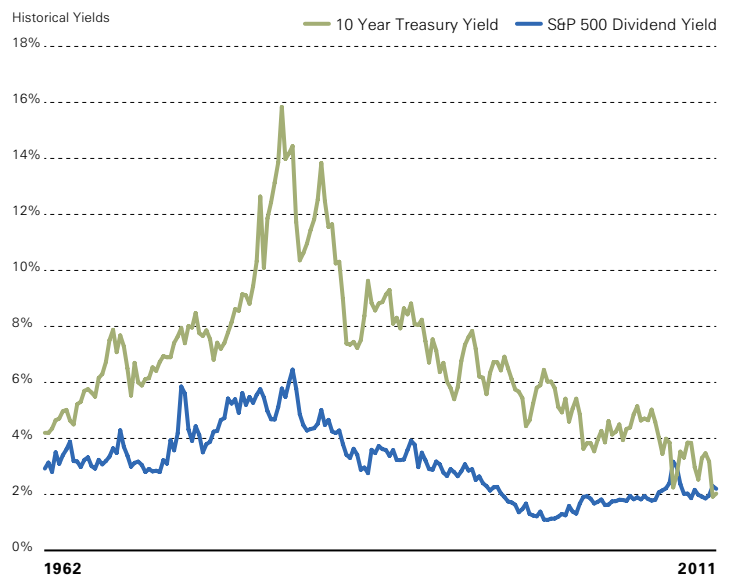
There are multiple ways to measure market valuation, and they all point to the same conclusion: at the very least, equities are fairly valued, and significantly underpriced at best, especially when compared to investment alternatives such as government bonds. While history does not always repeat itself, market valuations have proven to be very predictive of long-term returns, and current measures of valuation point to annualized equity returns approximating 10% during the next ten years. Today the market trades for 11.7x 2012 estimated earnings and less than 13x trailing earnings. The current earnings yield is 8%, with a 2.2% dividend yield, while the 10-year Treasury yields 2%.

## CURRENT VALUATION IS A GOOD PREDICTOR OF FUTURE RETURNS



Next Ten Year Expected Returns are based on the average historical S&P 500 Index total return numbers since 1925. S&P 500 index currently has a trailing 12 month P/E ratio of 12 times. Source: Ibbotson, Robert J. Schiller, Standard & Poor's, Haverford

## HISTORICAL YIELDS 1962—2011



Source: FactSet, Haverford

# Catalysts to Move the Market

While valuation is an important consideration for investors, market catalysts also play a role in determining intermediate-term returns. Today's market is inexpensive, but valuation alone will not propel the market higher. Valuation is the kindling — catalysts are the spark. We see several such potential catalysts that could combine to spark a rally in equities. Many of these catalysts fall under the heading of “Bursting the Pessimism Bubble.”

**Euro Solutions:** We are heartened to see European leaders taking tangible steps to come together on workable solutions. The answers to the Eurozone's debt crisis lie foremost in growth, followed by austerity and quantitative easing (inflation control). A combination of all three is needed and the disparate constituencies of the Eurozone are coming together, albeit in baby steps, to find solutions to their problem.

**Political Clarity:** The direction of 2012 may ultimately be determined by election results, not just here in the U.S. but also in a number of developed countries globally. Any movement away from the political stalemate present in the U.S. could provide the impetus for higher stock prices.

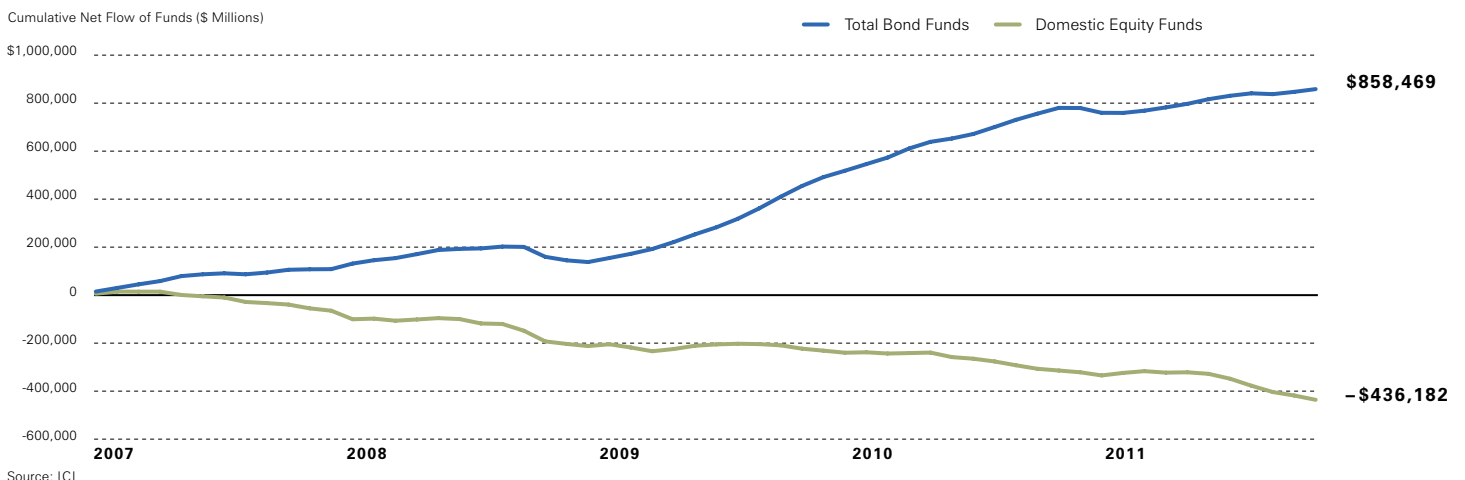
**Fiscal Responsibility:** The American people desire a credible solution to lower our future debt burden. There is a true fear of a future in which government indebtedness suffocates our economy. A more sustainable deficit would go a long way toward bursting the pessimism.

**Flow of Funds:** During the past several years there has been a significant outflow of investments from equity mutual funds and inflow into bond funds. This process should reverse when investors stop worrying about preserving principal and instead begin to look for growth. A small shift in investor sentiment could provide the necessary catalyst to reverse the outflow in equities.

**Stronger Economy:** Even a marginally stronger economy, one that takes the constant speculation of recession off the table, would lead to a rise in earnings multiples. The recent data on unemployment claims, along with the positive trajectory of the U.S. economy during 2011, leads us to believe that the economy can be marginally better in 2012.

**Shareholder Friendly Corporate Actions:** Corporations are sitting on record levels of cash, but investors are rewarding companies that return cash in the form of dividends and share buybacks. We believe corporate boards eager to reward their investors will increase cash distributions, which will lead to higher stock prices.

## INVESTORS HAVE FLED DOMESTIC EQUITY FUNDS IN FAVOR OF FIXED INCOME



# Politics Could Prove to be the Greatest Catalyst

Politics have always had a strong influence on the capital markets, and we believe 2012 will be no exception. In fact, given large budget deficits, looming tax increases, and very mixed opinions about both the incumbent and Republican challengers, we have little doubt that as the year unfolds, investors will increasingly focus on the November Presidential election.

At this point the election is too close to call. Although President Obama's low job approval rating is a serious obstacle to re-election, most polls show that he is still running neck-and-neck with a generic Republican candidate. As we all know, much can happen before Election Day. An improvement in the economy would most certainly bolster the President's ratings, and his campaign is flush with cash to finance what will likely be record-breaking political advertising spending.

The stock market tends to discount future events very well. Investors anticipate the future outcome of any event, and thus the market tends to move — one way or the other — weeks or months ahead of time. In this case, however, much will depend on the closeness of the Presidential race. Should a strong front-runner emerge in the coming months, the markets will likely act accordingly well before Election Day. As Strategas Research Partners point out, the market began to rally as early as August of 1996 when it became apparent that President Clinton would be re-elected. Conversely, when the 2004 election was too close to call, the market didn't rally until *after* the election.

Investors hate uncertainty, so in both 1996 and 2004 it was the lifting of uncertainty that helped propel the markets higher.

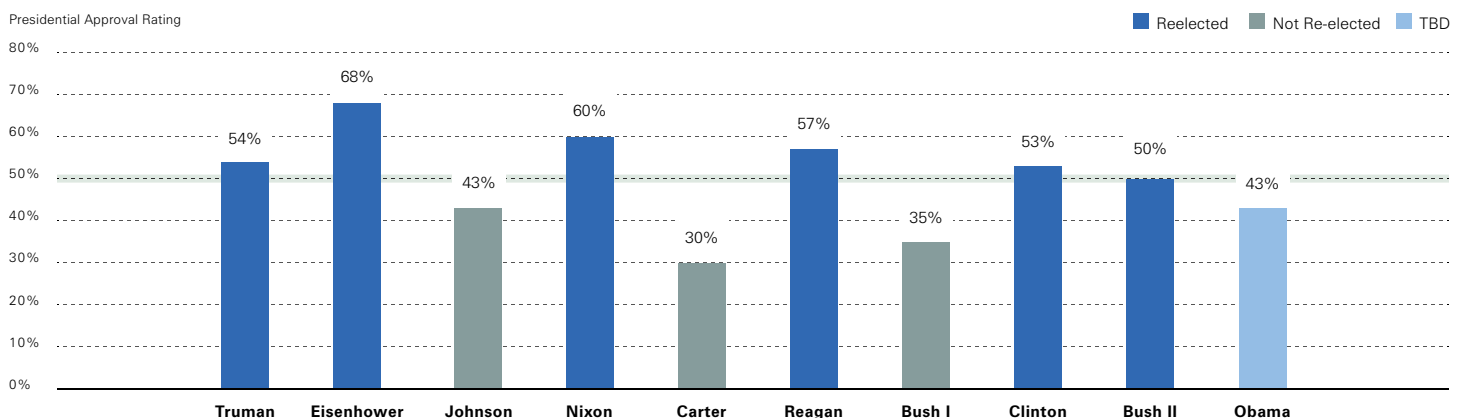
In both these cases incumbents prevailed, so the uncertainty of a new administration — with its new policies, new regulatory regimes, new cabinet members, etc. — was removed and investors cheered.

This year promises to be different, however, given the fact that without legislative action, taxes will significantly increase in 2013. Many of these taxes, such as the increase in dividend and capital gains rate, as well as the new Medicare tax levied on investment income for those earning more than \$200,000 a year, will directly affect stock market investors. These looming tax hikes will likely be an increasing focus of investors as the year unfolds, and will probably be an important issue in the election.

Regardless of the outcome of the presidential election, the future composition of government will be very important.

Historically, Washington gridlock has been good for the markets, but we must also acknowledge that four more years of gridlock, when there are so many pressing issues facing our country, probably isn't the best solution.

## PRESIDENTIAL APPROVAL RATING AT TIME OF RE-ELECTION



Source: Gallup

# Portfolio Positioning

While we foresee several catalysts that could lift the entire market in the coming year, we seek to position Haverford's portfolios to perform well regardless of any overall change in investor sentiment. Our current portfolio positioning and any changes we make in 2012 are predicated on our economic and market assumptions as stated throughout this *Outlook*.

We anticipate that the **Haverford Quality Growth portfolio** will continue to maintain a balance between traditionally defensive sectors such as consumer staples and healthcare and more economically sensitive (cyclical) sectors like basic materials and industrials. In an environment characterized by a multi-speed global economy, this balanced approach seems appropriate.

As we did several times throughout the past year, we expect to realize profits in the cyclical companies we own as opportunities warrant. The Quality Growth portfolio currently sells for an attractive 12x P/E ratio with an estimated 12% earnings growth rate and an above average 2.8% dividend yield. As always, we will seek to opportunistically enhance these portfolio characteristics.

**Haverford's Quality Dividend Yield portfolio** (formerly Quality Dividend Value) currently yields almost 4%, even after delivering an approximate 12% total return in 2011. The portfolio's dividend yield has remained relatively stable year-over-year thanks to dividend increases declared during 2011. Pundits are calling dividend paying stocks a "crowded trade" owing to their popularity and outperformance, and in fact the Dividend Yield portfolio trades at a slight valuation premium to the Growth portfolio.

This is a departure from the historical norm, since the faster growing companies held within the Growth portfolio typically trade at a premium to the slower growing, higher yielding companies of the Dividend Yield portfolio.

The current anomaly is a result of investors' craving for income. In today's low interest rate environment, this appetite can only be satiated through the purchase of extremely long-dated bonds, junk bonds or blue-chip equities. The choice to us is obvious, and

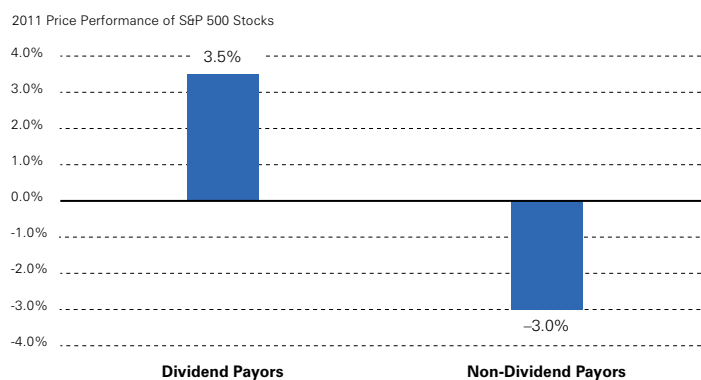
while we agree that investing in high dividend payers has become a popular strategy, there still exists ample opportunity to buy quality companies that generate dividend income that exceeds many fixed-income alternatives. We are still finding plenty of opportunities to invest in companies with above-average yields and the potential for growth of income and principal.

We continue to over-weight U.S. large-cap stocks in the **Haverford Quality Global portfolio**, which remains, along with European equities, the two cheapest risk-adjusted asset classes in the world. One can make a compelling argument that Europe deserves to be cheap, but that does not hold true for the U.S. Some may question any allocation to Europe given the possible risk of financial calamity. We don't believe a calamity is in the offering, however a continent-wide recession is almost assured. (Which is one reason why European equities are so "attractively" priced.) Therefore, we believe our underweight allocation to Europe is appropriate. Despite the risks, the valuations are extraordinarily low, and if European leaders implement a credible plan, there is upside potential. The Global Strategy will continue, of course, to remain globally diversified as we seek to contain risk through investments in the most appropriate vehicles, indexes, and strategies. As opportunities present themselves we will adjust

weightings to seek maximize portfolio risk/return metrics.

If the pessimism bubble bursts and any number of the numerous market catalysts we have highlighted materialize, a powerful rally could ensue in 2012. If the headwinds of uncertainty don't dissipate, we can at least expect the solid corporate fundamentals to deliver healthy dividend increases in 2012.

## INVESTORS ARE REWARDING DIVIDEND-PAYING COMPANIES



Source: Factset, Haverford. Includes all companies on the S&P 500

# Municipals — It's All about *Quality*

The pressures on the municipal market during late 2010 and into early 2011 resulted in an extreme reaction by investors, who withdrew money from tax-exempt funds at a record pace. According to the Investment Company Institute, there were net outflows each month from November 2010 through April 2011, totaling \$44 billion. This compares to only \$13 billion in outflows during the worst of the credit crisis from October through December 2008. In retrospect, the pressures on the market set the stage for the robust rebound in 2011.

While forecasts of widespread credit problems and potential defaults proved to be hyperbole in 2011, there were isolated events that served to remind investors of the importance of both credit selection and bondholder protections. The municipal bond market has as many as 60,000 different issuers. For a market that broad and diverse, we would reiterate our emphasis on the importance of individual issues and avoid making all encompassing proclamations. Take Harrisburg, Pennsylvania and Jefferson County, Alabama for example. Although both filed for bankruptcy, each has been challenged in the courts. The Harrisburg filing was determined to be invalid and was rejected.

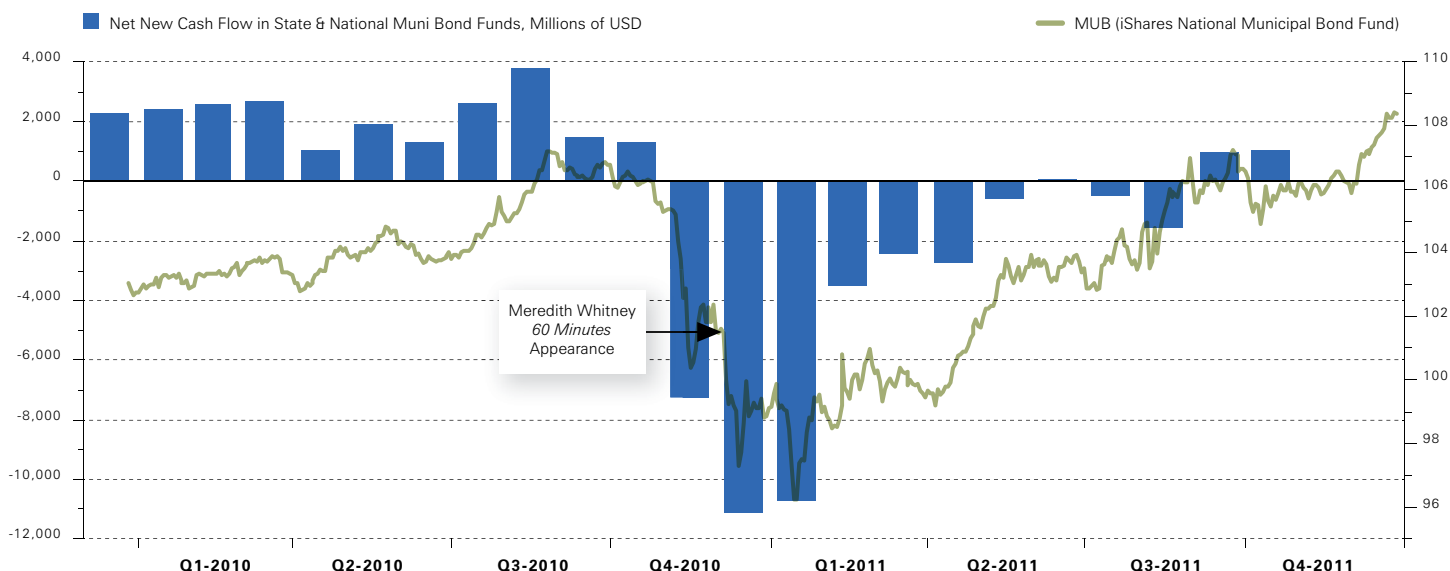
The Jefferson County bankruptcy serves as an example of the importance of ensuring that bondholders have the highest level of protection. Alabama law limits the amount of General Obligation (GO) debt that a municipality may issue without voter approval, so the County chose to circumvent debt limits by issuing so-called “warrants” rather than conventional GO debt. In addition to expanding the amount of debt that strained county

finances, the warrant structure left bondholders with a much weaker legal claim than would have been in force with a “full faith and credit” general obligation pledge securing the bonds.

While current economic conditions and credit ratings are no guarantee of future events, we continue to value strong credits supported by a stable economic base and bonds that are well structured to protect bondholders.

After the strong recovery in municipal bond prices in 2011 the market is fairly valued; risks and rewards are in relative balance. There will likely be volatility around individual events and supply should be slightly higher than in 2011, but still very manageable. The nature of the political stalemate in Washington likely precludes any sweeping changes that would impact the municipal market until after the election. We believe in 2012, investors will earn their coupon income with slight, if any, appreciation. Value-added portfolio management will come from avoiding isolated credit events in the market.

## A STATE OF FEAR GRIPPED THE MUNI MARKET EARLIER THIS YEAR



Source: FactSet Research Systems

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# Government Debt and Macroeconomic Challenges

The magnitude of sovereign debt problems throughout the world is difficult to put into context. Luiz Felipe Lampreia, a former foreign minister of Brazil, aptly stated in an interview with *the Economist*, “there is now a national consensus against macroeconomic foolishness” in Brazil. Whether or not a country’s populous agrees that foolish spending and foolish debt are no longer acceptable is a useful benchmark in judging the progress toward resolving debt crises.

Clearly, the countries across Mediterranean Europe do not meet that standard. Any hints at cutbacks, much less real austerity, are met with harsh protest. There is no apparent acknowledgement that the previous status quo is unacceptable. Across the northern tier, the Scandinavian countries reached these conclusions during a prior banking crisis, perhaps helping to explain why they chose to remain outside the Euro currency. Iceland has rebounded from its severe banking system problems after a harsh recession. Ireland appears willing to accept near term economic austerity under the mantra of “never again.”

As of this writing, President Obama is going through the procedural step of asking Congress to ratify an additional \$1.2 trillion increase to the debt ceiling, bringing it to \$16.4 trillion. The additional funds will only sustain government spending until shortly after the election. Borrowing one trillion dollars to pay for nine months of additional deficit spending hardly meets the criteria of having “a national consensus against macroeconomic foolishness.”

The Federal Reserve Open Market Committee (FOMC) has stated its intention to keep short-term rates low through mid-2013. Clearly, short-term rates will stay low for as long as the Fed desires. Longer-dated Treasury issues attract buyers looking for safety of principal, as part of the “flight to quality” discussed earlier. The Fed’s extension of the maturity of its holdings, so-called Operation Twist, also contributes to the low yield.

The 10-year Treasury note is currently trading at 2%, near its all-time low of 1.7%. While it has thus far been wrong to call for the end of ultra-low yields and to look for higher rates, the 2% annual yield offers very little cushion against the potential for higher rates. The range between high and low yield for the 10-year note has averaged 150 basis points and was 202 basis points during 2011. The smallest range was 77 bps in 2005 and the widest 246 bps in 1994. With the Fed’s purchases providing continued demand for longer-dated maturities, we would expect 2012 to see a narrower-than-average range. However, at some point during the year, we believe the market could begin to question the bearish economic consensus and risk aversion that has led to these low rates and the 10-year yield could trade up toward the 2.75 to 3.00% level.

We continue to believe that high-quality corporate bonds provide a relatively attractive alternative to Government bonds within the fixed-income asset class. Industrial sector bonds should provide a more stable group of credits, while financial issues should continue to be subject to above average volatility resulting from stresses on the European financial sector as well as general risk aversion. U.S. Government mortgage-backed securities can provide an additional source of relatively stable income, but are subject to political moves that could increase prepayment risks. In addition, worries could arise about the eventual resolution of the government’s involvement with Fannie Mae and Freddie Mac, although those concerns may not surface until after the election.

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# Quality Investing in 2012

2012 may be a new year, but the issues of the past year will persist. Add to this mix the U.S. elections and multiple elections of global heads-of-state, and the investment landscape appears unclear. Geopolitical uncertainty and worries over anemic global growth will contribute to heightened daily volatility, but we continue to counsel investors to stop thinking like traders and instead act like investors. Behaving like a long-term investor, following a disciplined and *Quality Investing* approach, should increase the odds of lasting financial success.

In this era of volatile and often irrational markets, one may take solace in Haverford's *Quality Investing* philosophy. The *Quality Investing* process approaches the markets with clarity and discipline, focusing on finding and investing in good businesses. Given these highly volatile markets, a great deal of attention is paid to the price at which a stock is trading, but the focus should instead be on what a share of stock actually represents. It represents ownership in an actual business with actual people, actual products, real profits, and real dividends. It is this fundamental understanding — that we own real companies and not just pieces of paper that trade on an exchange — that guides the *Quality Investing* philosophy.

Haverford is confident that the merits of our investment process will persist long after current trading strategies and leveraged ETFs fall by the wayside. By focusing on the value of the underlying business and the long-term economics of the investment, the investor is able to put short-term price volatility in its proper perspective and enjoy healthy returns over time.

Determining quality is a complex proposition, but at its core are two basic principles. Quality securities possess a durable

competitive advantage that lead to excess returns that persist over time. Their businesses are more predictable and consistent. These businesses can provide profit and dividend growth with consistency, leading to persistent increases in the value of the business. In *Quality Investing*, these profits are what matter — not the mercurial sentiment of the investing public, nor the headline of the day, nor the investment fad of the month.

The long-term outlook for high-quality businesses remains bright. For many, the market for their products is truly global with tremendous opportunities for growth ahead.

Haverford believes successful investing combines the identification of quality companies with the purchase of their shares when they offer substantial long-term value. We are optimistic for the future because we see so many quality companies trading at prices that do not reflect their full value.

It is this focus that guides us through the gauntlet of day-to-day market volatility, leaving us excited for what our quality investments have to offer in the coming years. This is the *Quality Investing* perspective.



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# About Haverford

Refined over three decades, Haverford's *Quality Investing*<sup>™</sup> strategy is committed to maximizing returns while minimizing risk throughout the entire market cycle. *Quality Investing* focuses on "A" rated equities that deliver consistent earnings and dividend growth, and investment grade fixed income securities that seek to protect both principal and income over the long term.

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## HAVERFORD'S PRODUCTS

### EQUITY

- Quality Growth
- Quality Dividend Yield
- Quality Global Strategy
- Quality Growth & Income
- Quality 250<sup>™</sup>
- Quality SRI (Socially Responsible)

### FIXED INCOME

- Quality Taxable
- Quality Municipal
- Client Specific Mandates

### BALANCED

- Customized Allocations

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## HAVERFORD CLIENTS

Haverford serves a range of clients including:

- Individuals and Families
- Institutions & Institutional Consultants
- Private Foundations
- Employers
- Employee Benefit Plans
- Non-Profit Organizations
- Trusts and Estates
- Religious Organizations
- Endowments
- Financial Advisors

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## HAVERFORD SERVICES

Haverford clients enjoy a range of investment options designed to provide the best in personalized service and sophistication. Some of our additional offerings include:

- **BANKING SERVICES**, delivered through an FDIC-insured state-chartered trust company. We offer below-prime loans and competitive rate certificates of deposit to meet our clients' financing and depository needs.
- **TRUST SERVICES**, including the management of revocable ("living") trusts, testamentary trusts, guardian accounts, irrevocable lifetime trusts, charitable trusts and estate settlement.
- **RETIREMENT PLAN SERVICES**, supporting every type of qualified and non-qualified plan. Haverford provides education, fee transparency, and an open architecture investment platform for plan participants.

To learn more about Haverford and its services, or to schedule an appointment to review your financial future, please call us at 888-995-5995 or visit [www.HaverfordQuality.com](http://www.HaverfordQuality.com).

**HAVERFORD**

QUALITY INVESTING

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