



SPINNAKER

SPINNAKER TRUST QUARTERLY NEWSLETTER

JULY, 2009

Less News is Good News

The second quarter of 2009 probably will not be remembered for anything very special. Coming after the incredibly volatile fourth quarter of 2008 and first quarter of 2009, this past quarter was relatively mild. Thank goodness. Markets continued the rally they began in early March through mid-June, and volatility calmed down. For the quarter, the S&P 500 rose 16% erasing the slide of the first quarter. At any other time a 16% quarter would be huge news. And it certainly is welcome; but as we all know, there is still a long way to go. Happily, most major markets around the globe also had positive quarters led by Brazil and China along with other emerging markets.

Notably, the credit markets (bonds) are showing signs of loosening up. As we have mentioned in the past, the bond market is critical to global markets as corporations need access to funds, both

short and long term. Seeing liquidity come back into these markets has been very positive.

Green Shoots

We don't know about you, but we have been seeing the words 'green shoots' in many market comments over the past several months. Where did this come from and what does it mean? After a little Googling, we found the answer. Ben Bernanke, chairman of the Federal Reserve Board, in mid-March told 60 Minutes that he detected 'green shoots' of economic recovery. Since then, the phrase 'green shoots' has sprouted and blossomed. Analysts and journalists, desperate for any sign of hope, have taken to repeating the phrase 'green shoots' as a soothing mantra.

Quite frankly, we have seen few green shoots.

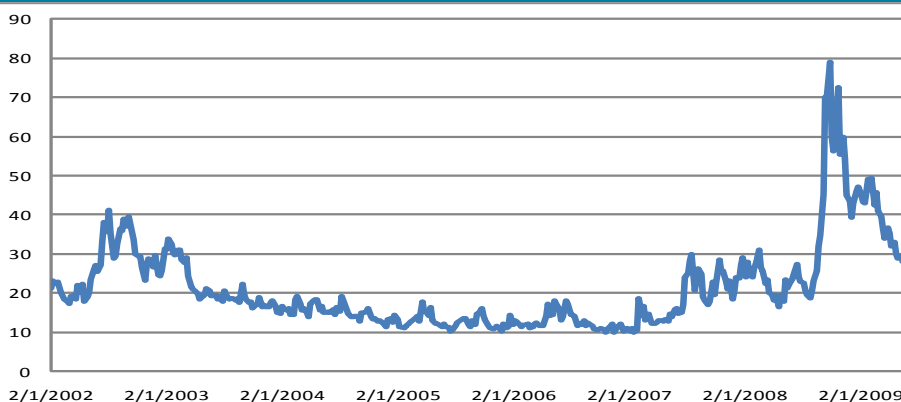
While the market action through mid-June sug-

gested that the recession is nearing its end, we aren't seeing many solid clues of a recovery.

But there have been a few. Most encouraging is the Conference Board's Leading Economic Index (LEI), which increased sharply for the second consecutive month in May. Importantly, the strengths among its components continued to exceed the weaknesses. Consumer expectations, building permits, the interest rate spread, real money supply, stock prices and nondefense capital goods orders contributed positively to the index, more than offsetting the negative drags from average workweek, initial unemployment claims and consumer goods orders.

The U.S. has been in a recessionary period now since December 2007 - over 18 months. Though we cannot predict when it will be officially over, it will be counted among the longest.

Volatility Index: VIX 2002 - June 30, 2009



The CBOE Volatility Index (VIX), which measures intraday stock market volatility, dropped below the 30-point reading May 19, 2009, for the first time since the Lehman Brothers bankruptcy back in September, after having spent a record-breaking 170 consecutive trading days above that level.

U.S. RECESSION HISTORY

According to economists, since 1854, the U.S. has encountered 32 cycles of expansions and contractions, with an average of 17 months of contraction and 38 months of expansion. However, since 1980 there have been only eight periods of economic contraction over one fiscal quarter or more, and four periods considered recessions:

July 1981-November 1982: 16 months

July 1990-March 1991: 8 months

March 2001-November 2001: 8 months

December 2007-current: 18 and counting...

Inflation?

As our government (and other governments around the world) continues to pump money into the economy, many have started to worry about inflation. With unemployment still rising and the economy still mired in a recession, most economists agree that an earnest recovery is a long way off. But can inflation sneak up quietly in the meantime? No one really knows when, or if, it will appear or how strong it may be. Although we do not believe we need to make a radical overhaul to portfolios, we have begun incorporating some classic inflation hedges.

We have begun to build a position in Treasury Inflation Protected Securities, or TIPS. TIPS guard against inflation because the principal of the bond increases in tandem with the Consumer Price Index. The Treasury Department, which began selling TIPS in 1997, makes coupon payments every six months – interest based on the bonds' inflation adjusted principal, which reflects changes in CPI rather than the

bonds' original face value. We are using the TIPS exchange traded fund to get a diversified portfolio of these bonds.

In addition, Spinnaker portfolios have exposure to real estate through a global REIT (real estate investment trust) fund. Real estate, which not surprisingly has been through a very difficult 12 months, can be a good way to hedge inflation and, though we are not sure we are at the bottom of the real estate market, it does look cheap based on historical valuations.

Commodities also tend to perform well when there is inflation because rising prices usually mean a stronger economy and increased demand for raw materials. Spinnaker Trust portfolios have exposure to global raw materials companies through several exchange traded funds.

Money Market Yields Are Low

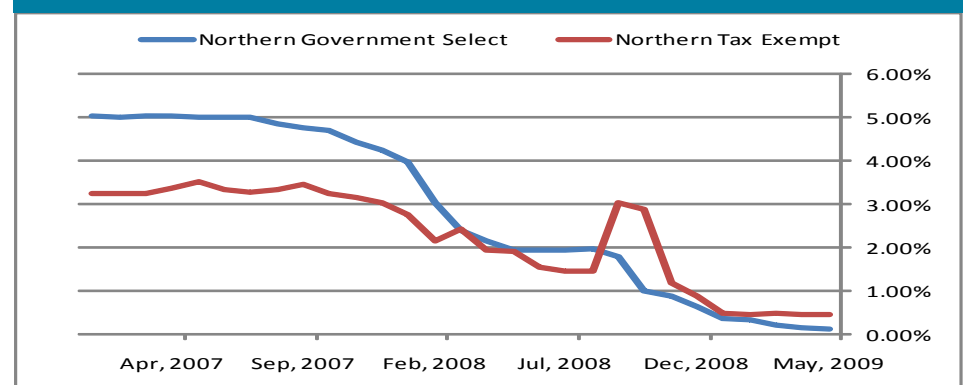
It isn't very often that anyone wants to talk about money market funds. Hopefully they are 'boring' and predictable. But they were in the news last fall when a handful of money market funds could not keep their value at \$1. We reassured clients that the money market funds we use through Northern Trust are very safe and secure. And we were again reassured of this

recently through a conference call with Northern Trust. They have always been ultra-conservative money market fund managers and that has not changed. Though the yields are extremely low, and some other firms may offer higher yields, this is an area of the portfolio where we are happy to take no risk. If that means very low yields for the time being, that is OK.

Challenges Continue

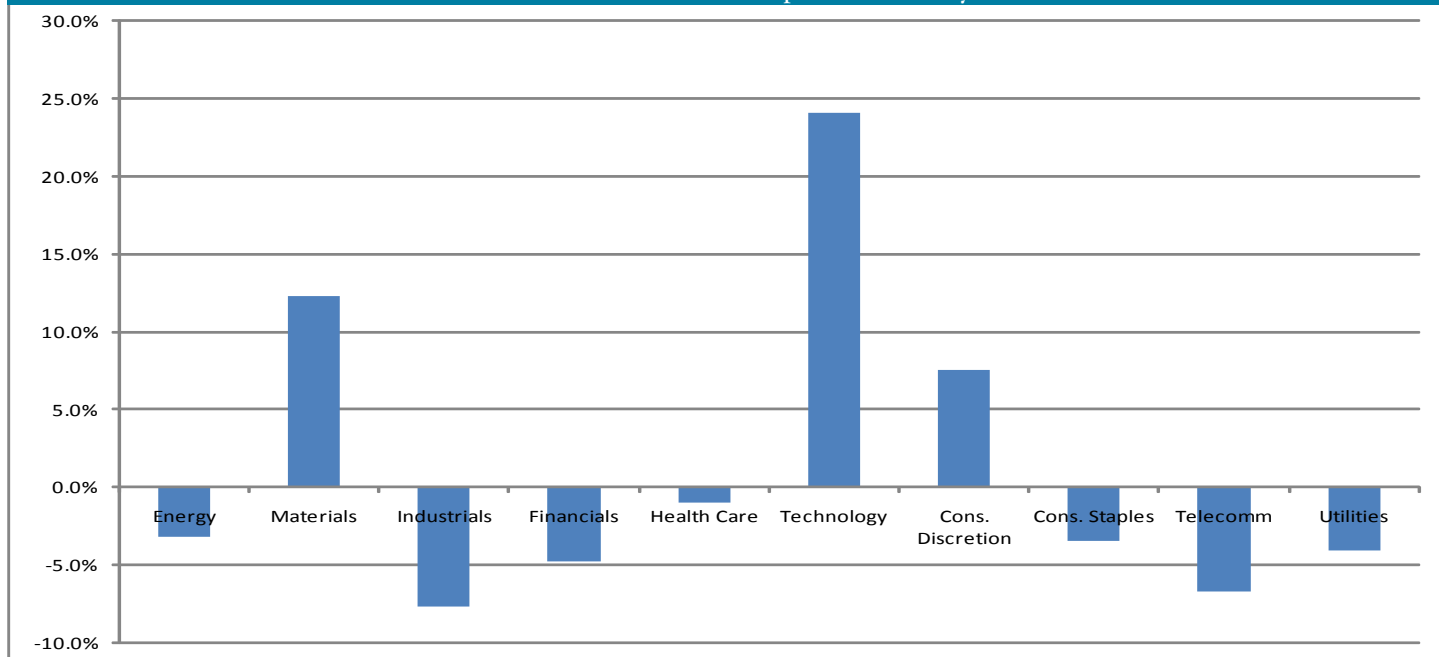
The global challenges of excessive leverage and a financial and economic meltdown have eased substantially in the past months with the help of global fiscal and monetary stimulus policies and targeted governmental programs. The continued effects of these problems, coupled with the emergence of higher oil and gas prices and the prospect of higher taxes, have created an economic headwind. When coupled with the stimulus-created tailwinds, we find ourselves in a crosswind, which is the most difficult to navigate successfully. During the past year, when nearly all stocks have fallen in price, we have worked to improve our clients' asset allocation and diversification. We have increased investments in sectors that we believe will be best positioned to withstand the recession and grow.

Money Market Fund Yields 2007-Present



S&P 500 YTD (6/30/09)

Three sectors of the S&P 500 are positive for the year



Maine Tax Updates

The Maine Legislature had a busy spring and has passed two new pieces of legislation that will affect Maine income taxpayers and the estate tax on the death of Maine decedents.

Income Taxes

The change to the income tax has been billed as the biggest reform to the Maine income tax since it was enacted 40 years ago. The new law creates a 6.5% flat income tax rate in Maine. There is, however, a 0.35% surcharge imposed on Maine taxable income over \$250,000 (with that amount being indexed annually for inflation).

This piece of the bill received considerable attention. However, for taxpayers who itemize their deductions for federal income tax purposes, the good news about the lower rate is offset by the fact that personal exemptions and deductions will be repealed and replaced with a new “household credit.” There are two ways to calculate the

household credit, a “primary” and “alternative” method, but the absolute maximum of the credit is \$2,300 for married taxpayers filing jointly and is phased out as taxpayers’ incomes increase.

This means that charitable contributions and mortgage interest will no longer be treated the same way for Maine purposes as they are at the federal level. The new legislation does include a special credit for charitable contributions, but it only applies to contributions that exceed \$250,000 and is equal to only 5% of such qualifying contributions. The new rates and credits go into effect January 1, 2010; however, an effort is already underway to subject the new legislation to a people’s veto in November. Stay tuned.

Estate Taxes

A new provision to the Maine estate tax will affect estates of Mainers who die in 2009 and later. Beginning this year, taxable gifts made by a decedent within twelve months of the decedent’s

date of death will be added back to the decedent’s taxable estate. This is a partial resurrection of the old federal “contemplation of death” statute which used to include gifts made within three years of death in decedents’ federal taxable estates. Estate tax practitioners around the state are working with Maine Revenue to clarify many aspects of this bill, but the effect will be an increase in what would have otherwise been the Maine estate tax for a decedent who makes taxable gifts in the year prior to his or her death.

** Spinnaker Trust does not provide tax, legal or accounting advice. Please consult your legal and tax advisors to discuss your individual circumstances before making any decisions.*

MARKET DATA: 2009, 2008, 2007

<i>Index</i>		<i>6/30/09</i>	<i>2008</i>	<i>2007</i>
S&P 500	<i>U.S. Large-Capitalization Stocks</i>	3.3%	-37.0%	5.5%
S&P 400	<i>U.S. Mid-Cap Stocks</i>	7.4%	-36.2%	8.0%
S&P 600	<i>U.S. Small-Cap Stocks</i>	-0.2%	-31.1%	-0.3%
Russell 1000	<i>U.S. Large and Mid-Cap</i>	3.0%	-37.6%	5.8%
Russell 1000 Growth	<i>Growth stocks broken out</i>	10.5%	-38.4%	11.8%
Russell 1000 Value	<i>Value stocks broken out</i>	-4.5%	-36.8%	-0.2%
MSCI EAFE Index	<i>Established International Markets</i>	5.6%	-45.1%	8.6%
MSCI Emerging Markets	<i>Developing International Markets</i>	36.0%	-54.4%	36.9%
		<i>6/30/09</i>	<i>12/31/08</i>	<i>12/31/07</i>
90 day T-Bill	<i>Short-Term Interest Rate</i>	0.17%	0.08%	3.25%
10 Year US Treasury Rate	<i>Longer-Term Interest Rate</i>	3.59%	2.21%	3.91%
VIX Index	<i>Risk measurement</i>	26	40	23
Corporate Bond Spread	<i>Risk measurement</i>	254 bps	570 bps	197 bps
TIPS Spread	<i>Inflation expectations</i>	178 bps	17 bps	233 bps

