



SPINNAKER

SPINNAKER TRUST QUARTERLY NEWSLETTER

OCTOBER, 2009

Another Strong Quarter

Back-to-back strong quarters across all markets have been a welcome relief to investors around the globe. Global economies have begun to stabilize and, though we believe there are still many reasons for caution, we are taking a relaxed deep breath.

The S&P 500 was up 15.6% for the quarter and 19.3% year-to-date. All but one sector of the economy is up in 2009, and basic materials and technology have been strong leaders. Mid-cap stocks have been even stronger than the large-cap stocks, up 28.38%, and small-caps have also had a strong year (after a very slow start), up 18.12%. Internationally, emerging markets are up 64.45% in nine months with China and Brazil as the shining stars. Developed markets have also had terrific recoveries this year, up 25.49%.

Is there real reason for this exuberance? Yes

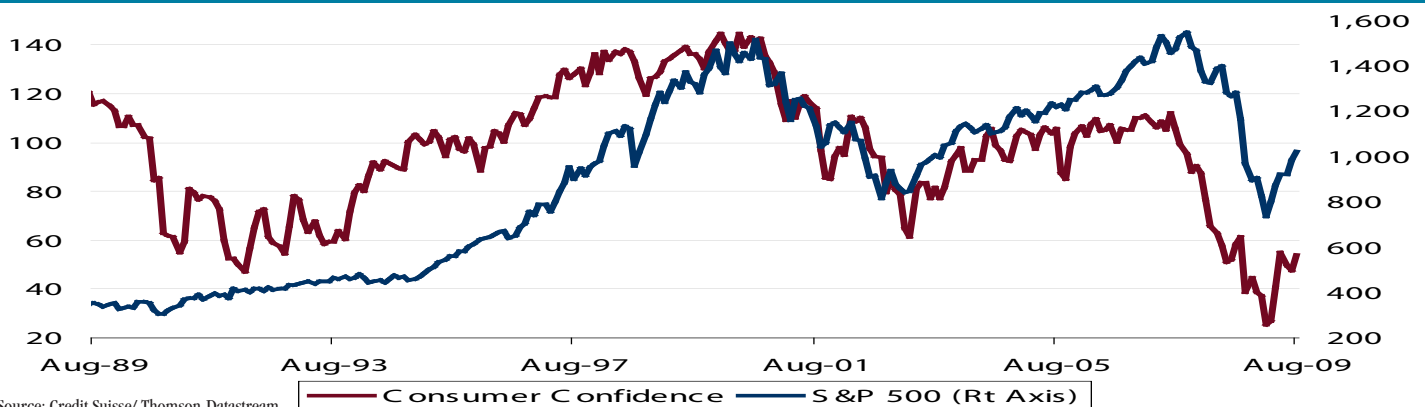
and no. In the U.S. earnings were better than expected during the first and second quarter mostly as a result of massive cost cutting. There were plenty of positive earnings surprises. The third quarter's positive surprises should reflect a combination of cost cutting and improving revenues. As earnings expectations have grown, consumer confidence has turned a corner helping to ease the volatility in the markets. However, as we start to see third quarter earnings come in, any small sign that the economy is weakening could send stock prices lower again, and we are by no means out of the woods in the housing market.

The Federal Reserve Bank offered some fairly soothing thoughts after the meeting on September 23rd. The policy meeting concluded that "economic activity has picked up", a much healthier assessment than previous

descriptors which had only suggested that conditions had stopped deteriorating as quickly; and there is no need to worry that the Fed plans to raise rates anytime soon.

The Fed's stimulus programs of a year ago worked to ensure that several critical capital markets remained open and functioning at the depths of the financial crisis. They also kept borrowing costs low. Stocks have thrived rather effortlessly the past six months in an environment where investors never had to worry about the rate backdrop. At some point, the Fed is going to have to contend with the inflationary pressures that all of this deficit spending has incubated, though we believe that time remains relatively far in the future.

Investor and Consumer Confidence Recovering



Source: Credit Suisse/ Thomson-Datastream

A Year to Remember

Looking back on the past year there is much that some might say they would rather forget. Collapsing financial institutions, scrambling governments and portfolio values cut by 30%, 40% and even 50%. At this time last year, major financial institutions stood on the cusp of a dizzying free-fall, and the government had to guarantee money market funds to stop a run on them. (This guarantee has now run its course.)

We have learned about risk tolerance as a firm and as individuals. The fiduciary responsibility of managing other people's money is one we take very seriously. The right allocation for the long run might look good on paper, but is more difficult to manage with large market swings. And we have seen large swings, both down and up. Some of the swings were intra-day. Friday October 10th, 2008 saw a 1020 point swing on the Dow Jones Average. The very next trading day, Monday October 13th, saw a 966 point swing. Some of the swings were over months. From September 1st – November 20th, 2008 the S&P 500 was down 41%. January 1st – March 9th, 2009, the market was down another 25%. And from the lows on March 9th through September 22nd, the S&P 500 was up 58%!

Those are major swings that can unnerve even the most sophisticated investor. Making certain that cash flow needs are understood and planned for well into the future has always been a large part of our planning process with clients. The recent market crisis has made the need for that clearer than ever.

Recession Ending Soon, But...

Many economists are projecting an end to the recession in either the 3rd quarter or 4th quarter of this year. See the Credit Suisse Gross Domestic Product forecast chart below. The numbers may well confirm that; we will know soon enough. But for those who are un- or under-employed, the numbers don't mean a whole lot. The stock market and the economy are two different things, and that has never been more evident than now. As we have watched the stock market predict the recovery, we believe that it will be a slow one and consumers will not get back to old spending habits anytime soon. The upcoming holiday (shopping) season ought to tell us a good deal about how consumers are feeling, and what 2010 might look like.

As the markets have recovered this year, our portfolios have participated very nicely. Our over allocation to basic materials, technology and emerging markets has been right on target. We have been fairly aggressive in selling positions in those sectors and areas that we believe have gone up too far too fast and invested the proceeds conservatively. We don't see a 'double dip' scenario developing but we remain cautious in the near term.

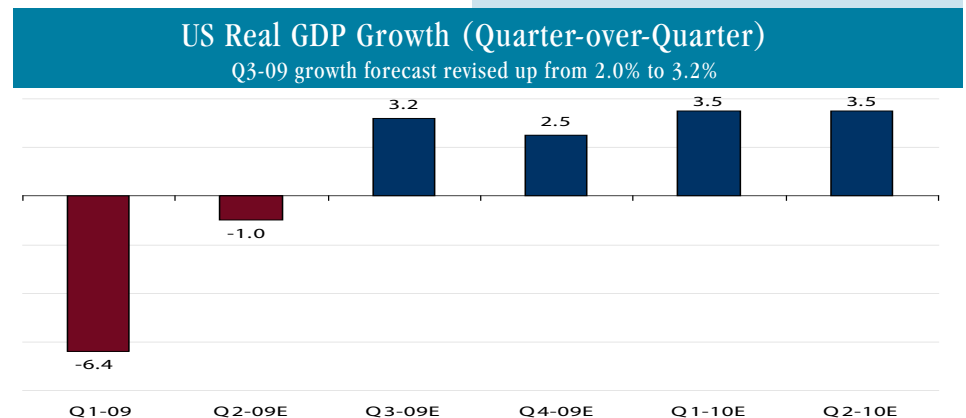
The Housing Market

Like blowing your own bubble gum bubble, it is fun to watch it grow, but it is a mess on your face when it's all over. The housing bubble is no different, but the pieces are starting to be pulled off the pavement.

- The Philadelphia Housing Index* has gained 195% from March, 2009 low, but remains 63% below July, 2005 high.
- The housing index has outperformed the S&P 500 by 17% YTD.
- Housing-related industries: homebuilders have posted the strongest performance YTD (+46%).
- Affordability near all-time highs due to low mortgage rates and home prices.
- 18 of 20 metropolitan areas (excluding Detroit & Las Vegas) are above 2009 lows.

Though it is too soon to call a bottom for certain, home prices and consumer confidence should have a positive influence on each other (and markets) as both recover.

*The index is made up of 19 companies in the construction, development, support and sales related to the residential housing industry.



Source: Credit Suisse



October 1, 2009

Dear Clients and Friends:

Having just lived through one of the most dramatic and punishing years in modern economic history, I wanted to take this opportunity to address our clients, members of our clients' advisory teams and friends of Spinnaker Trust to express our gratitude for your continued support and fill you in on the latest here at Spinnaker.

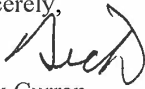
Just over a year ago, in one weekend, we witnessed the collapse of Lehman Brothers and the virtual federal takeover of AIG. We also saw Merrill Lynch swallowed by Bank of America and Goldman Sachs become a bank. It has truly been an unprecedented time in our country's financial history. While this has been a fascinating time from an academic standpoint, on a real, practical level, it has been grueling for our clients and for us. We have worked very hard over the past year to ensure that our clients' financial futures are secure, and we will continue to serve our clients on a very personal, one-on-one basis to help them reach their financial goals.

In the midst of all this economic turmoil, Spinnaker Trust has become stronger. Over the past year we have hired two additional senior people. Ralph Harding, a near 30 year finance veteran of Eli Lilly, joined us as Director of Private Equity. Ralph oversees the investments made by the Spinnaker Private Equity Fund (SPEF) and has been instrumental in the launch of SPEF II, our newest private equity fund. He also serves on our Investment Committee. I have known Ralph for almost 40 years since we were classmates in the early '70s at graduate business school.

Amanda Rand joined us last fall after spending seven years practicing Trusts & Estates law in Boston and Portland. A Falmouth native, Amanda brings sophisticated, up-to-the-minute gift and estate planning skills. Amanda has been working with many clients on their planning needs, has been coordinating with our clients' estate planning teams to implement new tax savings strategies and has been assisting with the administration of the many trusts of which Spinnaker serves as Trustee.

We are grateful to all of our clients for their continued loyalty over the past year. We also appreciate the many referrals we continue to receive. All of us here at Spinnaker remain committed to providing outstanding client service and look forward to serving current and future clients for many years to come.

Sincerely,



Dick Curran

MARKET DATA: 2009, 2008, 2007

<i>Index</i>		<i>9/30/09</i>	<i>2008</i>	<i>2007</i>
S&P 500	<i>U.S. Large-Capitalization Stocks</i>	19.3%	-37.0%	5.5%
S&P 400	<i>U.S. Mid-Cap Stocks</i>	28.4%	-36.2%	8.0%
S&P 600	<i>U.S. Small-Cap Stocks</i>	18.1%	-31.1%	-0.3%
Russell 1000	<i>U.S. Large and Mid-Cap</i>	18.9%	-37.6%	5.8%
Russell 1000 Growth	<i>Growth stocks broken out</i>	25.4%	-38.4%	11.8%
Russell 1000 Value	<i>Value stocks broken out</i>	12.2%	-36.8%	-0.2%
MSCI EAFE Index	<i>Established International Markets</i>	25.5%	-45.1%	8.6%
MSCI Emerging Markets	<i>Developing International Markets</i>	64.5%	-54.4%	36.9%
		<i>9/30/09</i>	<i>12/31/08</i>	<i>12/31/07</i>
90 day T-Bill	<i>Short-Term Interest Rate</i>	0.08%	0.08%	3.25%
10 Year US Treasury Rate	<i>Longer-Term Interest Rate</i>	3.29%	2.21%	3.91%
VIX Index	<i>Risk measurement</i>	26	40	23
Corporate Bond Spread	<i>Risk measurement</i>	172 bps	570 bps	197 bps
TIPS Spread	<i>Inflation expectations</i>	176 bps	17 bps	233 bps

