



SPINNAKER

SPINNAKER TRUST QUARTERLY NEWSLETTER

APRIL, 2010

Major Issues, Mild Markets

On the surface, the first quarter of 2010 has been relatively mild. U.S. stocks have edged higher and volatility has edged lower. The S&P 500 was up 5.4% to start 2010 while developed international (+1.0%) and emerging markets (+2.4%) have struggled to get off the starting line. Aside from a very slowly improving economy, catalysts for a move higher from here will likely come in the form of less uncertainty. With so many major issues weighing on investors over the last few months (healthcare legislation, financial reform, sovereign risk), it has been a difficult environment to find comfort. As these issues are slowly resolved (one way or another), it ought to create the confidence needed for investors to continue

to get back into the market. On the other hand, with the U.S. markets sitting right around an 18 month high, roaring back 73% from the lows last March, there is certainly room for caution. Sector performance in the first quarter shows Industrials (+12.5%), Financials (+10.8%) and Consumer Discretionary (+10.0%) all very strong. The laggards are Telcos (-5.7%), Utilities (-4.6%) and Energy (+0.1%).

Sovereign Debt

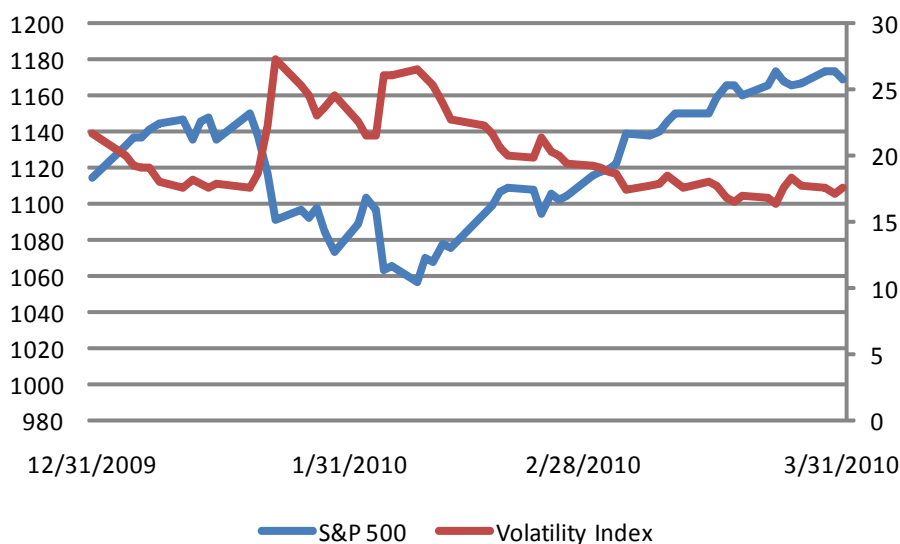
We have heard the phrase sovereign debt quite a bit in the past several weeks and months. To be clear, a sovereign bond is a bond issued by a national government. The term usually refers

to bonds issued in currencies other than that of the issuer, while bonds issued by national governments in the country's own currency are referred to as government bonds. The total amount owed to the holders of the sovereign bonds is called sovereign debt.

European countries' debt problems-in Greece, Portugal, Spain, Ireland and elsewhere-have spurred market volatility and raised doubts about whether the global economic recovery is sustainable.

While government interventions have led the global recovery, the market's reaction to Greece and other indebted countries suggests governments may be the next major problem. Governments were the rescuers. Now, we may be getting to a point where governments have used up all their "ammunition," and their own resulting weakness is a new source of instability. That is what we saw a little bit, late in 2009 with the scare over Dubai, and now we are seeing it in Europe with the scare over Greece and, to some extent, Portugal. It remains to be seen if these governments can reign in their spending, slowly increase taxes and hold off any further deterioration. Surely the U.S. will have to do the same things (decrease spending and increase taxes) in the coming years.

S&P 500 vs. VIX Index



Source: Bloomberg

Historic Healthcare

It will be a long time before we know whether the historic healthcare reform finally passed by Congress will make the system better or worse. The real scope, cost and benefit of the health care package will not be known for decades. Portfolios at Spinnaker have been over weight the healthcare sector in anticipation of some form of reform passing. Regardless of which side of the political fence you are on, it is true that more money will be spent on healthcare over the coming decades because of the passage of this legislation. More people insured will mean more medications prescribed, more MRIs ordered and more paid hospital stays. Certainly we are headed for years of amendments and modifications, but entrepreneurs come up with better ways to make money, regardless of constraints. There is no reason to think this will be any different.

Dot com

March 2010 marked the 25th anniversary of the internet designation “.com.” Much has changed in those 25 years. Nearly every business has

some ‘web’ presence and billions of dollars of commerce is done via the internet annually. The number of Americans who have broadband at home has grown from eight million in 2000 to nearly 200 million last year.

According to the FCC: “In early 2009, Congress directed the Federal Communications Commission (FCC) to develop a National Broadband Plan to ensure every American has ‘access to broadband capability.’ Congress also required that this plan include a detailed strategy for achieving affordability and maximizing use of broadband to advance ‘consumer welfare, civic participation, public safety and homeland security, community development, health care delivery, energy independence and efficiency, education, employee training, private sector investment, entrepreneurial activity, job creation and economic growth, and other national purposes.’”

In March the FCC submitted to Congress an ambitious 10-year plan that will set the nation’s media and technology priorities by establishing high-speed internet as the country’s dominant communication network. The internet has

already begun to displace the telephone and broadcast television industries. The next 25 years will be very exciting.

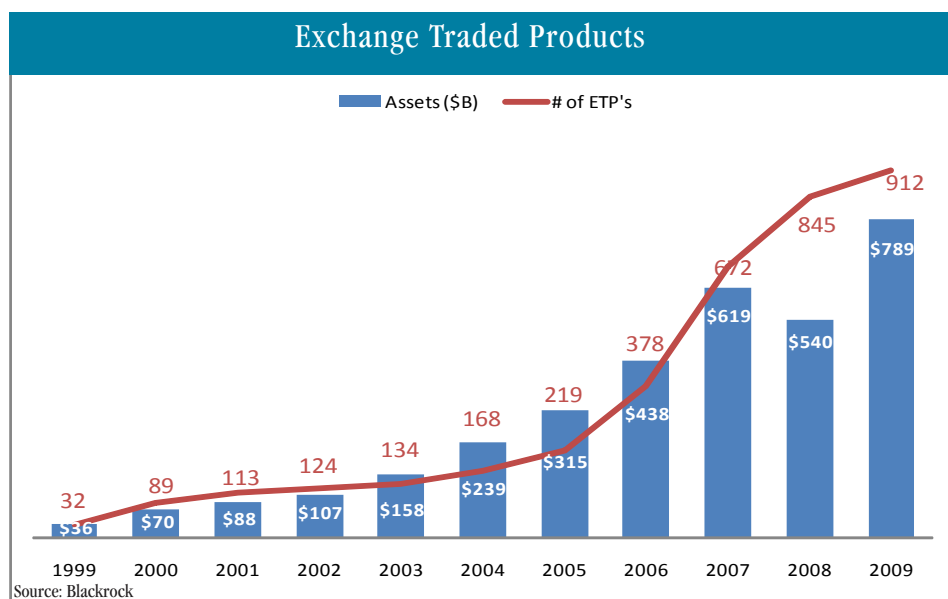
Since the summer of 2008, we have had a portfolio allocation specifically dedicated to companies that are developing and building the internet network. We have used an Exchange Traded Fund to get this exposure. As the ETF world has grown (see chart below) more choices have become available. Recently we swapped from one ETF to another in the internet /network sector that we feel is more directly related to this coming expansion.

Exchange Traded Funds (ETFs)

As long-time Spinnaker clients and friends know, we are huge fans of ETFs. We believe that asset allocation is the main driver in portfolio performance over long periods of time. We also believe that we can add value by over or under weighting various sectors and subsectors of the economy, and world, based on our understanding of trends and forecasts. We use ETFs to get the allocations we want without taking individual stock risk. While we will always have individual stocks in portfolios we inherit, Spinnaker Trust almost exclusively uses ETFs now to build diverse all-cap global portfolios. To learn more about ETFs go to www.spinnakertrust.com.

To Convert, or Not to Convert?

Much has been written lately about Roth IRAs, and the new, more favorable rules for 2010. Roth IRAs have been around since 1998. They are similar to traditional IRAs, with a couple of key



differences. Unlike contributions to a traditional IRA, contributions to a Roth IRA are not deductible; they are made with post tax dollars. In both types of IRAs, any growth or gain inside the account is not taxable. Once the account owner starts taking distributions from a traditional IRA, the distributions are taxed as ordinary income. Roth distributions come out tax free.

The ability to make contributions to a Roth IRA has always been subject to income limitations. In 2010, the ability to make Roth contributions is phased out for single filers with between \$105,000 and \$120,000 of adjusted income and for married filing jointly, with adjusted income between \$167,000 and \$177,000. These income limitations are nearly the same as they were for 2009.

The big change in 2010 comes from the fact that the income limitations on who can convert their traditional IRA to a Roth IRA have been removed completely. Prior to 2010, only those with adjusted incomes less than \$100,000 could make a conversion. Now, anyone can take advantage of a Roth conversion.

So, should you convert? This is a highly individualized question, one that should be analyzed carefully for each person. Here are some of the major issues to consider:

How will you pay the taxes due on conversion?

Upon conversion, the account owner will have to pay tax at ordinary income rates for the amount converted. If the IRA consists of amounts that were not deductible at the time of

the contribution, there is an offset, but in determining the tax liability, all IRAs of the account owner are grouped together to determine what percentage of the converted account is taxable or not. If the account owner does not have the money to pay the tax outside of the IRA, it probably does not make sense to convert.

Who is the likely beneficiary of the account?

Most IRAs have a spouse or children as beneficiaries. In that case, converting to a Roth IRA can enable the account owner's beneficiaries to stretch out the income tax deferral longer than if the assets stay in a traditional IRA. If the IRA is earmarked for charity, however, it might not make sense to do the conversion. The charity will not pay any taxes on receipt of the assets anyway.

How long do you realistically expect to live?

Of course, no one really knows how long he or she will live. The proverbial bus could come along at any minute. However, if you expect that you might live to a very old age and have to take many required minimum distributions from the IRA that you will likely not need, it might make sense to convert. There are no required minimum distributions with a Roth IRA. The money can stay and grow tax free for the benefit of your named beneficiaries.

These are just a few of the considerations to take into account when deciding whether or not to convert your traditional IRA to a Roth IRA. We would, of course, be happy to speak

with our clients and their other advisors in more detail about whether a conversion might make sense in any particular situation.

Information Security Enhancements (i.e. more passwords...)

We totally understand that no one wants yet another password to remember. However, we recently enhanced our existing email security system and implemented Spinnaker's secure email.

That means you will need another password. We apologize for the inconvenience, but please know that internet security is a top priority for us and we cannot fall behind the bad guys. The following Q&A answers questions you may have about protecting personal information and how our secure email works. You can find more detailed information at www.spinnakertrust.com.

Q: Why is Spinnaker changing how we protect personal information?

A: We take protecting clients' personal information very seriously and continually explore new ways to protect your data. Additionally, some states have recently enacted changes to their privacy laws which set stricter standards for the protection of personal information. These new standards require the encryption of all emails with records and files containing personally identifiable information.

Q: What is personally identifiable information (PII)?

A: Personally identifiable information, or PII, is any information that can be used to uniquely

MARKET DATA: 2010, 2009, 2008

<i>Index</i>		<i>3/31/10</i>	<i>2009</i>	<i>2008</i>
S&P 500	<i>U.S. Large-Capitalization Stocks</i>	5.4%	26.5%	-37.0%
S&P 400	<i>U.S. Mid-Cap Stocks</i>	9.1%	37.4%	-36.2%
S&P 600	<i>U.S. Small-Cap Stocks</i>	8.6%	25.6%	-31.1%
Russell 1000	<i>U.S. Large- and Mid-Cap</i>	5.7%	28.5%	-37.6%
Russell 1000 Growth	<i>Growth Stocks broken out</i>	4.6%	37.2%	-38.4%
Russell 1000 Value	<i>Value Stocks broken out</i>	6.8%	19.7%	-36.8%
MSCI EAFE Index	<i>Established International Markets</i>	1.0%	32.2%	-45.1%
MSCI Emerging Markets	<i>Developing International Markets</i>	2.4%	78.5%	-54.4%
		<i>3/31/10</i>	<i>12/31/09</i>	<i>12/31/08</i>
90 day T-Bill	<i>Short-Term Interest Rate</i>	0.15%	0.08%	0.08%
10 Year US Treasury Rate	<i>Longer-Term Interest Rate</i>	3.86%	3.82%	2.21%
VIX Index	<i>Risk Measurement</i>	18	22	40
Corporate Bond Spread	<i>Risk Measurement</i>	117 bps	122 bps	570 bps
TIPS Spread	<i>Inflation expectations</i>	224 bps	241 bps	17 bps

identify a single person, alone or with other sources. PII includes Social Security Numbers (masked or unmasked), Personal Identification Numbers, and financial account numbers.

Q: How does the email security system work?

A: Each time we send an email, the system scans the email and attachments for PII and, if it finds any, sends the email directly to our secure email server.

Q: What is Spinnaker's secure email system?

A: We have chosen ZixCorp as our service pro-

vider. The system automatically scans all of our outgoing emails and attachments for PII and, if any PII is found, the email will go to our secure email server.

Q: How will I be alerted that I have secure email to retrieve?

A: Our secure email server will automatically send you an email with a link to login and retrieve the message and any attachments. This email will tell you who from Spinnaker Trust has sent you this email.

Q: How do I retrieve the first email?

A: As a first-time user you will be asked to create and register a password, and then confirm the registration and activate your account by replying to an email that will soon arrive in your inbox.

Q: What about subsequent emails?

A: You merely need to enter your password and click the "open message" box. You also have an option to have your computer remember your password, but we do not recommend this.

Please contact Spinnaker Trust if you have any questions or concerns regarding our new system.

