



SPINNAKER

SPINNAKER TRUST QUARTERLY NEWSLETTER

JANUARY, 2012

Not a Year to Remember

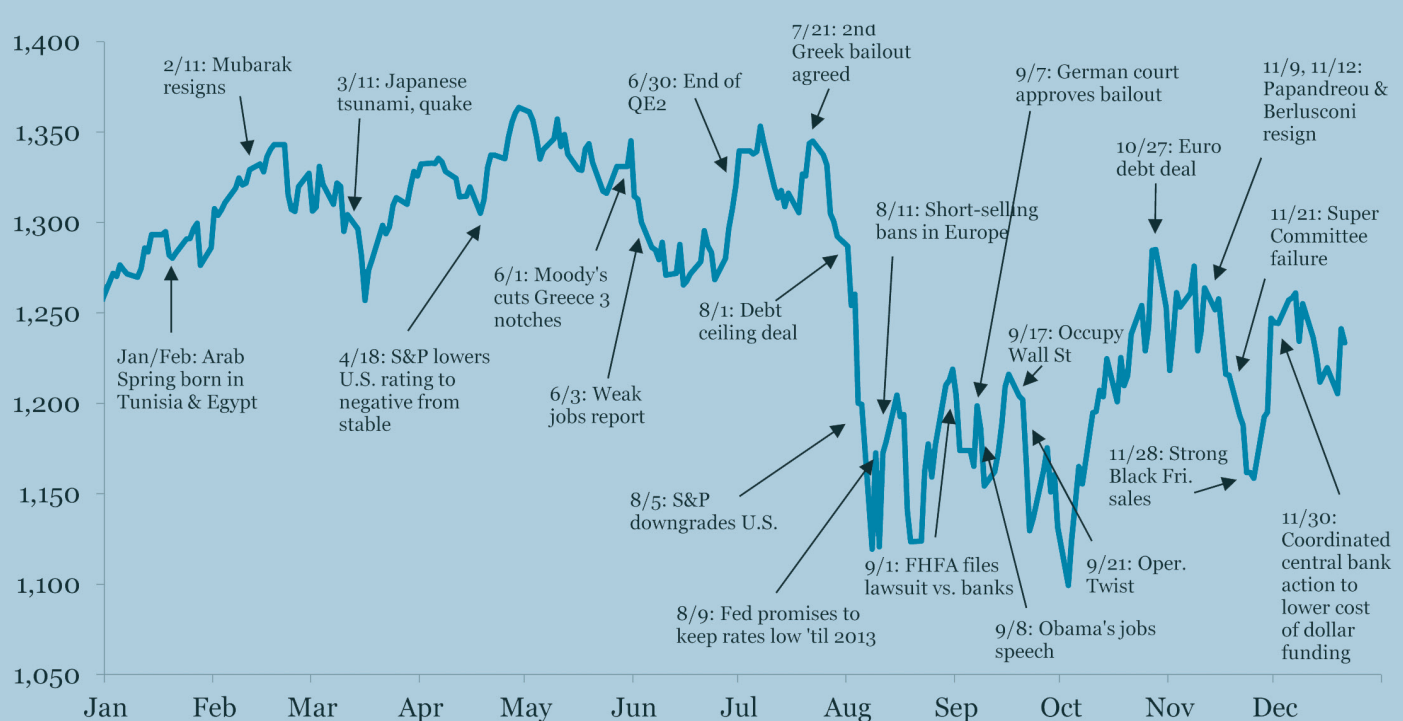
What a year 2011 has been for the financial markets! With all of the volatility and politically driven news-flow, it is hard to believe that we actually ended the year with relatively flat U.S. market performance. Politics should continue to drive markets in 2012 as Europe searches for a solution to its fiscal problems and the U.S. heads into another election cycle. The correlation

between asset classes grew even greater this year, and “risk-on” and “risk-off” were the only true investment themes of 2011.

While markets whip-sawed, the investment team at Spinnaker knew that continued volatility and low interest rates were the only certainties. With that in mind, we decided to boost yield and quality in our investment portfolios. Without

changing our sector and/or asset-class weightings, we nearly doubled the dividend yield of the model. We decreased our exposure to the Euro-zone, European financial companies specifically, and added to our U.S. financials exposure. On a long-term basis, we believe that U.S. financial stocks have been over-sold and will reverse their negative trend. We started and ended the year with over-weights to the U.S. technology and

S & P 500: 2011



Source: Strategas

healthcare sectors as well as a core position in Emerging Markets equities.

Our expectation is that 2012 will be equally volatile as many newsworthy events will come to pass. While we expect that Europe will continue to struggle, we believe that the U.S. market will continue to improve (albeit slowly) and that Emerging Markets will continue to grow and consume.

Europe:

Europe dominated financial headlines in 2011 and is likely to continue to do so in the first half of 2012. The sovereign crisis in the Eurozone is the primary driver of equity market performance. Quite simply, most countries in the Eurozone have too much debt, are growing too slowly and have no mechanism by which to inflate their way out of the situation thanks to a common currency. The most recent European

treaty reinforced a commitment to manageable levels of debt, which means that most countries either have begun or will begin large austerity programs. This simply means that government spending will be cut all around which makes growth difficult to come by. Further, Europe's banks are overleveraged and undercapitalized and will need to sell off assets or raise capital in order to remedy these problems.

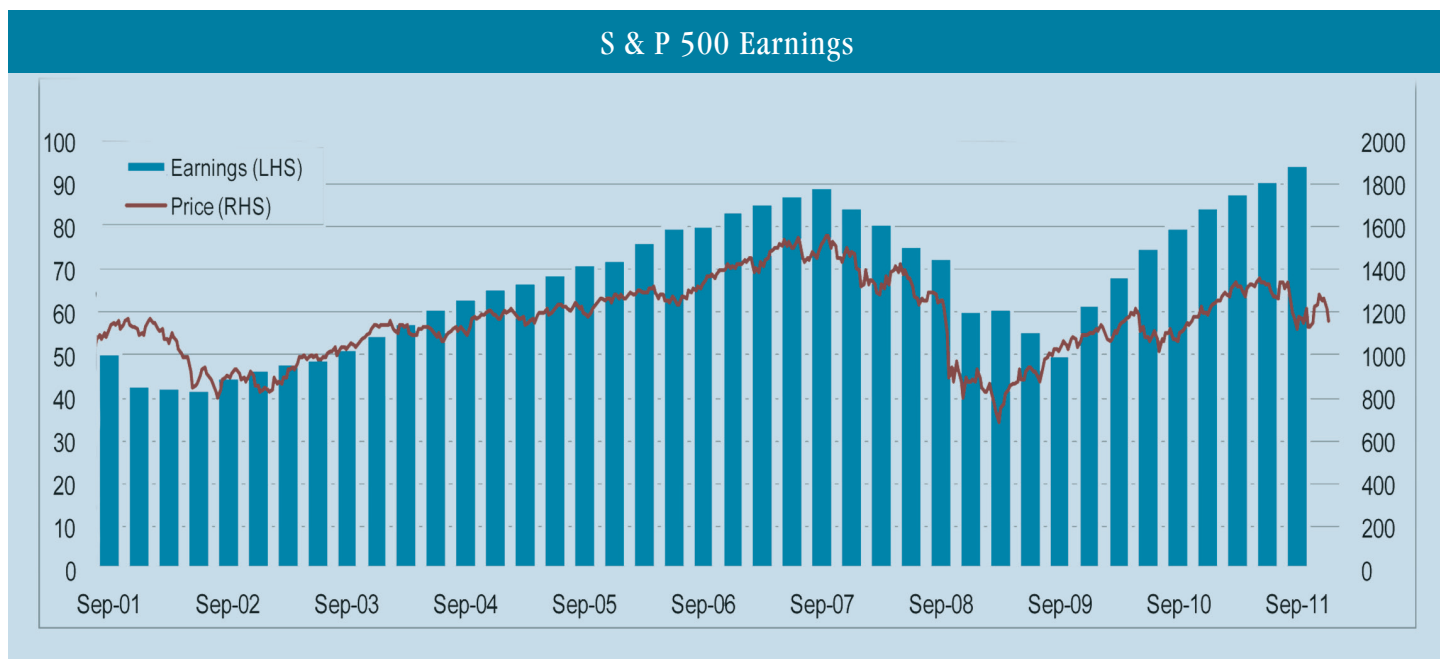
According to the majority of economists, the best case for Europe is a complete fiscal integration (United States of Europe?) and a Federal Reserve-equivalent with the ability to tax, issue bonds and monitor debts. The worst case is a break-up of the Eurozone and a return to the currencies of old. If this were to happen, the new/old currencies would have to devalue by 15%-40% in some cases which would devastate the purchasing power of the people. It is our belief that policymakers know how dramatic this

would be and will try to avoid a break-up at all costs.

United States:

The U.S. is slowly making economic progress. Consumer sentiment is picking up, we've had some good news on housing, the unemployment rate is now down to 8.5% and inflation remains low. On an absolute basis, there is little to cheer about, but we see improvement. We believe that the U.S. will not fall into recession in the next few years. There are still larger and longer-term problems that our nation will have to deal with, namely high deficits, a relatively high unemployment rate and the mass retirement of the baby-boomer generation which will necessitate a restructuring of entitlement programs like Medicare, Medicaid and Social Security.

One positive point to the U.S. story is that corporate earnings are at an all-time high. Having



Spinnaker Model Allocation Year Over Year Change

Spinnaker Model Allocation	12/31/11	12/31/10	Year Over Year Change
US Large Cap	33.6%	31.0%	↑
US Mid Cap	10.7%	13.2%	↓
US Small Cap	8.5%	10.9%	↓
Developed Int'l	11.5%	16.6%	↓
Emerging Int'l	5.5%	4.8%	↑
Bonds	20.6%	14.9%	↑
Alternative	4.0%	3.0%	↑
Cash	5.3%	5.5%	↓

While actual allocations vary from account to account based on individual situations, in general, all accounts had similar allocation shifts over the course of 2011.

been frightened by the financial crisis of 2008, most companies have taken a more conservative balance sheet approach over the last few years. Cash levels and share buy-backs are close to record highs. Labor remains cheap, and raw material input prices (cotton, palm oil for food and soap, etc.) have fallen.

Emerging Markets & China:

The investment committee at Spinnaker continues to believe in the long-term structural story of Emerging Markets and is positioned accordingly. However, we know that most large markets earn a high percentage of their GDP by exporting goods and materials to developed markets like Europe and the U.S. Unlike most developed markets, inflation has been a big problem throughout 2011 for most emerging countries. China and India, in particular, saw very high food inflation in the first half of 2011. As the average citizen of these nations spends 30%-50% of his/her income on food, this was a very big problem. As a result, these countries took steps to rein in

economic growth to curb inflation.

Curbing inflation generally means restricting lending, and small companies have had difficulty getting loans or financing day-to-day operations. The infrastructure build-out has slowed considerably. China is particularly worried about its housing market and is taking steps to drive prices lower in the big cities.

China's housing and infrastructure industries, together, account for 90% of steel demand in the country. Iron ore is the main input to produce steel, and demand for copper is also closely tied to the housing and auto markets. China's balance between inflation and growth in 2012 will have major ramifications for the commodity market and, as a result, the economies of countries like Brazil, Australia and Canada. Everything is connected!

Exchange-Traded Funds:

Money continued to flow into ETFs in 2011 as the investment vehicles become increasingly

mainstream. Low volatility and absolute return funds were popular as global volatility was very high. Dividend and yield-focused funds were also quite popular. Many investors moved into non-U.S. debt via ETFs. Large fund launches in this category include WisdomTree's Emerging Markets and Asian Local Debt Funds. As Vanguard reduced fees on its large products, we saw significant funds flow into their suite of ETFs. Lastly, we observed a great deal of interest in active ETF fund managers. Assets under management in that category grew by 52% relative to 2010.

2011 Tax Reporting Information

Recognizing the modern complexities of income tax reporting, the IRS has stated that filers of Forms 1099 that combine certain Forms 1099 when providing tax information to recipients have until February 15, 2012 to send that combined tax information to the recipients. This extended deadline applies to several types of Forms 1099 which include Form 1099-B, Form 1099-DIV, Form 1099-INT and impacts our tax reporting.

Our goal is to continue to make every effort to provide 1099 Forms to our clients on or around January 31, 2012. Because of the increasing complexities in tax reporting, certain income payers may not be able to provide us with complete tax information until early February. Please be assured that we will mail Forms 1099 as soon as we can and, in any event, no later than February 15, 2012.

MARKET DATA

<i>Index</i>		<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
S&P 500	<i>U.S. Large-Capitalization Stocks</i>	2.1%	15.1%	26.5%	-37.0%
S&P 400	<i>U.S. Mid-Cap Stocks</i>	-1.7%	26.6%	37.4%	-36.2%
S&P 600	<i>U.S. Small-Cap Stocks</i>	1.0%	26.3%	25.6%	-31.1%
Russell 1000	<i>U.S. Large- and Mid-Cap</i>	1.5%	16.1%	28.5%	-37.6%
Russell 1000 Growth	<i>Growth Stocks broken out</i>	2.6%	16.7%	37.2%	-38.4%
Russell 1000 Value	<i>Value Stocks broken out</i>	0.4%	15.5%	19.7%	-36.8%
MSCI EAFE Index	<i>Established International Markets</i>	-11.7%	8.4%	32.2%	-45.1%
MSCI Emerging Markets	<i>Developing International Markets</i>	-18.4%	18.9%	78.5%	-54.4%
		12/31/11	12/31/10	12/31/09	12/31/08
90 day T-Bill	<i>Short-Term Interest Rate</i>	0.02%	0.12%	0.08%	0.08%
10 Year US Treasury Rate	<i>Longer-Term Interest Rate</i>	1.90%	3.4%	3.82%	2.21%
VIX Index	<i>Risk Measurement</i>	22	18	22	40
Corporate Bond Spread	<i>Risk Measurement</i>	203 bps	111 bps	122 bps	570 bps
TIPS Spread	<i>Inflation expectations</i>	202 bps	236 bps	241 bps	17 bps

Erick J. Lahme Joins Spinnaker Trust

Spinnaker Trust welcomes Erick J. Lahme, senior client advisor for the trust company's growing clientele.

Mr. Lahme joins Spinnaker Trust after more than two decades in financial services, most recently as a vice president at U.S. Trust, Bank of America Private Wealth Management in Portland.

"Spinnaker Trust provides a high level of personalized client service, while many large operations do not, preferring instead to automate their customer

interactions through toll-free phone numbers answered in distant locations. Erick's view of successful client service is to maintain local connections and encourage face-to-face communication. He's a perfect match for how we work with our clients," said Sara Lewis, vice president and portfolio manager, Spinnaker Trust.

Mr. Lahme earned his B.A. degree in economics from Framingham State University in Massachusetts in 1985. He serves on the board of trustees for Maine College of Art and is a member of the Maine Estate Planning Council.



Erick J. Lahme

