

Q U A R T E R L Y   R E V I E W



CHRISTIANA

BANK & TRUST

Subsidiary of National Penn



JUNE 30, 2010

SECOND QUARTER

JUNE 30, 2010

The year-old global recovery for stocks came to an abrupt halt in the second quarter as the U.S. economy's growth slowed and sovereign debt worries clobbered Europe. Smaller cap domestic companies lost a little less than large caps while international stocks suffered the most. Bonds benefited from the shift to more defensive investments with U.S. Treasuries leading the way.

The recovery rally came to an end in the second quarter as large cap U.S. stocks (-11.4%) buckled under the weight of slower economic growth, higher volatility and the prospect of more government borrowing and regulation. The latest reading on the economy showed that growth (GDP) had slowed to +2.7% from +5.6% in the previous quarter. Also scaring investors was the significant increase in stock price volatility like the flash crash in early May when the Dow fell 800 points in eight minutes before recovering. Concerns about the growing level of government debt and the impact new energy, finance and health care regulations could have on the economy did not help investor confidence despite better than expected corporate earnings. Diversification by size was little help this time as mid- (-9.6%) and small- (-9.9%) cap stocks suffered nearly as much. Not surprisingly, defensive sectors like utilities (-4.8%) and telecommunications (-5.7%) had more modest losses.

Debt troubles in Europe, a possible economic slowdown in China and a shaky recovery in the U.S. combined to sack international stocks (-14.0%) in the second quarter. Concerns about Greece's weak fiscal condition spread to Ireland, Italy, Portugal and Spain, causing their sovereign debt to tank and yields to soar. This hurt currency and equity prices throughout Europe. China continued to take measures to prevent their economy from overheating and creating inflation but their restraint weighed on the many nations dependent on China for their own economic recovery. Similarly, concerns about the pace of U.S. recovery, the largest economy in the world, negatively affected export dependent international stocks.

Bonds (+3.5%) were a major beneficiary as investors fled stocks for safer havens in the second quarter. After leading the way for the past year, corporate bonds took a back seat to U.S. Treasuries this time due to a flight to quality by investors. The same issues that plagued stocks also cooled investor enthusiasm toward corporate bonds. The strong demand for Treasuries sent the yield on the benchmark 10-year note plummeting from 3.84% to 2.96% during the quarter despite a huge supply of new government debt.

With the unemployment rate still high (9.5%), the housing market feeble and consumer spending sluggish, the strength of this U.S. economic recovery remains in doubt. That has left stocks in negative territory (-6.6%) for the first half of the year despite decent earnings. Hopefully, businesses and Washington will get on the same page about addressing the issues needed to put this recovery back on track. Until there is more evidence that is happening, we remain cautious on the prospects for stocks in the second half of the year.

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## IN THE NEWS



July 5, 2010

### Bulls on the run in shortened week

By Ryan Vlastelica and Angela Moon

One of the few indicators on tap for this week is June same-store sales, which many retailers will report on Thursday, giving insight into the state of consumer spending.

“Consumers are very cautious right now, and we’re not looking for much incremental growth at all,” said **Thomas Nyheim**, portfolio manager at **Christiana Bank & Trust Co.** in Greenville, Delaware.

**Nyheim** added that discount retailers could be among the few sectors to see improved sales as consumers “trade down” to lower-priced merchandise.



June 21, 2010

### Stocks end lower

By Alexandra Twin

Stocks rallied in the morning, trimmed some gains in the early afternoon, and then slipped through the close.

“We were up over 100 this morning [on the Dow] on the China news, but again we’re seeing the pattern that the trend reverses in the last hour or so,” said **Scott Armiger**, portfolio manager at **Christiana Bank & Trust Company**. “The rallies don’t hold, and the declines manage to recover.”

**He** said this trend reflects the increased volatility that’s been in markets lately but also the fact that stocks are pretty fairly valued at this point, relative to earnings expectations.



June 11, 2010

### US Stocks Pare Losses; Rebound Led By Health-Care Stocks

By Kristina Peterson and Donna Kardos Yesalavich

Excluding auto and gas sales, retail sales slipped 0.8%, the largest drop since 1.0% in March 2009. Building material and garden-supply store sales registered the largest decline of all the major sales categories, plunging 9.3%. The decrease follows a 8.4% increase in April.

“Over the last month we seem to be pausing in consumption and spending,” said **Thomas Nyheim**, portfolio manager at **Christiana Bank and Trust**. “We might be waiting six more months for any type (of recovery),” he said.



May 18, 2010

### Stocks: Finding Havens Amid Rising Volatility

By Ben Steverman

Dividends are valuable at a time when so many other investments—from money-market funds to bonds—pay tiny yields. “You’re better off buying a stable equity name and getting paid in the dividend,” says **Thomas Nyheim**, portfolio manager at **Christiana Bank & Trust**.

Portfolio managers say there is one more reason defensive stocks may return to popularity: They’re cheap.

During the past year’s rally, many large-cap companies with defensive characteristics fell behind the rest of the stock market even as their profits bounced back. As a result, the stocks look inexpensive on gauges like price-earnings ratio. “Multiples on [defensive stocks] have contracted pretty dramatically,” **Nyheim** says.

To view more quotes by our investment team, please visit the “In the Media” page on our Web site.

# LARGE-CAP GARP EQUITY COMPOSITE

JUNE 30, 2010

## INVESTMENT STYLE

### GROWTH AT A REASONABLE PRICE

The primary objective of the Large-Cap GARP Equity style is growth of principal. This style's goal is to identify companies that have demonstrated superior operating characteristics and long-term prospects. We strive to purchase them at a fair price. These companies will generally have a market capitalization in excess of \$5 Billion. Sector weightings may differ significantly from the S&P 500 Index. Individual issues are identified and selected using quantitative proprietary screens with growth and value factors and fundamental research.

## PORTFOLIO CONSTRUCTION

Portfolios will generally contain 30 to 45 issues. A portfolio's dividend yield will generally be slightly lower than the S&P 500 Index. Turnover is moderate. Over a full market cycle, a portfolio would be expected to demonstrate controlled volatility, a higher ROE, and a moderately higher P/E ratio than the benchmark S&P 500 Index.

## PORTFOLIO CHARACTERISTICS

|                                    | <u>Composite</u> | <u>S&amp;P 500</u> |
|------------------------------------|------------------|--------------------|
| Price/Earnings                     | 16.47            | 15.58              |
| Price/Book                         | 2.92             | 2.04               |
| Price/Sales                        | 1.57             | 1.17               |
| Beta                               | 0.93             | 1.00               |
| Yield                              | 1.68%            | 2.04%              |
| *EPS Growth                        | 12.13%           | 6.00%              |
| Median Market Cap.<br>(\$Millions) | \$34,430.54      |                    |
| Turnover                           | 25-40%           |                    |
| Composite ROE                      | 21.52%           |                    |

\*5-Year Growth Estimate

## SECTOR WEIGHTINGS

|                        |       |
|------------------------|-------|
| Basic Materials        | 3.8%  |
| Industrials            | 14.7% |
| Telecommunications     | 1.7%  |
| Consumer Discretionary | 9.5%  |
| Utilities              | 1.1%  |
| Financial              | 7.9%  |
| Consumer Staples       | 15.6% |
| Energy                 | 10.5% |
| Health Care            | 9.8%  |
| Technology             | 25.5% |

## TOP 10 EQUITY HOLDINGS

|                          |      |
|--------------------------|------|
| Thermo Fisher Scientific | 4.5% |
| Nike Inc                 | 4.4% |
| Procter & Gamble         | 4.1% |
| Exxon Mobil Corp.        | 4.0% |
| Precision Castparts Corp | 3.8% |
| Johnson & Johnson        | 3.6% |
| Pepsico Inc.             | 3.3% |
| Walt Disney Co           | 3.2% |
| Colgate-Palmolive Co     | 3.0% |
| Altera Corp              | 3.0% |

## PERFORMANCE

|              | <u>CBT</u>   | <u>LCC**</u>  | <u>S&amp;P 500</u> |
|--------------|--------------|---------------|--------------------|
| 1999         | 34.21%       | 22.35%        | 21.04%             |
| 2000         | 1.71%        | -8.96%        | -9.09%             |
| 2001         | -12.05%      | -13.76%       | -11.88%            |
| 2002         | -23.87%      | -23.49%       | -22.10%            |
| 2003         | 25.76%       | 25.59%        | 28.68%             |
| 2004         | 8.71%        | 7.79%         | 10.88%             |
| 2005         | 4.95%        | 4.85%         | 4.91%              |
| 2006         | 6.88%        | 13.50%        | 15.80%             |
| 2007         | 8.21%        | 5.80%         | 5.49%              |
| 2008         | -32.28%      | -37.23%       | -37.00%            |
| 2009         | 20.88%       | 27.14%        | 26.46%             |
| 2010 (6 Mo.) | -5.53%       | -8.00%        | -6.65%             |
| <b>ITD*</b>  | <b>1.40%</b> | <b>-0.73%</b> | <b>0.23%</b>       |

\*Inception to date (1999) annualized

\*\*Large-Cap Core equity mutual fund average from Lipper

|                                      |                  |  |
|--------------------------------------|------------------|--|
| NOT A DEPOSIT                        | NOT FDIC INSURED | MAY LOSE VALUE                               |
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# LARGE-CAP GARP EQUITY COMPOSITE

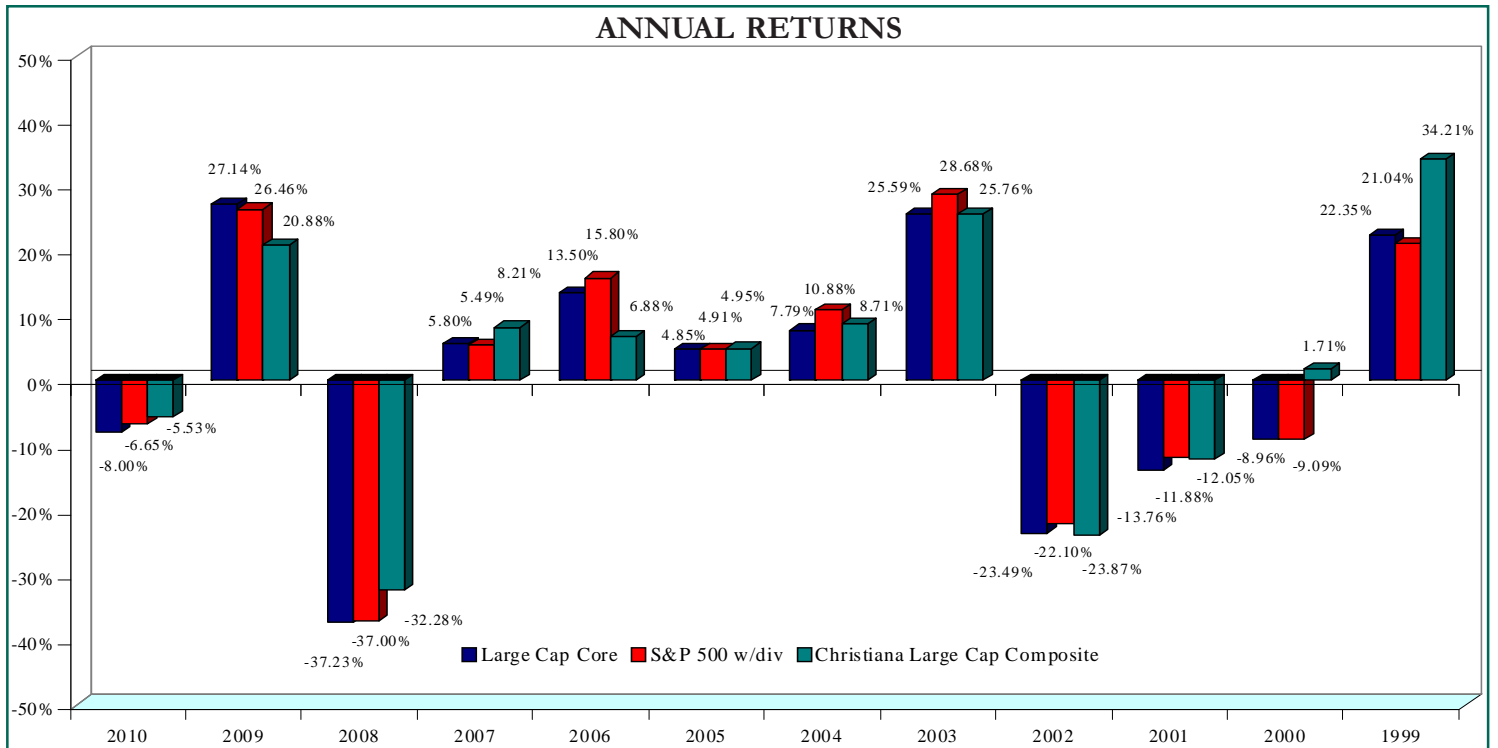
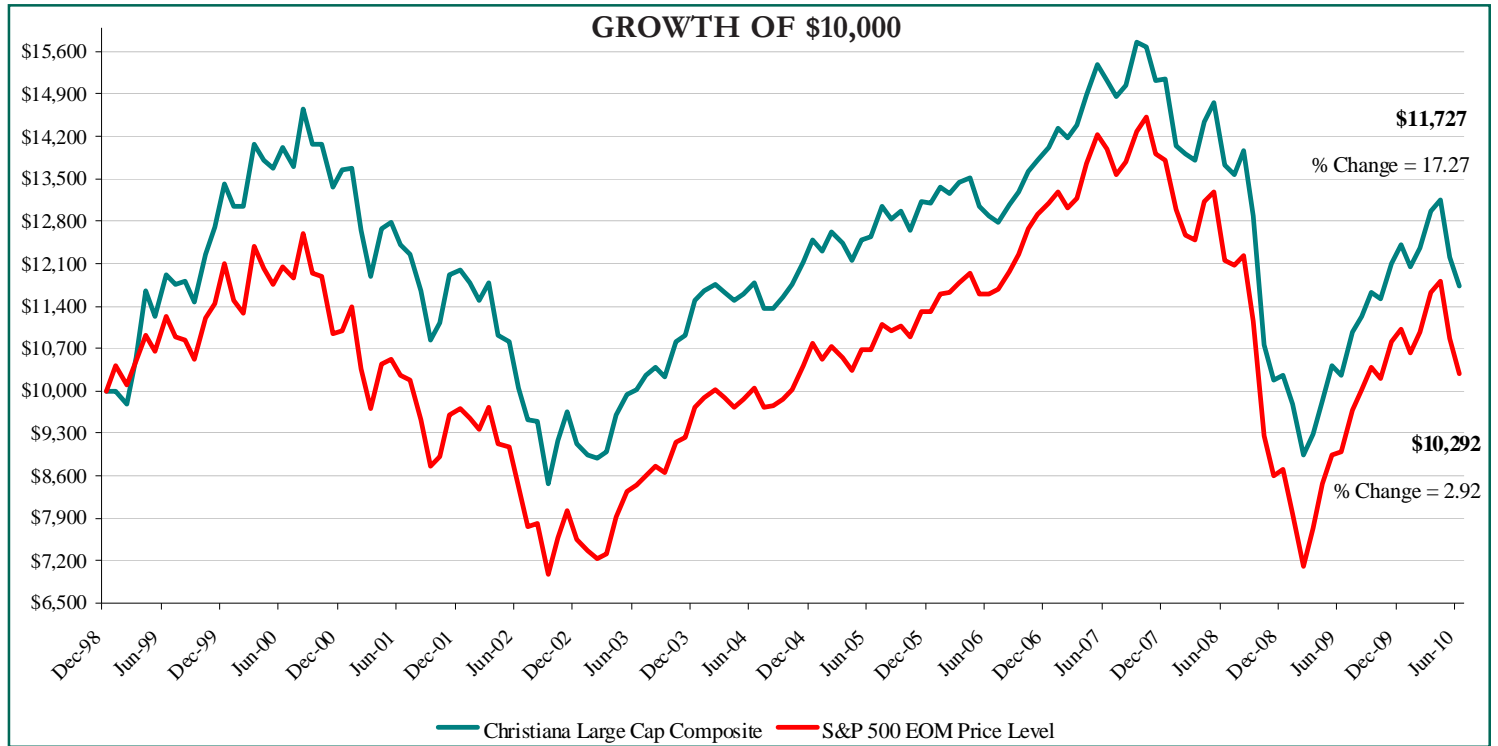
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Large-Cap Equity composite returns represent a dollar weighted composite of all equity accounts where Christiana Bank & Trust Company has full investment discretion. Performance does not reflect the deduction of investment management fees. Leverage is not used in this composite. Composite returns reflect the reinvestment of interest, dividends and capital gains. Past performance is neither a guarantee nor a prediction of future results. The source of returns for the large-cap core equity mutual fund average is Lipper.

JUNE 30, 2010

**INVESTMENT STYLE**

**INTERMEDIATE FIXED INCOME**

The primary objective of the Intermediate Fixed Income style is to generate current income consistent with managing portfolio volatility. The principal characteristic of the process is a quest for value. The process invests by looking at historical spreads as they apply to particular issues as well as relevant trends on a comparative basis.

**PORTFOLIO CONSTRUCTION**

Portfolios utilize investment grade and highly liquid issues. All fixed income market sectors are reviewed. Maturities are spread across the yield curve. High quality, liquid issues are actively managed with the objective of identifying the best relative values. Credit and yield spread analysis is the basis for portfolio construction.

**PORTFOLIO CHARACTERISTICS**

|                          | <u>Composite</u> |
|--------------------------|------------------|
| Average Maturity (years) | 1.6              |
| Yield to Worst           | 2.2%             |
| Yield to Maturity        | 4.3%             |
| Duration (years)         | 1.1              |
| Current Number of Issues | 30               |
| Duration Emphasis        | Intermediate     |
| Turnover                 | 20%              |
| Current Term Structure   | Ladder           |

**QUALITY ALLOCATIONS**

|                                       |       |
|---------------------------------------|-------|
| AAA/Aaa:                              | 12.6% |
| AA/Aa:                                | 3.4%  |
| A:                                    | 14.0% |
| BBB/Baa:                              | 8.6%  |
| BB/Ba:                                | 4.9%  |
| B:                                    | 0.0%  |
| FDIC Insured Certificates of Deposit: | 57.4% |

|                        |    |
|------------------------|----|
| Average Quality Issue: | A  |
| Minimum Quality Issue: | BB |

**SECTOR ALLOCATIONS**

|                           |       |
|---------------------------|-------|
| US Govts/Agencies:        | 12.5% |
| US Inv. Grade Corporates: | 25.2% |
| US High Yield Corporates: | 4.9%  |
| US MBS/ABS:               | 0.0%  |
| Certificates of Deposit:  | 57.4% |
| Mortgage Pass Thrus/TBA:  | 0.0%  |
| Municipals:               | 0.0%  |
| Yankees:                  | 0.0%  |
| Emerging Market Debt:     | 0.0%  |

**PERFORMANCE**

|               | <u>CBT</u>   | <u>IB*</u>   | <u>B**</u>   |
|---------------|--------------|--------------|--------------|
| 1999          | -4.41%       | -1.32%       | 0.39%        |
| 2000          | 12.50%       | 9.74%        | 10.10%       |
| 2001          | 8.76%        | 7.57%        | 8.98%        |
| 2002          | 10.05%       | 8.14%        | 9.82%        |
| 2003          | 5.51%        | 4.55%        | 4.30%        |
| 2004          | 2.93%        | 3.83%        | 3.04%        |
| 2005          | 1.95%        | 1.77%        | 1.57%        |
| 2006          | 4.72%        | 4.00%        | 4.07%        |
| 2007          | 5.01%        | 4.70%        | 7.40%        |
| 2008          | 3.11%        | -4.43%       | 5.08%        |
| 2009          | 4.63%        | 12.89%       | 5.25%        |
| 2010 (6 Mo.)  | 3.32%        | 5.40%        | 4.56%        |
| <b>ITD***</b> | <b>4.97%</b> | <b>4.85%</b> | <b>5.58%</b> |

\*Intermediate Bond mutual fund average from Lipper

\*\*Barclays Intermediate Government/Credit Index

\*\*\*Inception to date (1999) annualized

|                                      |                  |  |
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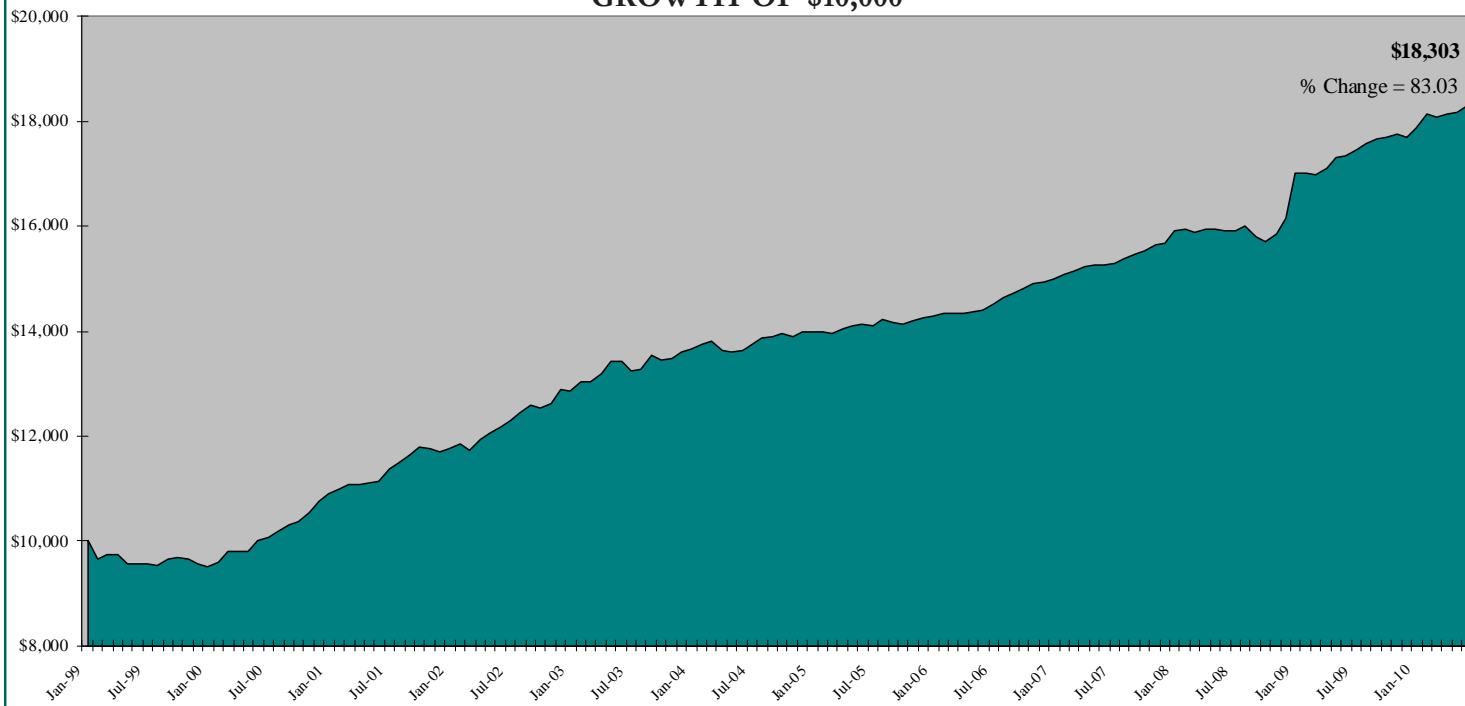
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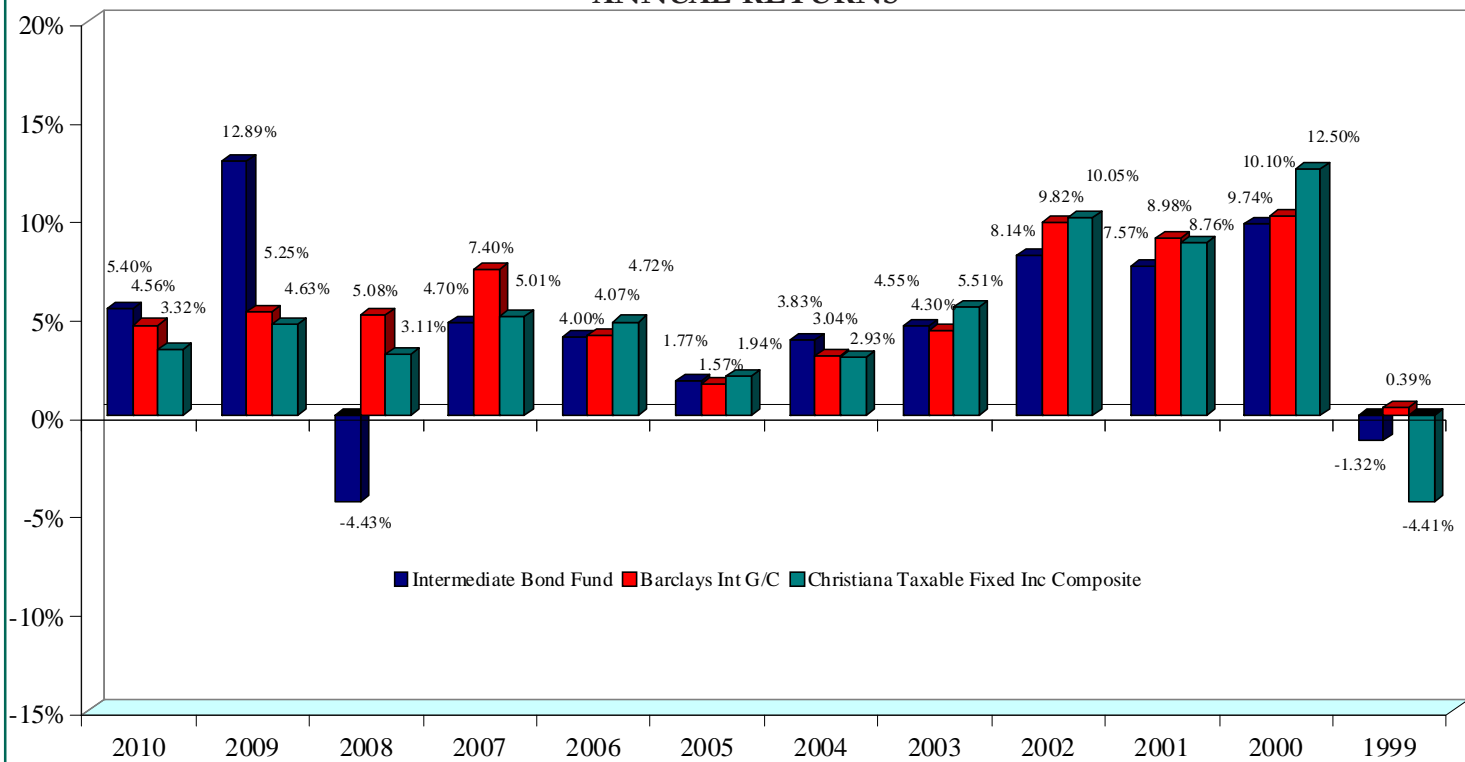
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# FIXED INCOME COMPOSITE

### GROWTH OF \$10,000



### ANNUAL RETURNS



Intermediate Fixed Income composite returns represent a dollar weighted composite of all fixed income accounts where Christiana Bank & Trust Company has full investment discretion. Performance does not reflect the deduction of investment management fees. Leverage is not used in this composite. Composite returns reflect the reinvestment of interest and capital gains. Past performance is neither a guarantee nor a prediction of future results. The source of returns for the intermediate bond mutual fund average is Lipper.



JUNE 30, 2010

**INVESTMENT STYLE**  
INTERMEDIATE FIXED INCOME

The primary objective of the Intermediate Tax-Exempt Municipal Bond style is to generate current income consistent with managing portfolio volatility. The principal characteristic of the process is a quest for value. The process invests by looking at historical spreads as they apply to particular issues as well as relevant trends on a comparative basis.

**PORTFOLIO CONSTRUCTION**

Portfolios utilize primarily tax-exempt municipal bonds based on client's tax considerations. The composite seeks a high level of income that is exempt from both federal and state income taxes. Maturities are spread across the yield curve. High quality, liquid issues are actively managed with the objective of identifying the best relative values. Credit and yield spread analysis is the basis for portfolio construction.

**PORTFOLIO CHARACTERISTICS**

|                          | <u>Composite</u> |
|--------------------------|------------------|
| Average Maturity (years) | 2.6              |
| Yield to Worst           | 1.0%             |
| Yield to Maturity        | 4.0%             |
| Duration (years)         | 2.4              |
| Current Number of Issues | 156              |
| Duration Emphasis        | Intermediate     |
| Turnover                 | 20%              |
| Current Term Structure   | Ladder           |

**QUALITY ALLOCATIONS**

|                                       |       |
|---------------------------------------|-------|
| AAA/Aaa:                              | 52.9% |
| AA/Aa:                                | 32.8% |
| A:                                    | 7.0%  |
| BBB/Baa:                              | 6.3%  |
| BB/Ba:                                | 0.3%  |
| B:                                    | 0.0%  |
| FDIC Insured Certificates of Deposit: | 0.7%  |

|                        |    |
|------------------------|----|
| Average Quality Issue: | AA |
| Minimum Quality Issue: | BB |

**SECTOR ALLOCATIONS**

|                           |       |
|---------------------------|-------|
| Municipals:               | 98.7% |
| US Govts/Agencies:        | 0.3%  |
| Certificates of Deposit:  | 0.7%  |
| US Inv. Grade Corporates: | 0.3%  |
| US High Yield Corporates: | 0.0%  |
| US MBS/ABS:               | 0.0%  |
| Mortgage Pass Thrus/TBA:  | 0.0%  |
| Yankees:                  | 0.0%  |
| Emerging Market Debt:     | 0.0%  |

**PERFORMANCE**

|               | <u>CBT</u>   | <u>IMB*</u>  | <u>B*</u>    |
|---------------|--------------|--------------|--------------|
| 1999 (8 Mo.)  | -3.72%       | -2.17%       | -0.60%       |
| 2000          | 13.47%       | 8.68%        | 7.70%        |
| 2001          | 3.56%        | 4.79%        | 6.20%        |
| 2002          | 10.53%       | 8.34%        | 9.26%        |
| 2003          | 3.51%        | 4.35%        | 4.13%        |
| 2004          | 2.13%        | 2.85%        | 2.71%        |
| 2005          | 1.80%        | 2.01%        | 0.95%        |
| 2006          | 3.34%        | 3.87%        | 3.34%        |
| 2007          | 4.29%        | 2.90%        | 5.13%        |
| 2008          | 2.91%        | -1.79%       | 5.79%        |
| 2009          | 4.20%        | 9.90%        | 7.41%        |
| 2010 (6 Mo.)  | 1.85%        | 2.60%        | 2.46%        |
| <b>ITD***</b> | <b>4.21%</b> | <b>4.09%</b> | <b>4.85%</b> |

\*Intermediate Muni Bond mutual fund average from Lipper

\*Barclays 5-Yr Muni Bond

\*\*\*Inception to date (May 1999) annualized

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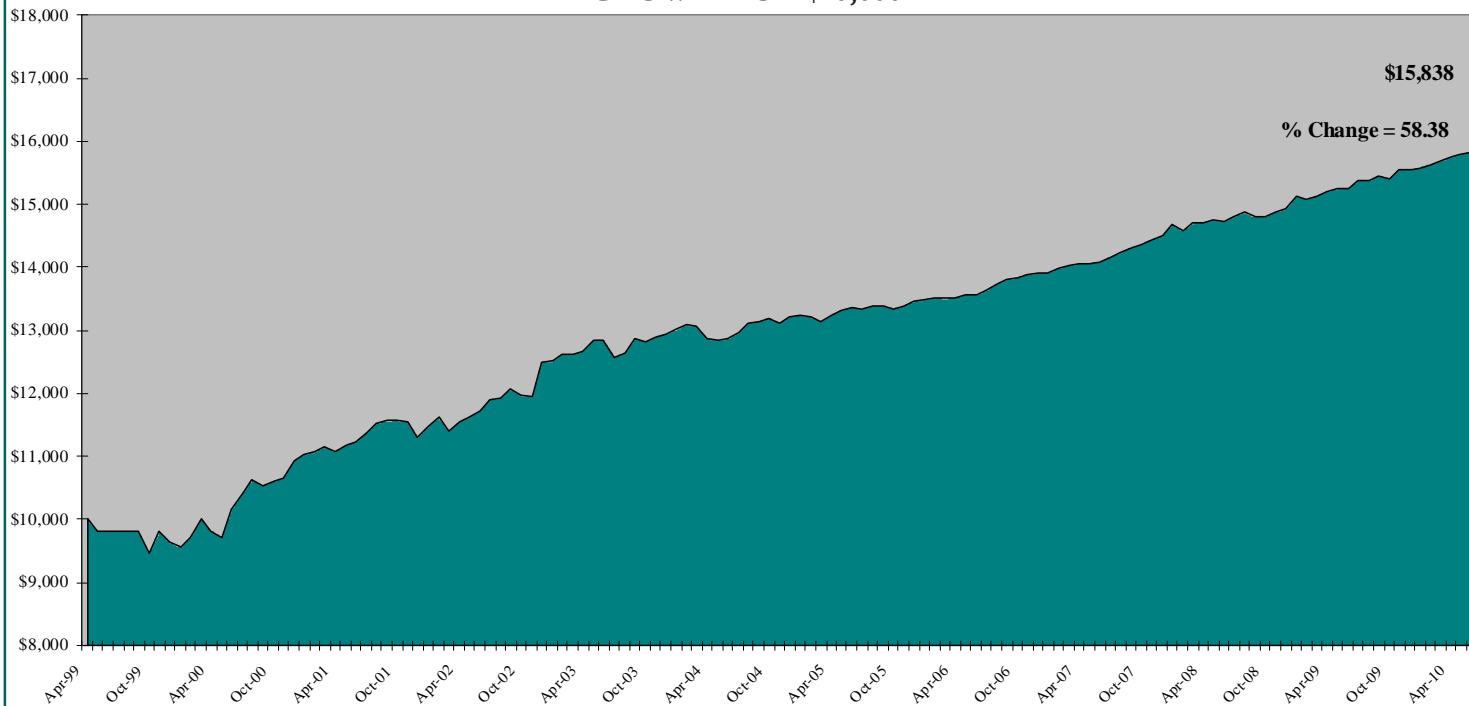
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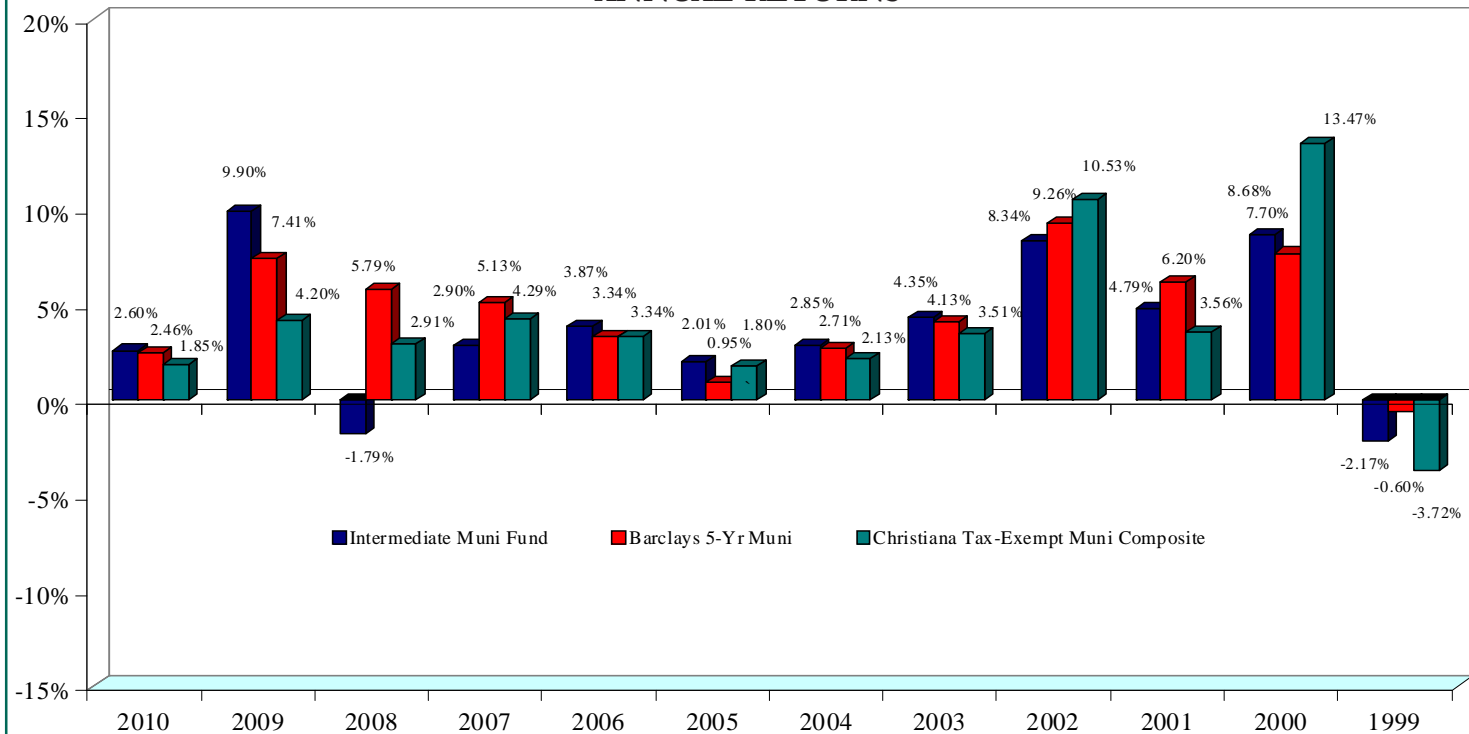
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# TAX-EXEMPT MUNICIPAL COMPOSITE

GROWTH OF \$10,000



ANNUAL RETURNS



Intermediate Tax-Exempt Municipal composite returns represent a dollar weighted composite of all fixed income accounts where Christiana Bank & Trust Company has full investment discretion. Performance does not reflect the deduction of investment management fees. Leverage is not used in this composite. Composite returns reflect the reinvestment of interest and capital gains. Past performance is neither a guarantee nor a prediction of future results. The source of returns for the intermediate muni bond mutual fund average is Lipper.



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