

Q U A R T E R L Y R E V I E W



CHRISTIANATrust

A DIVISION OF WSFS BANK



SEPTEMBER 30, 2011

FINANCIAL MARKETS REVIEW

THIRD QUARTER

SEPTEMBER 30, 2011

The third quarter of the calendar year, historically the worst for stock performance, was no exception in 2011 as the U.S. stock market experienced its worst quarterly performance since 2008. A weakening world economy, coupled with the Euro zone debt crisis, inflicted fear into the markets, causing worldwide volatility and panic. International stocks plunged too as investors piled into U.S. Treasuries for safety, enabling bonds to post their best performance in nearly three years.

Large cap U.S. stocks (-13.9%) plummeted during the period as investor sentiment swung to pessimism on weakness in global economies and European debt fears. Starting with their initial decline in May (-1.1%), U.S. large cap stocks experienced increasing declines in June (-1.7%), July (-2.0%), August (-5.4%) and September (-7.0%) to end the quarter down -8.7% year-to-date, a far cry from the +9.1% year-to-date return these same stocks had achieved at April's end.

Investors endured extreme volatility as the Dow Jones Industrial Average (-11.5%) rose or fell by more than 1% on two-thirds of the trading sessions in August and September. Mid (-19.9%) and small cap (-21.9%) stocks were hit much harder than their large cap counterparts, typical behavior for smaller companies as they tend to underperform blue-chip stocks during a market downturn. Utilities, labeled as one of the most defensive sectors, turned in the only positive performance with a small gain of +0.4%. Plunging commodity prices caused both the basic materials (-25.0%) and energy (-20.9%) sectors to bear the brunt of the quarterly losses while debt issues both here and abroad sunk financials (-23.1%) during the period.

Slowing economic growth in both emerging and developed economies, coupled with fears of a financial contagion in Europe, caused even broader losses in international markets. Stocks from both developed economies (-19.0%) and emerging markets (-22.6%) continued to be plagued by the possibility of a Greek default during a time when their economies are sputtering. Influential global markets suffering losses included Germany (-30.9%), France (-30.0%) and China (-26.1%), whose developing economy is beginning to lose steam after experiencing years of double-digit growth.

Bonds (+3.8%) rallied during the period as worries about the global economy sent investors scurrying for safety. Despite the U.S. being stripped of its coveted triple-A credit rating, intense demand for U.S. Treasuries sent yields plummeting to levels not seen since the 1940s. The benchmark 10-year note saw its yield plunge to 1.71% before settling at a paltry 1.93% by quarter-end. Municipal bonds (+3.8%) continued their impressive rally as the presumed safety of these instruments improved and investors sought after the limited supply of these tax-exempt fixed-income securities.

Stocks head into the final stretch of 2011 facing the same headwinds that hurt them in the third quarter. As investors prepare for a slowing global economy, rising prices and a possible catastrophe in Europe, any news that the U.S. can avert a double-dip recession and the Euro zone can patch its debt crisis may ease the volatility and return normalcy to the global stock market. Given the most optimistic scenarios, we are still saddled with stubbornly high unemployment, sputtering economic growth here and abroad, increasing food and energy costs and a housing market still searching for a bottom. The fourth quarter has historically been the strongest of the four with the S&P 500 Index averaging a gain of +4.6% over the past 20 years. Although we hope to see history on our side, we continue to employ a moderately defensive position allowing us to remain cautious but also primed to participate should a fourth quarter stock market rally materialize.

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IN THE NEWS



October 4, 2011

Buy Side Sees Unintended Consequences

“(Operation Twist) is better because it’s not new debt; it doesn’t increase the Fed’s balance sheet,” said **Scott Armiger**, portfolio manager at **Christiana Trust**, a division of **WSFS Bank** in Delaware.

Although **Armiger** is much more positive about Operation Twist—unlike quantitative easing which “sent interest rates up, and spiked commodity prices”—he does not feel the initiative will stimulate the economy in the long run.

“Interest rates are not the problem, it’s getting approved for a loan,” **Armiger** told Markets Media—noting the tough lending market, an unintended consequence of the 2008 credit crisis that resulted from sub-prime lending.

“Back then, people could buy homes with no money down, and no documentation,” he commented. History, for **Armiger**, is the reason behind the stiff lending environment, which may be stunting the growth of the U.S. recovery.

Despite an increasingly volatile and growing bear market, there are pockets of investment hope. For **Armiger**, some financial companies have bright futures, despite bearish sentiment about the sector.

Armiger’s team assembles their large-cap U.S. equity portfolio from a fundamental bottom-up approach based on company data, but starts off by a top-down sector approach.

Critics of the traditional buy and hold method stem from recent fearful investor sentiment, and convincing investors to stay with their holdings for the long haul may be difficult. Investor unease is not a concern for **Armiger**.

“We have a twelve year track record, and our clients are more concerned about wealth preservation—they’re made their money. The current volatile state of play is most relevant “if you’re new,” he said.

Bloomberg

September 1, 2011

Stocks Rise After Upbeat Manufacturing Report

By Rita Nazareth

“Every time you get some positive data for the economy, people think the Fed will take the possibility of a QE3 off of the table,” **Thomas Nyheim**, a Greenville, Delaware-based money manager for **Christiana Trust**, which oversees \$7.5 billion, said in a telephone interview about a third round of so-called quantitative easing from the central bank. “We may not like it, but we’ll probably need to get used to slower growth.”



July 25, 2011

Financials drop on lack of debt deal

Many investors had expected a deal to be brokered over the weekend, and the lack of an agreement fueled rising uncertainty over the prospects of an arrangement being reached soon as a divided U.S. Congress pursued rival budget plans that appeared unlikely to win broad support. However, a default is still seen as unlikely.

“A lot of this is just political theater, but the risk of credit downgrade is very real even if the debt ceiling is raised,” said **Scott Armiger**, portfolio manager at **Christiana Trust** in Greenville, Delaware.

“That would be a very big negative for equities, and financials in particular as holders of Treasuries. There might not be enough supply of AAA-rated securities for them to go to in the event of a downgrade.

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

www.christianatrust.com

LARGE-CAP GARP EQUITY COMPOSITE

SEPTEMBER 30, 2011

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&P 500</u>
Price/Earnings	13.14	13.00
Price/Book	2.22	1.94
Price/Sales	1.25	1.19
Beta	1.02	1.00
Yield	1.76%	2.18%
*EPS Growth	11.70%	6.00%
Median Market Cap. (\$Millions)	\$44,313450	
Turnover	25-40%	
Composite ROE	29.33%	

*5-Year Growth Estimate

SECTOR WEIGHTINGS

Basic Materials	4.1%
Industrials	13.0%
Telecommunications	1.5%
Consumer Discretionary	6.6%
Utilities	1.3%
Financial	10.1%
Consumer Staples	12.8%
Energy	11.3%
Health Care	13.0%
Technology	19.3%
Cash Equivalents	5.1%

TOP 10 EQUITY HOLDINGS

Procter & Gamble	4.1%
Thermo Fisher Scientific	3.9%
Oracle Corp.	3.5%
United Technologies Corp.	3.1%
Colgate-Palmolive Co.	3.0%
Danaher Corp.	3.0%
Ball Corp.	2.9%
Wal-Mart Stores Inc.	2.9%
Walt Disney Co.	2.8%
EMC Corp.	2.8%

PERFORMANCE

	<u>CT</u>	<u>LCC**</u>	<u>S&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	12.81%	12.90%	15.06%
2011 (9 Mo.)	-9.02%	-10.60%	-8.68%
ITD*	1.92%	0.07%	1.14%

*Inception to date (1999) annualized

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

Investment products:

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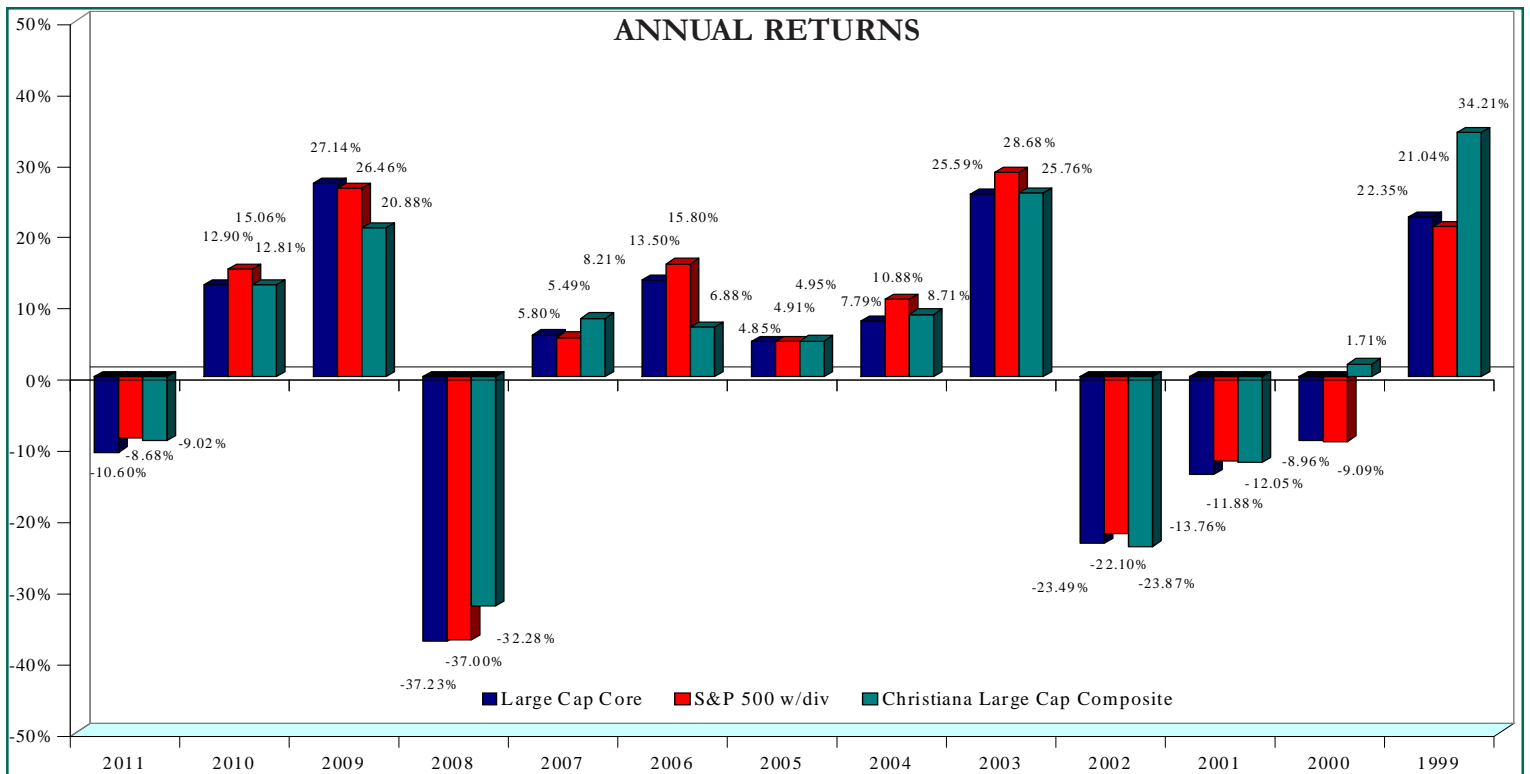
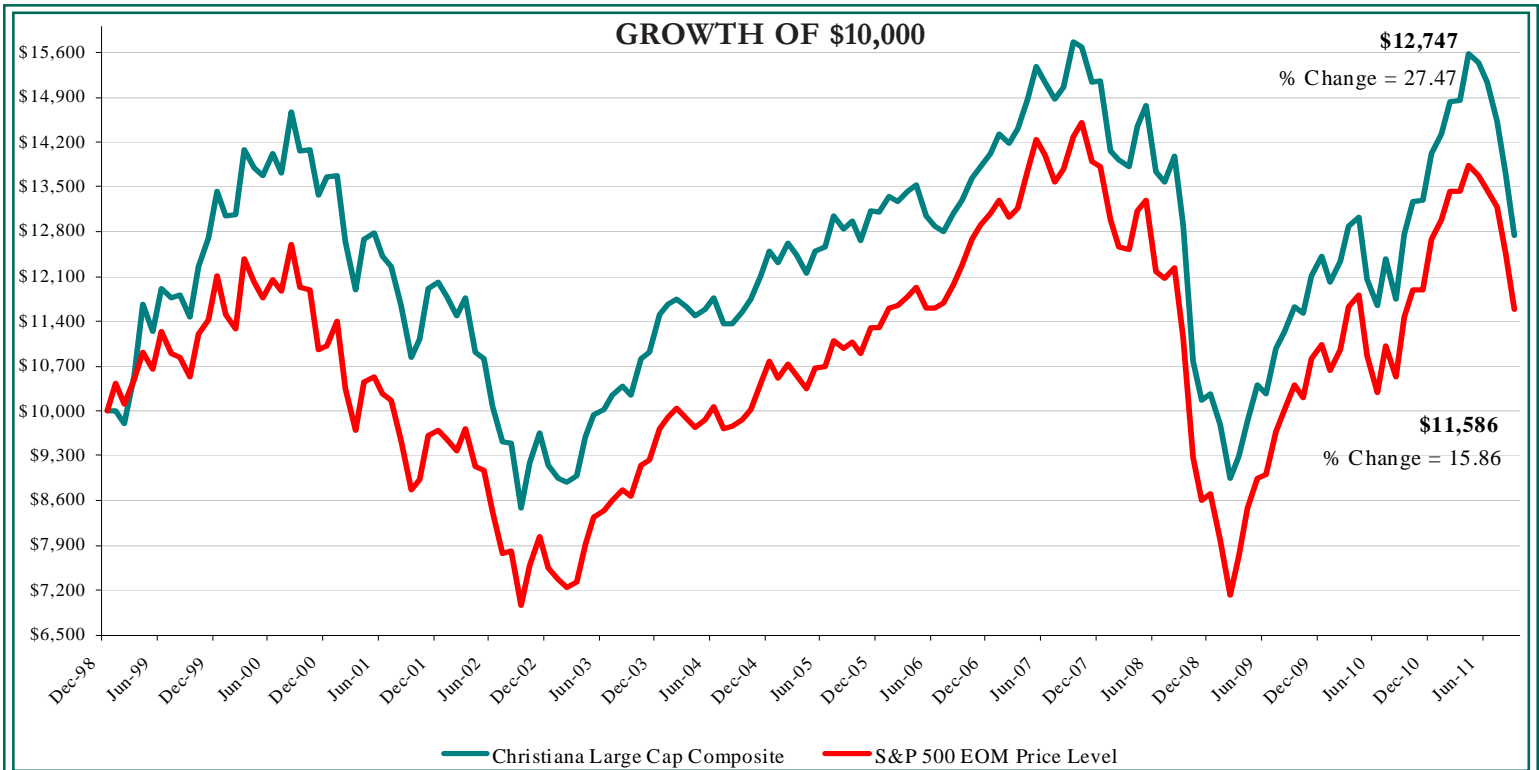
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LARGE-CAP GARP EQUITY COMPOSITE

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Large-Cap Equity composite returns represent a dollar weighted composite of all equity accounts where Christiana Trust 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.

SEPTEMBER 30, 2011

INVESTMENT STYLE

The primary objective of the 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)	1.1
Yield to Worst	2.2%
Yield to Maturity	4.3%
Duration (years)	1.0
Current Number of Issues	92
Duration Emphasis	Intermediate
Turnover	20%
Current Term Structure	Ladder
Average Quality Issue:	BBB+
Minimum Quality Issue:	BBB-

QUALITY ALLOCATIONS

AAA/Aaa:	2.4%
AA/Aa:	11.8%
A:	23.9%
BBB/Baa:	42.5%
BB/Ba:	0.0%
B:	0.0%
FDIC Insured Certificates of Deposit:	15.8%
Not Rated	0.0%
Cash Equivalents	3.6%

SECTOR ALLOCATIONS

US Govts/Agencies:	0.0%
US Inv. Grade Corporates:	80.6%
US High Yield Corporates:	0.0%
US MBS/ABS:	0.0%
Certificates of Deposit:	15.8%
Mortgage Pass Thrus/TBA:	0.0%
Municipals:	0.0%
Emerging Market Debt:	0.0%
Cash Equivalents	3.6%

PERFORMANCE

	<u>CT</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	5.17%	7.70%	5.89%
2011 (9 Mo.)	2.32%	1.40%	4.92%
ITD***	4.81%	4.65%	5.52%

*Intermediate Bond mutual fund average from Lipper
**Barclays Intermediate Government/Credit Index
***Inception to date (1999) annualized

Investment products:

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FIXED INCOME COMPOSITE

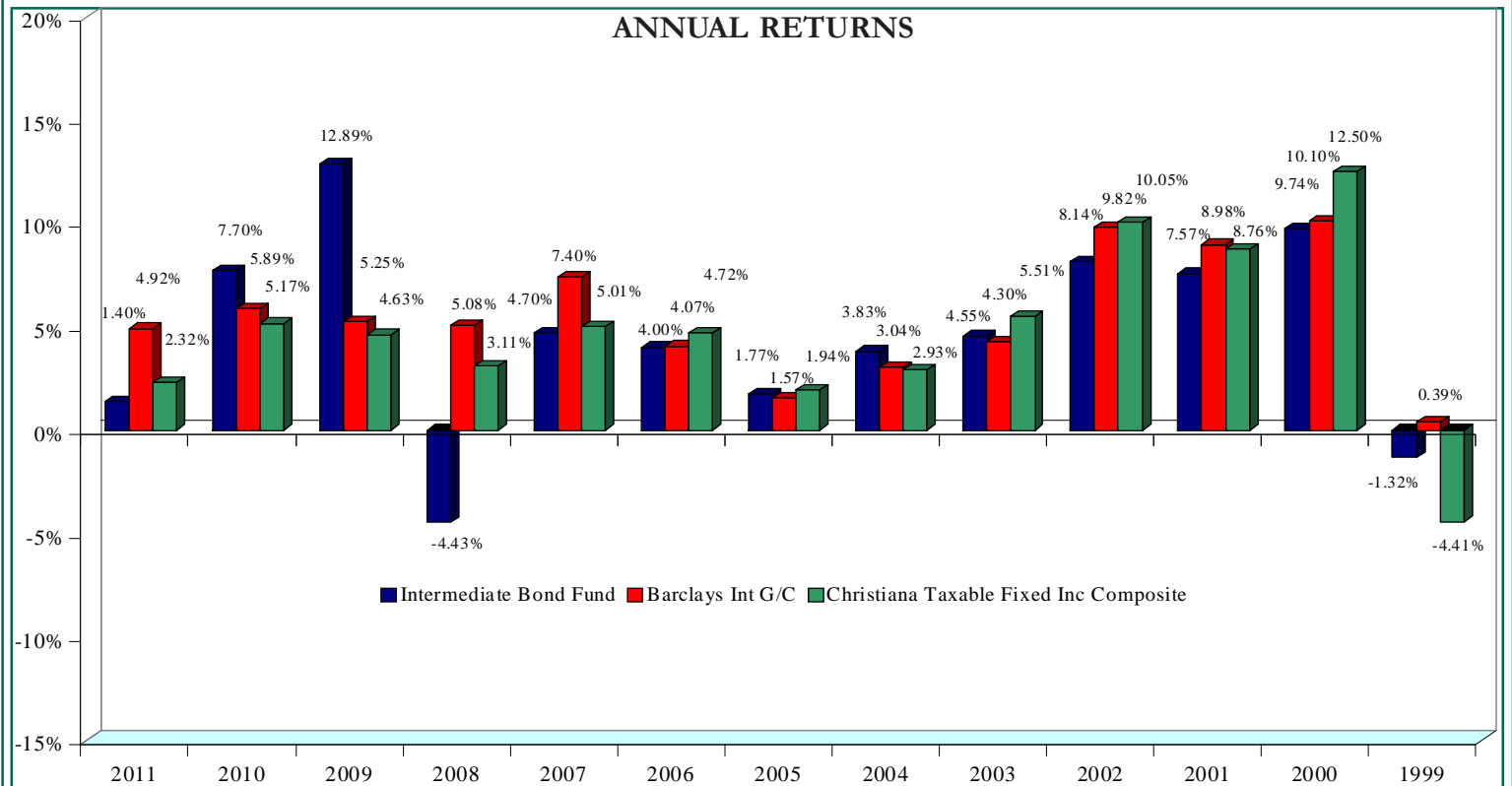
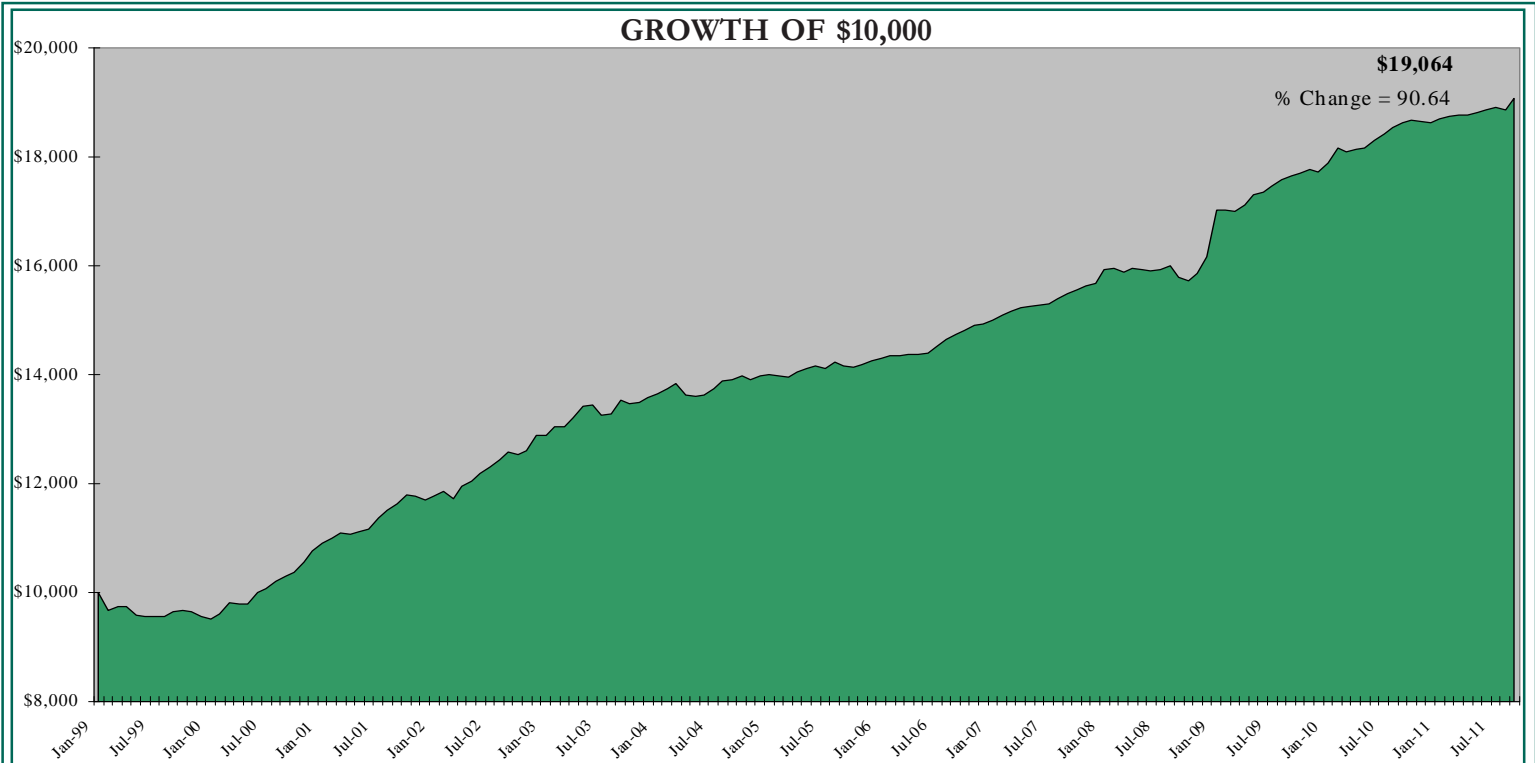
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Intermediate Fixed Income composite returns represent a dollar weighted composite of all fixed income accounts where Christiana Trust has full investment discretion. Performance does not reflect the deduction of investment management fees. Leverage 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.

SEPTEMBER 30, 2011

INVESTMENT STYLE

The primary objective of the 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)	2.5
Yield to Worst	0.98%
Yield to Maturity	4.0%
Duration (years)	2.1
Current Number of Issues	35
Duration Emphasis	Intermediate
Turnover	20%
Current Term Structure	Ladder
Average Quality Issue:	AA-
Minimum Quality Issue:	BB

QUALITY ALLOCATIONS

AAA/Aaa:	4.7%
AA/Aa:	42.3%
A:	22.2%
BBB/Baa:	10.0%
BB/Ba:	1.3%
B:	0.0%
FDIC Insured Certificates of Deposit:	5.1%
Not Rated	9.2%
Cash Equivalents	5.2%

SECTOR ALLOCATIONS

Municipals:	89.7%
US Govts/Agencies:	0.0%
Certificates of Deposit:	5.1%
US Inv. Grade Corporates:	0.0%
US High Yield Corporates:	0.0%
US MBS/ABS:	0.0%
Mortgage Pass Thrus/TBA:	0.0%
Emerging Market Debt:	0.0%
Cash Equivalents	5.2%

PERFORMANCE

	<u>CT</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	1.64%	2.10%	3.40%
2011 (9 Mo.)	3.28%	6.30%	5.40%
ITD***	4.03%	4.14%	4.87%

*Intermediate Muni Bond mutual fund average from Lipper

*Barclays 5-Yr Muni Bond

***Inception to date (May 1999) annualized

Investment products:

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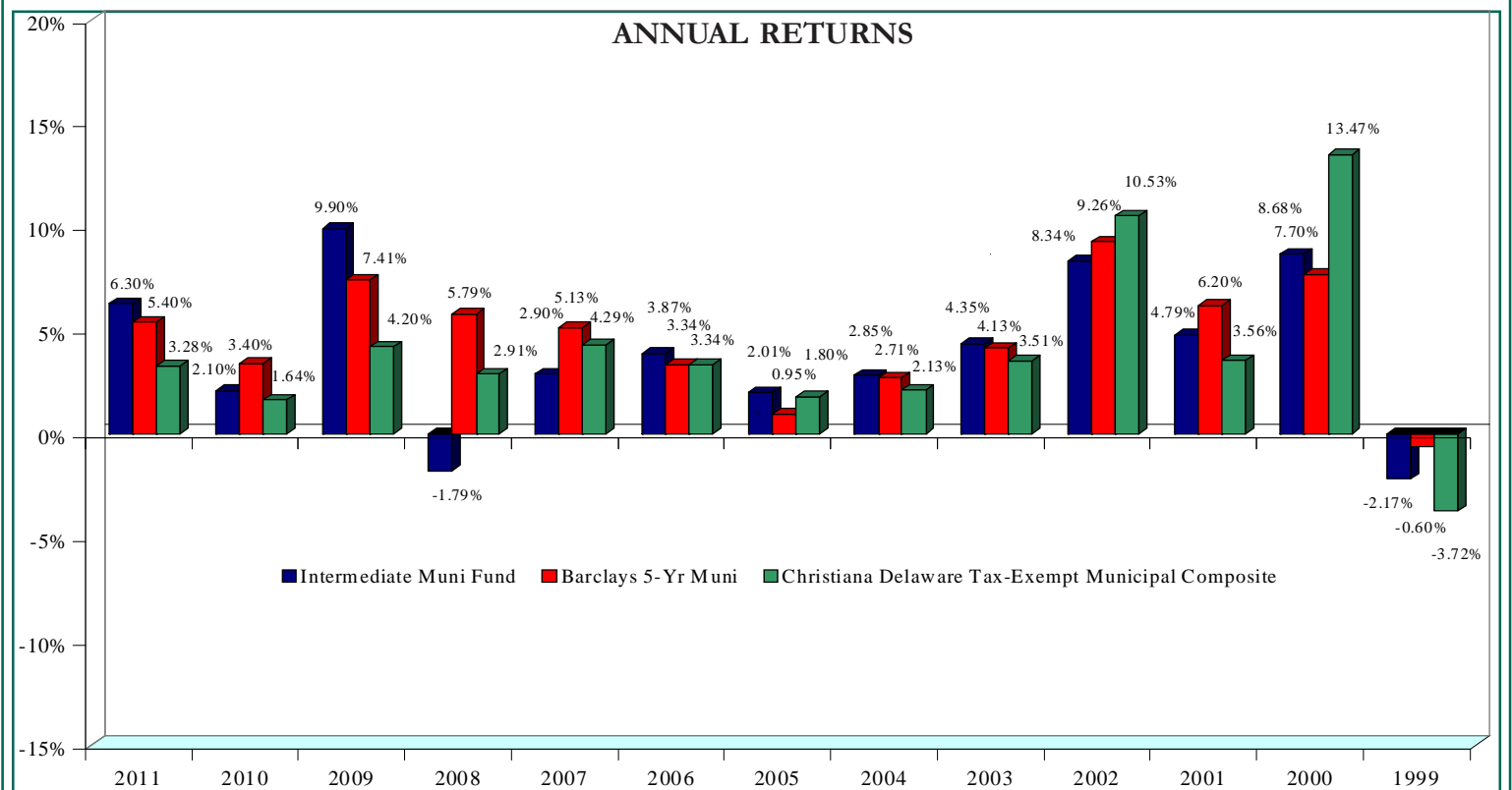
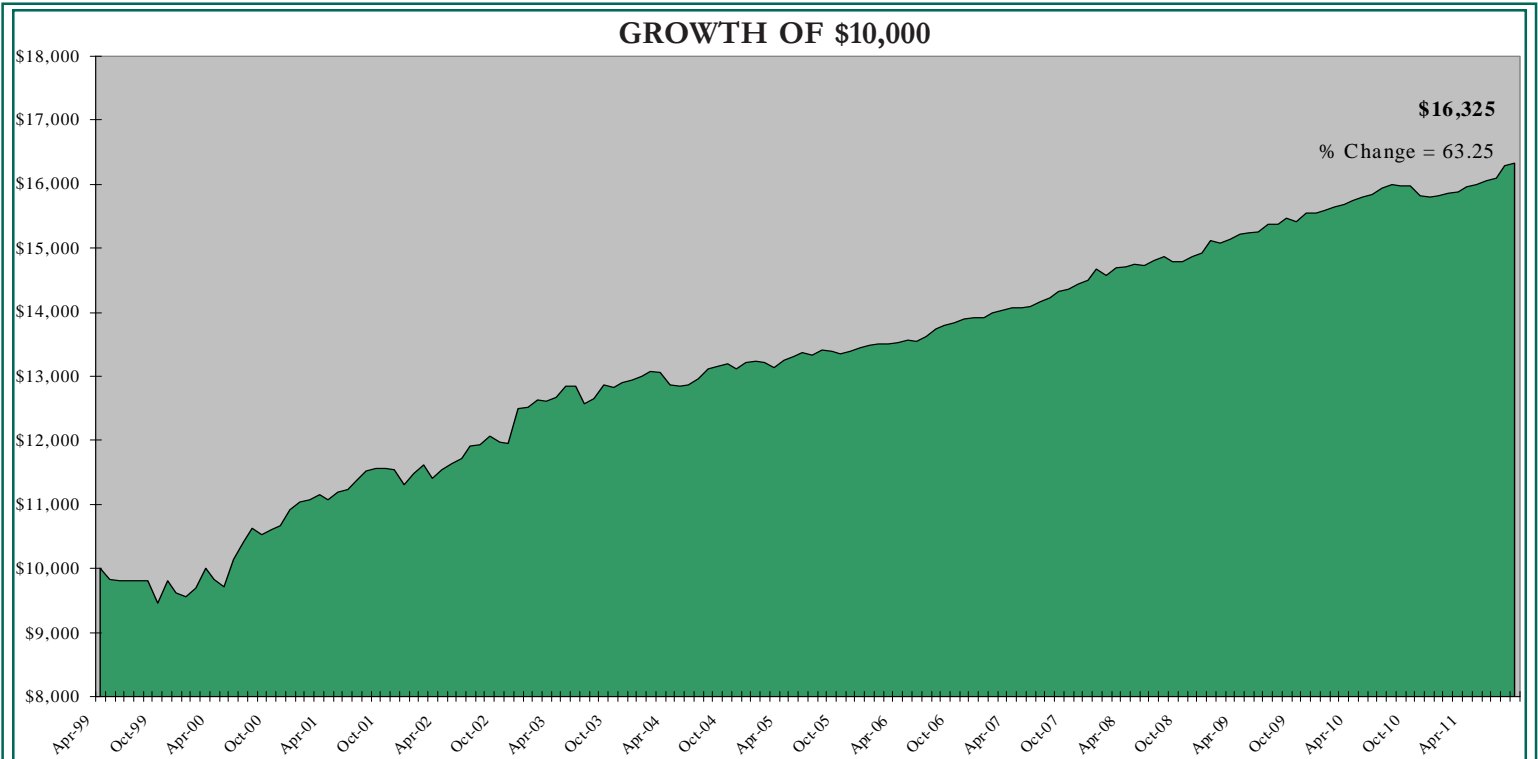
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TAX-EXEMPT MUNICIPAL COMPOSITE

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