



The Bryn Mawr Trust Company

WEALTH MANAGEMENT DIVISION

Economic Forecast & Market Review

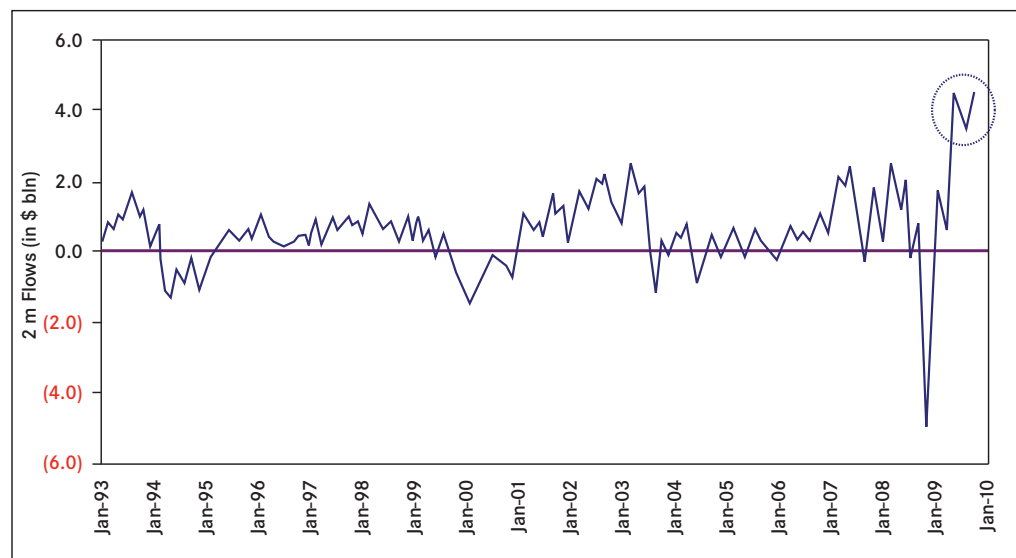
NOVEMBER 09

Confirmation of a More Constructive Market Environment.

Since March 2009, the overall tone of the world economy and investor sentiment has been improving or “less bad” than 2008. The Dow Jones Industrial Average has been flirting with 10,000 and the S&P 500 has risen by more than 50% from March 2009 lows. In addition, both emerging and developed economies are showing meaningful progress. This data, in conjunction with the following evidence, supports the upbeat tone of our previous economic letter. Our conclusion at this time is to remain optimistic about the future while still being aware of the risks faced by investors today.

As 2010 approaches, Bryn Mawr Trust continues to actively manage portfolios with the goal of providing responsible growth and wealth preservation. Questions remain about whether this fragile economic recovery will unfold into a double dip recession or if inflation will re-emerge. In addition, there are growing fears surrounding the long term impact of the ongoing dollar weakness and questions about when the Fed will raise rates. Many investors continue to wait for the inevitable pullback so that they may re-invest their still substantial cash reserves.

AMG Data all taxable bond fund flows – January 1993 to present, weekly chart



Source: Banc of America Merrill Lynch Market Analysis, AMG Data, Inc.

Although money market reserves remain substantial, they have been reduced by \$229 billion from the \$1.11 trillion peak of October 20, 2008. However, as indicated in the previous chart, rather than being invested in equities, data indicates that \$260.9 billion has been poured into fixed income mutual funds during the first eight months of this year. Investors have invested only \$30.3 billion into equity mutual funds indicating a clear avoidance of perceived risk and a preference for relatively attractive interest income.

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We believe that fixed income is an integral part of developing a portfolio. However, we suspect that the more cautious approach of reinvesting cash from equity sales into bond funds will prove to be shortsighted.

The positive performance of global equity markets since March 2009 supports our long term optimistic view. However, equity market returns are only one of many factors that have been predicting an economic upturn since March.

Here are some other factors that also support our more positive stance:

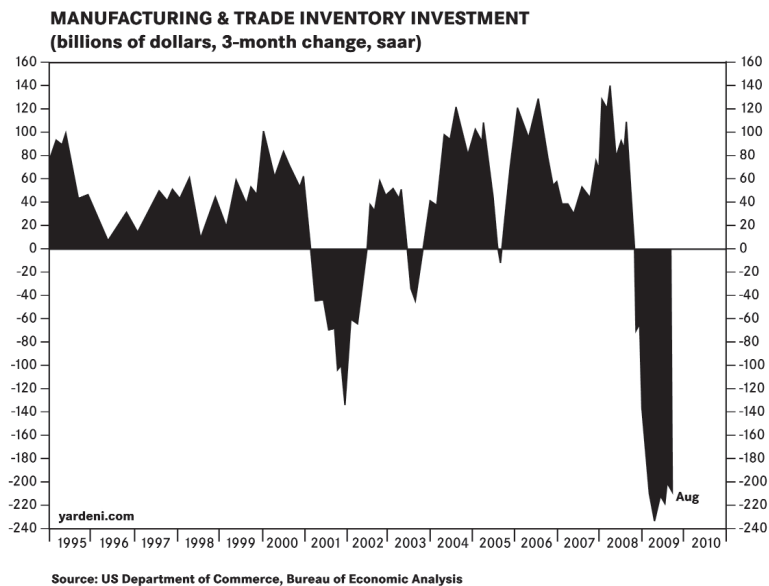
1. Non-defense capital goods bottomed in April and are up 14.5% through August.
2. Building permits also bottomed in April and have risen 16.3% through August.
3. Case Schiller data indicates housing prices have troughed and actually turned up in some areas.
4. The index of consumer expectations reached a low in February at 50.5 and was up 28.7% to 65 during August.
5. Unemployment appears to be moderating, with the number of claims having dropped 12.9% from March through August.
6. During the 2nd Quarter, worker productivity grew at an annual rate of 6.6%, which is the fastest pace in 6 years.
7. The Institute of Supply Management manufacturing index hit a 2 year high in August, rising to 52.9.
8. Supporting future growth is the fact that the Institute of Supply Management also indicated 70% of industries reported orders surging to 61.9 in August from 55.3 in July.
9. Capacity utilization rose 0.6 points to 69.6% in August after July's total being revised up by 0.5%.

10. Third quarter corporate earnings reports are starting strongly, with meaningful earnings surprises by a diverse group of companies including JP Morgan, Abbott Labs and Intel.

11. The emerging markets, being led by China, are showing strong growth and consumption.

All of this happened despite manufacturing and trade inventories dropping for 12 consecutive months, with a record pace of 1.5% in August. As the chart below indicates, manufacturing and trade inventories dropped \$212.8 billion for the 3 months ending in August, a small change from April's decline which was the steepest drop since 1980.

At Bryn Mawr, we are actively managing risk according to the economic environment around us. Recently we reduced our large cap US equity exposure along with a corresponding increase into International equities.



Our tactical allocation continues to stress a broad range of equities including exposure to:

- International and Emerging Markets
- Small Cap and Mid Cap US Equities
- Large Cap Domestic Equities.

In addition to equity exposure, we emphasize the importance of fixed income within portfolios to provide 'balance'. We believe this asset allocation structure provides protection against market volatility.

As we enter 2010, we expect to see a high rate of productivity, strong international sales fueled by the weak dollar, inventory re-investment and a gradually improving domestic economy. As a result, corporations should continue producing surprisingly strong earnings, which will likely fuel further meaningful market performance.

In meetings with our clients, we emphasize the importance of asset allocation and discuss results relative to the client's investment objective. We encourage our clients to contact their Investment Advisor with any questions or concerns that they may have during this volatile economic time.

Information provided in this forecast is for educational and illustrative purposes only and should not be construed as individualized investment advice. The investment or strategy discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Technical analysis is based on the study of historical price movements and past trend patterns. There are no assurances that these movements or trends can or will be duplicated in the future."