Quarterly
Investment Briefing
August 14, 2014

INDIANA TRUST & Investment Management COMPANY

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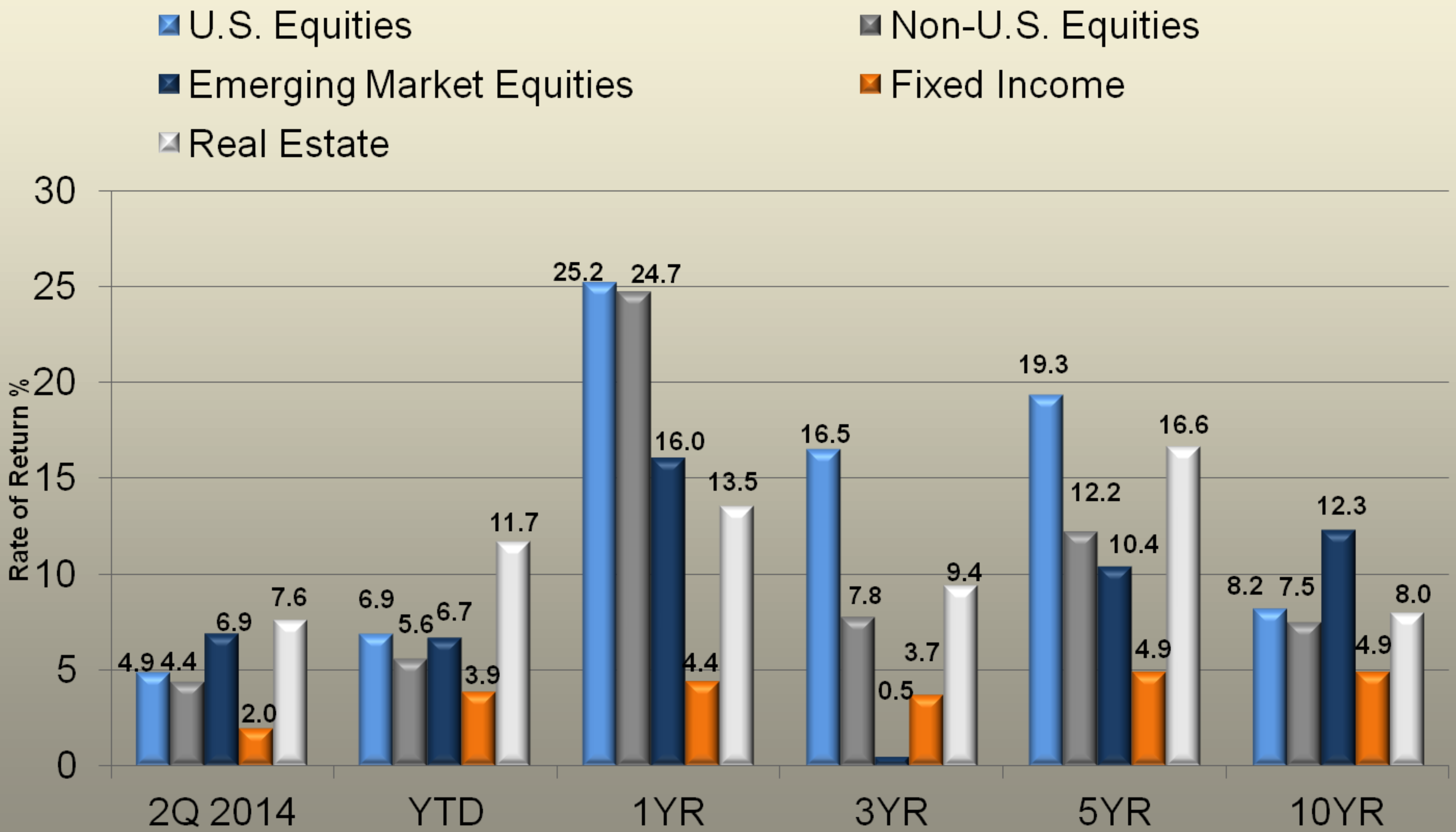
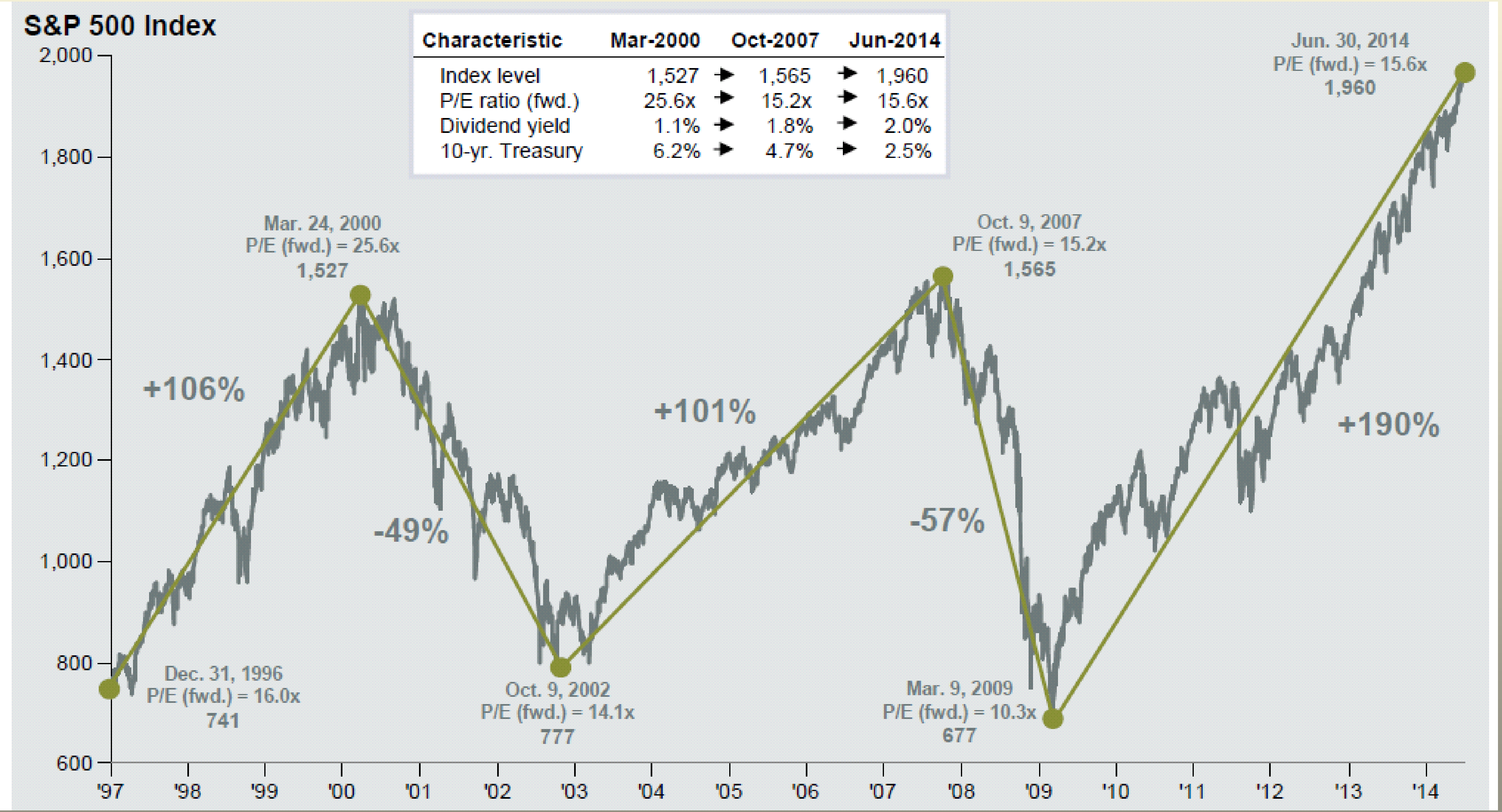
Capital Market Returns
Period Ending June 30, 2014



Source: Russell

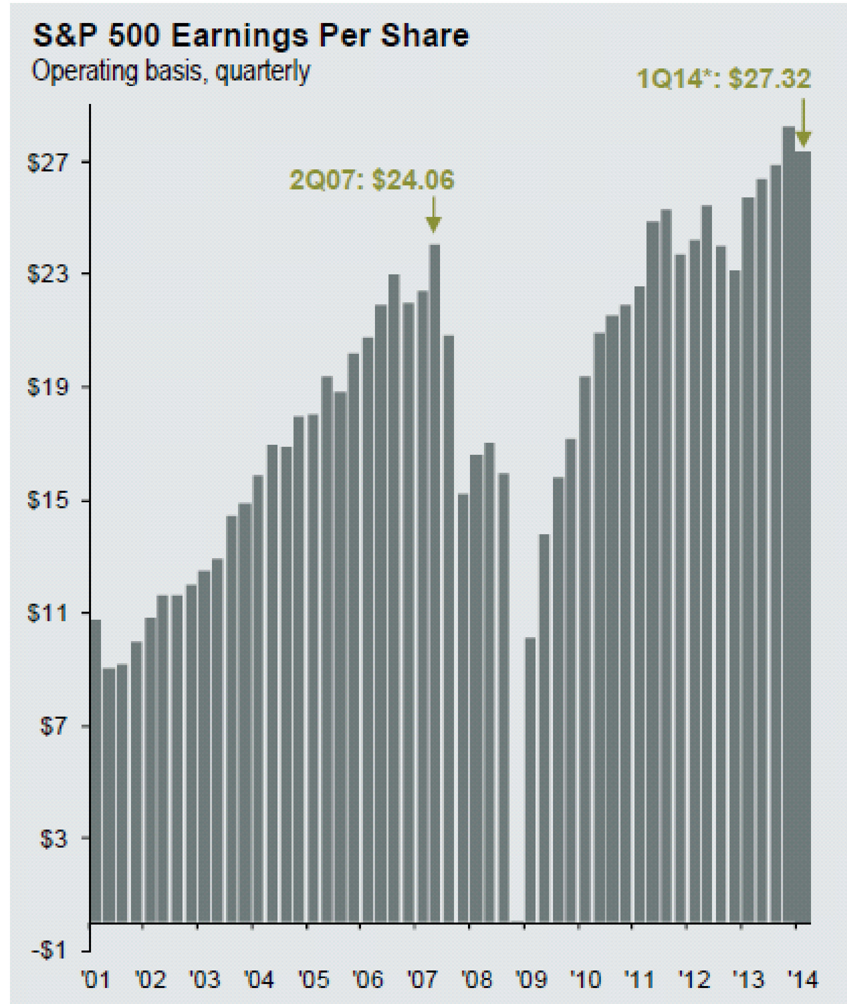
S&P 500 Index at Inflection Points

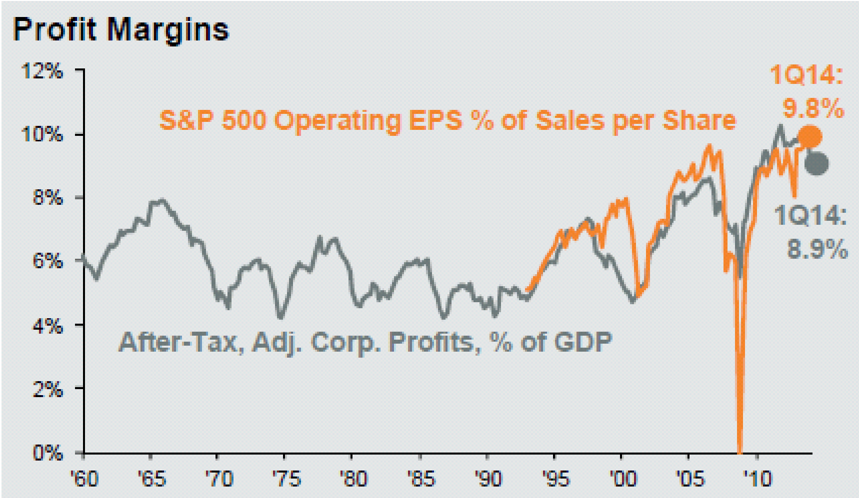


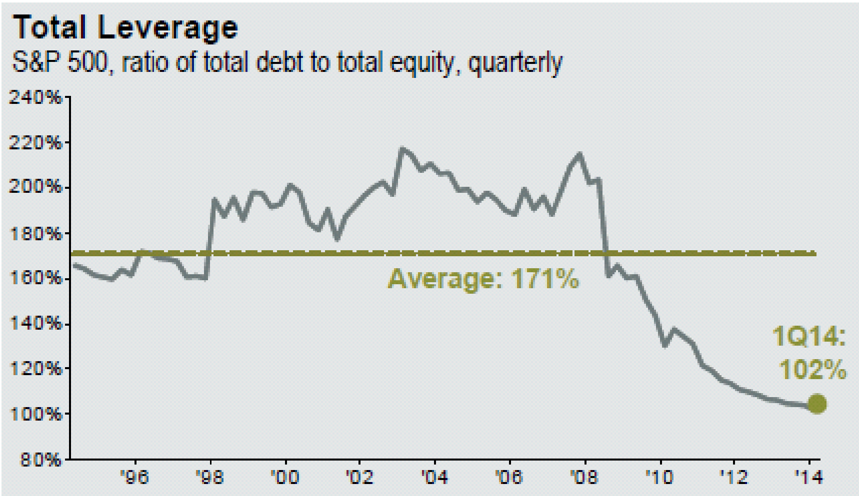
Characteristic	Mar-2000	Oct-2007	Jun-2014
Index level	1,527 →	1,565 →	1,960
P/E ratio (fwd.)	25.6x →	15.2x →	15.6x
Dividend yield	1.1% →	1.8% →	2.0%
10-yr. Treasury	6.2% →	4.7% →	2.5%

Source: J.P. Morgan

Corporate Profits and Leverage







Source: J.P. Morgan

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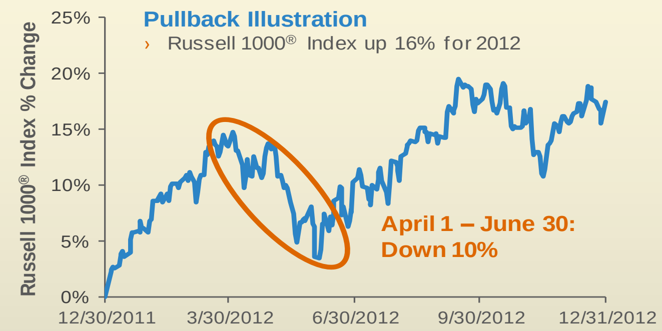
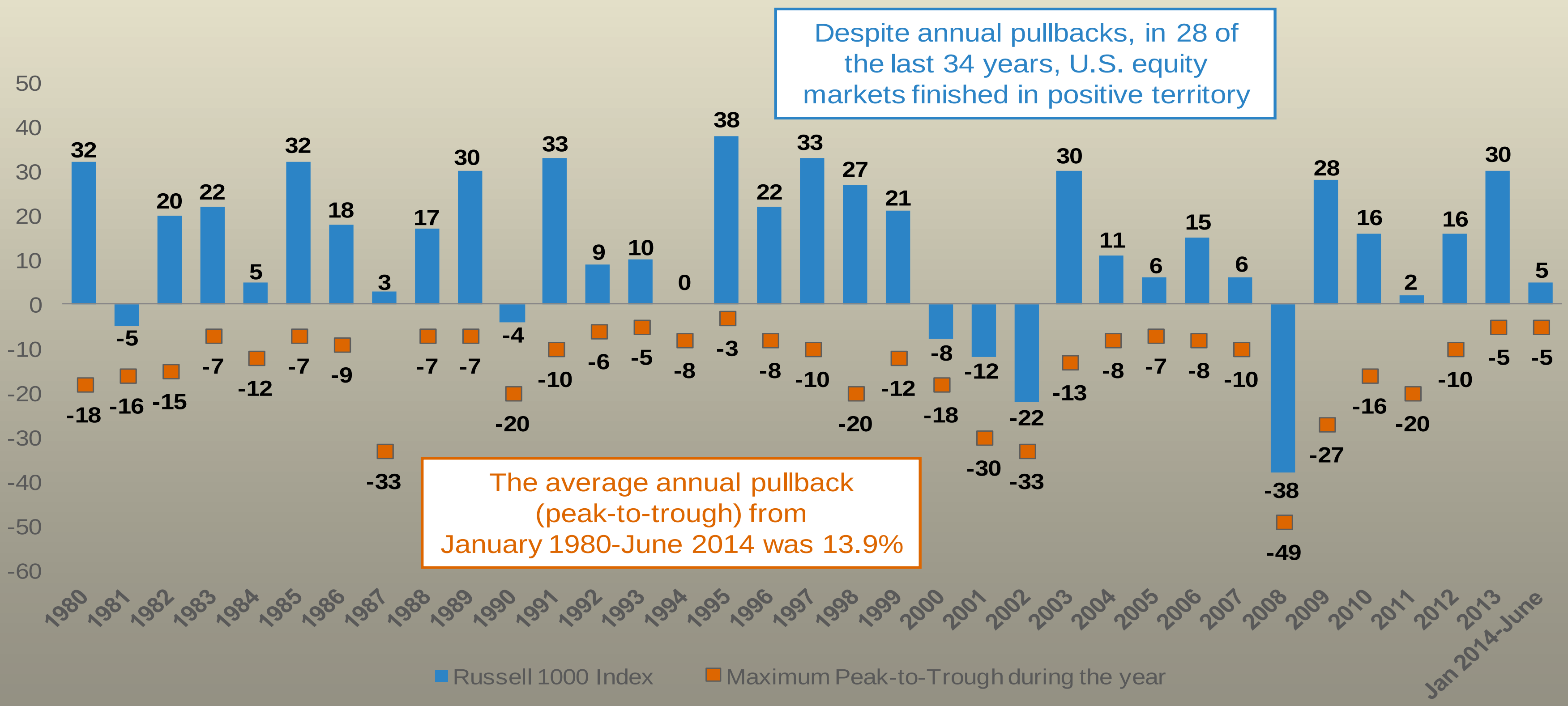
Pullbacks are Common

AND SHOULD NOT DISTRACT THE LONG-TERM INVESTOR



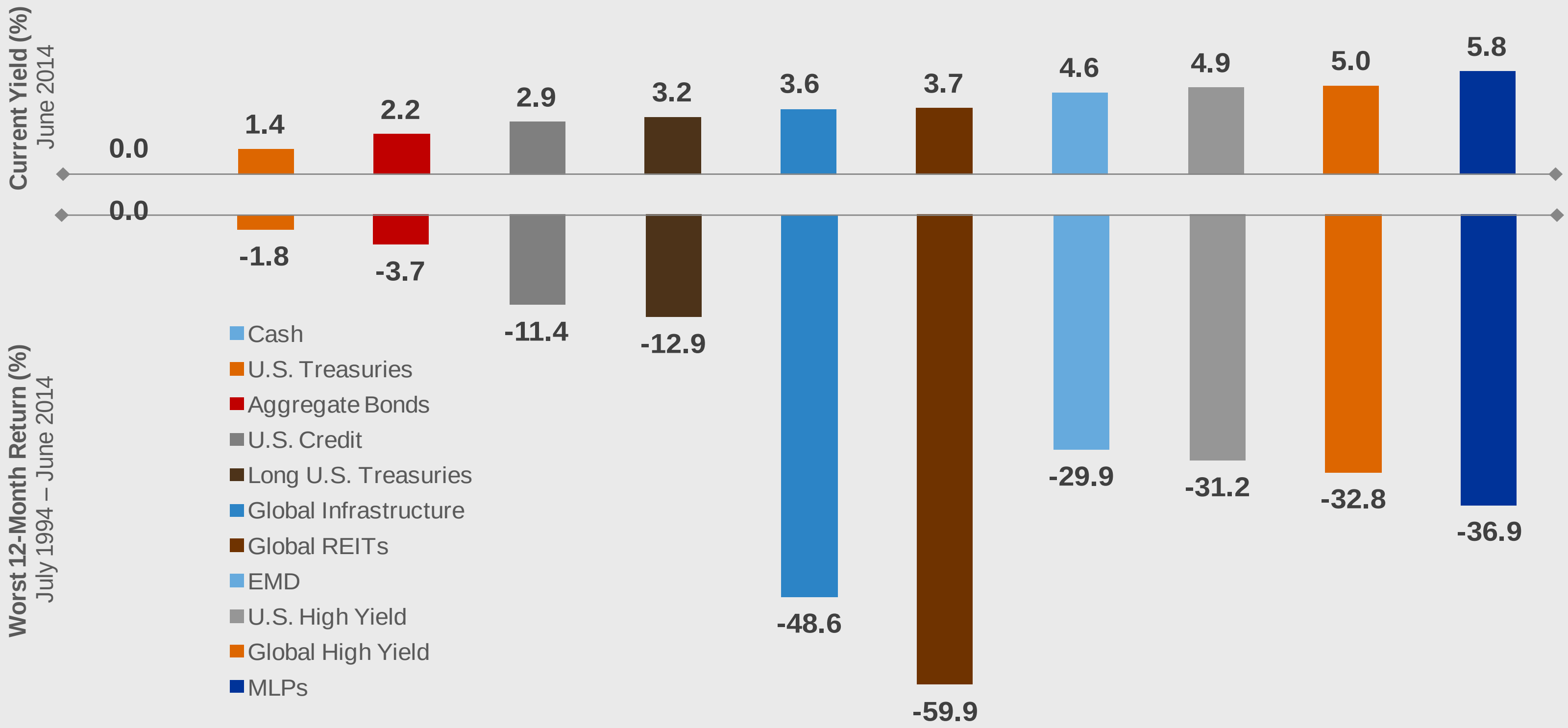
Calendar-year U.S. equity returns (%) and intra-year declines



Source: Russell

Yield: Be Careful What You Reach For

CURRENT YIELD AND DOWNSIDE RISK

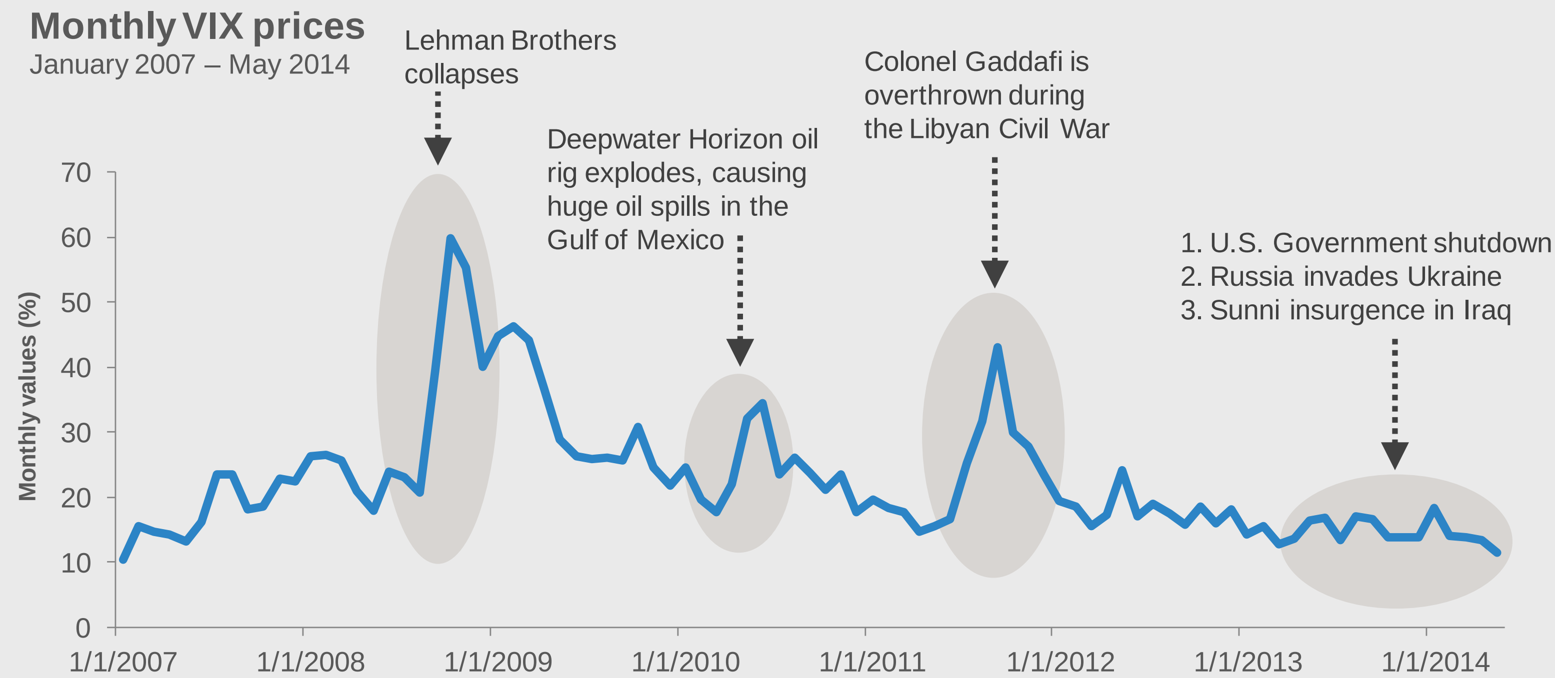


- Low interest rates can tempt investors to “reach” for yield
- Higher yields carry additional risks
- Don’t mistake yield for safety

Source: Russell

Have Investors Become Complacent?

Recent External Events Have Not Destabilized Markets



Source: The CBOE VIX (Chicago Board Options Exchange Volatility Index)

	2008	2010	2011	YTD
% of days market +/- 1%	51%	29%	37%	12%
% of days market +/- 2%	27%	8%	13%	2%
% of days market +/- 3%	16%	3%	5%	0%

Source: Market represented by S&P 500® Index

Source: Russell

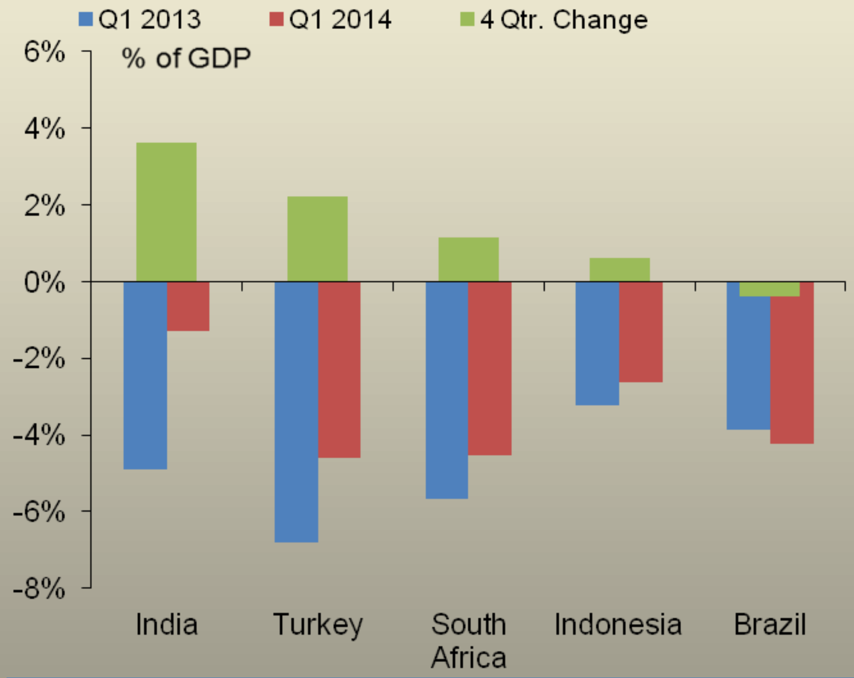
Volatility, or lack of it, in Context

- Emerging Markets
- Corporate Profitability
- Interest Rates
- Equity Market Valuations

EMs: Recent Stability but Late-Cycle Challenges Persist

Emerging-market economies have stabilized recently as global financial conditions have eased, current account deficits have shrunk, exchange rate volatility has decreased, and election outcomes have generally been perceived as favorable. Yet, most are still facing stagflationary pressures, weak corporate profitability, and mixed lending and monetary conditions.

Current Account Balance



Currency Change	India	Turkey	South Africa	Indonesia	Brazil
2013	-11%	-17%	-19%	-21%	-13%
YTD 2014	3%	1%	-1%	1%	7%

Late-Cycle Dynamics in Emerging Markets	
Persistent Inflationary Pressures	Many large EM countries remain above their inflation targets
Weak Profitability	EM earnings per share contracted over past year
Tighter Bank Lending Standards	Bank lending conditions contracted for 4th consecutive quarter in Q1 2014
Mixed Monetary Policies	China easing, but some EMs have tightened to counter inflation

Source: Fidelity

Corporate Profitability
Still a Support for Stocks

The slow but steady U.S. expansion provides a stable outlook for corporate revenues. Profit margins remain near historic highs and show little indication of pressure: cyclical productivity continues to rise, input cost inflation is muted, and debt service obligations are extremely low. Against this backdrop, mid-single-digit corporate profit growth appears achievable.

Revenue
Stable, Slow Growth

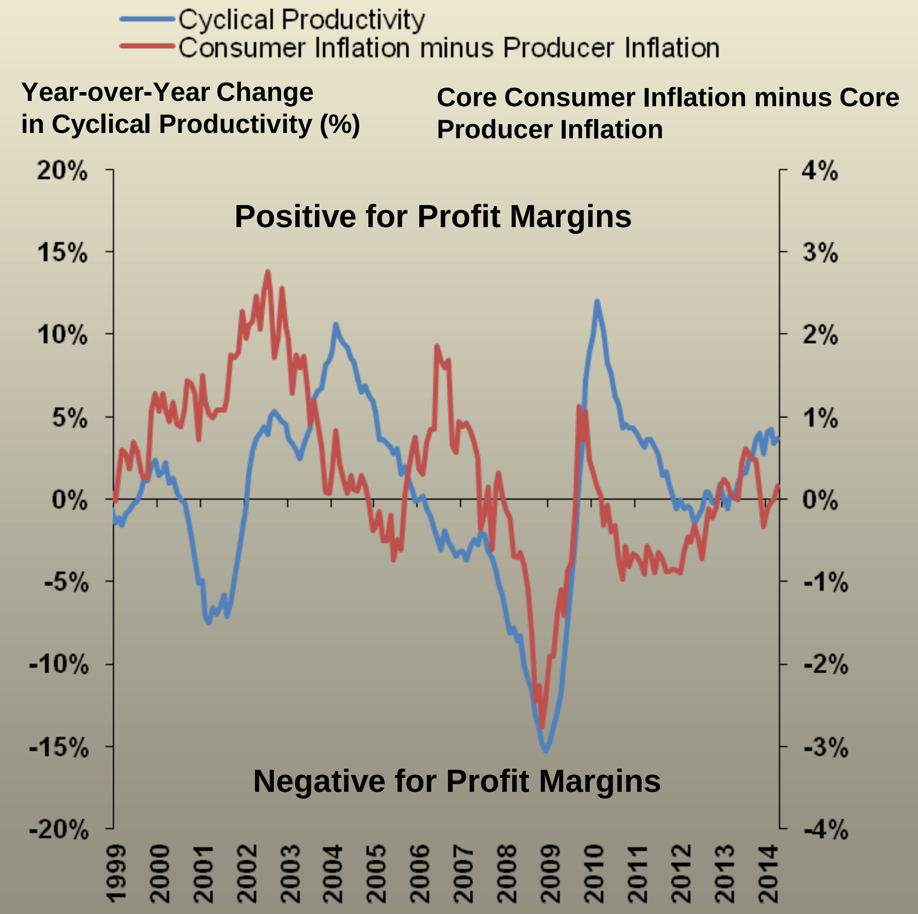
Nominal GDP Growth	Steady, low-single-digit growth

Profit Margins
High and Steady

Cyclical Productivity	Efficiency gains continue
Input Costs	Input prices contained relative to consumer prices
Debt Service	Low interest expense, Debt maturities extended

Earnings
Mid-Single-Digit Growth

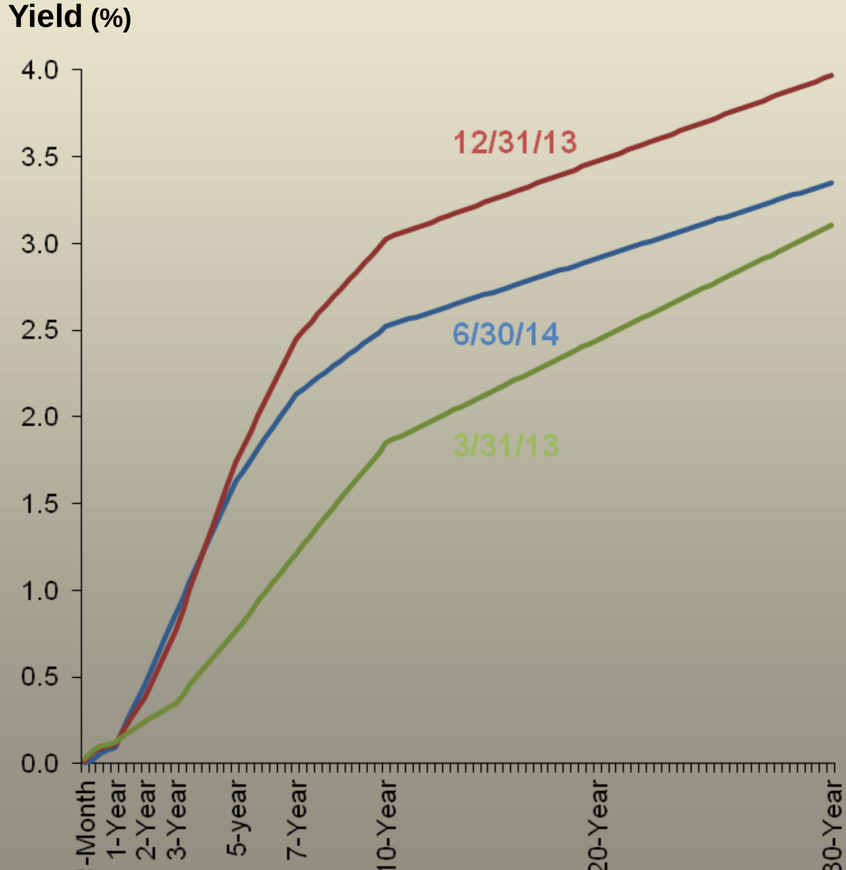
Earnings & Cyclical Productivity



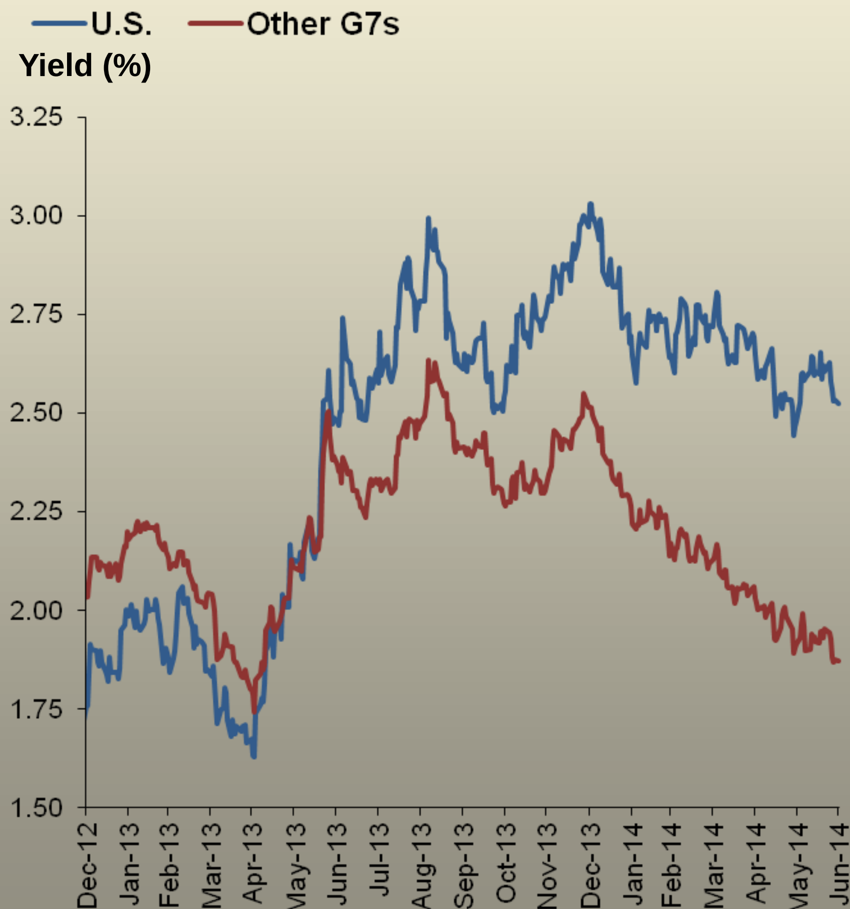
2013 Curve Shift, Low Global Yields Keep U.S. Rates Low

The dramatic steepening of the yield curve in 2013 reflected increased investor expectations of the Fed's QE tapering and of stronger U.S. economic growth in 2014. So far this year, yields have come back down as investors interpreted a dovish Fed stance and disappointing economic performance. Low yields globally have supported foreign demand for U.S. bonds.

U.S. Treasury Yield Curve

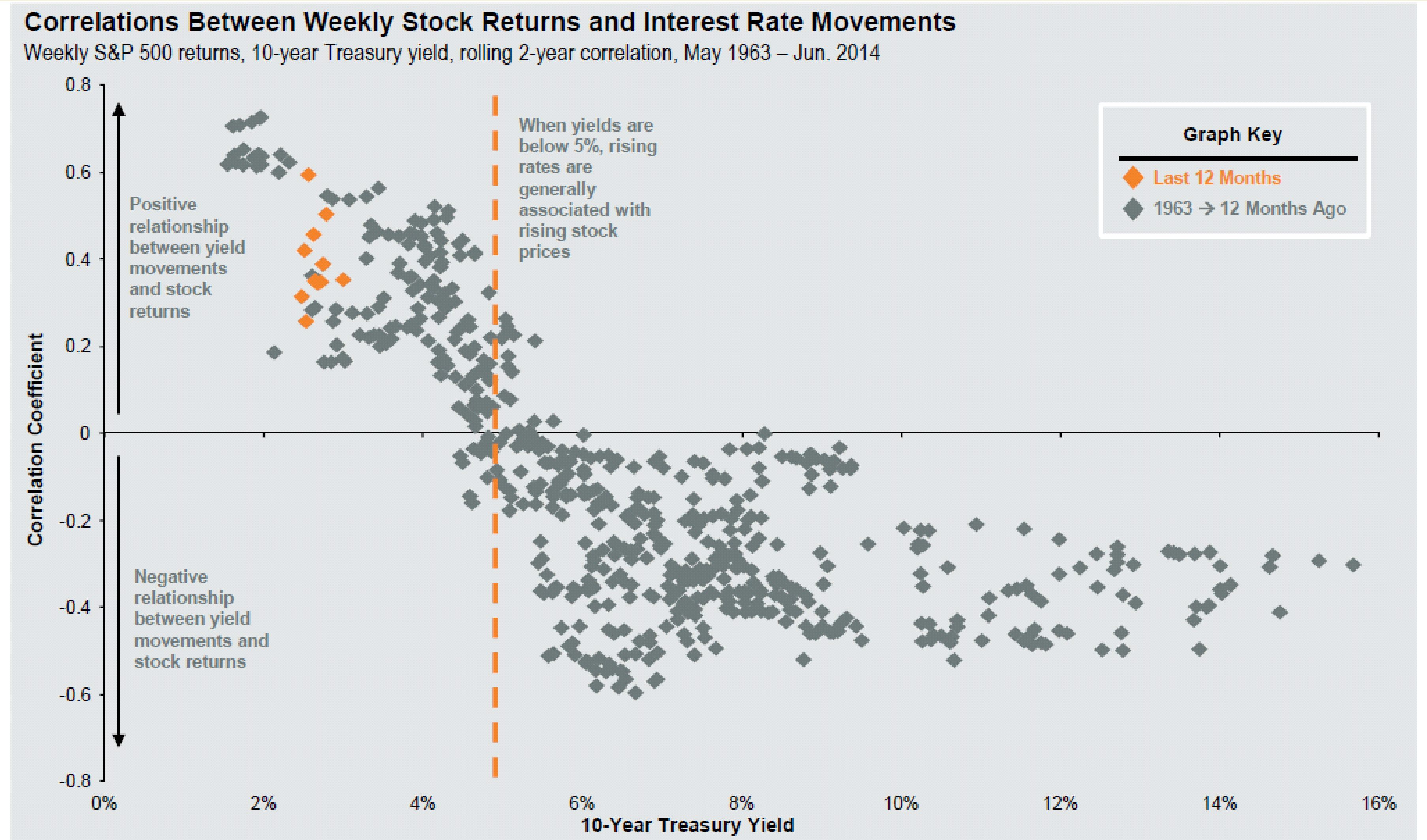


10-Year Government Bond Yields



Source: Fidelity

Interest Rates and Equities



Source: J.P. Morgan

P/E Ratios and Short Term Interest Rates

Time Period	S&P 500 P/E Ratio	% of the Time
Average of all periods since 1950	17.8	100%
Average when rates are above 6%	12.0	25%
Average when rates are below 2.5%	21.8	27%

Adding Value as Your Trusted Advisor

Potential value relative to “average” client experience (in basis points of return)

- **Portfolio construction**
  - Suitable asset allocation using broadly diversified mutual funds/ETFs — >0
  - Cost-effective implementation (expense ratios) — 45
  - Asset location — 0-75
  - Total-return versus income investing — >0

- **Wealth management**
  - Rebalancing — 35
  - Spending strategy (withdrawal order) — 0-70

- **Behavioral coaching**
  - Advisor guidance — 150

Potential value added — “About 3%”

Source: Vanguard