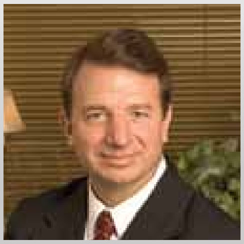
Stock Yards Bank & Trust
SINCE 1904

INVESTMENT & FINANCIAL INSIGHTS

A NEWSLETTER BY THE WEALTH MANAGEMENT GROUP

Q1: 2013

KATHY THOMPSON
Senior Executive Vice President



GORDON MAYNARD
Managing Director of Trust

The Wealth Management Group surpasses $2 billion milestone

By Kathy Thompson

We are off to a great start in 2013! The Wealth Management Group has achieved a significant milestone; the group surpassed $2 billion in assets under management on January 23, 2013.

Stock Yards Bank & Trust Company began offering trust services in 1974 and by 1992, assets under management were $192 million. Over time, we added special expertise and additional services to offer our clients a more holistic approach to managing their wealth. To promote this all-encompassing approach, the Investment Management & Trust Department became known as the Wealth Management Group. Now with more than $2 billion in managed assets, we have one of the largest independent trust companies in the country.

We are excited about the developing growth picture and potential in our markets, especially given the pending expansion into Oldham County. While Louisville remains our largest market, expansion into Cincinnati and Indianapolis markets have also added significantly to this milestone in our history.

A TRUSTED PARTNER, since 1904.

Economic & Market Outlook: Q1, 2013

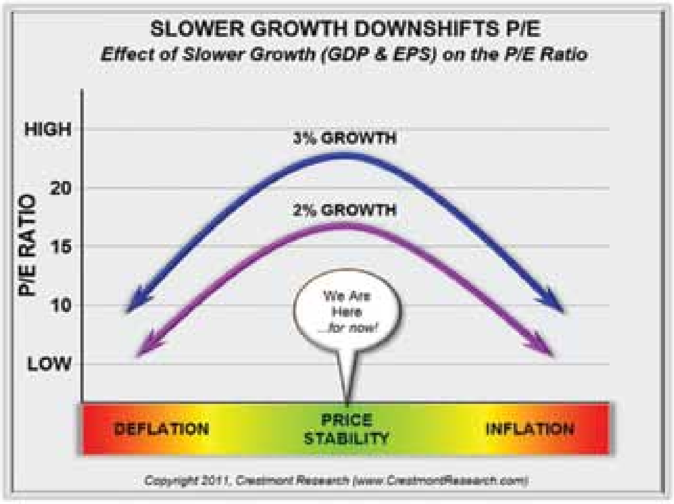
MARK HOLLOWAY
Chief Investment Officer

This is traditionally the time when we review the prior year capital market performance and set forth our outlook for the upcoming year. We also share some of our big picture investment themes that will impact changes to portfolios in 2013 and beyond.

2012 was a good year for the stock market with the S & P 500 index returning 16%. The very good return came from some unique sources. Lower quality rated stocks, high PE ratio stocks, and companies that paid little or no dividends were far and away the best performers in the market. This phenomenon happens every four or five years and is generally not sustainable as companies with lower quality earnings and assets seldom lead the market for extended periods of time.

Interest rates remained in a very low and narrow range on bonds of all types. This was due to three factors. First, the Federal Reserve continued its very easy monetary policy and expanded its balance sheet by purchasing bonds in "operation twist" and in a third round of quantitative easing in its attempt to support the fragile recovery. The increased demand for bonds had a positive impact on bond prices and kept rates on all fixed income investments very low. The Federal Reserve has promised to continue these policies through 2013. Second, the economy remained in a slow growth mode. Weak economic activity reduces the demand for capital, thus reducing interest rates. Finally, inflation remained very low in 2012. Inflation is the primary ingredient necessary for higher interest rates. Slow economic growth, consumer and business deleveraging, and high unemployment should keep the inflation rate benign for this year as well.

With 2012 behind us, what should investors expect in 2013? There are a number of factors that the investment team considers when analyzing the opportunity for returns and account asset allocation. The first is the outlook for economic growth. Economic growth determines the valuation range for common stocks. Faster economic growth produces higher corporate sales and profits and higher valuation ranges for common stocks. Slower growth reduces the possibility of increasing sales and profits and thus lowers the valuation range. We expect economic growth to continue to be slower than normal in 2013 for many of the same reasons we have discussed in the past. Higher taxes and regulation, unemployment, and a deep European recession will all reduce the probability that economic growth in the United States will exceed two percent. This rate of growth is not sufficient to improve stock market valuation levels (see below).



The second factor we review is the actual valuation level of the stock market given the outlook for earnings, dividends, and cash flow and given the historical valuation ranges for these ratios. The stock market is trading at average to below average valuations on each of these measurements at current market levels. This is good news for stocks as the market seems to have room to grow in spite of the slow level of economic growth.

A third factor that impacts the outlook for the market is less quantifiable. The psychology or mood of market participants generally follows a similar pattern. Investors go from worrying more about losing money to worrying more about missing opportunities in the market. This fear to greed scenario repeats itself in almost every stock market cycle and generally provides buying opportunities during the fear phase and selling opportunities during the greed phase for disciplined investors. We believe that there is a general sense of ambivalence toward the stock market currently that is neither positive nor negative for stock prices.

One wild card that will also be a key determinant of stock market returns this year is the very low level of interest rates. Investors have been and will continue to be drawn to the stock market and away from new commitments to bonds by these very low interest rates. Low rates on fixed income investments have the dual impact of increasing common stock valuations while at the same time providing little competition for new investment dollars. Stock market investors should experience positive returns so long as interest rates remain low and we maintain some degree of price stability.

The investment themes for 2013 are much the same as they were at the beginning of last year. We continue to concentrate on high quality companies with clean balance sheets. These companies are better able to weather any economic storm and to reward shareholders with dividend increases. We are concentrating on companies that have North American based assets, production, and sales to avoid the uncertainty of possible sales and supply disruptions from the problems in Europe and the Middle East. We are also emphasizing dividend payers and growers to provide a stable source of return to clients and to provide downside protection in these volatile market times. Finally we are placing a high priority on corporate managements that reward shareholders and have a history of being good corporate citizens.

Please contact your wealth management advisor for more detailed information on our economic and market outlooks.

> ***"We continue to concentrate on high quality companies with clean balance sheets."***

The IRA Charitable Rollover Returns

JACKIE HAMM
IRA Consultant

On January 2, 2013, the President signed the American Taxpayer Relief Act of 2012 into law. One of the provisions extended the IRA Charitable Rollover, allowing taxpayers a special opportunity to make a charitable distribution for 2012 and for 2013. The opportunity to make a charitable distribution for 2012 ended on January 31, but IRA owners have until the end of the year to make such a distribution for 2013.

What is an IRA Charitable Rollover?

The law describes it as a qualified charitable distribution of money made by individuals who are age 70 ½ or older directly from a Traditional IRA to an eligible charitable organization. The law contains a cap of $100,000 per person per year. IRA owners may exclude the amount distributed directly to an eligible charity from their gross income on their federal income tax returns. The charitable distribution does count toward the annual minimum distribution requirement.

To which charities may IRA owners make qualified distributions?

The distributions must be made to "qualified charities." The types of organizations that qualify are generally public charities, including churches and educational organizations. Distributions to a field of interest fund also qualify, but distributions to donor advised funds and supporting organizations are specifically excluded. The IRA owner cannot receive any benefit in return for the contribution.

How will this affect my income tax returns?

Because there are both federal and state income tax implications, we encourage you to talk with your tax advisor if you are interested in this opportunity. Kentucky residents in particular might benefit more by taking an IRA distribution and writing a check to the charity rather than making a direct rollover. Also, for many individuals, it is still more advantageous to gift low basis securities.

Please contact us if we can assist you in taking advantage of this opportunity.

Please join the officers and directors of
Stock Yards Bank & Trust Company for the

2013 Spring Economic Seminar

DATE	**WEDNESDAY, FEBRUARY 27, 2013**
TIME	MORNING SESSION 8:30 - 10am, (8am Reg) or AFTERNOON SESSION 4:30 - 6pm, (4pm Reg)
PLACE	**THE OLMSTED** 3701 Frankfort Avenue Louisville, Kentucky 40206
TOPICS	**2013 TAX CODE CHANGES** Presented by Alexander M. Say, J.D. Wealth Advisor Stock Yards Bank & Trust Company **THE OUTLOOK FOR THE ECONOMY AND CAPITAL MARKETS** Presented by Mark R. Holloway, C.F.A. Senior Vice President and Chief Investment Officer Stock Yards Bank & Trust Company

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