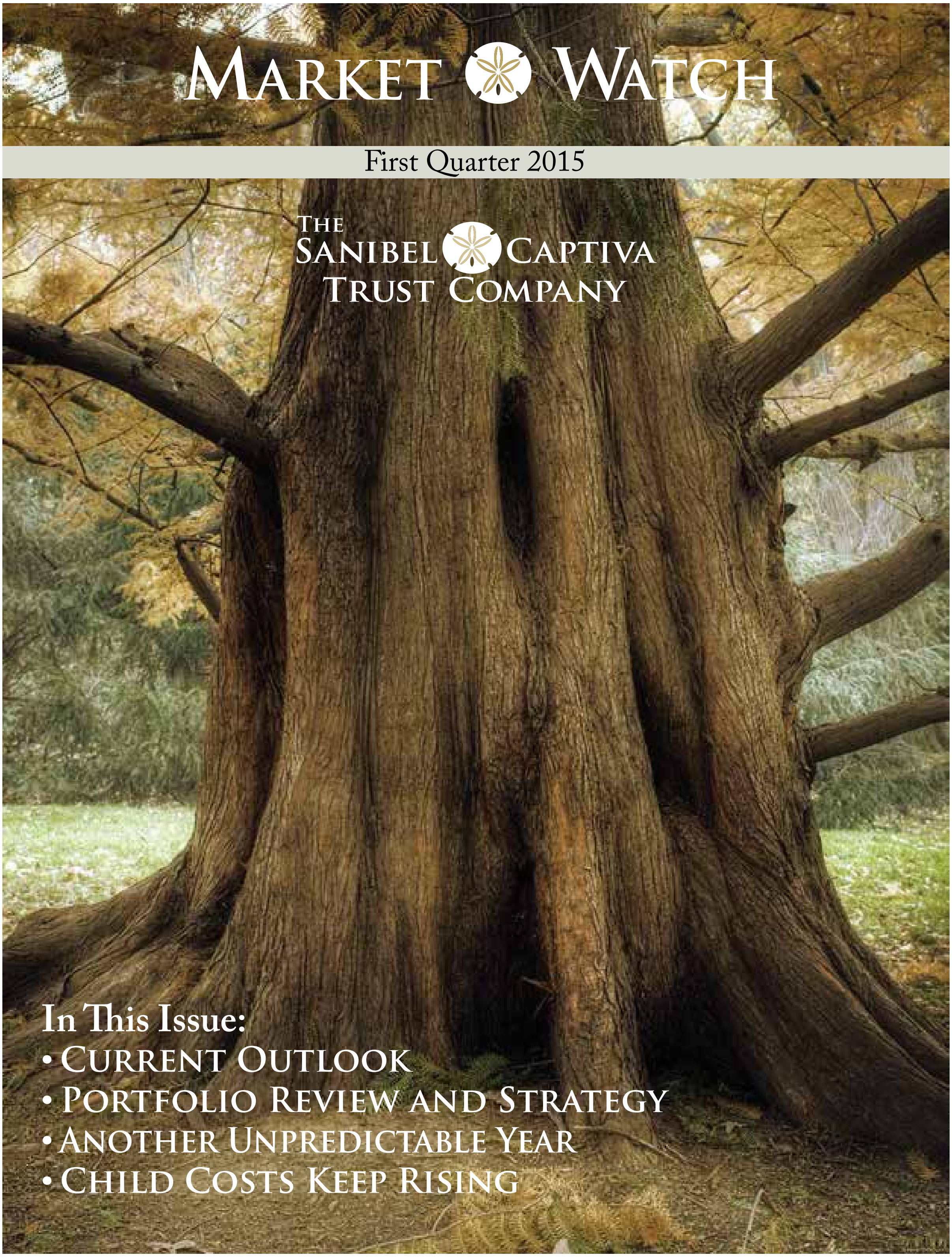
Market Watch

First Quarter 2015

The Sanibel Captiva Trust Company



In This Issue:

- Current Outlook
- Portfolio Review and Strategy
- Another Unpredictable Year
- Child Costs Keep Rising

Current Outlook

The U.S. economy ended 2014 on an upbeat note as plunging energy prices and rising employment and incomes combined to produce some of the fastest growth in 10 years. Meanwhile, the rest of the world struggled with stagnant or falling growth rates. Thus, we seem to be witnessing a "Tale of Two Policies." While U.S. monetary authorities are moving ever closer to raising interest rates for the first time in nine years, Euro-Zone, Chinese and Japanese monetary authorities continue with easing policies. How this bifurcated approach to each country's variant economic outlooks finally plays out will become much more evident as 2015 unfolds.

Because the U.S. economy appears to have achieved sustainable lift-off over the past year, the Federal Reserve Board is guiding investors to expect short-term interest rates to move from effectively their zero interest rate policy of the past six years to something approaching 1% by the end of 2015. Because inflation, however, remains below the Fed's targeted rate of 2%, they do not want to be too aggressive with the rate increases. They remain "data dependent," which means if upcoming economic data turns out to be stronger, or weaker, than expected, they could change their time-line for future interest-rate decisions. Financial markets are currently expecting the first short-term interest rate hike to come in June.

At the present time, we expect economic growth in the United States to be in the 3%-4% range for 2015. Stronger consumer and government spending will more than offset the decline in energy industry spending caused by the collapse in oil prices. Likewise, inflation will remain quite muted as a result of the aforementioned decline in oil prices. Corporate profits, aside from the energy industry, should show growth near 10% in 2015 through a combination of stronger revenue growth and continued modest margin improvements. Last year's decline in energy profits will lower 2015 total corporate profit growth rate to between 5% and 10%. The length and amount of the decline in energy prices will depend not just on U.S. economic factors but also "Rest of the World" factors.

Those "Rest of the World" factors will have the greatest impact on our current outlook. As we live in a global economy with much greater interdependence and relatively free-flowing capital and goods, it becomes more difficult for fiscal and monetary authorities in any country to dictate their own growth rate, inflation or interest rates. Those who expected long-term interest rates in the U.S., for example, to rise in 2014 to perhaps 4% were frustrated by the continued decline in interest rates in the Euro-Zone. If Germany has to pay only a 0.6% borrowing rate for 10 years, why should the U.S. government have to pay 4%? Indeed, the relentless decline in borrowing rates in 2014 for Spain and Italy to 2% made U.S. bonds at 2.5% a relative bargain. With so many countries around the globe seeing slowing or no growth, the response by monetary authorities has been to institute their own form of quantitative easing, flooding the market with more of their currency in order to jump-start growth. The result of this increased supply of Euros, Yen and Yuan, for example, has been an increase in the value of the dollar and potential pressure on export growth for the U.S.

The cross currents confounding investors, including the impact of the oil price shock, promise to remain as 2015 unfolds. We remain comfortable, however, projecting continued positive equity market returns this year. Fixed-income returns, in contrast, will remain muted as interest rates march modestly ever upward.

Another Unpredictable Year

The final several weeks of 2014 saw heightened trading action in the equities markets, as the tug and pull of economic events (a global slowdown, U.S. economic strengthening, falling foreign currency values, collapsing oil prices, and geopolitical strains in Russia) served as yet another reminder to investors that crises around the world are the rule, not the exception. The background noise served up by these events prompted alternate spells of panic and euphoria that, in the end, left U.S. equity markets trading near all-time highs again.

Indeed, we suspect that much of the manic-depressive behavior in financial markets of late was tied to money managers' last-hour attempts to catch up to stock indexes that had clearly not behaved as they predicted. In a word, anyone who attempted to time markets, or made macroeconomic bets in 2014, ultimately guessed wrong and experienced, in some cases, a third or fourth consecutive year of gross underperformance. In contrast, managers who simply stayed the course, stayed invested, and focused on rising business values experienced another pleasing year for their clients. As such, the lessons from 2014 were elementary in retrospect…

It doesn't pay to predict currency values and interest rates – Virtually no macro forecaster foresaw the sharp rise in the value of the U.S. dollar in 2014, an event that ultimately fed trade imbalances, prompted attempts by monetary authorities to weaken local currencies, and helped push down oil prices. Likewise, the majority of forecasts made a year ago did not take into account how still-sluggish money velocity and overcapacity would depress inflation and make it easier for central bankers to maintain low rates (a point we raised in this letter six months ago). Fewer still predicted that the stock market could rise amid these events. The strategy of "Fighting the Fed," in fact, has rarely produced glowing results.

Stock markets don't always correlate to economic growth – Stock markets are "leading indicators," which means that equity investors don't follow today's or yesterday's data, but constantly make bets on where the data could be in 6-9 months. As such, strong upwards movements in Chinese and U.S. stocks toward the end of the year were premised on the belief that actions taken by political and monetary leaders would cause a strengthening of demand in 2015 and a pickup in lending in the world's two leading economies. China's economy shows all signs of slowing down, but its leading stock index nevertheless rallied 51%. Even Europe's and Japan's markets showed respectable gains despite what proved to be stagnant growth.

The Oil Crisis was not a game changer – To see both oil prices and world stock prices falling in tandem in early December seemed to us contrived – a function of panicked, levered energy speculation gone awry. In fact, lower world oil prices are a net benefit to businesses and to economic growth as they significantly reduce costs to consumers and non-energy producers alike. Rapidly rising oil prices, in the past, have helped cause recessions; falling prices have not.

Alternative investment strategies aren't delivering – The simple strategy of owning shares of good dividend-paying companies and participating in their growth has been a runaway winner since 2009, foiling the efforts of high-cost professional traders and hedgers who nimbly tried to move in and out of asset classes, shorted stocks, or attempted to profit from a major correction that never came. The best predictor of a stock's performance over time is the underlying company's performance. If a company is growing, its shares are increasing in value. As long as the shares are fairly priced in the market, the odds of getting a pleasing return remain good.

Child Costs Keep Rising

Each year, The U.S. Department of Agriculture estimates the costs of raising a child from birth to the age of 18. These estimated expenses include housing, food, transportation, clothing, health care, education (not including college), child care and miscellaneous expenses. At first blush, the numbers are quite intimidating: To raise a child born today to age 18, it will cost a middle-income family more than $250,000, with a high-income family spending more than $450,000 and a low-income family spending $145,000. Add in the projected costs of college (more than $150,000 for a public university; $400,000 for a private institution), and the amounts spent raising children can have a serious impact on the savings plans of most families.

By comparison, in 1960, it was estimated that a middle-income family would spend just over $25,000 to raise a child. Adjusted for inflation, that amount today would be about $200,000, reflecting the fact that the costs have unfortunately outstripped inflation.

Raising children anymore requires long-term financial planning on the part of parents, and sometimes grandparents, too. The good news is that with planning, the costs can be managed.

Within those overall expenses there have been some interesting shifts in percentages allotted towards child care, education and health care. In 1960, child care and education comprised 2% of overall child-raising expenses, while today that number is 17%. In 1960, few women worked outside the home while today, dual-income families are common, making child care and early education a much bigger portion of family budgets.

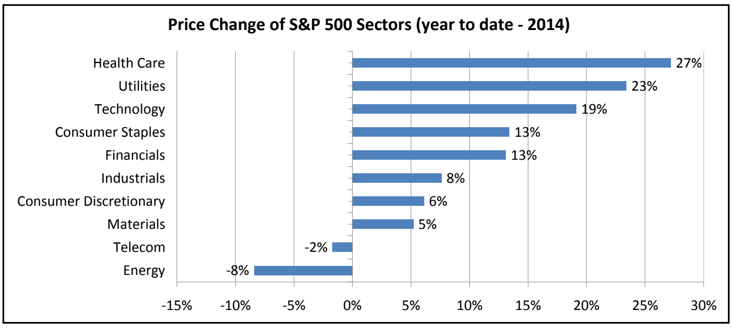
The cost of health care has more than doubled from 4% to 10% of overall expense, with most of that increase coming since 2000. But that does not tell the complete story because a family forced to care for a critically sick child today will find it much more expensive than in 1960, as advances in technology have driven health care costs through the roof.

Surprisingly, the cost of feeding a child has dropped from 24% of total expenses to 16%, and clothing costs have nearly been halved. A gallon of milk in 1960 cost 95 cents, the equivalent of nearly $7 today. A dozen eggs in 1960 cost the equivalent of $6.75 in today's dollars. In addition, today there are many more low-priced, fast-food options that have brought down the cost of feeding a family. Indeed, the 1960's proved to be the most expensive decade for food and clothing over the past 50 years. Undoubtedly the biggest dollar increase over the past 50 years has been the cost of a college education. A semester at a major university in 1960 cost just $150. Today, a private university can cost upwards of $55,000 each year for a four-year degree, and that does not include costs for any professional or post-graduate degrees.

We highlight this data not to foster discouragement, but to make a vital point: Raising children anymore requires long-term financial planning on the part of parents, and sometimes grandparents, too. The good news is that with planning, the costs can be managed. Indeed, there are many ways to help your children and grandchildren as they face the financial challenges of growing up in today's world. Whether through gifting strategies, 529 plans, custodial UTMA or UGMA accounts, trusts, or other vehicles for passing wealth in your lifetime, we can help you devise a strategy for helping those who are important in your life.

Portfolio Review and Strategy

U.S. equity markets continued to rise during the fourth quarter, capping off another year of surprisingly strong returns. Revenue and earnings guidance through much of 2014 remained strong enough to support the widespread appreciation in prices we experienced. As we review the year and look forward to 2015, we believe that U.S. equity markets are approaching "fair value." Over the past few years, equity markets have performed exceedingly well for two primary reasons. First, company fundamentals improved, and revenue and earnings growth has been strong. Second, the price investors were willing to pay for a company's revenue and profit growth grew as well, a phenomenon known as price/multiple expansion. Going forward, we expect our portfolio equities to rise in price consistent with their underlying business growth, but without the added benefit of price/multiple expansions we enjoyed over the past few years. We will continue to allocate investor dollars across the market sectors shown below in a manner consistent with each client's objectives.



With no notable interest-rate movements during the fourth quarter, fixed-income investments moved modestly higher. Since our last Market Watch report, the Federal Reserve Board – as expected – ended its asset purchase program broadly called "quantitative easing." In December, the Fed (via Janet Yellen) reiterated that the federal funds rate target range will most likely remain between 0% and 0.25% for the next couple of meetings, which may push the first interest-rate increase to the second half of 2015. For this reason, we have largely avoided fixed-income investments and will continue to do so until interest rates rise enough to lower the inherent price risk and improve the total-return potential of bonds. As rates move higher, bond prices will necessarily fall to make yields competitive to newly issued securities. We expect fixed-income investors will find themselves earning meager (if not negative) real rates of return as rate begin climbing. Therefore, traditional fixed-income is only appropriate for clients needing to reduce volatility, since it is nearly impossible to meet clients' return requirements with current bond yields. For clients requiring income we are using high-quality dividend-paying stocks, preferred stocks, REITs, and master limited partnerships (MLPs) until bonds become more attractive.

International equity markets, in contrast, fell during the fourth quarter. We continue to watch Europe as it deals with continued sluggish growth, and expect to see ongoing aggressive monetary policy into 2015 to combat deflation worries. From a fundamental standpoint, we continue to see value among international equities for investors with long time horizons – particularly in emerging markets where valuations have become quite attractive relative to their domestic counterparts. Moreover, we remain very satisfied with our active approach toward international investing, as our clients' holdings continue to outperform their respective benchmarks.

Overall, we are pleased with how 2014 unfolded and we look forward to another solid year. While we certainly believe there is still upside for equity markets moving forward, it is worth reminding clients again that we expect reasonable rates of return going forward based on long-run historical averages, as we believe equity markets are close to fair value.

The Sanibel Captiva Trust Company

2460 Palm Ridge Road
Sanibel, FL 33957

Presorted Standard
U.S. Postage Paid
Intech Printing

Management Team

S. Albert D. Hanser
Founder and Chairman

Richard A. Botthof
Vice-Chairman

Joseph C. Meek
Chief Financial Officer

Pat Dorsey, CFA
Chief Investment Strategist

Terence M. Igo
CEO, The Sanibel Captiva Trust Company and President, The Tampa Bay Trust Company

Carol B. Boyd
President, The Naples Trust Company

Richard E. Pyle, CFA
President, The Sanibel Captiva Trust Company

Donald Jowdy
President, Suncoast Equity Management

Craig J. Holston
Chief Investment Officer, The Sanibel Captiva Trust Company

Timothy P. Vick
Senior Vice President and Senior Portfolio Manager, The Naples Trust Company

Robin L. Cook
Executive Vice President, The Sanibel Captiva Trust Company

Steven V. Greenstein
Executive Vice President, The Sanibel Captiva Trust Company

David F. Port
Executive Vice President, Trust Administration, The Naples Trust Company

Cherry W. Smith
Executive Vice President, The Naples Trust Company

Beth Weigel
Executive Vice President, Director of Client Services and Trust Operations The Sanibel Captiva Trust Company

Robin Darden
Vice President, Client Services, The Sanibel Captiva Trust Company

Michael R. Dreyer, CPA
Vice President, The Tampa Bay Trust Company

Bert Martin
Vice President, The Tampa Bay Trust Company

Lori Mobley
Vice President and Corporate Secretary, The Sanibel Captiva Trust Company

Samira Molabecirovic
Vice President, Marketing and Technical Support, The Naples Trust Company

Carla Porcaro Powers
Vice President, The Tampa Bay Trust Company

Amy Quail
Vice President, Client Relations, The Tampa Bay Trust Company

Phyllis Gibson
Assistant Vice President, Client Services, The Sanibel Captiva Trust Company

Kristin Lane
Assistant Vice President, Client Services, The Sanibel Captiva Trust Company

Amy A. Lord, CFA
Senior Portfolio Manager, Suncoast Equity Management

Ian N. Breusch, CFA
Investment Associate, The Sanibel Captiva Trust Company

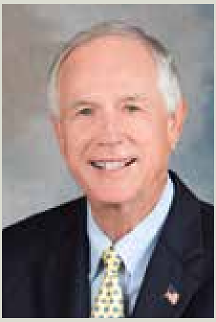
Cheeroke Townsend
Investment Associate, Suncoast Equity Management

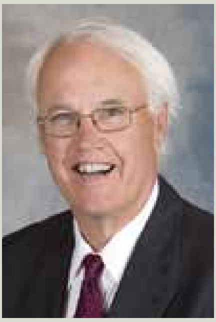
Frances Steger
Administrative Assistant, The Sanibel Captiva Trust Company

Board of Directors

Richard A. Botthof
Stephen R. Brown
John W. Burden III
William C. Crowder
Pat Dorsey
Ginny L. Fleming
Cheryl Giattini
S. Albert D. Hanser
Terence M. Igo
Charles H. Ketteman
Donald A. (Chip) Lesch, Emeritus
James R. Lozelle
Linda D. Marcelli
Frank Morsani
F. Fred Pezeshkan
John D. Schubert
Dolph W. von Arx

Dear Investors,





As the largest independent trust company serving Southwest Florida, we combine personal service with world-class investment management to create a superior client experience. The Sanibel Captiva Trust Company seeks consistently to provide our clients with experience and vision grounded in results. Preserving and building wealth are fundamental to our investment philosophy and process. We know that your portfolio should be as individual as you are. That is why each portfolio is separately managed and uniquely tailored to meet the total return and cash flow requirements for each of our clients.

On the first Thursday of every month, the Trust Company's Asset Management Committee (AMC) meets to discuss investment strategy and how current events may be affecting the securities we own in our client portfolios.

If you would like to learn more about our investment approach and/or would like to attend one of our AMC meetings, we welcome your call at (239) 472-8300.

Warm Regards,

S. Albert D. Hanser
Founder and Co-Chairman

Richard Pyle
President

THE SANIBEL CAPTIVA TRUST COMPANY

2460 Palm Ridge Road • Sanibel Island, Florida 33957
Phone: 239.472.8300 • Toll Free: 800.262.7137
Fax: 239.472.8320
Website: www.sancaptrustco.com
Email: sgreenstein@sancaptrustco.com

THE NAPLES TRUST COMPANY

THE TAMPA BAY TRUST COMPANY