MARKETWATCH

Deeply Rooted in the Community | Third Quarter 2015

The Sanibel Captiva Trust Company

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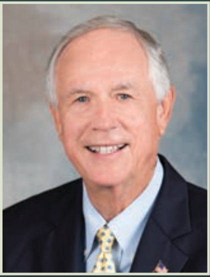

Dear Clients, Friends, and Colleagues,

Welcome to the new look and feel of our Market Watch newsletter! Many exciting changes have taken place in our company over the last year and we wanted our most important communication piece to reflect its growth and success, for which so many of you have played a role. Within its pages you will find articles drafted by our internal experts about trending information across economics, investing, and lifestyle topics that may influence how you approach your investment strategy and estate planning.

We have increased the depth of our onboard talent by hiring key personnel across investment management, finance, operations, trust and estate services, and marketing. Not only are we growing internally, but have expanded geographically with a recent entre to Winter Haven, Florida where a segment of our Family Office Services resides.

All of this is due to the confidence of our clients, colleagues and friends across the markets we serve. Your positive experience with our family of offices in Sanibel-Captiva, Naples and Tampa Bay has resulted in the development of new and deeper resources to meet the growing needs of our clientele.

As the largest independent trust company in Southwest Florida, it is ever our goal to combine personal service with world class investment management to create a superior client experience. If you are not already a member of our Trust Company family, we invite you to visit one of our offices to discuss how we may be of assistance to you.

Warm regards -

S. Albert D. Hanser
Founder & Chairman

Richard E. Pyle, CFA
President

The Trust Company's Asset Management Committee (AMC) meets regularly 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 or are interested in attending an AMC meeting, we welcome your call at the number below.

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Current Outlook

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

As we begin the last half of 2015, the current outlook continues to reflect our conviction that little has changed over the past five years. The United States still boasts low interest rates, a growing economy, rising employment, political stability and rising net worth. Europe and Asia still experience slowing growth, problems with the banking systems, unresolved structural issues and, of course, political and economic dysfunction in Greece. There also are still-unresolved issues in the geo-political sphere regarding terrorism, war in the Middle East, and the surprising unraveling of detente with Russia.

We do not expect any of these issues to be resolved completely in months or years, but we do expect the economic environment around the globe to show continued slow, but steady improvement. The U.S. economy, after a bumpy start this winter, should experience accelerating growth in the back half of this year and into 2016. This view is supported by the evidence of moderately rising employment and wages in most sectors of the economy. The only major sector of the economy that may not participate in this improvement will be energy, due to the nearly 40% decline in the world price of crude oil over the past year. One sector of the economy that has finally shown some relative improvement has been housing. Following the collapse of this sector during the 2007-2008 financial crisis in the United States, the industry's stabilization and recovery is very encouraging.

Corporate profit growth this past year has slowed down as a result of the energy price decline and the strength of the U.S. dollar. Forty percent of corporate profits derive from activities denominated in non-dollar currencies. As the dollar rose in value, revenues and profits abroad translated into fewer dollars and depressed year-over-year revenue and profit growth. Given the more-recent stability of oil prices and the dollar, the headwinds to profit growth exhibited the past year should become tailwinds by the end of 2015.

Regarding monetary and fiscal policy, we are getting ever closer to seeing some short-term interest rate increases in the United States. The market is betting on one rate increase before year's end and more hikes in 2016. As always, the Federal Reserve Board Open Market Committee is data dependent and looks at data every six weeks to determine how close they are to achieving their dual mandate of full employment and price stability. At the moment, they are more concerned with price stability and are viewing the worldwide deflation risk as cause for concern. As long as the risk of deflation looms, they will be reluctant to raise interest rates too soon. As for their full-employment mandate, the Committee's current conclusion is that we are on track to meeting that mandate sooner rather than later.

In summary, then, we continue to view the economic tea leaves as suggesting "a little more of the same" – a little more economic and profit growth worldwide, continued unusually low interest rates, more opportunity for equity asset growth, and continued investor caution.

Real Estate vs. Stocks?

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

Real estate has played a pivotal role – positively and negatively – in many clients' financial plans the past decade. And we've been there, alongside many of you, to coach you through the often emotional decisions regarding buying and selling a property.

With both real estate and stock prices escalating again in tandem, clients are facing the same balancing-act questions they did a decade ago: Should I invest excess cash in the stock market, or renovate my home? Should I take profits on my stocks, pay off the mortgage, and be debt free? Should I take money out of the stock market to buy a rental property? Is it time to sell that vacation property we hardly use anymore? We've found the answers often become obvious once you frame the question in terms of your long-term financial needs, and our team of financial professionals can assist you with the toughest of these decisions.

In looking at this issue, first determine how your stocks and real estate fit into your long-term plans. For some of you, your home(s) are not integral to your financial plans, as you have sufficient investable assets to pay bills, and provide a permanently comfortable lifestyle. But for others, your real estate, especially second or third homes, may one day be just as vital as your stock portfolios in meeting your lifestyle needs, so you will need to assess when and how to monetize those assets.

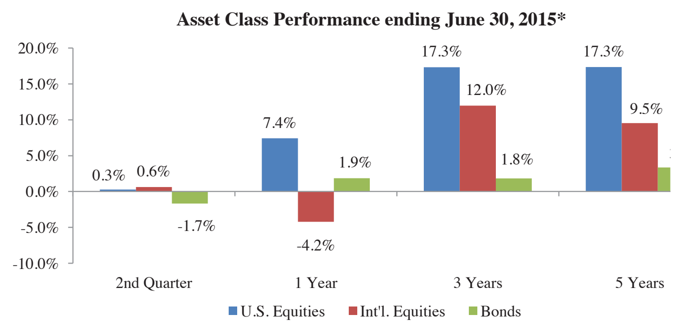
Second, determine how your stocks and real estate suit your income needs. Many clients need their entire balance sheet (bank accounts, real estate, stocks, bonds, etc.) working for them and generating sufficient income to fund retirement needs. Yet, we find in many cases that the majority of a client's assets are not contributing, thus putting all the pressure on the stock portfolio to appreciate.

Third, appraise your assets' ability to appreciate. With the exception of the anomalous 2002-07 housing boom, stock prices have appreciated at much faster rates than home prices long-term. Stocks tend to rise in tandem with business values, and businesses tend to grow at the rate of their sales and profits (which have averaged 6% long-term in the U.S.). Add in dividends, and stocks have been able to generate long-term "total returns" closer to 9% per year for nearly a century. In contrast, local home prices tend to rise with local incomes, which have risen 1%-3% per year long term. In unique, high-end markets such as Naples, Sarasota, and Sanibel-Captiva (coastal "tourism" markets that attract national or international buyers) prices are dependent on the health of buyers' balance sheets, and can change more rapidly. But once you factor in maintenance and carrying costs on a house (3%-5% of the value each year), and Realtor commissions (another 6%) – the net return on owning a home still tends to fall short of stock returns.

Finally, let market conditions determine the best course, but never try to "time" either market. Today, conditions favor investments in both stocks and real estate, but they are not either/or choices. With home prices rising again, it has been tempting for many investors to sell stocks, and cull their retirement portfolios to buy a second home or pay off a mortgage. Yet the mathematics still discourage it. Selling portions of a stock portfolio to pay cash for a home permanently removes the portfolio's compounding potential, and may also deprive the account of income needed for living expenses. Generally, if your stocks can rise at a faster yearly rate than the after-tax interest rate on a mortgage, you are better off borrowing to buy the property. Many stocks we own for clients already sport dividend yields that are higher than mortgage rates, making the decision to borrow easier. For clients looking to buy a home now, we can help arrange a mortgage or a line of credit (LOC) collateralized by your stock portfolio.

Portfolio Review and Strategy

Ian N. Breusch, CFA
Vice President, Portfolio Manager, The Naples Trust Company



**The S&P 500, MSCI EAFE, and Barclays US Agg Bond indices are used as proxies for market performance.*

U.S. equity markets have been flat since our last report in March. From a macroeconomic perspective, the dramatic rally in the U.S. dollar has subsided, and energy prices have rebounded from the lows seen earlier this year and since have stabilized. GDP growth remains tepid, and the unemployment landscape continues to improve.

With that said, the fundamentals of the equities we own for our clients remain quite strong. U.S. equity valuations are neither exciting nor excessive at this point. The chart below reveals a 3-5 year time period that was very pleasing for investors willing to stick with a U.S.-based equity portfolio. Going forward, we believe double-digit annualized returns are less likely. Nonetheless, we expect the majority of our U.S. equity positions to appreciate at rates that coincide with their underlying earnings growth. We remain comfortable with our allocation to U.S. equities, as well as the individual positions we have selected for our clients' portfolios.

Bond markets have seen the first bit of volatility in quite some time. Interest rates rose during the second quarter by a relatively large margin. The yield on the 10-year Treasury note moved higher by approximately 0.5%, a sizeable move in such a short period of time. Anyone who was holding lengthy maturity/long duration bonds has seen the impact on the price of their bonds and/or bond funds. We have been warning investors for quite some time that when, not if, interest rates rise, bond investors would find themselves earning meager (and in many cases negative) real rates of return. For this reason, we have avoided traditional fixed-income (bond) investments and will continue to do so until interest rates rise. Instead, we continue to use our high-income strategy as an alternative to traditional fixed-income for clients requiring current income. Our strategy focuses primarily on securities with consistent (and growing) distributions and utilizes high-quality dividend stocks, preferred stock, REITs, and master limited partnerships (MLPs) in taxable accounts. Our high-income strategy is also susceptible to movements in interest rates and will become increasingly volatile as interest rates change. Nonetheless, we feel confident we are not exposing clients to the permanent price declines that bond holders will experience if interest rates continue on their current course.

International equity markets were strong in the first half of the year. International markets have been (and remain) far more attractive from a valuation standpoint than domestic equities. While we expect our international investments to increase in price commensurate with underlying profit growth, it is also reasonable to expect some level of price multiple expansion as Europe continues its "quantitative easing" program. In other words, investors may be willing to pay more for $1 worth of earnings than they were before. Within our international allocation, we continue to allocate capital to emerging markets where the overall valuation metrics are most attractive. Our actively managed approach toward international investing continues to add value.

Pet Trusts Gaining Popularity

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

As a nation, we love our pets. Nearly two-thirds of all Americans have a pet, and among those who do, nearly 70% have a dog; 50% have a cat; 11% have fish; 8% have birds; and 7% have horses, rodents or reptiles. Nearly 90% of all pet owners consider their pets to be part of their family, and in some cases, their pets are their only family. Many pet owners, however, are unaware or uninformed as to what might happen to their pets should they die or become incapacitated.

Traditionally, a legal obstacle to leaving money to care for pets, both during life and after death, was common law. Pets had been treated historically as personal property and therefore could not own property in their name – nor could they be beneficiaries of a trust. That began to change in 1990 when the Uniform Probate Code was amended to recognize the creation of Pet Trusts, and states began to enact pet trust laws that govern in the event of an owner's death or disability.

Florida authorized the establishment of pet trusts on Jan. 1, 2003 in order to provide care and maintenance over the lifetime of a pet.. Today, there are 46 states that recognize such trusts, and the details vary in each state's statute. Generally, a named trustee will have the responsibility for the investment, management and distribution of the trust assets, and a separately named person (to avoid conflict of interest) is designated as the pet's caregiver. The trust should also include provisions for alternate caregivers, day-to-day care requirements, special medical needs (including emergency or extraordinary care) and, ultimately, final arrangements following the pet's death.

The Internal Revenue Code does not generally recognize pet trusts because an animal does not fit its definition of a "person" and the trust therefore would fail because it does not have a legal "beneficiary." Yet, the IRS will recognize pet trusts for tax purposes when the trust is validly established under applicable state law. Assets passing to a pet trust are included in the decedent's gross taxable estate, and the IRS has determined that no portion of the assets qualify for a charitable deduction, even if the remainder beneficiary (after the passing of the pet) is a qualifying charity. Estate taxes and any other taxes or expenses attributable to the trust need to be taken into consideration when drafting a pet trust.

As with any legal document, it is important to work with a licensed professional in your state to meet the guidelines of your state's particular pet trust laws. Planning for your pets can be an important and relevant step in your estate planning process. After all, estate planning is about providing for everyone you love, and your pets should be included among the most cherished members of your family. Pet trusts have opened the doors of opportunity to forward-thinking owners and their estate planning professionals.

Corporate and Market Leadership

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