The Sanibel Captiva Trust Company | The Naples Trust Company | The Tampa Bay Trust Company

MARKETWATCH

Deeply Rooted in the Community | First Quarter 2016

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River of Grass, Everglades National Park
Cover art generously provided by renowned photographer Carlton Ward, Jr., www.carltonward.com
Recently named winner of the 2015 BlueGreen Conservation Leadership Award in Florida by The Fish & Wildlife Foundation of Florida (FWFF)

The Sanibel Captiva Trust Company

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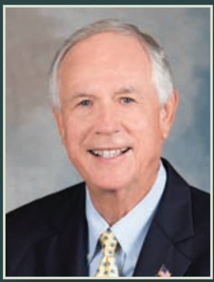

Dear Clients, Friends, and Colleagues,

The New Year brings with it a fresh perspective and the opportunity to be grateful for all that you have achieved. With your success comes the necessity to preserve your assets and to properly prepare for the future, whether for cash flow needs or the appropriate estate and tax plan to achieve your goals.

The Trust Company's Family Office Services offer a comprehensive solution to manage simple or complex family and business issues involving tax, investment, estate, and generational transfer strategies.

If you'd like to know more about how our Family Office Services may assist your family, we would welcome the opportunity to visit with you in the New Year.

Health, Peace and Prosperity to you in 2016,

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 the equity, commodity, and high-yield bond markets stumbled to close 2015, investors now turn their attention to 2016 and beyond. While inflation has been missing in action, real economic growth in the United States, and for that matter the rest of the world, continues in the moderate 2%-3% range. Low inflation and lower levels of capital investment and consumption have combined to reduce the world-wide nominal growth rate of 8%+ experienced 10 years ago to roughly 4%-5%. This decline in nominal growth rates around the world has created challenges to revenue growth for many businesses. Additionally, declining unemployment in the U.S. and abroad has led to an expected acceleration in wages and pressure on profit margins and profit growth.

At the same time, we are dealing with the unexpected collapse in oil and other commodity prices. The once-fortunate acceleration in oil and gas production brought on by new technologies ultimately has led to excess supply. This "Black Swan" event has decimated a sector of the world economy not unlike the financial crisis of 2007-2009. Both of these events have had a profound effect on corporate revenue and profit growth. At the beginning of the year, corporate profits (as measured by the S&P 500 index companies) were expected to grow 5%-10% in 2015. As a result of the 60% estimated decline in oil and gas-related profits, actual aggregate profits are now expected to be flat. Just as the steep fall in bank earnings in 2008 and 2009 severely impacted aggregate S&P 500 profits, the same happened in 2015 as a result of the decline in oil and gas prices. Absent the energy sector, corporate profits were actually up more than 10% from 2014.

A second challenge to revenue and profit growth in 2015 was the sharp appreciation of the U.S. dollar. That negatively impacted the dollar value of multi-national companies' foreign revenues and profits, and made U.S. manufactured goods less competitive. With the small December increase in short-term interest rates announced by the Federal Reserve Board, coupled with other central banks' efforts to lower their short-term interest rates, we expect that the widening rate differential could lead to a further rise in the U.S. dollar. This could put further pressure on revenues and profits until this differential is stabilized. Nonetheless, we expect the dollar and commodity prices to have a smaller negative impact on 2016 profit growth than was experienced last year. We also expect interest rates and inflation to stay lower for longer, and economic growth overall to remain moderate.

To the extent that geopolitical issues impact asset prices, possible terrorist activities and the U.S. Presidential election cycle could add some short-lived volatility to financial markets. These "headline risks," as we call them, will always be a part of the investment process, but in the end seldom have any long-lasting impact on asset valuations of high-quality securities. The main factors that will drive asset valuations are the rate of economic growth, inflation and interest rates. Presently, we view each of these three factors as a positive catalyst for improved valuations as 2016 unfolds.

The United States Federal Reserve Building, Washington D.C.

Don't Get Caught in the Dark

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

We received a call at The Trust Company one evening from a dear client whose health was failing dramatically. He conveyed to us that he was distressed that he had taken all of the responsibility through the years for his and his wife's investment and estate planning decisions, and had not prepared her for what she would face once he was gone. We assured him that she was in good hands and her team would provide her with ongoing support to make sure she was familiar and comfortable in discussing any facets of her relationship with The Trust Company. Today, she is a model client who understands every decision made for her investments and estate plan, and she does not hesitate to ask her local team in-depth questions regarding her relationship, and expects detailed answers to those inquiries.

It's no secret that women tend to outlive men by an average of 10 years. According to a Harvard Medical School white paper, U.S. life expectancy in women averages 79 years to men's 72 years. Although not an easy topic to discuss, it is a vital one to address. As an investment manager and trust and estate administrator, The Trust Company meets many couples, in all our markets, where this situation repeats itself. Losing a spouse is traumatic enough without facing the complexities of an investment portfolio, taxes and estate planning decisions. We advise couples, no matter what the age or which of them normally makes decisions, to bring their spouse into the discussion, so they are not caught in the dark when one of them passes or is incapacitated. Clearly, this is a concern among many couples, and the relief to the spouse is apparent. Stress and confusion are replaced with knowledge, and the path forward is lined with confidence.

An important point to note - We were able to assist the spouse in this case so thoroughly because, fortunately, we had previously reviewed the couple's estate plan with the husband, and had reviewed his other assets that comprised the family's balance sheet. This earlier effort enabled us to provide support to his wife promptly and efficiently, thereby mitigating her concerns.

As we begin a new year, now is an ideal time to develop a new habit. Consider important decisions around your investment management and estate plan, and check the barometer of your comfort level, as well as that of your spouse. It is rewarding to our team to work with clients who ask questions and who have a greater desire to understand how we approach decisions on your behalf at The Trust Company.

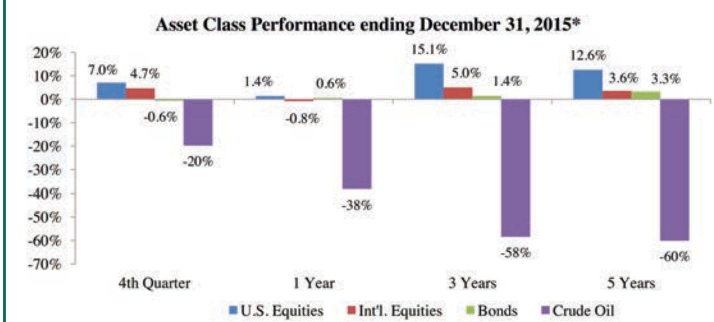
The presentation, "Don't Get Caught in the Dark" expounds on this topic during our WOW 2016 Series for Women, offered this season at select offices. Please contact the local office for more information and reservations.

Portfolio Review & Strategy

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

U.S. equity markets rebounded during the 4th quarter following a rather poor 3rd quarter. However, global equity markets essentially were flat for the year despite pockets of significant volatility throughout 2015. The results were not particularly shocking to us since we entered 2015 with broader markets being reasonably valued. Due to weakness across the energy sector and the impact of the stronger dollar on large multi-national dividend payers, corporate earnings were rather uninspiring.

When markets are fairly valued, we expect the majority of our equity positions to appreciate roughly at the rates of underlying earnings growth. Therefore, it made sense, in retrospect, that global equity markets remained largely unchanged in 2015. Periods of heightened volatility are usually the worst times to make large wholesale portfolio changes. We continue to advise our clients to remain calm, as we remain confident in our broader strategies as well as in the individual securities we selected for portfolios.



**The S&P 500, MSCI EAFE, Barclays US Agg Bond, and WTI crude are used as proxies for the broader market*

The Federal Reserve Board recently increased the federal funds rate from 0% to 0.25%. Despite this minor rise, we don't believe this move alone warrants a change in the broader asset-allocation decisions we make for our clients. Ultimately, the pace and scale of interest-rate normalcy remains largely unknown. We expect the Fed to wait for confirming economic data before increasing rates further in 2016.

In the meantime, bondholders will continue to earn very meager real rates of return. For this reason, we have avoided most traditional fixed-income (bond) investments for our clients that need current income, and will continue to do so until interest rates rise further. Instead, we continue to use our equity-income and high-income strategies as alternatives. Though these strategies are subject to the daily volatility of the stock market, the real risk of long term or permanent asset impairment can be mitigated by owning companies with sustainable competitive advantages, healthy balance sheets, and stable cash flows. With that said, we have taken steps over the past several months to reduce modestly our energy exposure and replace it with consumer-based businesses and other less-volatile income investments where appropriate.

For clients needing more growth and less current income, we continue to favor U.S.-based businesses over international investments. We focus on companies that are growing their revenues and earnings in excess of the broader market and trading at reasonable valuation levels. We care just as much about real risk within our growth portfolios and only invest in resilient companies with strong fundamentals. Even with the added volatility in 2015, growth stocks largely outperformed dividend-paying stocks.

The Quest for Income

Why Dividends Matter

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

In the face of uncertainty, corporate boards often strive to maintain their dividends in the belief that returning a portion of profits to shareholders every year not only signals their confidence in the future, but is a good use of capital. We want to remind our readers how dividends play a vital role in achieving long-term return goals.

Why are dividends important?

Large-cap stocks today collectively pay a dividend yield much higher than bond yields – the first time that has occurred since the 1950s. For the past few years we have been building blue-chip portfolios with dividend yields averaging 4%. Dividends can provide a hefty boost to total returns and have greatly helped clients meet their total-return objectives. A client who needs a 7% long-term return, for example, can collect 4% every year just from dividends, and thus needs only 3% yearly appreciation in the share price to meet final goals.

What happens to my dividends when the stock market is volatile and prices fall?

In short, nothing. This is an important point, because investors often mistakenly associate stock price declines with lower dividends. Instead, dividends often provide a thick layer of protection against share-price fluctuations **because dividends are paid based on the number of shares you own, not on the value of your stock at a particular point in time.** Clients who may have been rattled by occasional market corrections ultimately learned that their dividend income remained intact during the correction – and their lifestyles were maintained.

The Value of Rising Dividends

	2005 dividend	*2015 dividend*	*10-year growth rate*	*# of div. incr.*	*yield on 2005 price**
Magellan Midstream	$1.03	$2.90	10.9%	10	18.0%
Realty Income	$1.35	$2.29	5.4%	10	9.8%
Chevron	$1.75	$4.28	9.4%	10	7.4%
Emerson Electric	$0.83	$1.90	8.6%	10	5.5%
PepsiCo	$1.01	$2.81	10.8%	10	5.0%
General Dynamics	$0.78	$2.76	13.5%	10	5.0%
Johnson & Johnson	$1.28	$3.00	8.9%	10	4.6%
Novartis	$0.82	$1.73	7.8%	10	3.4%
Microsoft	$0.32	$1.44	16.2%	9	5.5%
Paychex	$0.51	$1.68	12.7%	8	4.7%
Unilever	$0.88	$1.67	6.6%	7	7.6%
Spectra Energy	$0.88	$1.48	6.7%	7	5.8%
Welltower	$1.06	$2.45	8.7%	6	7.0%

** calculated as the current dividend divided by the average 2005 stock price.*
source: company reports; ValueLine Investment Survey

Is a dividend income strategy still prudent if interest rates rise?

Yes. Quality companies habitually raise their dividends as their profits rise – a feature that makes dividends more appealing than bonds that pay a fixed rate year after year. Investors who held certain dividend-paying blue chips for a decade or more now earn very attractive yields off their original purchase price (see table), as these companies were able to raise their payouts since 2005 at rates much faster than inflation. Though our recommended allocation between stocks and bonds will change over time as interest rates rise, a healthy dose of dividend-paying stocks is always appropriate.

What characteristics should investors look for in dividend stocks?

We focus most of our attention on dividend safety and dividend growth. In other words, we prefer businesses that are well capitalized (not overly burdened by debt) and have the ability to grow their dividends over time at a rate that exceeds inflation – without sacrificing the strength of their balance sheets. We typically prefer companies with a lower current yield (3-4%) and strong dividend growth guidance over a business with a higher current yield and riskier prospects for the future.

Investors that require income from their portfolios benefit from implementing a strategy that includes dividend-paying stocks. As always, we welcome the opportunity to discuss our dividend income strategies with you and answer any questions you may have.

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Chief Financial Officer

Portfolio Management

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Chief Investment Officer

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