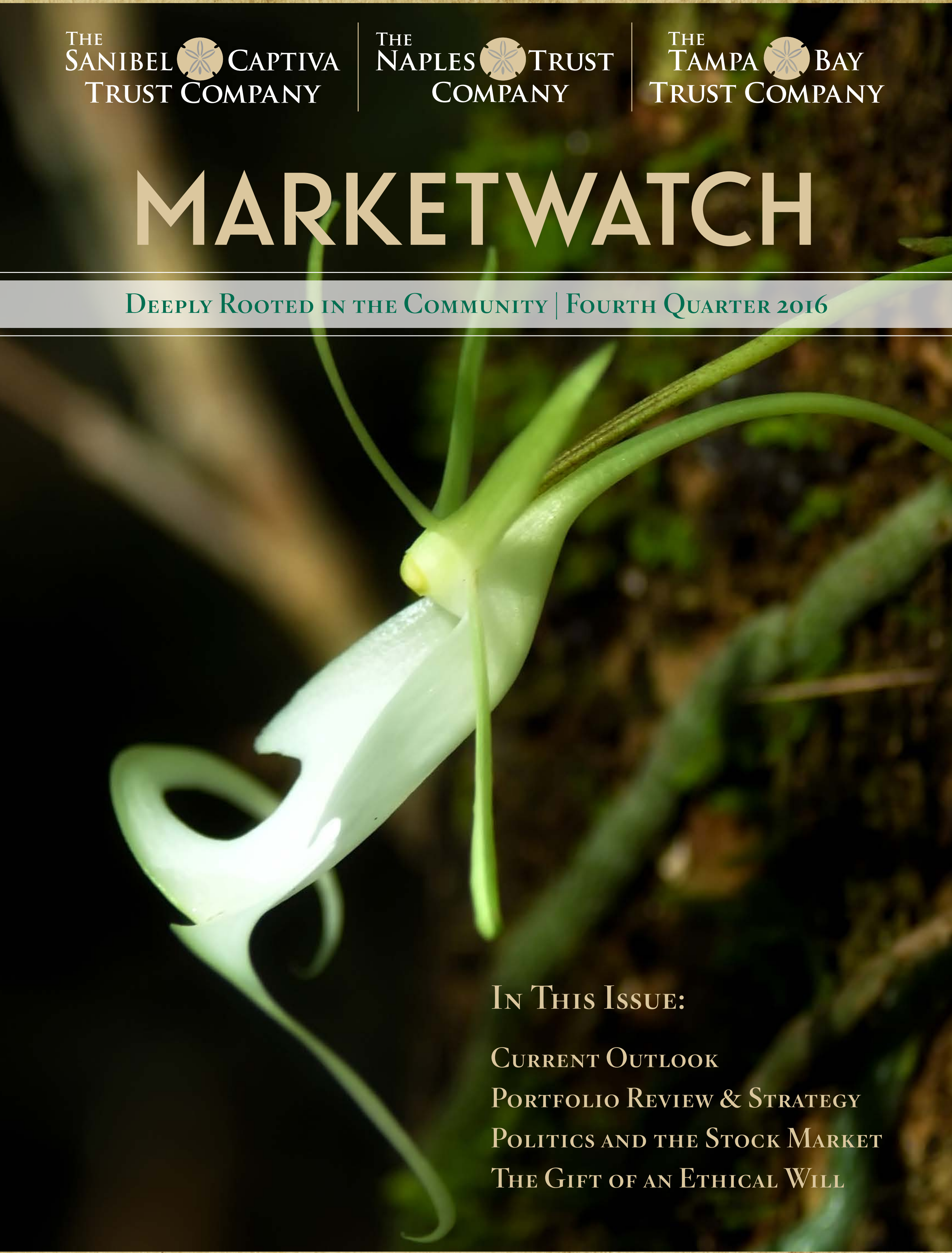

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MARKETWATCH

Deeply Rooted in the Community | Fourth Quarter 2016

In This Issue:

Current Outlook

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SENIOR VICE PRESIDENT, SENIOR PORTFOLIO MANAGER, THE TAMPA BAY TRUST COMPANY

As we enter the final quarter of 2016, we will be watching a number of noteworthy events capable of adding volatility to financial markets. Two such events are the Presidential/Congressional elections and the U.S. Federal Reserve Board meetings.

The U.S. election cycle is entering the final stretch. While we do not foresee major policy changes in the near term (given the lack of compromise in Washington, D.C.), there is potential for greater fiscal stimulus down the road as both Hillary Clinton and Donald Trump have argued for significant infrastructure spending. The resultant makeup of Congress will likely dictate what policy changes are achievable over the next four years. Our perspective, spelled out elsewhere in this newsletter, is that our business and political climates can, and will, adapt to the raucous partisanship we are witnessing.

Moving on to the Federal Reserve and U.S. monetary policy, we find ourselves repeating the same questions from prior years. Will the Fed raise short-term interest rates? Or will an unexpected "headline" event – such as Chinese stock market turmoil -- serve as a convenient excuse to hold off raising rates for another six weeks until their next meeting? Our view is that a modest rate hike of 0.25% is on the table for the December meeting, but we would not be surprised if they choose, once again, to 'kick the can down the road.'

Raising short-term interest rates at this time may be no easy task as central banks around the world continue to ease in the opposite direction: lowering short-term interest rates and increasing monetary stimulus by purchasing their own governments' bonds. In fact, the central banks of the EU, Norway, Sweden, Switzerland, and Japan now support negative interest rates! The Fed essentially will be swimming against the global tide of easing monetary policy. If they raise rates too quickly, it may attract more foreign investment and cause a strengthening of the U.S. dollar, which can dampen earnings for U.S. multinational companies and hamper our exports – thus slowing economic growth.

In the first half of 2016, the Gross Domestic Product (GDP) growth in the U.S. was slightly slower than expectations, but is expected to rise through year-end to register modest annual rates of growth. Inflation has continued to remain below the Fed's target of 2% and may remain subdued given the impact of lower commodities prices and still-slack manufacturing capacity. Finally, the positive trend in job growth has continued. However, there has not been significant wage pressure to suggest this trend is running out of steam. Our data-dependent Fed will surely have a robust debate about raising interest rates at this time.

Whether or not the Fed raises rates this year is not as important as their continued communication of their outlook for future interest rate increases (the "rate path") and the size of those rate increases. We believe the Fed will raise interest rates in modest increments at a much slower pace compared to prior tightening cycles.

Overall, we continue to expect modest economic growth coupled with subdued inflation and low interest rates for the foreseeable future. This combination may allow the current U.S. economic expansion to continue longer than the historical average. In such an environment, we would continue to favor an overweight allocation for investors to high-quality stocks in lieu of bonds.

The Gift of an Ethical Will

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

At The Trust Company, we work with families in a fiduciary capacity, and enjoy building genuine and lasting friendships with our clientele. We are trusted regularly with the details of personal and family situations, and understand the responsibility of managing assets for clients and their heirs. That is what makes this topic special. The idea of leaving their years of experience and encouragement to the generations beyond them makes clients' gifts of money and possessions only the beginning.

Putting it simply, a validly executed will or trust agreement is designed to tell your heirs what you want them to *have*, while an ethical will is designed to tell your heirs what you want them to *know*. An ethical will can be a personal letter, statement or recording you create to bequeath values, life lessons, and personal reflections to loved ones. It can be a treasured complement to a legal will and also a wonderful gift to family members.

Although they have been around since early Biblical times, ethical wills have gained widespread popularity in recent years, and there are plenty of resources available to help with writing, editing, coaching, and recording such a message. Since an ethical will is not considered to be a legal document, there is no formula that dictates the required content or format. It is a deeply personal reflection and can take any form you choose.

Especially valuable for younger generations of grandchildren and great grandchildren, an ethical will can include some previously untold family history, your personal values and spiritual beliefs, important lessons you have learned in life, your hopes and dreams for the next generations, expressions of or requests for forgiveness, and how you would like to be remembered after you are gone. You can decide to share your ethical will with your family before you die, or leave it for them to find at a later date. Some even choose to have e-mails set up in advance and sent electronically after death.

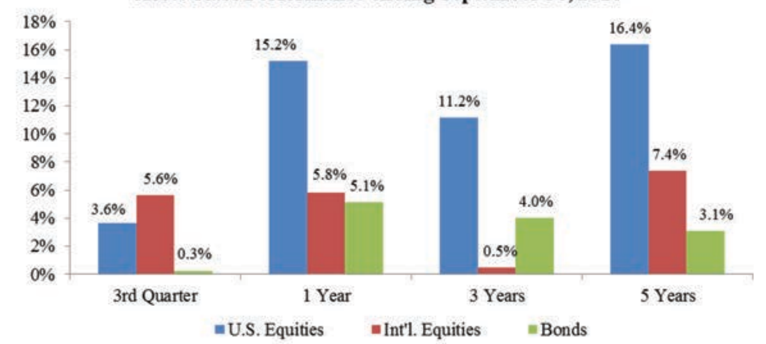
Many estate planning attorneys are now using ethical wills to help their clients transfer not only wealth, but also wisdom and insight to their loved ones. They report that the experience of working on an ethical will has been a universally positive emotional experience for their clients, providing an often-unexpected sense of clarity as well as a sense of "completion," particularly as a parent and grandparent.

Composing an ethical will takes courage and challenges you to look inward to see the truths you have learned in a lifetime and measure the things that matter most. It is the ultimate way to live on after death in the hearts and minds of loved ones and reinforces the fact that leaving a meaningful legacy can involve much more than just money. If you need help getting started, there is an array of online resources available, which offer practical information, examples of ethical wills and materials for purchase.

Portfolio Review & Strategy

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

The third quarter of 2016 proceeded without much volatility after a wild six-day round trip in stock prices in June following the surprising Brexit vote. After Brexit, the U.S. stock market (S&P 500) spent 42 trading days without a move larger than 1% (up or down) on any trading day. Volatility was muted until midway through September when whisperings of a rate hike by the Federal Reserve Board reinstated uncertainty. To be clear, as long as Fed policy decisions remain difficult to predict, investors should expect some volatility. As always, we acknowledge the transient nature of stock market movements surrounding Fed decisions and look to the longer term – focusing on the fundamentals of the businesses we own. We were largely pleased with the quarterly results of our companies. Dividend payers continued to pay (and in many cases increased) their dividends, while our growth companies continued to compound revenue and earnings at rates far in excess of the anemic 1%-2% GDP rates we hear so much about in the news.



*The S&P 500, MSCI EAFE, and Barclays US Agg Bond are used as proxies for broader market performance. Three and five year figures are annualized.

Last quarter we touched on the stark outperformance of dividend-paying companies through the first half of 2016. The belief that interest rates would remain lower for longer (regardless of Fed decisions) caused investors to favor current dividend payments over anything else. Investors poured into dividend-paying stocks and were less interested in companies sporting lower dividends and higher growth characteristics. We have seen a modest reversal in this trend over the past several weeks, which we expect will continue as investors reassess where to find the best values. Generally speaking, we view the broader U.S. stock market as being reasonably valued. We expect the majority of our equity positions to appreciate at rates commensurate with their underlying earnings growth. With that said, we see good value across our portfolio strategies, particularly for clients where our growth strategy is most appropriate.

On September 21st, the Fed's Open Market Committee (FOMC) decided to keep the federal funds rate the same. The likelihood of a December increase remains. FOMC participants lowered their outlook for the likely federal funds rate through 2018. This is consistent with our expectation that interest rates will remain lower for longer. For this reason, we continue to avoid most traditional fixed-income (bond) investments for our clients who need current income. We are happy to use bonds for clients who want volatility reduction, as long as our clients understand that we believe bonds will limit their long-term total-return potential. We continue to favor high-quality growth-and-income stocks, preferred stock, REITs, and master limited partnerships (MLPs) as a source of current income.

Politics and the Stock Market

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

Nastiness has characterized every Presidential and Congressional election, and will no doubt continue into the future. The grandfathers of modern divisiveness – Thomas Jefferson and John Adams – set the 200-year tone for electioneering when they traded libelous barbs in their disputed 1800 campaign. Jefferson won by questioning Adams' sexuality in the media and claiming Adams would launch a war with France if elected. Today's election, shocking as it may occasionally seem, is quite benign by our Founding Fathers' standards.

Every four years, our financial markets must deal with, and handicap, the Presidential election cycle. This particular cycle is most uncomfortable for its pall of negativism. Both candidates bear high disapproval ratings; their pronouncements evoke rancor, and their respective visions are not shared by a majority of voters. As a result, Americans seem more motivated this election to protect their interests should the opposing candidate prevail, which is also casting a pall over investor sentiment.

While we invest for our clients in individual equities and fixed-income securities based on "bottom-up" analysis of the fundamentals of each investment, we must adopt a point of view on macro-economic and political issues. This point of view helps us determine the effect of external forces on these individual investments.

We take comfort, however, in knowing that America is much bigger and broader than one candidate, and has proven remarkably resilient to partisanship. The system of checks and balances established in our Constitution was created to ensure that should controversial leaders get elected, they could not inflict much long-term damage on the nation.

The correlation between U.S. economic growth and the Oval Office is weak, at best – so weak, in fact, that we find it impossible to estimate economic impacts under Donald Trump or Hillary Clinton. The U.S. has experienced periods of rapid growth under mediocre leadership in Washington, and conversely experienced recessionary conditions under great leaders. Our economy simply does not take its cues from the swinging pendulum of politics. Long term, the two most vital factors to U.S. economic expansion have been the growth rates of population and productivity, factors that neither political party can influence.

In the end, what will matter most to investors are the day-to-day activities of businesses. Rather than ask "will Hillary or The Donald be good for the stock market," the more-relevant questions are: Will Americans continue to spend money in Lowe's and Home Depot after the election? Will they continue to take out mortgages and buy homes? If your opposing candidate wins the White House, would Americans still buy Nike athletic wear, travel to Disney World, and take their medications? We think yes.

Washington will stay divided because our nation is divided. Our shifting demographics have temporarily produced an electorate that appears equally split on key issues such as the expansion of social services, the role of the government in stimulating growth, the future of entitlements, tax policies, education reform, immigration, and hot-bed moral questions. Over time the nation will move off center and consensus will be built again, for as George Washington once remarked, "a people who are possessed of the spirit of commerce ... may achieve almost anything."

However, in the near term, compromise may be reached on matters such as tax reform, infrastructure spending, immigration, and trade. The resolution of some or all of these issues presents the possibility of faster economic growth than we have seen since the financial crisis. Of course, this outcome may be wishful thinking, but at a minimum, history says that "gridlock" doesn't create a poor outcome for investors.

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