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MARKETWATCH

Deeply Rooted in the Community | Second Quarter 2017

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Current Outlook

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

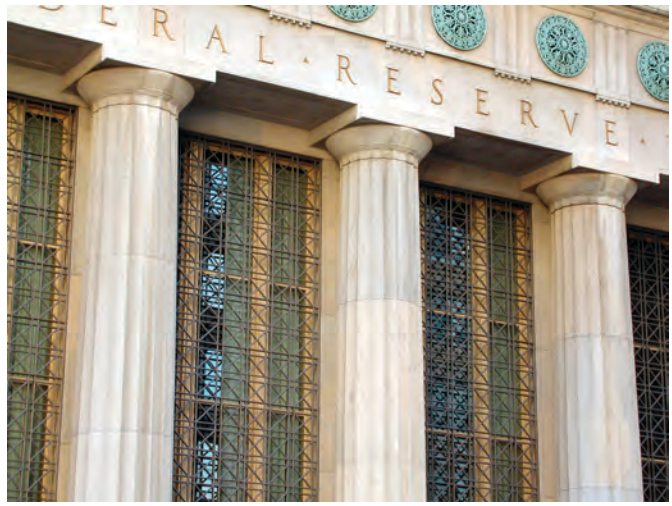
Just as we were getting comfortable with a "New Normal" of lower growth potential following the "Great Recession" of 2008-2009 and an interest rate environment of "lower for longer," along comes the surprise upset election of Donald Trump and the re-constituted Republican majorities in both the U.S. House of Representatives and U.S. Senate. The ripple effects of this tectonic shift in the U.S. and world economic order created more uncertainties. Investors are attempting to gauge which uncertainties will be positive for economic growth and asset values and which uncertainties will be negative.

The new "America First" agenda for the U.S. government seems to emphasize domestic production, international trade protectionism, increased military spending, lower taxes, higher spending on infrastructure, and political isolation. Taken as a package, these measures could lead to a shifting emphasis toward higher economic growth, higher fiscal deficits, and higher inflation and interest rates. Already, we are seeing the first signs of this changed outlook with improved consumer and business confidence – a likely precursor of higher economic growth as 2017 unfolds.

In addition, with the unemployment and inflation rates having met the stated goals of the Federal Reserve Board, short-term interest rates are on the rise. We expect at least two more increases of 0.25% in 2017 and as many as four increases of like amount in 2018. This would cause short-term rates to nearly double by the end of next year to 3% after staying near 0% for the previous eight years. Reversing the direction of interest rates could result in some friction developing between the head of the independent Federal Reserve and the politicians, impairing the central bank's ability to properly manage the economy. This is one more uncertainty to deal with.

We expect the transition going forward – a gradual tightening of monetary policy on the one hand; a meaningful easing of fiscal policy on the other – to drive the real economy and asset pricing well into 2018. In addition, interest rates around most of the world now look to rise from the unusual negative rates that were experienced throughout 2016. After eight years of low interest rates and rising equity prices, we may see a reversal of these dominant trends this year. We are cautioning against too much exuberance as we are reminded of the axiom "Don't fight the Fed."

Given this outlook, we again are being careful about portfolio construction. While our clients own many wonderful companies in their portfolios, we are ever mindful that the valuations of many asset classes are closer to business cycle highs rather than lows. We look forward to the opportunity to add fixed-income securities to the mix as interest rates rise. We still expect moderate economic and profit growth around the world this year and next with relatively low inflation. Stabilization in both the value of the U.S. dollar and the price of oil will go far to act as a tailwind to profit growth this year after their negative effects in 2015 and 2016.



Digital Dilemma—Access to Your Assets

Steven V. Greenstein
Wealth Services Advisor

In 1964, American songwriter Bob Dylan published his iconic ballad, *The Times They Are a-Changin'*, foretelling the political, financial and social transformations taking place in a rapidly developing world. Today, 53 years later, no area of estate law and trust administration is changing more rapidly than the Federal and state statutes governing the access to and transfer of digital assets upon the death or incapacity of the owner. A digital asset is generally defined as any item or file which is created, sent, received or stored by electronic means.

In 1964, Dylan did not own a personal computer, cell phone or credit card. He took pictures with a film loaded camera, paid bills and sent letters by mail, wrote music on paper, and kept important papers in a file cabinet. He did not have an account on Facebook, My Space, LinkedIn, Twitter, Amazon, Pay Pal or E-Bay. He did not bank online, have a YouTube channel, read books on a Kindle, listen to music on iTunes, or use Dropbox, Snapchat, or store anything in the cloud.

Today, about to turn 76 and with a net worth of more than $180 million, Bob Dylan, like most Americans, has at least 25 user names and passwords to various devices and financial accounts and conducts the majority of his business on web sites and domains that he owns and controls. Digital assets now represent an increasingly larger responsibility for fiduciaries such as personal representatives and trustees, impacting their ability to properly implement and manage estate planning.

The full scope of the problem was evidenced in 2014 when there were more than 30 million Facebook accounts belonging to deceased owners that could not be accessed by fiduciaries due to the Terms of Service Agreements originally signed by the owners. The Terms of Service Agreements that you click "Agree" on when establishing a new digital asset contain privacy terms that restrict access to or changes by anyone but the owner or the service company. This was making it impossible to cancel or change an account after the owner had passed away.

In 2015, the Uniform Law Commission approved the Revised Uniform Fiduciary Access to Digital Assets Act (RUFADAA) with a general goal to create some uniformity in terminology and definitions and to facilitate fiduciary access to digital assets during incapacity and upon the death of an owner. Since then 18 states (Florida being among the first) have enacted it as law, with another 14 having introduced legislation to enact it this year.

But even with the passage of RUFADAA, it is imperative for all of us who own digital assets to update our estate plans to include granting powers to access, archive, and even delete digital assets, with the important consideration that the individual appointed as a fiduciary will have access to some of our most closely guarded and sensitive information.

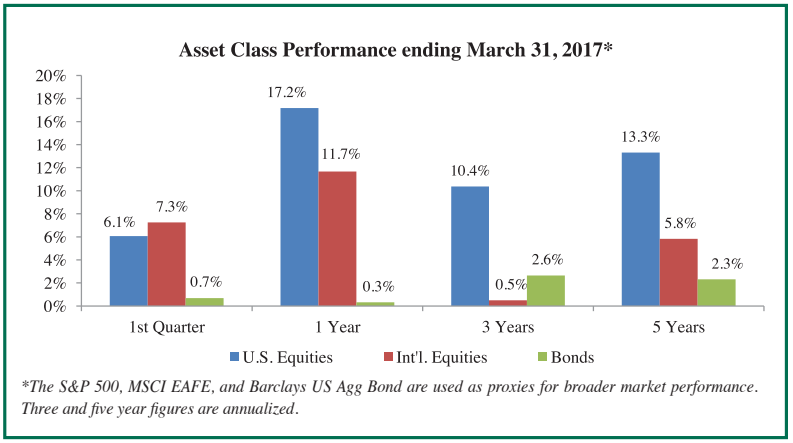
The laws will continue to develop and change as rapidly as the development of new technologies. For Bob Dylan, and for the rest of us, it is important to recognize that with the rise of digital assets, our estate plans they are a-changin'.

Portfolio Review & Strategy

Ian N. Breusch, CFA
Chief Investment Officer

The broad-market euphoria that marked the fourth quarter of 2016 has continued in 2017. U.S. equity markets marched higher on the back of the same themes emphasized after the presidential election. Prospects of lower taxes for corporations and individuals, less regulation, health care reform, and new infrastructure spending caused many to speculate on eventual winners and losers. However, even as we pen this edition of MARKETWATCH, those decisions remain largely speculative when you consider that actual policy details remain undecided.

Our disciplined approach to long-term investing mandates that we avoid overreacting to short-term market conjecture. Instead, we spend the majority of our time focusing on fundamentals of the companies we own – the news that actually matters. We were mostly pleased with earnings results of our portfolio of companies. Guidance for future revenue and profit growth was largely in line with expectations.



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.

On March 15, the Federal Reserve Board decided to raise the federal funds rate by another 0.25%. This follows the same decision made in December 2016. In a fairly short period of time, short-term borrowing rates have risen, and the rest of the yield curve has responded positively.

The latest indications from Fed members suggest that at least two more rate hikes this year are probable. We would point out that the Fed has fallen short of achieving their expectations over the past several years. In other words, a slower path toward normalizing rates would not surprise us. However, it seems clear at this point that the path of interest rates is upward; although, that path may end up being more sporadic than what we have experienced over the past few months.

We welcome the prospect of continued higher interest rates. For several years, savers and those living off fixed incomes have had limited investment options to help them achieve their goals. For the first time in years, bonds (corporate and municipal) are looking marginally more attractive. Our level of attraction for bonds will only increase as rates continue to rise and the disparity in valuation levels among stocks and bonds converge. Until then, we continue to favor a combination of growth and dividend-paying stocks spread across several market sectors for the core portion of client portfolios. Income needs continue to be met by using high-quality income stocks (utilities), preferred stock, Real Estate Investment Trusts (REITs) and master limited partnerships (MLPs). Though valuation levels still favor stocks over bonds by a considerable margin, it is encouraging to see progress toward parity.

A Healthy, Wealthy & Wise Retirement

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

Everywhere we look, we're surrounded by commercials about how to retire well. Before you retire, keep in mind a few important observations, and even afterward, there is always an opportunity to fine tune your plan.

Envision Your Retirement - You may decide not to retire quite as soon as you thought. People are living significantly longer, so don't be tied to a certain retirement age, simply because you think it is expected of you. Many people actually miss the work they did during their careers. Work provides structure, social connections and a sense of purpose. The sudden shift in life can leave both men and women lacking a sense of self-worth.

The good news is that retirement from a long-term career can be a transition to another career, a new level of volunteerism, mentorship or a new business venture. Also, a retiree has years of experience in a particular industry, corporate or small business management, philanthropic leadership, as well as business and community connections. Retirees are a bank of knowledge, advice and opportunity. Share the wealth!

Lean In to Your Financial Future

- Eliminating any unnecessary debt before leaving the workforce is one of the most vital keys to financial success during retirement. A 2013 study by the University of Michigan showed that nearly one-quarter of Baby Boomers ready to retire still had more debts than assets. Retirees who create a debt-elimination plan early on and stick to it, can avoid a long-term financial squeeze.
- A recent poll noted that a healthy amount of financial self-discipline before retiring had a bigger impact afterward than most people expected. If you want a comfortable retirement, make adjustments during the working years by establishing a lifestyle that is acceptable to you, so that once you've taken the leap, you are comfortable in this new phase of life.
- The rule of thumb is that individuals plan to spend 20% less in retirement than when they worked. In reality, most find they spend as much or more, at least in the early years. This is due to having more free time to spend money on an extra vacation, new hobbies, socializing and entertainment. If this describes you, build it into your financial transition plan.

Remember to plan for inflation, too. What cost you $50,000 annually at the time of retirement, may cost you $70,000 10 years later. Note that sizable and/or sudden changes in income can result in Medicare surcharges, such as premiums; individuals pay for Medicare Part B and prescription drug coverage. And budget for eventual out-of-pocket medical costs, which can often exceed $100,000 over time.

Enjoy a Healthy Bucket List – Don't wait to retire to enjoy those special things you want to do in life. Health is one of the most unpredictable factors that affects a quality retirement. Work wish-list items into your lifestyle now and embark on those more strenuous and expensive travel adventures while you are working and can physically tackle them.

We help many families prepare for and manage their retirement lifestyles. Bring your trusted advisors into the planning process, so your retirement years will be all that you envisioned.

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