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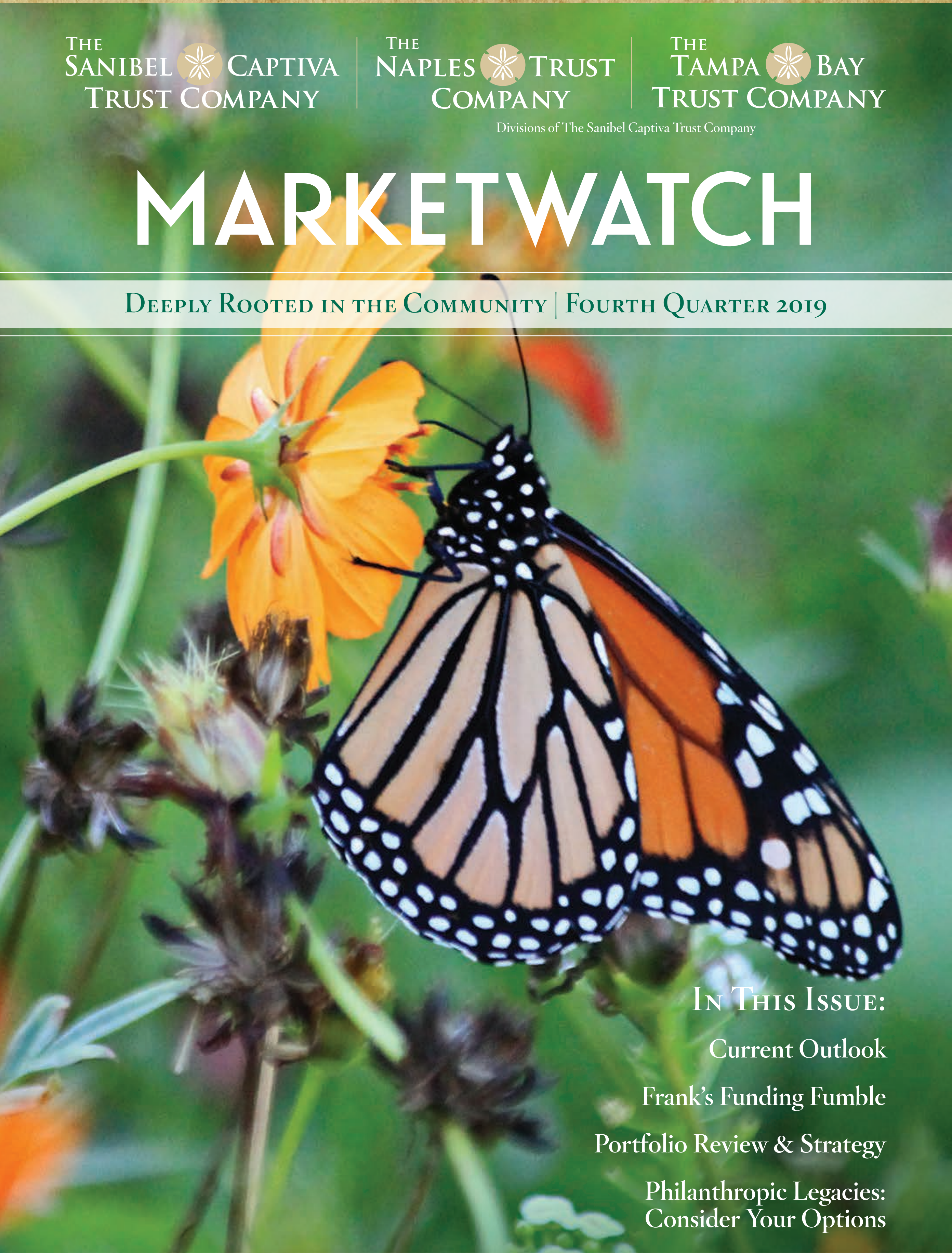
MARKETWATCH

Deeply Rooted in the Community | Fourth Quarter 2019



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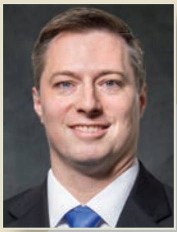


Current Outlook

Andrew Vanderhorst, CFA, CFP®, CLU®
Senior Portfolio Manager

The third quarter proved to be an exciting period of monetary policymaking as some international central banks further committed to low, even negative, interest rates, while our Federal Reserve began to reverse its course of monetary tightening by cutting rates twice. The cross currents of monetary responses spurred worries of a broad-based economic slowing and led to muted returns for stocks in the third quarter.

In his last act as head of the European Central Bank (ECB), Mario Draghi cut its policy rate further below zero (to -0.50%) and resumed bond purchases of up to 20 billion euros per month. Inflation in the EU stubbornly remains around 1%, below the ECB's target of inflation below, but close to, 2%.

As expected, the U.S. Federal Reserve (the Fed) has switched from monetary tightening to monetary easing. We have pointed out in prior newsletters that the Fed would likely find it difficult to fight the tide of low interest rates around the world. During the quarter, the Fed twice cut their key interest rate by 0.25%, bringing it down to a range of 1.75% – 2.00%. More importantly, we gained further insight into the Fed's thinking and expect additional small, incremental interest rate cuts. Meanwhile, the Fed has also ceased shrinking its own balance sheet and will begin reinvesting in bonds as older ones mature.

Yet, the U.S. economy continues to perform well. The U.S. unemployment rate has remained at a 50-year low, while wage growth has picked up slightly, and consumers continue to provide a strong foundation for our economic growth. Consumer spending continues to increase roughly at the rate of wage growth, yet savings rates and balance sheet indebtedness remain at healthy levels, too. Pockets of economic weakness persist, however, with capital investment and exports weaker due to trade-war worries. U.S. real GDP growth was 2% in the second quarter, and the current forecast for the third quarter is 1.8%. With growth slowing and U.S. core-inflation below the Fed's target of 2%, the Fed has some wiggle room to once again adopt monetary easing.

Despite the low interest rates around the world, fixed-income securities remain in high demand. Approximately $16 trillion of fixed-income securities (mostly government bonds in Europe and Japan) trade at negative yields, and this may likely increase in the near-term as issuers seek to capitalize on the low-interest rate environment. For example, Germany recently issued 30-year bonds bearing a negative interest rate. This unusual climate is being artificially engineered to disincentivize savings and force banks, businesses, and consumers in those countries to lend, borrow, and spend, respectively.

Back home, the U.S. 10-year Treasury bond rate dipped to 1.47% in early September while the 30-year Treasury rate fell below 2%. For a brief period in August, we even saw the yield curve invert with the 2-year Treasury bond yield exceeding the 10-year Treasury yield. Though the inversion was short-lived, the markets sent a clear signal that both Treasury bonds remain in high demand and that interest rates will likely need to decrease again. After the unexpected drop in interest rates, we continue to view fixed income as an important diversifier of risk where appropriate, but not as a compelling forward-return investment.

As we head into the third-quarter earnings season, we will be listening astutely for company guidance regarding capital expenditures and investments. This may serve as a barometer on how the uncertainty on global trade and geopolitical tensions is affecting companies in the near-term. Despite the small speed bumps this year, we still are on track for low-to-mid single digit earnings growth for all of 2019.

Frank's Funding Fumble

Peter Knize, J.D., LL.M.
Trust Administration

We all know someone like "Captain Frank." A combat engineer and war hero, Frank landed with General Douglas MacArthur on the shores of Korea in September of 1950. Grievously wounded, he was transferred stateside and spent six months recuperating. There he met Julie, his nurse. A wonderful marriage ensued.

Retiring to Tampa in 1976, Frank loved football and saw every home game of the Bucs' abysmal first season. Quarterback Steve Spurrier's 0-14 year led coach John McKay, after a bad loss, to quip: "We didn't block real good, but we made up for it by not tackling." Frank was less tactful. Every fall, like clockwork, Frank pulled out his Bucs jersey, adjusted the rabbit ear antennas, set up the neighborhood betting pool, and coordinated the tailgate parties—all with military precision. His army buddies always joked if they had to serve under Frank or General MacArthur, they would choose Frank. Julie wasn't so sure.

Recently, Frank became terminally ill. Comforting him again these many decades later, Julie reminisced, alone. After his funeral, Julie's sister took her to see the estate attorney. Everything was in order she was told. Julie was named sole beneficiary as well as Frank's executor and trustee. A wave of relief—the first since Frank's passing—came over Julie. The bills were mounting—the funeral, burial, hospital, mortgage, power, cable, credit cards—and the checking account was running low. Julie felt like there was no time to grieve.

"There's just one thing," the attorney told her. "A probate has to be opened to fund Frank's trust. Then we can transfer the assets to you." Herein lies Frank's fumble: The investment and banking accounts, vehicles, even a timeshare, were still in Frank's name. A Massachusetts house and farm, given to Frank after his mother's death, were deeded in his name too. Because Frank never transferred (funded) those assets to his trust, a probate court was necessary to oversee the transfer.

In Julie's case, this meant arduous delays. It took two months just for the court to appoint her as the Florida executor. Following the appointment, it took months longer to complete the transfer of the investment and banking accounts to Frank's trust. During the interim, Julie was forced to withdraw funds from her IRA to keep the household going, causing adverse income tax liabilities.

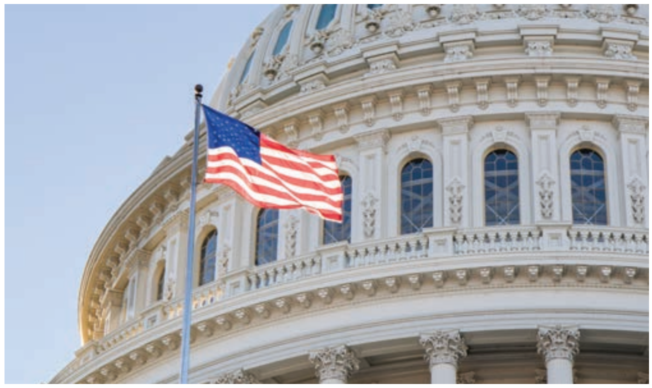
Worse yet, Julie learned that in order to transfer the Massachusetts property to Frank's trust, another probate process would have to be started... in Massachusetts! Months into the Massachusetts probate, the attorney found a title problem with the farm's deed – which had to be resolved before the property was transferred to the trust. Julie was forced to file a contentious "quiet title" action against her brother-in-law to claim clear title. Months and thousands of dollars later, the property was properly, and finally, transferred to Frank's trust. Both estates were closed. Julie was emotionally exhausted.

If your estate plan includes a revocable trust, avoid Frank's funding fumble. Frank should have transferred his investment and banking accounts to his trust while alive and retitled assets in the name of the trust. Those simple steps would have saved Julie from months of nagging probate filings and hearings – and made the disbursement of Frank's assets timely and seamless. Transferring the Massachusetts property to his trust while still alive would have prevented Julie from fighting to ensure Frank's testamentary intentions.

When in doubt, sit down with our trust specialists and your legal advisors to make sure you avoid Frank's funding fumble.

Portfolio Review & Strategy

Ian N. Breusch, CFA
Chief Investment Officer

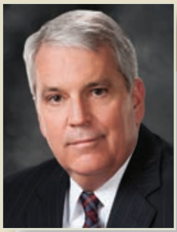


The third quarter of 2019 is shaping up to be another profitable quarter for global equity investors. This may come as a surprise given the ongoing forecasts of impending recession by economists and investors alike throughout the summer. As we make our way towards the end of the year, we remain focused on the fundamentals (hard data instead of conjecture). Earnings forecasts for large corporations are improving modestly through 2020. Our expectation for low single-digit earnings growth through next year seems very reasonable given our outlook for modest economic growth, low unemployment, wage growth, and solid consumer spending.

Global bond markets were about as volatile as stock markets this past quarter. U.S. interest rates bottomed towards the end of August before rebounding to modestly higher levels. The European Central Bank (ECB) seems intent on supporting negative interest rates, which is worrisome given the unintended consequences that negative interest rates may pose. While both Europe and the U.S. continue to support very accommodative monetary policies, we firmly believe the U.S. remains on much stronger economic footing going forward. While good values can be found by owning developed international stocks, our stock market exposure will remain much more U.S. focused. Within the U.S. market, we also believe a limited allocation to small and mid-size U.S. companies makes good sense given the strong outperformance of large blue-chip stocks over the past several years.

Given lower interest rates globally, the forward return expectation for stocks versus bonds became more pronounced in the last quarter. We are finding quality stocks that pay a dividend yield higher than what an investor would receive owning the same company's bonds. The added value of being an owner (stockholder) – as opposed to being a lender (bondholder) – comes essentially free now in many cases. Although we firmly believe that stocks are a better value than bonds – holding all else equal, we certainly acknowledge that many of our clients benefit from having a modest allocation to high-quality bonds, particularly those clients looking to reduce risk in their portfolios. If an allocation to bonds is appropriate given your individual goals, we remain adamant that short-term bonds are the only reasonable place to allocate capital as a long-term investor. Given the uncertainty around the future of rates globally, there is no reason to own longer-term bonds, which only expose investors to additional interest-rate risk – with no incremental yield.

A persistent theme over the past few years within the U.S. stock market has been the underperformance of "value" stocks relative to "growth" stocks. While faster growing younger companies drove broader markets higher, more mature companies – many of which pay hefty dividends – were less sought-after by investors. If global interest rates remain lower for the foreseeable future, it's quite likely that investors will once again covet higher dividend yields despite modest underlying revenue and earnings growth. In most cases, we believe it makes sense for our clients to have a mix of both growth and value stocks that are reasonably well diversified across various sectors of the economy. We remain confident we can find great companies for our clients' portfolios regardless of what the market favors at a particular point in time.



Philanthropic Legacies: Consider Your Options

MICHAEL R. DREYER, CPA
PRESIDENT, THE TAMPA BAY TRUST COMPANY

Many Trust Company clients have expressed a desire to create a legacy for their charitable interests. But they struggle with key questions: Do I want to control how the dollars are disbursed? Should family members be involved? Is it best to contribute now, or at death? Are my contributions going to be large enough to support an entity and cover the filing burdens? It is important that you think about these issues, research the best path, and consult with advisors before you pursue. Of course, we stand ready to help.

There are several ways to create a philanthropic legacy; two of the most prevalent are private foundations and Donor Advised Funds (DAF), and each can be effective. With a private foundation, you set up a charitable entity (a corporation or trust) that receives financial support from a limited number of sources (normally the individual or family who forms the foundation). The foundation is overseen by a board (typically comprised of the forming family) or a trust company. Most are classified as "non-operating" and make grants or donations to other charitable organizations that directly engage in charitable work.

Non-operating foundations are required to donate no less than 5% of the fair market value of their investment assets on an annual basis. Contributions to a private foundation are tax deductible to the donor, but the amount that may be deducted is subject to the donor's adjusted gross income and whether the donation is cash or in-kind property. Further, private foundations are exempt from most taxes if their activities are focused on charitable endeavors.

The primary advantages of a private foundation are that they provide a vehicle to individuals to make tax deductible charitable contributions while maintaining significant control over the foundation's giving program. Indeed, funding a foundation before death and making continuous contributions offer ongoing income tax benefits. They also are an excellent way to carry on family values by encouraging relatives of the original donor to sit on the board and oversee the donor's intentions well into the future.

On the other hand, private foundations are subject to strict IRS rules relating to donations, disbursements and tax consequences, and the set-up and ongoing administration costs can be onerous unless the foundation is of sufficient size – usually at least $1 million. Some of the foundation's records, too, must be made public.

An alternative is to establish a Donor Advised Fund. With a DAF an individual or family establishes an account with a sponsoring organization, such as a community foundation. The donor receives an immediate charitable tax deduction and maintains "advisory privileges" over the fund's ultimate distribution for charitable purposes. The supporting organization typically honors the donor's wishes but does make the final decision. In some cases, the sponsoring organization will allow the donor to maintain advisory privileges over how, and where, to invest the funds as well.

The primary advantage of a donor advised fund is the low overhead involved. There are no costs to the donor for establishing the DAF or for on-going administration. There are no annual reporting requirements by the donor, either. To establish a DAF, the initial commitment (donation) by the donor can be substantially less than required by a private foundation. Also, donors can choose to have the gift publicly recognized or kept completely anonymous.

One disadvantage of the donor advised fund is that while you have an advisory role as to how the funds are disbursed to charity, the sponsoring organization does have final discretion. Likewise, the organization has complete control over the investments until the funds are distributed to charity.

Before choosing a foundation or DAF, learn the many details of these plans first and discuss them with a tax consultant or other professional advisor.

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