# FORESIGHT

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The Sanibel Captiva Trust Company

The Naples Trust Company

The Tampa Bay Trust Company

Divisions of The Sanibel Captiva Trust Company

**SECOND QUARTER | 2020**

Current Outlook & Portfolio Strategy

Make Senior Living Work for You Both

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Wise Use of a Volatile Portfolio

# Current Outlook & Portfolio Strategy

**Ian N. Breusch, CFA**
Chief Investment Officer

Volatility across capital markets reached extreme levels during March as the Coronavirus (COVID-19) pandemic expanded across the globe. Investors have fled to safety assets such as cash and bonds, while equity markets have experienced short-term declines not seen since the financial crisis of 2008-09. Efforts taken by countries all over the world to stem the spread of the disease is causing a slowdown in economic activity that we expect will result in a recession this year. Given the backdrop of global concern and the remaining unknowns, it seems quite likely that volatility will continue for the next several weeks or until infections of COVID-19 begin to peak in the U.S. and across other developed nations.

To help lessen the eventual economic impact, the Federal Reserve Board has taken significant action. On March 3rd, the Fed announced a 0.5% cut in the federal funds rate. On March 15th, they announced another full 1.0% cut in the federal funds rate, bringing the overnight funding rate to a range of 0-0.25% - the lowest level since 2015. In addition, the Fed has also pledged extensive support and liquidity for overnight cash/lending markets. Central banks and governments all over the world seem willing to do what they can to provide economic stimulus. Monetary and fiscal stimulus certainly can't limit the spread of COVID-19, but it will provide a very helpful foundation for the economy and global capital markets as we move past the worst days of the pandemic.

During periods of increased volatility or market decline, it is very important for investors to stay the course. We make this statement in the face of the risks and uncertainty we have highlighted. Although the timing and severity of the decline (and eventual rebound) is impossible to predict, we will certainly get through this. The long-term objectives we set forth with our clients continue to be very attainable. We know corrections and recessions are going to occur. It's always a matter of when – not if. For this reason, the investment objectives we implement on behalf of our clients already assume we are going to have periods of time that are uncomfortable.

Our investment team remains focused on owning and sourcing the highest quality assets. From a stock perspective, this means finding companies with good revenue and earnings foresight, strong cash flows, stable balance sheets, and modest debt levels. To the extent bonds are appropriate, we are intentionally favoring shorter-term bonds with good credit quality. As we move further into the year, we will also be looking at opportunities to harvest losses for tax purposes.

We recognize the level of anxiety this pandemic has caused investors. These periods of time make all of us uncomfortable. However, the correct response is always to make long-term investment decisions based on logic and reason – rather than raw emotion or fear – which is what we will continue to do on behalf of our clients. Your Portfolio Manager and Wealth Advocate are always available to help assuage those inevitable concerns. We appreciate your continued confidence and we will work through this period of time together.

# Florida Domicile - Why & How?

**Robin L. Cook, CWS**
Wealth Services

If you are thinking of becoming a Florida resident or have already made the wise choice to make Florida your domicile – congratulations! If you are still in the decision-making process, let's consider the host of advantages of becoming a Florida resident and making Florida your "domicile state."

## In addition to our wonderful weather and lifestyle, there are financial rewards as well.

Residents of all states are subject to Federal Income Tax, but Florida residents enjoy no state income tax, estate tax, inheritance tax or intangible tax. This usually means tax savings on IRA withdrawals, pension, annuity, and employment income. However, if you own assets or derive income in or from another state, you may still be subject to income and estate tax in that state.

For example, a Wisconsin resident making over $258,950 pays a state income tax of 7.65% over and above the Federal income tax. The Florida resident savings in this case is nearly $20,000. IRA withdrawals are considered income too.

Florida residents also enjoy property tax savings and Florida homestead creditor protection. Making your Florida home your homestead with the property tax assessor can lead to a $50,000 reduction in the taxable assessed value of your home. In addition, the Save Our Homes Property Assessment Cap limits the increase in your home's assessed value to no more than 3% annually - regardless of that year's actual appreciation. There are even portability provisions if you sell your home and acquire a new one.

## There are steps to take to achieve Florida Domicile and ensure your successful disengagement from your former state:

- Obtain a Florida Driver's License
- Register to Vote
- Cancel prior Voter Registration
- File for Homestead
- License and insure a vehicle in Florida
- File a Declaration of Domicile
- Execute New Florida Estate Planning Documents

- Change your Church and Country Club affiliations
- Bring Heirlooms to Florida
- Don't take advantage of discounts in your former state
- Write "Final Return" on your last former state income tax return to put them on notice
- Bring your bank and investment accounts to Florida

Must you complete all these steps to be successful? Not necessarily, but the more of these actions you can add to your "completed column," the better you will fare if your former state decides to audit you.

It is also important to keep records of these actions as proof to your former state that you have met the necessary requirements as an official Florida resident.

## Some records that will help are:

- Proof of presence outside your former state (183 days), i.e.,: Minnesota has required printed airline boarding passes
- Receipts - credit card and bank statements showing activity outside of your former state
- Physical calendars with notes

There are multiple scenarios that can occur, putting your successful Florida Domicile plan in jeopardy. Our Advocates at The Trust Company can be a resource for Florida Domicile, estate planning and all your lifestyle needs. Welcome to Florida!

# Make Senior Living Work For You Both

**Steven V. Greenstein, CTFA**
Wealth Services

One of the most difficult and challenging times in senior life is transitioning from an independent lifestyle to assisted living when your health begins to decline. The key to a successful transition is to be proactive and have a plan in place rather than be reactive to a crisis after it arises. Trying to find a place that meets your personal, social, and medical requirements and assessing the future cost are highly personal decisions based on your individual needs, wants, and wishes.

Finding suitable living arrangements as a couple when you have varying personal and social needs and drastically different health situations creates additional and compounding challenges. As a general rule, the spouse who needs the higher level of medical care will dictate the type of senior living arrangement that is best suited to accommodate those needs. At the same time, the healthier, more mobile, and perhaps more sociable spouse must also ensure that there are appealing and fulfilling leisure activities that will point to a pleasurable quality of life.

Couples can explore the possibility of aging in place at home with professional home health aides who can supply everything from basic care needs to rehabilitative care, or round-the-clock skilled nursing care for the medically needy spouse. The goal is to also alleviate the burden on the healthier spouse for caregiving and medical attention. Another popular choice for couples with varying needs to explore is a continuing care retirement community. A couple can move in together, but if one spouse needs to move to a higher care living facility on the campus, the couple is still close enough to see each other every day - while the healthier spouse can enjoy the social benefits and leisure activities in the community.

So, for couples who are in the process of planning future living arrangements together, the best way to make the most successful decisions possible is to research your options in advance, identify and discuss your individual and shared social, emotional and health needs, and honestly assess the potential probability of future health changes before they arise. Reaching a final decision for couples with differing needs is a balancing act that comes down to prioritizing the wants and wishes of two individuals who want to stay together, but who are at different places in their lives. The process works best with open and honest communication, reaching for compromise, and recognizing the importance of the love and respect that has kept you together for all these years.

If you are beginning to plan for future care needs as a couple and would like some help, feel free to contact a Wealth Services Advisor at The Trust Company. We help our clients explore and understand their options and introduce them to medical and senior living professionals for guidance and support.

# Wise Use of a Volatile Portfolio

**Timothy P. Vick**
Director of Research

The intense volatility we've experienced in the market certainly raises, for many of you, near-term issues of asset allocation, budgeting, and maintaining proper levels of income. The price declines also bring to the fore several tax and estate planning issues. For example, is it the right time to harvest capital gains? What do you do now with stocks that have appreciated for 20 years? Are there tactical advantages to taking losses? Can you exploit the market's decline to assist your estate planning? For many clients, we've already found viable options for repositioning their portfolios for future growth while enhancing their tax and estate situations.

Certainly, this is a time to review your overall tax situation and the unrealized gains and losses that may exist within your portfolio. Before the market's decline, most investors held assets that had appreciated substantially since 2009, and the unrealized gains may have seemed too large to deal with. Quickly, however, some gains have turned to unrealized losses. Likely, there are now opportunities to upgrade the quality of your portfolio and finally harvest gains on long-held assets, while offsetting those gains by selling lower-quality assets for losses.

You may also need to "bank" capital losses outright in anticipation of selling an appreciated asset later. If so, use the market's decline to generate the desired amount of losses. Finally, investors can consider selling assets now to intentionally generate tax losses, then buying those assets back after 31 days to reestablish the position at a lower price.

For those investors looking to shelter a portion of their portfolio from income taxes, a declining market offers an opportunity to fund a ROTH IRA with lower tax consequences. Currently, you may be holding substantial assets in an IRA and taking required minimum distributions (RMDs) that are taxed as ordinary income. With stock prices down, consider converting some of the IRA assets into a ROTH. Converting assets in a down market reduces the upfront taxes on the conversion, and lets those assets compound permanently tax free for you and heirs.

Charitable Trusts are yet another way to deal with an appreciated asset that has lost its appeal and no longer serves your needs. Say you have owned highly appreciated stocks for 30 years that you are loath to sell for a gain. In such cases, you can place the stocks in a Charitable Trust to benefit your favorite non-profits. By doing so, you can quickly sell the stocks – tax free – within the Trust and diversify the account more to your liking. The Trust will distribute income to you (a minimum of 5% per year) until your death. At death, the remaining assets are donated directly to chosen charities. You get an up-front deduction for the value of the donated stocks (based on a complicated IRS formula), and the opportunity to enjoy income from a new portfolio created for your current living needs.

Investors who may need to cap the value of their estate, and yet believe their investments can rebound in the coming years, often create a Grantor Retained Annuity Trust, or GRAT. With a GRAT, the investor essentially places low-cost basis securities into an Irrevocable Trust for a fixed period (usually 2-10 years). Over that time, the Grantor gets a stream of income from the Trust. When the Trust terminates, the assets transfer to beneficiaries. If the assets rose in value while the Trust was in effect, the appreciation gets pushed to the beneficiaries and excluded from the Grantor's estate. GRATs are most effective when a long-held asset may have temporarily fallen in value and the owner believes there is still significant appreciation potential. Gift taxes are paid based on the value of the asset when the GRAT was created. The chief caveat is that the Grantor must outlive the term of the GRAT to get the estate tax benefit.

**We encourage you to sit down with your investment, tax and estate advisors to see if these strategies can make a difference for you now.**

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The Tampa Bay Trust Company

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Beth Weigel
Chief Operations Officer

**Wealth Services**
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The Tampa Bay Trust Company
Robin L. Cook , CWS, Executive Vice President
The Sanibel Captiva Trust Company
Michael R. Dreyer, CPA
President, The Tampa Bay Trust Company
Steven V. Greenstein, J.D., CTFA
Executive Vice President
The Sanibel Captiva Trust Company
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