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The Sanibel Captiva Trust Company

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SECOND QUARTER | 2021

Current Outlook & Portfolio Strategy

Ian N. Breusch, CFA
Chief Investment Officer

Global stock markets moved modestly higher during the first quarter of 2021. It is no secret that stock markets have performed exceedingly well amidst unparalleled economic disruption due to COVID-19. Although we recognize stock markets are forward looking, it is reasonable to question if markets have moved too high too quickly. However, corporate results from the fourth quarter earnings season helped assuage concerns regarding the broader stock market. In fact, more than 80% of companies within the S&P 500 beat analysts' expectations for the quarter – a healthy sign as we continue to work our way out of the current recession.

The size and scale of monetary and fiscal support from the Federal Reserve and Congress in response to the global pandemic has been unparalleled. In March 2020, the federal funds rate was lowered to 0% at the earliest sign of economic distress. Coupled with an aggressive bond buying program, the Fed has provided ample liquidity to banks, businesses, and consumers. At the same time, Congress quickly passed its first fiscal support package in response to COVID-19 known as The CARES Act, a $2.2 trillion stimulus bill. More recently, additional legislation known as The American Rescue Plan of 2021 was also signed into law, ensuring an additional $1.9 trillion would be injected into the U.S. economy. Other countries around the world have also instituted their own accommodative economic policies. There are certainly longer-term concerns regarding the amount of debt-financed spending we are witnessing. However, for the foreseeable future, we expect these policies to be extremely stimulative to the broader economy, and by extension – capital markets.

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Millions of people across the world are being vaccinated for COVID-19. As we move closer every day to a more normal economy, we are seeing longer-term interest rates move higher as expectations for economic growth and inflation increase. Given that the Fed is doing everything in its power to manufacture inflation, we are not overly concerned about a broad-based rise in prices. We believe some amount of inflation is almost inevitable given the amount of stimulus we are experiencing. However, The Fed has ample capacity to subdue inflation if it becomes unwieldy in the short term. If an allocation to bonds is appropriate given your individual goals, we are favoring shorter-term bonds due to the uncertainty around the future of interest rates globally. Inflationary periods can be a net positive for stock markets given that they typically coincide with a rapidly growing economy. In fact, real GDP growth forecasts for the next two years are well above historical averages before they return to more normalized levels in 2023.

We are beginning to see signs that leadership across stock markets is beginning to broaden beyond technology-related companies profiting directly from the pandemic and the stay-at-home/work-at-home environment. However, speculation remains rampant in some areas of the stock market and we encourage investors to stay away from companies that have little to no sales or earnings to support their current stock prices. Expectations for a global re-opening are causing interest rates to move higher, making it more difficult for investors to justify lofty stock prices with little fundamental underpinning. Conversely, value/dividend-paying companies that trade at more reasonable valuation levels are beginning to perform well. While we own many growth/tech stocks in client portfolios (assuming we can justify their stock prices), 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.

Sweeten Your IRA for Heirs

If you're looking for ways to benefit your heir(s) with your IRA while supporting your favorite charity, you may be able to "have your candy and eat it too."

Carolyn C. Rogers, CFRE
Wealth Services

Perhaps you remember the iconic 1972 commercial featuring a gentleman eating a chocolate bar who falls down a flight of stairs landing on a little boy holding a jar of peanut butter. "You got chocolate in my peanut butter," the boy exclaims, giving accidental birth to the Reese's Cup – two tasty ingredients made better while creating something new and different.

Estate planning, similarly, is all about creating a win-win scenario by combining planning tools to achieve better or different outcomes. This past year, estate planning attorneys have introduced a sweet option to an old standby tool: a charitable trust that replaces the former Stretch IRA that high-net-worth clients have relied upon to benefit heirs.

This creative concept is a direct response to the SECURE Act (Setting Every Community Up for Retirement Enhancement Act) that President Trump signed December 20, 2019 and that made several meaningful changes to existing retirement plan law. A noteworthy feature of the SECURE Act eliminated the ability of most non-spouse beneficiaries who inherited an IRA to "stretch" the RMD payments over their lifetimes. Since the inherited IRA assets continued to grow tax-free during the distribution period, this had been a significant benefit and life-long income stream to beneficiaries. The SECURE Act forces the beneficiary to distribute all the IRA's assets, and pay all the ordinary income taxes, within 10 years.

Estate planners have since devised a delectable workaround – clients can establish a Charitable Remainder Unitrust (CRUT) that gets funded by the IRA at death for the benefit of a non-spousal beneficiary. This new planning tactic not only provides income for their heir(s) over their lifetimes but also saves taxes. This technique has the added benefit of providing a deferred gift to the client's favorite charity or charities.

This is what happens when you mix your metaphoric chocolate IRA into a peanut butter charitable trust. The value of the IRA, and the value of the charitable gift, is determined at the time of death. Since the CRUT is treated like a non-profit when funded with the assets from the IRA, there are no capital gains or taxes on income, and the trustee can sell or convert the IRA assets and reinvest them within the CRUT. In addition, the donor predetermines a percentage annual payout to the heir(s) of the trust's assets (at least 5% every year, but not to exceed 50%). The trust can be in effect either for the lifetime of the beneficiary(ies), a fixed term not to exceed 20 years, or some combination. The trust can also protect the assets from a beneficiary's creditors, can be excluded as marital property in a divorce, and can provide the beneficiary a lengthy predictable income stream.

CRUTs are ideal replacements for the Stretch IRA for families with substantial retirement plan assets ($500,000 or more) who seek to provide a life income to a middle-aged or older heir and a significant charitable gift. They are also advantageous for those concerned about their heirs having too many assets put at their disposal too soon. As the name implies, the remainder of the assets at the end of the trust will be paid to one or more charities predetermined by the donor.

There are drawbacks to these strategies. For one, the life beneficiary cannot receive anything more than the specified payout. Additionally, the remainder in the trust that is gifted to charities must exceed 10% of the value of the CRUT when it was established, and the trust must be managed to take into account the age of the beneficiary and the remainder value. Finally, the beneficiary could unexpectedly pass away thereby ending the trust before the lifetime benefits can be enjoyed.

Nevertheless, if you are looking for ways to benefit your heir(s) with your IRA while supporting your favorite charity, you may be able to "have your candy and eat it too" with this tested estate planning vehicle. We would be pleased to discuss these options with you at The Trust Company.

Green Energy Gets its Day in the Sun

Timothy P. Vick
Director of Research

When I first entered this industry, environmental investing began grabbing headlines; but in retrospect, the movement was acutely over-promoted and underdelivered. Companies that operated landfills, processed recyclables, or incinerated waste were deemed environmentally friendly by the standards of the time (not so today). Later, solar power and ethanol companies attracted capital, but those industries' tough economics and ongoing losses deterred all but the most loyal and idealistic investors. Nuclear power went through the same cycles, as did wind power, desalination, and hydroelectric. Past financial results of this high-growth industry, unfortunately, did not keep up with bread-and-butter stock indices, and sometimes couldn't keep pace with its common nemesis - the oil industry.

The election of President Biden has thrust the Green Energy platform front and center again, this time giving strong political backing to an industry that on its own was on the cusp of providing appealing economics. Funds and ETFs tracking clean energy companies generally surged after the November election, and remain well ahead of the S&P 500 on the heels of the Administration's proposals to direct $2 trillion in investment and tax credits toward the industry and to push the U.S. to be "carbon neutral" (no more net emissions within our borders) within 30 years.

The lofty goals notwithstanding, the size and potential growth of the alternative energy field warrant serious attention by portfolio managers today. Industry economics have vastly improved (input costs have fallen; thus, more winners and fewer losers), capital is plentiful, Washington clearly sides with the industry, and the public desires to see favorable results. With or without political instigation, green energy is rapidly gaining market share. The International Energy Association (IEA) estimates that through 2025, 95% of all new power generating capacity brought online across the world will use renewable sources.

The pressures on non-green companies to become carbon-free, "net-zero" firms are likewise accelerating, which will force executives to respond. Activist shareholders want to see quantifiable proof of each company's progress – though many of their demands have failed in proxy voting. And regulators and accounting boards are debating how public companies can quantify the long-term effects of environmental costs and climate change on their balance sheets.

Today's green energy offerings span such a gamut that we believe there will be strong opportunities for investors who can absorb the risks and yet want to avoid the most capital intensive, highly cyclical sectors. In addition to traditional alternative industries such as solar, wind or hydroelectric, investors can explore a number of nascent industries that fit the goal of helping reduce carbon consumption on the margin, such as electric vehicles and fleets, auto electronics, battery and fuel cell manufacturing, organic groceries, biomass (generating electricity from plant material), data storage, recycled building materials, rare earth metals mining, "smart building" systems, and "smart grid" infrastructure. These "picks and shovels" sectors seem most promising to us, and several Trust Company portfolio holdings already have acquired promising niche businesses in these fields. Several other companies already are on our radar screen for potential future investment.

Our view of the Green Energy industry has been more practical and "wait-and-see" than passionate, a tested strategy that has saved us from committing unforced errors in emerging fields like this. Eliminating costs and wastes from business processes should come naturally to executives of publicly traded companies – they should strive to improve efficiency as if they were breathing air. Seen in that context, "going green" and being carbon-neutral is just an extension of decades-old attempts to reduce both input costs (in this case, energy) and waste by-products thrown off by their facilities. With the costs of green energy rapidly falling in recent years, the managements we follow should naturally be more open to upgrading facilities and putting in place energy-saving systems to boost long-term cash flows. The economic benefits of such efforts will produce, of course, political and social benefits to companies too.

Incapacity - Why to Plan For It NOW

Peter Knize, J.D., LL.M.
Estate Settlement

Did you know that 15% of Americans over age 70 suffer from dementia (and nearly 40% by age 90)? Or that 540,000 Floridians were living with an Alzheimer's Disease diagnosis in 2018 (a figure expected to increase to 720,000 by 2025)? Or that six of the top 10 causes of death in Florida (cancer, heart disease, unintentional injury, stroke, Alzheimer's, pneumonia) involve some form of incapacity?

A well-structured incapacity plan should seamlessly transition our wishes and preferences to our future needs.

Incapacity impacts every aspect of daily life. Whether temporary or permanent, partial or total, incapacity robs its victims of their privacy, control, dignity and self-determination. Sadly, so many of us deny the statistics. We think "that won't happen to me," fooling ourselves into believing we will be in full control of our daily lives, directing every detail until the very end. And, most mistakenly–that "the end" will come quickly. This conceptual fallacy of "I will be the exception to the rule" places us in a vulnerable position during an incapacity period, when we need help the most.

Prudence dictates we anticipate that each of us will experience some level of incapacity during our final months, and plan accordingly. A well-structured incapacity plan should seamlessly transition our wishes and preferences to our future needs. Critical to a seamless plan, make sure these three essentials continue uninterrupted - health care decision-making; financial management; and day-to-day living.

The Goal is simple: To protect ourselves by ensuring our choices and autonomy are respected to the greatest degree possible. Here is the Game Plan:

BUILD YOUR A-TEAM – NOW. Central to the Game Plan is picking your multi-member incapacity team–your A-Team. Members of your A-Team will be making medical decisions, paying bills, overseeing investments, filing tax returns, and even walking your dog - so trustworthiness is paramount. Deciding who to trust can be difficult - but keep in mind the old English proverb: It is an equal failing to trust everybody, and to trust nobody. Next, the A-Team members' experience, location and work schedules should be considered. Do they have the expertise required for the job? Is it necessary that one or more members live nearby? Will they have time to handle emergencies as they arise? Finally, it is always wise to have an attorney, accountant, professional fiduciary or trust company serve on your A-Team to provide professional oversight.

HAVE LEGAL DOCUMENTS AT THE READY - NOW. Make sure your legal documents are comprehensive and up to date. A Financial Power of Attorney confers legal authority to your A-Team member(s) to manage financial affairs. A Health Care Power of Attorney allows your A-Team member(s) to make medical decisions should an incapacity event occur. A Living Will details your end-of-life directions to your A-Team, doctors and loved ones. Each document is critical to a well-structured, multifaceted incapacity game plan.

TELL YOUR A-TEAM YOUR GAME PLAN – NOW. Share your thoughts on your future living arrangements, investment priorities, end-of-life wishes, and burial and inurnment directives.

As always, should you have any questions or concerns, The Trust Company's Incapacity Department is here for you and your family.

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