

CALDWELL TRUST COMPANY

VOLUME XLI

PERSONAL • TRADITIONAL • INDEPENDENT

DECEMBER 2015

Investment letter

What can behavioral finance tell us about our investment decisions? (Part 1 of 2)

The evolution of behavioral finance can be traced back to a paper by De Bondt and Thaler that was published in the *Journal of Finance* in 1985. The authors discovered that people systematically overreacted to unexpected and dramatic news events, which led to inefficiencies in the stock market. Since then many articles have been written about the subject. We will explore the topic in two parts.

In this investment letter, Part 1 of our discussion, we delve into key aspects of behavioral finance and the resulting investment decisions that investors make. We will present Part II in our next investment letter.

Through evolution, individuals have come to make many decisions based on personal experience, trial-and-error or experimentation. This type of decision-making process is known as a heuristic learning process. Stated more simply, heuristics develop “rules of thumb,” making it easier to reach decisions when finding an optimal solution is impractical. They help speed up the process.

However, there are many circumstances in which a heuristic learning process could negatively affect one’s decisions, including decisions related to investment results. Disparities in investment goals can occur when individuals form investment rules and make investment decisions based on the most readily available information (i.e., the media) instead of on objective research and financial statement analysis. Below are definitions of some popular heuristic-driven biases, along with their impacts on the investment decision-making process.

Representativeness is a heuristic process in which investors base expectations on preexisting experience and stereotypes. For instance, investors might feel that all firms that practice environmental awareness are good firms (i.e., good investments)—whether this is accurate or not. Another example is construing all good earnings announcements as a signal of good future performance, without considering whether the individual firm’s performance will continue. When an investor bases future expectations on a past or current quality or measure, then the individual is applying an “if—then” heuristic. That is, if this happened, then that will happen. Unfortunately, causation does not imply correlation.

Overconfidence means an investor tends to place more confidence in his or her ability to predict than is justifiable.

Overconfidence can provide inconsistent results. An overconfident investor is more likely to underestimate the risk associated with an investment decision. If an investor continually underestimates the allocation of risk, there is an increased likelihood that particular investor will experience lower-than-expected returns.

Anchoring and Adjustment refers to an investor’s reluctance to fully adjust the impact of new information and announcements on projections. Similar to overconfidence, anchoring can lead to surprises. In this instance, however, the surprises tend to be biased in the direction of the announcement.

Aversion to ambiguity can be loosely described as fear of the unknown. Following a momentum strategy, for example, investors buy in an up-trending market and sell in a down-trending market. In an up-trending market, investors might see the odds as greater than 50 percent that prices will continue moving up. In a down-trending market, they might see the odds as greater than 50 percent that the market will continue down. However, a non-trending market presents individuals with ambiguity. They might not be able to base their expected odds on anything, so they might shy away or at least leave the stock-picking to experts.

CONCLUSION

In closing, we believe being aware of the rules of thumb that investors use to make investment decisions is useful as a way to avoid the pitfalls associated with each. In our next investment letter we will present Part II, exploring another theme in behavioral finance called Frame Dependence and discussing its implications.

As for the stock market, a correction has been touched off, resulting in a peak-to-trough drop of over 10 percent. We have concerns around China’s slowing growth trajectory as it becomes a more consumer-based economy versus an export-based one. We are also concerned about declining oil prices producing a deflationary impulse globally. Moreover, the interest rate futures market is now pricing in the Federal Reserve’s first interest rate increase as an early 2016 event.

Despite volatility in stocks and periods of negative stock returns this year, we still view stocks as offering the best forward-looking return potential across all major asset classes.

Boys & Girls Clubs of America choose Whitney Stewart, alum of Gene Matthews B&GC, as National Youth of the Year

Boys & Girls Clubs of America have chosen North Port resident Whitney Stewart, 18, as the 2015-2016 National Boys & Girls Clubs of America Youth of the Year. Whitney, an alumna of the Gene Matthews Boys & Girls Club of Sarasota County (bgcsarasota.com), was selected from a pool of 4 million Boys & Girls Clubs members in the United States and on U.S. military installations worldwide.

Club alumnus, award-winning actor and B&GC National Spokesperson Denzel Washington announced the award during a ceremony at the National Building Museum in Washington, D.C., on September 29. The prize includes \$140,000 in scholarships, a new Toyota and a trip to Disney World for the honor. Whitney will serve as teen spokesperson for the Boys & Girls Clubs of America and its Young Alumni & Friends Club. In addition, she and five other National Youth of the Year finalists will go to the White House for an exclusive meeting with President Barack Obama in the Oval Office.

Whitney wasn't always on top. The child of a broken home, she joined the Gene Matthews Boys & Girls Club in North Port at 11. "Boys & Girls Clubs saved and forever changed my life," Whitney said. "My Club ignited a passion in me to achieve my dreams and I'm proud to represent millions of teens and young Club alumni whose lives are forever transformed by their Boys & Girls Clubs."

She is a graduate of Sarasota Military Academy, where she was regimental commander of the Junior R.O.T.C. and founder of

Seed to Soil, a student group to educate youth about healthy lifestyles and sustainable agriculture.

Whitney has also served as president of Keystone Club and is a member of the BGCA National Teen Advisory Board. Currently a freshman studying political science at the University of Pennsylvania, she plans to become an attorney in the U.S. Air Force, followed by a career in politics and academia.



Caldwell Trust Company and members of its staff have long supported the Boys & Girls Clubs. "Whitney's win is a very big deal," says H. Lee Thacker, Jr., Caldwell Trust Company vice president, secretary and trust officer. "She's living proof of the value of the Boys & Girls Clubs."

Besides contributions and volunteer services by others at Caldwell, Thacker played a major role in the establishment of the Robert and Joan Lee Boys & Girls Club in Venice and continues his decades-long commitment to Boys and Girls Clubs, having been a board volunteer in Columbia, South Carolina;

Orlando, Florida; Atlanta, Georgia; and now the Boys and Girls Clubs of Sarasota County.

In addition, Thacker and Susan H. Hines, J.D., Caldwell vice president and trust officer, serve on the Sarasota County B&G Clubs Corporate Board and the Venice Advisory Board, which Susan chairs.

Caldwell offers information on topics of interest to those handling personal finances

Myriad opportunities are available to those making financial decisions—and each presents its own challenges. To help sort through the many options, Caldwell Trust Company provides articles that examine important issues clearly and concisely.

For example, in "How Much Is Enough to Leave for Your Children: The Bucket Theory," vice president and trust officer Susan H. Hines, J.D., suggests that we picture our children's stages of life as "buckets of time" such as birth to 18, college years, apprenticeship, marriage/first home/first business, incentives and health care. A series of articles on this topic help to assess anticipated needs more clearly.

"Everything My Family Needs to Know ... and where to find it" is a personal financial organizer that guides readers through a helpful list of financial items (e.g., where IS the key to your safety deposit box?) in a tidy 24-page booklet.

Another article, "Safety in Investing," presents "5 Questions to Ask Before Hiring an Investment Advisor."

Among other topics are "Six Retirement Practices to Avoid," "What Are Some Stealth Retirement Moves for the Wealthy?" and "Six Things You May Not Know About Annuities."

You can access this helpful information at your leisure. To view and download these and other articles, visit <http://blog.ctrust.com/>



Longtime director H. Ron Foxworthy retires from TCA board; Sarasota banker Tramm Hudson steps in to fill the position

Ron Foxworthy

H. Ron Foxworthy, a director of Trust Companies of America, parent of Caldwell Trust Company, has announced his intention to retire according to R. G. “Kelly” Caldwell, Jr., president and CEO. Foxworthy joined the TCA board in 2009. “We’re really going to miss Ron,” Kelly said. “He’s been a wonderful mentor to me and the company. We’ve been honored by his presence and inspired by his example. Few can equal his record of accomplishment in our community.”



An astute businessman and visionary entrepreneur, Foxworthy is probably best known for the 45 years he has devoted to the area’s handicapped children. In 1985 he co-founded the Suncoast Foundation for Handicapped Children, now under the aegis of the 501(c)(3) Suncoast Charities for Children. It debuted with the Offshore Boat Races (now the Suncoast Powerboat Grand Prix) and currently encompasses ten charitable fundraisers that have led to construction of buildings totaling some 80,000 square feet, valued at \$20 million.

The Navy veteran won the Korean Service Medal with three Battle Stars and the U.S. Presidential Unit Citation Award. After the war he founded Rusty Plumbing and later was a successful developer for 30 years.

Ron was a director of FCCI from 1967 through 2007 and also a co-founder of The Argus Foundation, where he has been a director for 24 years. In 2007, The Argus Foundation honored him with its Lifetime Achievement Award.

A private pilot and golfer with 13 holes in one, Ron looks forward to retirement as a way to indulge his hobbies. More important, he’ll have unencumbered time to spend with his wife Mary Helene, his two children, his stepson and eight grandchildren.

“We can’t thank Ron enough for his wisdom, guidance and generosity of spirit,” Kelly Caldwell said. “We wish him Godspeed.”

Tramm Hudson

“We’re sorry to lose Ron but at the same time we’re excited to have Tramm Hudson join us,” Caldwell said. Hudson fills the position opened by Ron Foxworthy’s retirement.

“Tramm had originally joined us in 2007 but resigned when he returned to banking. Now that he has retired from banking, we are gratified by his return.



“He brings more than a quarter-century of knowledge in financial services and markets, acquired at the highest levels with some of our most respected banks. In addition, he has a commendable record of service to the community.”

Hudson expresses his satisfaction as well. “I have big shoes to fill in replacing Ron and I look forward to the challenge,” he said. “I have known this company since its inception and have always respected the family and what they stand for. I am proud to be associated with Caldwell Trust Company, a name that personifies personal trust and investment services in southwest Florida.”

Tramm began his banking career in 1981 with North Carolina National Bank (later NationsBank/Bank of America), where he took on increasing levels of responsibility until his transfer to Sarasota in 1986. He left NCNB in 1988 to become a founding director and organizer of Enterprise National Bank of Sarasota. Upon the sale of that bank to Provident Bank, he continued to lead the company in its expansion in Florida and subsequently through its sale to Royal Bank of Canada.

He then served as area president of Whitney Bank in Sarasota and Manatee Counties for over two years before joining Stearns Bank, N.A. as Florida president. Although he announced his retirement from banking in 2011 he has remained active in the industry as special advisor to Tramm Hudson Partners. He has also continued with community service, including his appointment in March 2015 to the Sarasota County Public Hospital Board, where he chairs the investment committee.

A resident of Sarasota since 1986, Hudson has held a number of diverse leadership and advisory positions including chair of the Greater Sarasota Chamber of Commerce, trustee of then-Manatee Community College (now State College of Florida), chair of the Out-of-Door Academy, chair of the Committee of 100, chair of The Glenridge on Palmer Ranch retirement community, and board member for United Way and Sarasota Family YMCA, among others.

Tramm also has been influential in the political arena, serving three terms as chair of the Republican Party of Sarasota County and as a delegate to the 1996, 2000 and 2004 Republican National Conventions. In 2005, he chaired Workforce Florida, the governor-appointed board that oversees labor and job training programs statewide, and in 2006 was a Republican candidate for Congress in Florida’s District 13.

A native of Montgomery, Alabama, Hudson was a distinguished military graduate from Vanderbilt University in 1975. He served as a cavalry officer in Germany for three years and continued in the Army Reserves after his active duty, retiring as a lieutenant colonel in 1996. He earned an MBA from Emory University in Atlanta. Tramm and his wife of 31 years, Sarah Thompson Hudson, have three grown children and one grandchild.

Retired banker Thomas Stuhley joins Caldwell Trust Company board of directors

Banker Thomas Stuhley is the newest member of Caldwell Trust Company's board of directors. In announcing the news, R. G. "Kelly" Caldwell Jr., CEO and president, praised Tom for his deep knowledge of financial and trust matters as well as the quick laugh and gentle manner that make people so comfortable in his presence. "His style fits perfectly into our corporate family," Caldwell said.

Tom's unprepossessing manner is in contrast with the energy and drive that must have impelled him to buy a small community bank in southern Wisconsin in 1988. He grew it into the successful chain known as Mid America Banks before retiring as CEO/chairman/owner in 2007.

Tom has owned a vacation home on Casey Key since 1983 and became a full-time resident upon his retirement in 2007. He found his way to Caldwell by way of his natural curiosity and his service since 2011 to Tidewell Hospice, where he just completed a two-year term as board chair in September. He still serves on several Tidewell committees and is also a director of Approved Home Health, a division of Tidewell Home Health, LLC.

"I'm a banker by trade," Tom said. "I always try to learn everything about every institution wherever I go." When he joined Tidewell he met Caldwell executive vice president and trust officer Jan Miller, who had been on the Hospice board since 2005 and had also been a board chair.

"Jan brought a lot of Caldwell thinking to our meetings," Tom said. "I had been a trust officer at a Midwestern bank at the beginning of my career. I interviewed Caldwell as a possible manager for the Tidewell Hospice endowment."

The Southern California native earned a bachelor's degree in economics and speech from the University of Arizona. He was a banking officer and director at several Northern Illinois banks before purchasing what would become Mid America Banks.

Stuhley is an emeritus director of Wisconsin's Aurora Health Care Systems, South Region, WI, and a trustee of Aurora University-George Williams College in Illinois and Wisconsin. Locally, he is a director of the Asolo Repertory Theatre Endowment Foundation and former director of the Casey Key Association.

He enjoys boating, travel, community service and especially time with his wife Cindy, their three children and nine grandchildren.

"I am pleased to join Caldwell's board," Tom said. "This organization responds to its clients in a respectful, honest and caring manner. These are qualities that I have admired and practiced as a retired community banker. I look forward to participating with the Caldwell Community."



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opportunity to say
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