Caldwell Trust Company

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Investment Letter
By J. Chris McGee, CFA, CAIA

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Investment Letter: 2018 Market Preview

By J. Chris McGee, CFA, CAIA

As good as equity returns were last year, from a fundamental perspective 2018 looks even better. S&P 500 corporate earnings growth, which ultimately drives stock prices, is anticipated to increase in the high single digits. Add to that the impact of recently legislated tax reform and the current expectations are for earnings to advance around 15% in 2018. This estimated increase follows an earnings advance of around 11% last year, which marked the first year in three years that corporate profits rose. As this is written, a 15% increase in earnings next year equates to a forward price-earnings ratio (P/E) of around 18 times. While moderately high within the context of recent market history, we believe this ratio is justified, based on the historically low level of interest rates and the improving prospects for the domestic equity markets.

The consensus estimate is currently for the S&P 500 to advance in the mid to high single digits this year, adding to the 20%+ gain realized last year. The risk to this forecast, in our view, is to the upside, given the increasingly synchronized pickup in economic growth globally. Thus far in 2018 the domestic equity market has advanced smartly based more on sentiment than fundamentals. Improving prospects globally should continue to be a tailwind for large multinational companies and international equities. The reduction in corporate tax rates domestically is also constructive for mid- and small-capitalization stocks here in the states.

Two consistent themes since the financial crisis a decade ago have been sub-par: economic growth and the continued decline in interest rates domestically. GDP (Gross Domestic Product) growth for 2017 should finalize at around 2.35% and is anticipated to come in around 2.6% for 2018. Again, our view is that the risk is to the upside given improving fundamentals both domestically and globally.

The bigger conundrums are interest rates and inflation. Pundits see the yield on the benchmark 10-year Treasury bond closing out 2018 at around 2.8%, up from last year's close of 2.4%. As the year commences, the market increasingly is pricing higher growth and inflation into bond yields as the 10-year Treasury yield has moved up above 2.5%. It is important to remember that rates will be rising (if in fact they do) off of incredible lows from a historic perspective. We will wait and see, based on economic data ultimately supporting current expectations –– especially regarding inflation.

Increasing wages have been the primary driver of inflation in recent history, and while we are near lows in unemployment we believe there continues to be slack in the labor force. Also, we would argue that the deflationary impact of the widespread technological disruption currently in process keeps a lid on wage growth. It may be that inflation remains relatively benign and domestic interest rates rise. The Fed has signaled three rate hikes over the course of this year, which will propel short term rates higher. The increasing reversal of quantitative easing by central bankers globally, along with the signaled reduction in demand for U.S. Treasuries by foreign governments, should serve to remove the lid on longer-term interest rates.

> “Two consistent themes since the financial crisis a decade ago have been sub-par: economic growth and the continued decline in interest rates domestically.”

We believe that a disruption in the trajectory of corporate earnings, a policy mistake by the Federal Reserve, or an unforeseen negative geopolitical event are the biggest threats to the capital markets in 2018.

So, what does all this mean? We think investors should continue to favor stocks over bonds. We believe domestic multinational stocks will continue to do well but we are marginally increasing exposure to mid- and small-capitalization companies domestically, as well as international equities. We currently favor financial, health care, technology, and Industrial stocks in equity portfolios and are less inclined towards the more defensive and interest-rate-sensitive sectors like consumer staples, telecommunications, and REITs.

In bond portfolios we continue to keep the average individual bond maturity relatively short in order to protect investors from rising rates, and we continue to favor some exposure to high-yield bonds in order to boost overall performance in fixed-income portfolios. We are content keeping investments in cash equivalents to a minimum.

Anniversary

Suzanne Thacker celebrates 20 years

When Suzanne Thacker was called into a board meeting in Caldwell’s Venice office she brought her notebook, ready to serve. Instead she was honored. Board members congratulated her, co-workers signed a large card, CEO/president R. G. “Kelly” Caldwell Jr. gave her a gift, Venice staffers surrounded her and employees from the Sarasota office joined via video. The occasion was Suzanne’s 20th anniversary with Caldwell Trust Company.

Suzanne was thrilled by the unexpected tribute, which also led her to reflect on the changes she’s seen during her years with the company. “When I joined we had only the Venice office and there were fewer than 10 on staff. Now we have more than 30 in our Venice and Sarasota offices. We had $1 million in assets under management; now we’re approaching $1 billion.

R. G. “Kelly” Caldwell Jr. congratulates Suzanne Thacker on her 20th anniversary with Caldwell Trust Company.

“We have more structure now,” she said. “It’s not like eight people sitting around a table. The biggest growth has been in information technology, where we’ve moved from an IT staff of one to seven people who handle our internal systems.”

Suzanne and husband H. Lee Thacker Jr., CFP, discovered Caldwell Trust Company through a newspaper article, “The House That Roland Built,” when the semi-retired couple moved back to Florida from Atlanta and banking careers in 1996. They soon met with Roland Caldwell (a company founder and Kelly’s father). The rest, as they say, is history. Lee began as a consultant in late 1996, Suzanne in 1997. Both soon became employees. Lee is now senior vice president, secretary, and trust officer. Suzanne is compliance controller, ensuring that the company meets (and often exceeds) ever more stringent regulatory requirements, including procedures to protect against money-laundering and terrorism.

Suzanne and Lee epitomize the family feeling that has become a keystone of Caldwell’s existence. “We still embrace the same corporate culture of caring for our clients, of doing our absolute best for them and for our community. In fact, with our growth we have more people who can share our blessings with the community,” she said.

Suzanne had planned to be an English teacher but is happier that that she joined Caldwell. The feeling among Caldwell staff is mutual. Just ask anyone.

To contact Suzanne, call 941.926.9336 or email her at suzanne@ctrust.com.

Influence of Caldwell's founders endures

"Caldwell's future is a product of where we've been," said R. G. "Kelly" Caldwell Jr. in 2008 on the occasion of the company's 15th anniversary. The perspective of the company's CEO/president remains equally true ten years later as the trust company approaches its 25th anniversary. "Where we've been" actually started in late 1992 with the founding board of directors. "They established our key principles, that the company would provide its services in a manner that would be personal, traditional, and Independent. I'm proud to say we've never wavered from that commitment," Kelly says today.

"Caldwell Trust Company is deeply indebted to our founders for the foresight, acumen, and dedication that has guided us for a quarter of a century," he said. "They laid the groundwork for our success in clear, concise, yet absolutely meaningful terms. We are can never thank them enough."

To recognize the enduring value of their beliefs, we are pleased to honor them by reprinting the historic photo taken in November 1993 when Caldwell received its charter, becoming one of the few independent trust companies in Florida. Founding board members were Samuel Booth, Roland G. Caldwell, Edward Campbell, Herbert S. Howes, Lloyd E. O'Meara, and Jack Meyerhoff. Four of the board members–Lloyd E. O'Meara, Herbert S. Howes, and Roland G. Caldwell–also served on the founding team, where they were joined by recent college graduate R. G. "Kelly" Caldwell Jr.

In 2003 we sadly lost Leo O'Meara and in 2009 three other founders passed: Samuel Booth, Herbert S. Howes and Jack Meyerhoff. Happily, Roland G. Caldwell, Edward Campbell, and of course Kelly Caldwell, Jr. are still with us.

Founding board members pose for a formal photo in 1993. In the front row are Jack Meyerhoff, Roland G. Caldwell and Samuel Booth. Standing behind them are Lloyd E. O'Meara, Edward Campbell, and Herbert S. Howes.

Profile

Luis Morales brings a touch of Spanish Culture

Luis Morales has joined Caldwell Trust Company as a Trust Associate, reporting to Executive Vice President and Trust Officer Jan Miller. Based in the Sarasota office, the Havana native brings fluency in Spanish and a touch of Latin culture to the company.

Luis came to the United States in 2003 with his parents and settled in Lansing, Michigan. “Don’t ask me why”, Luis says. The Morales family naturally expected to undergo some culture shock, but the biggest jolt was probably the weather. They endured frosty Lansing for a year before fleeting to the warmer weather on Florida’s Gulf Coast. Luis began his financial career in 2006 as a Teller at Regions Bank. In 2008 he moved to Northern Trust, where he remained for ten years. During the first four years, Luis was a member of the banking platform until he was promoted to Investment Associate and then Senior Investment Associate.

Luis earned a bachelor’s degree in finance from the University of South Florida and is currently working toward his MBA also at the University of South Florida. Luis and his fiancé Sheyla, director of Human Resources for Kimal Lumber, reside in Bradenton, Florida with their children, Melanie and Shawn.

“Between work and school, I don’t have much time for hobbies, but we love to travel”, Luis said. “Our goal is visit as many states and countries as possible”. France is the next destination on their bucket list.

To contact Luis call 941.926.9336 or email lmorales@ctrust.com.

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CONTACTS

Scott Antritt, scott@ctrust.com
Alan H. Blair, alan@ctrust.com
Tony Blasini, tblasini@ctrust.com
R. G. “Kelly” Caldwell Jr., kelly@ctrust.com
Sonya Kristie, sonya@ctrust.com
Wendy Fishman, wendy@ctrust.com
Chris McGee, cmcgee@ctrust.com
Jan Miller, jan@ctrust.com
Leonard Nagel, leonard@ctrust.com
Sandra L. Pepper, sandy@ctrust.com
H. Lee Thacker Jr., thacker@ctrust.com
John Tufaro, john@ctrust.com
Sheryl Vieira, sheryl@ctrust.com

Venice Office: 1400 Center Road, Venice, FL 34292
941.493.3600 · Toll Free: 800.338.9476 · Fax 941.496.4660
Sarasota Office: 1561 Main Street, Sarasota, FL 34236
941.926.9336 · Toll Free: 877.926.9336 · Fax 941.926.9335
www.ctrust.com · info@ctrust.com

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