

Stock Market Valuations: Overvalued? Undervalued? Do valuations indicate major turning points in markets?

Many a market pundit has recently offered an opinion on stock valuations and most have ruled that the U.S. market is approaching an overvalued state versus its own history. We would generally agree. Yet in our experience, valuations in and of themselves are not enough to affect significant asset allocation changes. In this investment letter we will prove the idea that markets can remain overvalued or undervalued for long periods of time and don't significantly assist in the timing of allocation changes. In Caldwell's investment department we like to stick with the data, which never lie. So it's fitting for us to begin our discussion with a chart courtesy of Ned Davis Research.

Based on the chart, let's say that any price-to-earnings ratio above 22 is overvalued and any price-to-earnings ratio below 12 is undervalued. Let's also say that anything between 12 and 22 is fairly priced. Now let's break up the chart into manageable sections. This can help to determine whether valuations can offer anything to investors that indicates adjustments in allocation.

Let's examine the period from 1964 to 1982. As one can see, the valuations of U.S. stocks were below the median price-to-earnings ratio and remained there for a significant length of time. In fact, from 1973 to 1982 the ratio remained below 12. That's nine years! It's a long time to wait for markets to rally off the back of low valuations. As one can also see, the returns for stocks in that period were minimal, point-to-point.

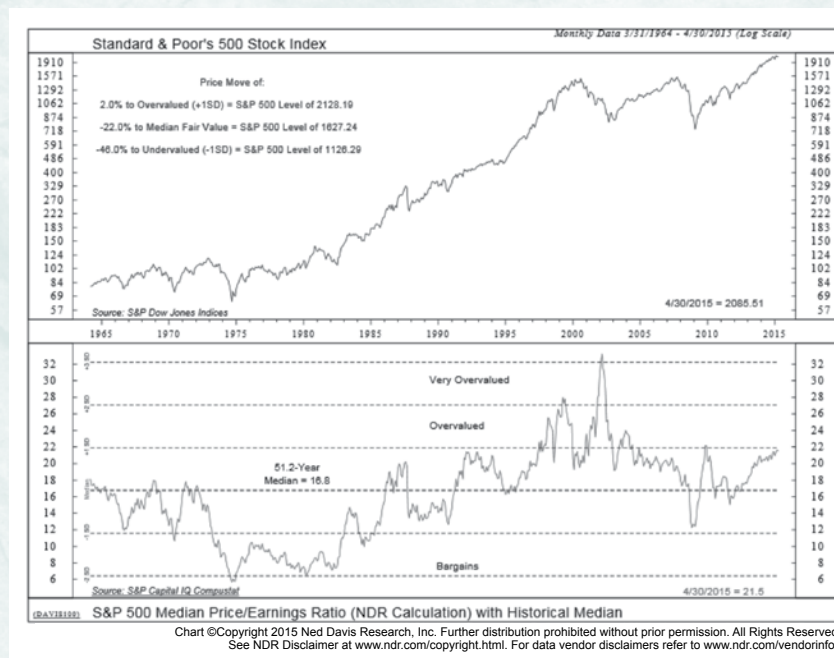
The next period, from 1982 to 2000, features price-to-earnings ratios climbing steadily from an undervalued basis through a fairly valued situation and then into overvalued territory. Valuations first entered the overvalued zone (above 22) in 1998. An investor who sold then would have missed the 28.5 percent return in 1998 and the 21 percent return in 1999. It would not be fun to leave those returns on the table.

The last section features the most recent period, from 2000 to today. During this period valuations made a steady march lower and in 2007—the year before the Great Recession began—settled comfortably in the fairly valued zone at 20. That's no real cause for alarm from a valuation perspective, yet our readers may recall what was in store for us beginning in the later part of 2007 and ending in March of 2009. Valuations ahead of the worst bear market since the 1970s provided no

warning signal. None.

CONCLUSION

In our view, valuations do not provide much help in terms of guiding allocations. We agree with most of the talking heads that stocks are getting overvalued, yet we are reminded that they can remain overvalued or undervalued for long periods of time. We are still of the mind that stocks can provide better long-term return potential despite the rising risk of a correction, and we continue to buy stocks on weakness.



This chart depicts the median price-to-earnings ratio of the S&P 500. The median has been chosen instead of the average so that any large positive or negative value will not influence the ratio as it would affect the average. The median is simply the middle observation when put in order. As you can see, the median price-to-earnings ratio on stocks since 1964 is 16.8. It is clear that the market is very rarely at the median price-to-earnings ratio.

One could look at many valuation metrics that are valid but price-to-earnings ratios are probably the most well-known and are followed by the investing public so we will stick with that metric.

Caldwell cares about its community

“Evening Under the Stars” funds scholarships, programs at SCF

Who says fundraising has to be stodgy? Caldwell’s staff felt the love at the “All You Need is Love” Evening Under the Stars, the annual fundraiser sponsored by the State College of Florida (SCF) Foundation on Saturday, April 11, at the college’s Venice campus. Caldwell women flashed heart-shaped sunglasses while men donned round frames à la John Lennon, co-composer (with Paul McCartney) of the 1967 hit song by the Beatles. The company got fully into the theme and captured second prize for its table décor/theme.

The event opened under the sun and ended under the stars. It started with entertainment by award-winning SCF music students, continued through dinner and a concert by the Venice Symphony Pops Orchestra and ended with a dazzling display of fireworks. Proceeds from the event directly benefited SCF students deserving of scholarships as well as other outstanding SCF programs.

Caldwell Trust Company continues its role as an ongoing sponsor of “Evening Under the Stars.” In addition, Kelly Caldwell is a director of the Foundation and served on its finance committee for many years.



All they need is love to have a great time while benefiting a good cause. Caldwell turned out in force—and fancy eyewear—for State College of Florida’s annual scholarship fundraiser. Standing in front are Melissa Caldwell; Sheryl Vieira, assistant vice president of marketing; Susan H. Hines, J.D., vice president and trust officer; Vicki Connell; Joann Tufaro; and John Tufaro, assistant vice president, employee benefit plans. R. G. “Kelly” Caldwell Jr., CEO and president, and Sarasota County Commissioner Charles Hines stand behind them.

Economic Development Roadshow takes interested guests on tour of businesses in Bradenton and Manatee County

As Caldwell Trust Company grows into the Bradenton/Manatee County area, two of the company’s staff participated in the May 15 Economic Development Roadshow, hosted by the Lakewood Ranch Business Alliance



Scott T. Antritt, assistant vice president and trust officer, speaks with Sharon Hillstrom, president and CEO of Bradenton Economic Development Corporation, at the luncheon that was part of the first Economic Development Roadshow. LWRBA hosted the tour in collaboration with Manatee County Government.

in collaboration with Manatee County Government. Scott T. Antritt, assistant vice president and trust officer, and Sheryl Vieira, assistant vice president of marketing, joined the tour, the first of its kind.

Heather Kasten, executive director of the LWRBA, called the event “a one-day, behind-the-scenes tour of some of Manatee County’s finest and most successful businesses.”

The program began with a continental breakfast at Wagner Realty, where the group boarded a Manatee County Area Transit bus. They traveled from business to business, with the EDC and the County providing an overview of each company prior to a visit there. At each business, a company representative met the group to host a guided tour. Stops included the businesses It Works!, FELD Entertainment, IMG Academy, Sun Hydraulics and Port Manatee.

Scott Antritt and Sheryl Vieira considered the day a success. “We have a number of clients in Bradenton and other parts of Manatee County including Lakewood Ranch,” Scott said. “We appreciated the opportunity to learn even more about some of the leading businesses there.”

“What we believe” is what makes us different:

Roland Caldwell’s words are now displayed at entrance to headquarters

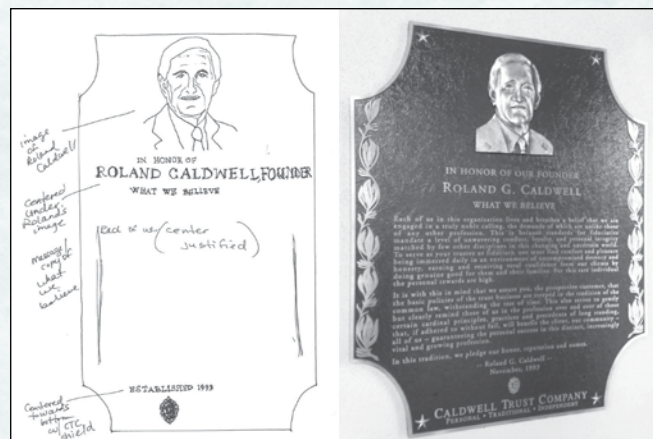
When Roland G. Caldwell established Caldwell & Company in the 1970s, he may not yet have foreseen its successor, Caldwell Trust Company, which was founded in 1993. He most likely never envisioned the mature business it has become today—but he knew what a trust company should be and the high standards required of everyone involved. He formalized his philosophy in a document titled “What We Believe.”

These words, the founding principles of Caldwell Trust Company, are now etched on a bronze sculpture and affixed to the wall at the entrance to Caldwell’s headquarters in Venice. Here visitors quickly learn of the company’s high standards and staff members are inspired every day.

When planning the new headquarters, which were completed in November 2014, the sculpture was one of the first items on the list of Roland’s son, R. G. “Kelly” Caldwell Jr., CEO and president of Caldwell Trust Company. “There was never any doubt that Dad’s words would be displayed prominently,” he said. “They are why we are here. Everyone on our staff follows these standards. We would offer our clients no less.”

The unique, custom-made bronze sculpture, 30 inches high and 24 inches wide, is finished with a weatherproof coating to withstand the elements. Roland’s image appears prominently above the words “In Honor of our Founder Roland G. Caldwell.” His philosophy, “What We Believe,” is just beneath.

The sculpture is the first thing people see when visiting Caldwell’s headquarters. “We wouldn’t have it any other way,” Kelly Caldwell says. “We’ve enjoyed continued success by remaining true to ‘What We Believe.’ We’re delighted to share our commitment with everyone who enters our building.”



The unique bronze sculpture affixed to the wall at the entrance to Caldwell’s headquarters began with founder Roland G. Caldwell’s philosophy, “What We Believe.” His beliefs took permanent form through a concept, pictured at left, that was developed by Kelly Caldwell and Sheryl Vieira.

What We Believe

Each of us in this organization lives and breathes a belief that we are engaged in a truly noble calling, the demands of which are unlike those of any other profession. This is because standards for fiduciaries mandate a level of unwavering conduct, loyalty and personal integrity matched by few other disciplines in this changing and uncertain world. To serve as your trustee or fiduciary, one must find comfort and pleasure being immersed daily in an environment of uncompromised decency and honesty, earning and receiving total confidence from our clients by doing genuine good for them and their families. For this rare individual the personal rewards are high.

It is with this in mind that we assure you, the prospective customer, that the basic policies of the trust business are steeped in the tradition of the common law, withstanding the test of time. This also serves to gently but clearly remind those of us in the profession over and over of those certain cardinal principles, practices and precedents of long standing, that, if adhered to without fail, will benefit the client, our community—all of us—guaranteeing the personal success in this distinct, increasingly vital and growing profession.

In this tradition, we pledge our honor, reputation and names.

—Roland G. Caldwell, Founder



Left, R. G. “Kelly” Caldwell Jr. carefully uncrates the long-awaited sculpture.

Above, the plaque is mounted at Caldwell’s entrance.

Leonard Nagel joins Caldwell as senior VP and chief technology officer

Leonard Nagel has come to Caldwell Trust Company as its first chief technology officer according to R.G. "Kelly" Caldwell Jr., CEO and president. As senior vice president, Nagel will expand the company's information technology department and develop its long-term technology vision. He holds a Bachelor of Science degree in economics and a Master of Business Administration degree in quantitative analysis/MIS from Louisiana Tech University, along with minors in finance, management and computer science.

"We welcome Leonard's guidance and knowledge as we grow," Kelly says. "We're especially excited by the many possibilities that are opening to us as he couples new technologies with our unique proprietary software."

Nagel learned of the newly created position at Caldwell through his network. At the time he was working for Clearwater-based Suncoast Solutions, a leading commercial manufacturer of integrated software solutions for the hospice and home care industry. He had been with that company since 1999, ten years as vice president of support services and six years as senior vice president of technology and services.

Before joining Suncoast Solutions, he had worked in Louisiana for five years as Information Technology director for Health Care of New Orleans Services, a health care software provider for the hospice and home care industry.

"Right now, I'm getting acclimated to the business end of Caldwell Trust Company," Leonard says. "At the same time, I'm helping to advance and grow the technology for the internal trust applications. I think overall this is a wonderful place to be. The people are very positive and the environment is so professional. I'm enjoying the pace of it all and am excited to be a part of such an opportunity."



Leonard and his wife, Jennifer, have two children: Hansley, their 13-year-old daughter and honor student, and Haiden, 20, a business major at Florida Atlantic University and defensive end on the FAU football team.

He devotes his spare time to his family and takes great pride in focusing on their needs, their community commitments and school-related sports. He also likes to fish and he works out when he can fit it in.

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