Caldwell Trust Company

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Investment letter

Brexit-generated fear replaced by increased market strength

The vote on Britain's decision of whether to remain in (Bremain) or leave (Brexit) the European Union took place on June 23. In the days leading up to the vote, global stock markets discounted a Bremain vote victory. Even London bookies had the Bremain vote as the odds-on favorite. U.S. stocks as measured by the S&P 500 climbed 2.03 percent from the close of June 17 up until the evening of June 23. As you may recall, that turned out to be a big head fake.

Late in the evening (New York time) when the results came in, the Brexit vote gained traction and won. As Australian and Asian markets opened on June 24, they began to trade sharply lower on the surprising news. This then spilled into European markets and U.S. futures as they opened. After the dust settled, the S&P 500 had dropped. On Friday, June 24, it was down 3.7 percent. On Monday, June 27, it fell another 1.8 percent. There was a level of fear in the marketplace that hadn't been there for some time. The talking heads on the financial news channels began predicting doomsday scenarios including systemic crisis.

The opening of Asian markets on the morning of Tuesday, June 28, brought heavy buying that followed in Europe and the U.S. For four days that pattern of heavy buying continued and brought the S&P 500 to within approximately 10 points of its June 23 pre-Brexit mark. In our view, the selloff was a big overreaction AND the Brexit vote was NOT a systemic event. It was rather an opportunity, as evidenced by the chart on page 2 from Ned Davis Research, which shows a list of "Crisis Events" and subsequent stock market performance at intervals of one month (22 trading

Continued on page 2

Retirement letter

Why you need to make the most of your 401(k)-type plan

by John L. Tufaro

Are you saving for retirement? Are you saving at all? Our parents and their parents were a society of savers. You may have heard of savings accounts, Christmas clubs or layaway plans. These were plans to ensure that people saved before they spent. Unfortunately, the tide has shifted and we have become a society of spenders, where we buy something now and figure out how to pay for it when the bill comes.

For those of you that are saving, I applaud you and encourage you to do more. For those who are not taking advantage of your employer's 401(k) or 403(b) plan, please start. Those not participating typically say, "I cannot afford to." My response is, "You cannot afford not to." You should realize that most companies today do not have traditional pension plans, and social security may not be there when you are ready to retire. Figure 1 illustrates the impact of take-home pay for someone with an annual salary of $30,000.

Continued on page 3

Figure 1. Impact of 401(k) employee contributions on take-home pay

When you contribute	It equals this dollar amount each pay period	If you are contributing to the pre-tax 401k, your net pay is reduced by	Annual contributions
1%	$ 12	$ 8	$ 300
3%	$ 35	$ 26	$ 900
5%	$ 58	$ 43	$ 1,500
8%	$ 92	$ 69	$ 2,400

Brexit establishes precedent for other E.U. nations

Continued from page 1

days), three months, six months and one year out. On a median basis, the market is up 16.9 percent one year after a crisis event. Note that the Dow Jones Industrial Average is used in this NDR study.

CRISIS EVENTS, DJIA DECLINES AND SUBSEQUENT PERFORMANCE						
Event	Reaction Dates	Reaction Date % Gain/Loss	DJIA Percentage Gain Days after Reaction Dates			
			22	63	126	253
Panic of 1907	02/15/1907 - 11/20/1907	-42.9	6.9	14.7	29.9	48.3
Exchange Closed WWI	07/22/1914 - 12/24/1914	-10.2	10.0	6.6	21.2	80.2
Woodrow Wilson Stroke	09/25/1919 - 09/26/1919	1.3	5.7	-4.5	-16.0	-21.8
Bombing at JP Morgan Office	09/15/1920 - 09/30/1920	-5.5	2.4	-14.9	-9.5	-17.3
Market Crash of 1929	10/11/1929 - 11/13/1929	-43.7	27.3	34.1	46.0	11.8
Germany invades France	05/09/1940 - 06/22/1940	-17.1	-0.5	8.4	7.0	-5.2
Pearl Harbor	12/06/1941 - 12/10/1941	-6.5	3.8	-2.9	-9.6	5.4
Truman Upset Victory	11/02/1948 - 11/10/1948	-4.9	1.6	3.5	1.9	6.1
Korean War	06/23/1950 - 07/13/1950	-12.0	9.1	15.3	19.2	26.3
Eisenhower Heart Attack	09/23/1955 - 09/26/1955	-6.5	0	6.6	11.7	5.7
Suez Canal Crisis	10/30/1956 - 10/31/1956	-1.4	0.3	-0.6	3.4	-9.5
Sputnik	10/03/1957 - 10/22/1957	-9.9	5.5	6.7	7.2	29.2
Cuban Missile Crisis	10/19/1962 - 10/27/1962	1.1	12.1	17.1	24.2	30.4
JFK Assassinated	11/21/1963 - 11/22/1963	-2.9	7.2	12.4	15.1	24.0
Martin Luther King Assassinated	04/03/1968 - 04/05/1968	-0.4	5.3	6.4	9.3	10.8
U.S. Bombs Cambodia	04/29/1970 - 05/14/1970	-7.1	0.4	3.8	13.5	36.7
Kent State Shootings	05/01/1970 - 05/26/1970	-14.0	9.9	20.3	20.7	43.7
Penn Central Bankruptcy	06/19/1970 - 07/07/1970	-7.1	8.0	16.0	24.9	33.8
Arab Oil Embargo	10/16/1973 - 12/05/1973	-18.5	9.3	10.2	7.2	-25.5
Nixon Resigns	08/07/1974 - 08/29/1974	-17.6	-7.9	-5.7	12.5	27.2
Iranian Hostage Crisis	11/02/1979 - 11/07/1979	-2.7	4.7	11.1	2.3	17.0
U.S.S.R. Invades Afghanistan	12/24/1979 - 01/03/1980	-2.2	6.7	-4.0	6.8	21.0
Hunt Silver Crash	02/13/1980 - 03/27/1980	-15.9	6.7	16.2	25.8	30.6
Falkland Islands War	04/01/1982 - 05/07/1982	4.3	-8.5	-9.8	20.8	41.8
Beirut Bombing	10/21/1983 - 10/23/1983	0	2.1	-0.5	-6.9	-2.9
U.S. Invades Grenada	10/24/1983 - 11/07/1983	-2.7	3.9	-2.8	-3.2	2.4
Continental Illinois Bailout	05/08/1984 - 05/27/1984	-6.4	2.3	11.5	10.1	18.3
U.S. Bombs Libya	04/14/1986 - 04/21/1986	2.8	-4.3	-4.1	-1.0	25.9
Financial Panic '87	10/02/1987 - 10/19/1987	-34.2	11.5	11.4	15.0	24.2
Invasion of Panama	12/15/1989 - 12/20/1989	-1.9	-2.7	0.3	8.0	-2.2
Iraq invades Kuwait	08/02/1990 - 08/23/1990	-13.3	0.1	2.3	16.3	22.4
Gulf War	01/16/1991 - 01/17/1991	4.6	11.8	14.3	15.0	24.5
Gorbachev Coup	08/16/1991 - 08/19/1991	-2.4	4.4	1.6	11.3	14.9
ERM U.K. Currency Crisis	09/15/1992 - 10/16/1992	-4.6	0.6	3.2	9.2	14.7
World Trade Center Bombing	02/25/1993 - 02/27/1993	-0.3	2.4	5.1	8.5	14.2
Oklahoma City Bombing	04/18/1995 - 04/20/1995	1.2	3.9	9.7	12.9	30.8
Asian Stock Market Crisis	10/07/1997 - 10/27/1997	-12.4	8.8	10.5	25.0	16.9
U.S. Embassy Bombings Africa	08/06/1998 - 08/14/1998	-1.8	-4.0	4.8	10.4	32.0
U.S.S. Cole Yemen Bombing	10/11/2000 - 10/18/2000	-4.2	6.6	6.1	6.1	-5.1
WTC and Pentagon Terrorist Attacks	09/10/2001 - 09/21/2001	-14.3	13.4	21.2	24.8	-6.7
War in Afghanistan	10/05/2001 - 10/09/2001	-0.7	5.9	11.5	12.4	-16.8
Bali Nightclub Bombing	10/11/2002 - 10/13/2002	0.3	6.6	12.3	6.7	24.4
Iraq War	03/19/2003 - 05/01/2003	2.3	5.5	9.2	15.6	22.0
Madrid Terrorist Attacks	03/10/2004 - 03/24/2004	-2.4	3.9	3.9	-0.1	4.4
London Train Bombing	07/06/2005 - 07/07/2005	0.3	2.3	0.1	5.6	7.8
India Israel and Lebanon Bombings	07/11/2006 - 07/18/2006	-3.0	5.0	10.9	16.4	28.3
Bear Stearns Collapse	03/13/2008 - 03/14/2008	-1.6	5.6	3.0	-4.4	-38.1
Russia Invades Georgia	08/08/2008 - 08/16/2008	-2.2	-4.0	-26.0	-34.2	-19.2
Lehman Brothers Collapse	09/15/2008 - 09/16/2008	1.3	-18.8	-22.6	-32.3	-11.5
Israel Invades Gaza	12/27/2008 - 01/21/2009	-3.0	-13.5	-4.2	7.9	23.6
Boston Marathon Bombing	04/12/2013 - 04/15/2013	-1.8	4.6	6.1	4.4	11.4
	Mean	-6.7	3.7	5.2	8.9	13.9
	Median	-2.9	4.6	6.1	9.3	16.9

Notes:
- The 22, 63, 126 and 253 day rate-of-change is calculated from the last day in the reaction dates column.
- The first date in the reaction dates column indicates the start of the market reaction or the trading day prior to the event.
- 1914 data - In 1916 a new list of 20 stocks for the DJIA was adopted and computed back to the reopening of the exchange on 12/12/1914. NDR analysis for this study adjusted the DJIA index level prior to 12/12/1914 to reflect an accurate and consistent data set. Source: The Dow Jones Averages 1885-1990, Edited by Phyllis S. Pierce.
- Days = Market Days

Ned Davis Research Group *T_900.RPT 6/1/2016*

Despite the findings in the chart, we in the investment department will continue to monitor developments. The loser in the Brexit will be the remaining E.U. nations. The true threat that Brexit poses to the world economy is establishing a precedent for other member countries to consider leaving. For many years Germany and France have provided stability and economic power that has kept the E.U. a powerful trading bloc. Losing the U.K. means all of the weight to keep things together will now be upon Germany and France. Ultimately Brexit will benefit the U.K. as it is a net importing nation. It will be in a position of power as it renegotiates its trade agreements.

The Italian Job: Don't Let a Good Crisis Go to Waste

Pundits have coined whimsical words to describe activity in other E.U. countries besides Great Britain (e.g., Italeave, Czech-out, Finnish, Departugal, Oustria). Joking aside, "Italeave" may gain traction. The poor health of Italian banks could continue the rally in U.S. and global stocks. Italian banks currently hold 360 billion Euros worth of bad loans and have no way of getting aid. This is due to the E.U. legislation called the BRRD (Bank Resolution and Recovery Directive), which prohibits banks from using taxpayer money for bailouts. Cyprus and Germany, Italy's allies, had their chances to refresh their balance sheets before the BRRD's creation. However, Italian Prime Minister Matteo Renzi is using Brexit as leverage to get support from Brussels on restructuring its banks, according to our astute friend Donald Luskin at TrendMacro. And now it is thought that a deal may be struck to buy the non-performing loans in exchange for, although perhaps not explicitly, a "No Italeave" scenario. A bailout of Italian banks would be far less detrimental to Europe than the thought of Italeave.

CONCLUSION

We maintain the view that stocks are the asset class of choice when we are charged with making real returns for our clients. Brexit presented us with an opportunity and we remain buyers of stock on weakness. Ultimately, we see the U.K. without the E.U. as a positive for the kingdom, and we watch developments in Italian banks for positive news and a continuation in the bull market for stocks.

Participating in a retirement plan makes a significant difference

Continued from page 1

Building Your Nest Egg

Do you know how much you need to retire? The average person will need 70-80 percent of his or her current income. Thus, someone earning an annual salary of $30,000 needs $24,000--and keep in mind, because of our life expectancy, this amount will be required every year for approximately 20 years. Realize, too, that the cost of living goes up, not down. The cost of goods 20 years from now will be greater; therefore, your savings have to work that much harder.

The illustrations below compare the impact of saving by a person who starts at age 25 (figure 2) and one who starts at 45 (figure 3). Each is making $30,000 and contributing 3 percent. The examples show plans that have a company match and plans that do not. Of course having a match is a great incentive but participating in a plan is still extremely important even if your firm does not match at this time.

Please take the time to review this information. Those of you who are participating can take advantage of any financial changes to your income or debt. For example, you can use part of a possible salary increase to increase your contribution to your plan. If you are fortunate enough to pay off a bill such as a credit card or car loan, you can take advantage of those debt reductions to increase your contribution. The chart shows how well this can pay off.

Finally, if you are not participating in a plan, please consider this very important benefit. It can make a significant improvement in your retirement years, not just for you and your spouse but also for your children and your grandchildren.

John L. Tufaro is assistant vice president and retirement plan specialist for Caldwell Trust Company. He has been involved for almost 50 years with 401(k), 403(b), defined benefit and deferred compensation plans, working with large Fortune 500 companies and small- and medium-sized businesses. To reach John, please email john@ctrust. com or phone 941.493.3600.

Figure 2. Person making 3% annual contributions to retirement plan from age 25

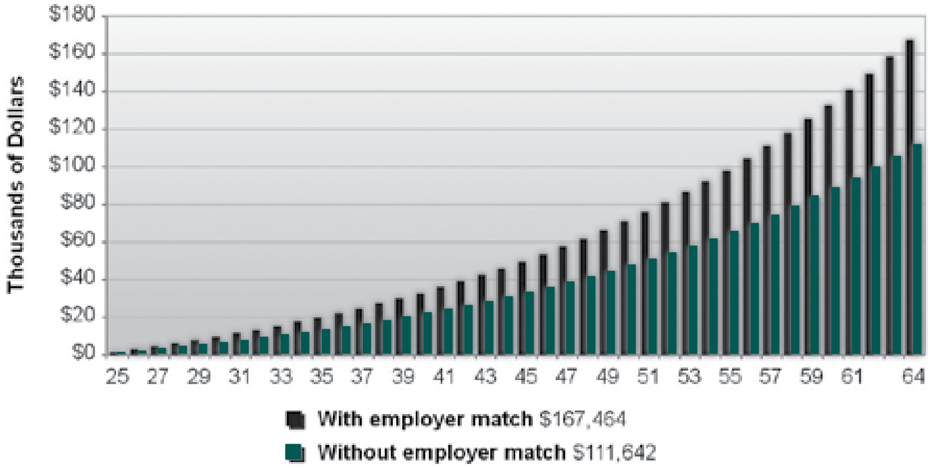
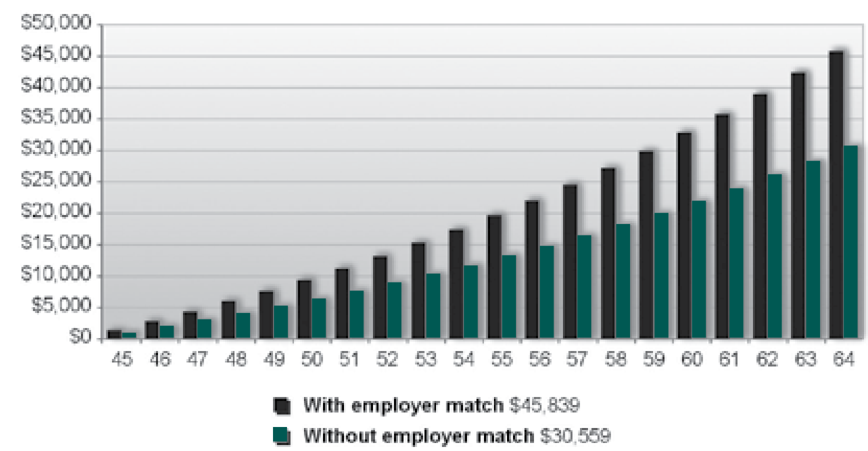


Figure 3. Person making 3% annual contributions to retirement plan from age 45



John L. Tufaro manages retirement plans for employers, employees—and families

Six-month-old Annie Grace Tufaro beautifully illustrates one of the major reason employees should invest in 401(k) or 403(b) retirement plans—and her proud grandfather is just the person to help them. Assistant vice president John L. Tufaro, Caldwell's retirement plan specialist, has acquired nearly five decades of experience in banking, financial services and retirement. "Planning for retirement isn't just for yourself. It's for the whole family, including grandchildren," he said. He and his wife Joann have three grown sons, so he understands the needs of families.

Throughout his career John has worked in trust operations, trust administration, client relationship management, business development and leadership roles for major financial services companies. He has also provided guidance for 401(k), 403(b), defined benefit and deferred compensation plans for Fortune 500 companies as well as small- and medium-sized businesses.

John began his career in 1967 with Bankers Trust Company in New York City and advanced to vice president before departing in 1985. He then worked for other respected trust companies in New York until 1994, when he relocated to Atlanta. There he served as senior vice president for major financial companies including NationsBank and Mellon Bank. His last position before joining Caldwell Trust Company was as director/manager of Buck Consultants Executive Benefits Administration, where he guided that business to over 200 percent growth in five years.

While they were living in Atlanta John and Joann bought a second home in Venice, FL. In 2007, after seven years of two-state living, they decided to make Florida their permanent home. John forged a relationship with CEO and president R. G. "Kelly" Caldwell Jr. and became a consultant to the company. By July 2007 he was a full-time employee. At that time Caldwell managed only three retirement plans. "We were doing it to accommodate the needs of existing clients," he said—and Caldwell still manages those plans. In addition, since John's arrival the client list has grown significantly.

It's not just because he's so good at what he does. It's also because he cares so deeply. "I really believe and appreciate what we do at Caldwell," John said. "With large institutions the client gets lost. The focus is on stockholders and compliance. Here we put our clients first to provide personal service. My client is not a number but a real person."

He cares about his community too. John volunteers his talent for Easter Seals, the Loveland Center and the Boys & Girls Clubs of Sarasota County. He is also a former board member of the Miracle League of Manasota.

John attended Queensborough College in New York City and is a member of the American Institute of Banking.

To reach John, please email him at john@ctrust.com or call 941.493.3600.