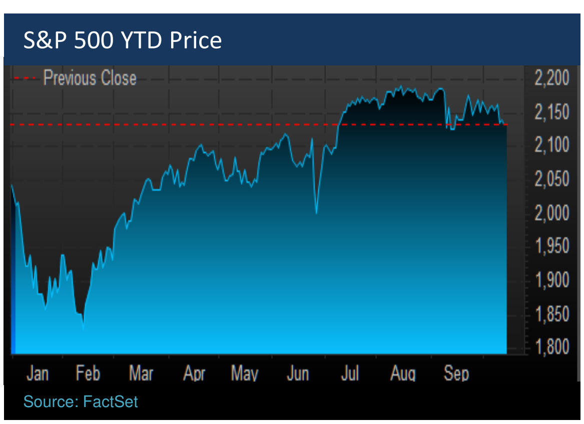
Strategy Quarterly

Fourth Quarter 2016

Executive Summary

- The U.S. economy continues to expand at an anemic rate, at least when measured by quarterly GDP numbers or monthly employment reports.
- Consumer spending continues to be strong on the back of solid labor reports.
- Nonfarm payrolls maintain a positive trend.
- The Fed remains on the sidelines, with “no fixed timetable” for rate hikes, according to Fed Chairwoman Janet Yellen, while futures point to a 0.25% increase by year end.
- The U.S. presidential election is providing the backdrop for continued volatility in the markets.
- S&P 500 YTD gains are led by strength in the Technology sector, with Energy and Utilities also reflecting double-digit returns. Consumer Discretionary and Heath Care sectors lagged.
- The 10-year Treasury yield ranged from 1.40% to 1.70% in the 3rd quarter, currently near the 1.60% level.
- Global economic growth will continue to be expansive, albeit modest.



CYPRESS TRUST COMPANY

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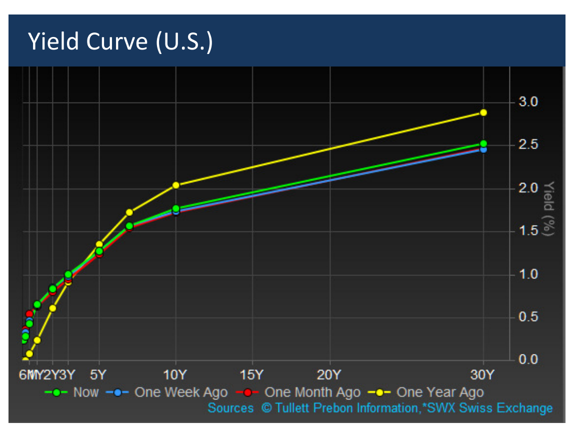
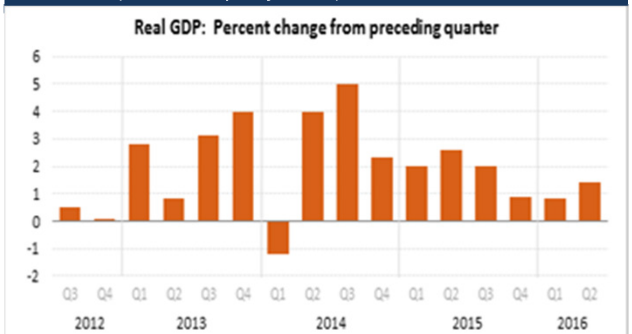


Economic Backdrop

The U.S. economy continues to expand at an anemic rate, at least when measured by quarterly GDP numbers or monthly employment reports. GDP expanded by 1.4% in 2Q16 after the third revision, and left the economy with 1.1% growth in the first half of 2016. Momentum has been stalling since 2015, which brings into question whether the economy is on the path for a negative release.

Chart 1. U.S. Real GDP: % Change from Preceding Quarter (seasonally adjusted)

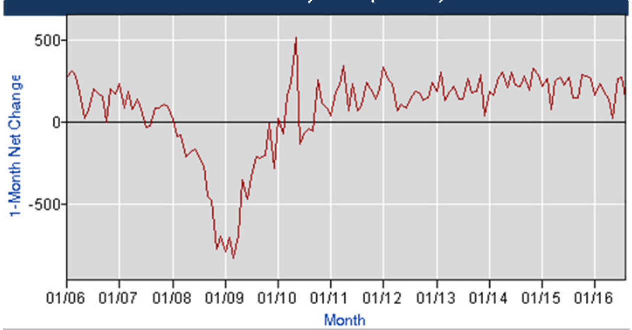


Source: U.S. Bureau of Economic Analysis

The consumer continues to be strong on the back of solid labor reports, which should lead to positive year over year gains in spending. Consumer spending accounts for two-thirds of U.S. economic activity.

Non-farm payrolls, while volatile, continue to be positive. When looking back over the last 6 years, the report looks a lot more predictive with it being in the range of 25,000 to 350,000 and an average of 200,000 over that period.

Chart 2. Total Nonfarm Payrolls (thous)



Source: U.S. Dept. of Labor – Bureau of Labor Statistics

With all that said, the Fed continues to stay on the sidelines. Recent testimony from Fed Chairwoman Janet Yellen says there is "No fixed timetable" for additional rate increases, while futures point to a 50/50 chance of a 25 bps increase by year end.

The U.S. presidential election is coming up in November, adding to uncertainty in the markets. One thing is certain: Economic growth will be "Lower For Longer."

Equities

In 2Q16, S&P earnings declined 3.2% and recorded 5 consecutive quarters of year over year declines. With the third quarter earnings reporting season upon us, the expectation is for that negative trend to continue. The standout sector is expected to be Technology with the largest increase in earnings growth.

In 3Q16, stocks posted gains led by the rebound in Tech stocks as investors searched for growth and relative value. Both Consumer Staples and Utilities underperformed in the quarter, as investors questioned valuations and the outlook for the effect of an interest rate hike on higher yielding sectors.

On a year-to-date basis, the Energy and Utilities sectors joined Technology with double-digit returns. We highlighted the reasons for the rebound in Tech stocks above. Utilities were sought out for yield, while Energy rebounded due to oil prices' nearly 30% move so far this year.

Fixed Income

The fixed income markets continue to look to the economy for some direction. In 3Q16, the 10-year Treasury yield posted a range of 1.40% to 1.70%, currently at 1.60%. Most other fixed income sectors showed similar volatility during the quarter but finished where they started. With the outlook for the Fed to be dovish and the lack of significant growth in the economy or inflation, rates are expected to remain on the same pattern.

The long end of many international yield curves are negative beyond 10 years as compared to positive yields in the U.S.

Outlook

Growth will continue to be expansive, albeit modest. Rates will continue to be lower for longer, at least into early 2017. Notwithstanding any other "unknowns" the domestic and international political environment will certainly produce continued volatility in the markets. Our commitment to you is that we will continue to navigate your portfolio through turbulent times in an effort to meet your goals and objectives.

Estate Planning for Unnatural and Natural Disasters

By Anita Calabro, Vice President and Trust Officer

Often times when we plan for natural disasters, our estate plans simply aren't on the "to-do" list - that is, until something happens to a loved one, a pet, personal property, or to us personally. This is the time of year when taking out that estate plan and giving it a second look really helps put things in perspective. Below are some of the key areas we like to review at least annually:

Investments

- Is your portfolio properly allocated to meet your personal objectives and short and long term needs?
- Has a life changing event occurred that may require changes to the construction of your portfolio?
- In an emergency can you access funds quickly? Can you send money quickly to a loved one if need be?
- Review realized gains and losses for the year to maximize any tax benefits you may be able to take advantage of, such as carryover losses.

Year-End Tax and Charitable Planning

- If you are over 70 ½, has your Required Minimum Distribution (RMD) been made from your IRA and other qualified plans?
- If you are gifting to charity, it must be done by year end if you plan to take the deduction for the current year.

Life Transition Planning

- Has there been a sudden change in family dynamics that you may need to discuss with your family attorney?
- Is there now a person or charity that should be included or omitted from your estate plan?
- Have you reevaluated your estate planning documents and feel confident they would accomplish your wishes should something happen to you today?
- Are you carrying sufficient insurance coverage should a disaster happen?
- Who would care for your children, spouse, dependents or pet if you became sick or injured?
- Have you reviewed your life, health, long-term care, vehicle and other insurance polices to understand exactly what happens if and when intervening circumstances arise?

These are just a few things we at Cypress Trust Company discuss with our clients on a regular basis. The list gets longer when a disaster or life changing event does in fact occur. Being prepared will help brace you and your family from what disasters can leave behind, and provide you with peace of mind that those estate planning assurances are up-to-date.

The "Unknowns"

Unknowns in investing are ever present. The unknowns are those events which we cannot predict or rarely foresee. It is the unknowns that can really harm an investment portfolio. For example, the precipitous drop in oil prices in 2014 was an unknown. The surprise outcome of the U.K. referendum to exit the European Union was an unknown. The outcome of the upcoming U.S. presidential election would certainly qualify as an unknown.

So how do we account for these "unknowns"? Here are a few simple suggestions:

1. Prepare, don't predict. While it may be possible to calculate probability, no one is able to accurately predict these events, or their long range impact.
2. Prepare your portfolio:
   - Maintain your asset allocation. Don't compromise asset allocation to chase high returns that you missed.
   - Stay diversified.
   - When rates are low don't chase yield by moving into riskier, higher yielding asset classes.
   - Don't compromise on quality. If you are accustomed to owning the highest quality companies due to their stability, dividend history, etc., maintain that strategy.
   - Valuations matter! They matter a lot. The single biggest determinant of the future rate of return is the price paid. Buy at an attractive valuation, not when an asset has been bid up by euphoria. Remember the Buffett quote, "You pay a high price for a cheery consensus."
3. Stay invested. Panic is not a strategy. The academic evidence is irrefutable that timing the market is a loser's game. Missing just the best 5-10 days in the market can dramatically reduce your return potential over time. Those who stay invested almost always realize superior performance over a full market cycle than those who sell out in panic.

Adhere to the points above and your portfolio will be in a better position to withstand potential losses when the "unknowns" strike again.

Event Calendar

Continuing Claims/Initial Claims	10/6
Private/Nonfarm Payrolls	10/7
Continuing Claims/Initial Claims	10/13
PPI/Core PPI	10/14
Retail Sales	10/14
Industrial Mfg/Production	10/17
CPI/Core CPI	10/18
Continuing Claims/Initial Claims	10/20
Continuing Claims/Initial Claims	10/27
FOMC Meeting	11/1-11/2
Continuing Claims/Initial Claims	11/3
Private/Nonfarm Payrolls	11/4
U.S. General Election	11/8
Continuing Claims/Initial Claims	11/10
Retail Sales	11/15
Industrial Mfg/Production	11/16
PPI/Core PPI	11/16
Continuing Claims/Initial Claims	11/17
CPI/Core CPI	11/17
U.S. markets closed	11/24
Continuing Claims/Initial Claims	11/25
U.S. markets close at 1:00 pm	11/25
Continuing Claims/Initial Claims	12/1
Private/Nonfarm Payrolls	12/2
Continuing Claims/Initial Claims	12/8
FOMC Meeting	12/13-12/14
Industrial Mfg/Production	12/14
PPI/Core PPI	12/14
Retail Sales	12/14
Continuing Claims/Initial Claims	12/15
CPI/Core CPI	12/15
Continuing Claims/Initial Claims	12/22
U.S. markets closed	12/26
Continuing Claims/Initial Claims	12/29
U.S. markets closed	1/2/2017

CYPRESS TRUST COMPANY

Cypress Trust Company is a boutique corporate fiduciary that focuses exclusively on providing customized trust and investment management services for successful individuals and their families, non-profit organizations, foundations and endowments. As an independent Florida-chartered trust company, we are governed by an elected board of directors and regulated by the Florida Office of Financial Regulation. Cypress Trust Company maintains full-service offices in Palm Beach, Naples, Vero Beach, and Winter Haven, with additional representation in Sarasota and The Villages.