

The Compass

Fourth Quarter 2018

Executive Summary

- ❑ The U.S. economy still looks strong – helped by low unemployment, tax cuts.
- ❑ Potential global trade conflicts, recession fears, and potential contagion from international markets contributed to a pullback from all-time highs.
- ❑ The Fed continues on its path of measured rate increases. The September rate hike brings the Fed Funds rate to the 2.00%-2.25% range.
- ❑ 3Q18 GDP numbers expected to come in strong.
- ❑ The S&P 500 returned a positive 7.2% in 3Q18, following a decent 3.43% in 2Q18. Earnings grew by 25% year over year, led by the Energy sector.
- ❑ The 10-year treasury ended the quarter at 3.06%, after briefly touching the 3.25% level.
- ❑ The outlook for the remainder of the year looks favorable, but with continued volatility.

In this issue:

- ❑ Kids Are Kids – Until They're Not!
- ❑ Be Cyber-Aware. Stay Cyber-Safe.



Cypress Trust Company Investment Committee

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Theresa Strickland

S&P 500 Year to Date Price Chart



Source: FactSet

Yield Curve (U.S.)



Source: FactSet

Overview

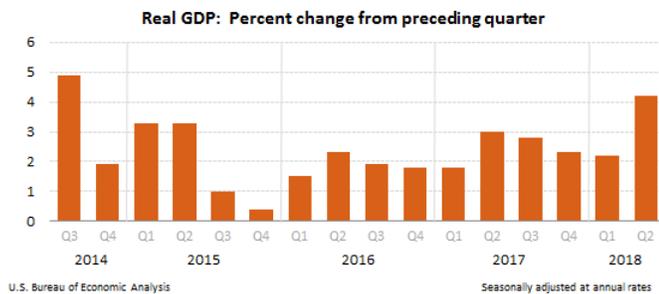
With the new year less than 3 months away and most of 2018 behind us, the U.S. equity markets delivered one of the best returns in many years. The U.S. economy has delivered, and the outlook still looks promising. The Federal Reserve continues on its path of measured rate increases as it strives to strike a balance between a strong economy and overheating. Reduced regulation and corporate tax cuts have led to improved earnings, where all investors are benefiting, whether directly or indirectly.

But, wow, how fast sentiment can change. As the calendar changed to autumn months, even the equity markets appear to be showing a bit of a chill. The markets and investors are dealing with a variety of issues including concerns of the Fed's path (time to pause?), potential global trade conflicts, recession fears, and potential contagion from international markets. All of these issues combined have led to a pullback from the most recent all time highs. Regardless of the reason it is always painful to see the markets print red numbers. But you remind us as much as we remind you that trees do not grow to the sky. A little pruning from time to time produces a healthier market.

Economic Backdrop

The Federal Reserve led by Chairman Powell has continued on its path of measured rate increases. In the 3rd quarter of 2018 the benchmark rate increased for the 8th time in this cycle to a range of 2.00%-2.25%. The Fed has signaled one more rate hike this year. In its September 2018 meeting, the Fed noted that "labor conditions continue to strengthen in recent months and that real gross domestic product (GDP) appeared to be rising at a strong rate in the third quarter, similar to its pace in the first half of the year."

The unemployment rate decreased to 3.9% in July 2018 and August 2018. The average hourly wage rose 2.9% over the last 12 months ending in August 2018. The inflation rate in the U.S. is 2.3% for the 12 months ending September 2018, a slight increase over the previous 12 months. Core inflation, which excludes consumer food and energy prices, rose 2.0% over that same period. Second-quarter GDP came in at 4.2%, following 2.2% in the first quarter. Third-quarter GDP estimates will be published on October 26, with expectations for a 3.3% read.



Equities

In the 3rd quarter 2018, the S&P 500 delivered a 7.2% return as both earnings and revenues continue to impress. Earnings grew by 25% while revenues delivered an almost double-digit improvement at 9.5%. All sectors reported positive growth, with all but two, Utilities and Real Estate, improving by double digits. This was led by Energy and its 122% improved earnings over the same period last year. All sectors also delivered revenue growth in 3Q 2018 led by double digit growth by Energy, Materials, and Technology. 80% of the S&P 500 came in above street earnings expectations, while only 15% reported below. 82% beat revenue expectations and 28% below. Earnings and revenues are expected to continue on the upward trajectory although not at the same pace.

Fixed Income

The U.S. economy continues to show growth, which has led the Fed to increase short rates. While longer rates are also starting to move higher, we ended the 3rd quarter 2018 with questions of a possible yield curve inversion. The benchmark 10-year U.S. Treasury closed at 3.06%, almost touching 3.25% just a couple of weeks earlier. Short term government bonds are being gobbled up by investors as rates cross over the 2% mark and you get compensated for holding cash like securities. Rates both domestically and globally are anticipated to rise due to Reserve Banks around the world working back to a "normalization" of rates off the now decade-old global recession.

Outlook

The outlook for the remainder of 2018 continues to be favorable yet volatile. The economy and the markets are expected to print positive numbers from here due to the positive economic backdrop and the recent pullback (correction) in the market. The correction is being seen more in individual names than it is in the indices. The economy has become more stable due to better inventory control along with a bigger service sector and subsequent smaller manufacturing sector. This should allow for longer expansions and smaller recessions. The consumer still looks strong due to the tax cuts and the strong job market. We do recognize that interest rate sensitive industries like Autos and Housing have come under pressure, but off of cyclical highs. Volatility will be with us as we digest all of the above along with continued uncertainty around the Fed, global trade issues, and the mid-term elections.

Always vigilant, our commitment to you is to navigate your portfolio through both calm and turbulent times in an effort to meet your goals and objectives.

The most important lesson in investing is humility.

- Sir John Templeton (1912-2008)

Kids Are Kids – Until They’re Not!

By Anita D. Calabro, Trust Officer
Cypress Trust Company

I was visiting my friend Mindy over the summer and she shared with me a difficult story which, luckily, had a good ending. Her son Isaac was preparing for college and was taking the summer to hang out with some of the guys. Isaac called Mindy to tell her he and his friends were leaving the beach and would be stopping to grab a bite before they headed home. Later that day my friend’s son and his friends were in a car accident. The scariest part was when Mindy called the hospital, they refused to give her any information. Isaac was over 18 and the hospital had no record on file that gave them authorization to provide Mindy with a medical update about her son. Luckily things worked out for Mindy and Isaac. He walked away with a couple of broken bones, a few bruises, and a citation for being the at-fault driver of the accident. It could have been worse.

Mindy asked me whether, as a trust officer, I have ever seen this happen before, where a parent is denied access to their adult child’s medical information. I took the opportunity to present to her the importance of discussing with her attorney the need for a Power of Attorney, a Living Will, and a Health Insurance Portability and Accountability Act document, also known as a HIPAA agreement. I also realized that there are a lot of moms, dads, guardians and grandparents I need to talk to about this. The Power of Attorney is a document that can cover your child during those times when he or she cannot, or should not, be making health care choices for themselves. While Powers of Attorney can cover a variety of topics, in this article we will only discuss Health Care Powers of Attorney. Generally a doctor will determine when someone lacks the ability to make health care decisions on their own, but should the need arise where your child is unable to communicate their health care needs, this document allows your child to name an agent to make those health care choices on their behalf.

With all the changes in the medical world the reality is that we are living longer and that is primarily due to advances in modern medicine. But just as no two people are alike, no two health care decisions are alike. A power of attorney document will allow an individual to speak for themselves via a directive. This helps to plan ahead should a catastrophic event occur. The myth is that you only need a living will when you’re old. The truth is that unexpected events happen every day and can happen to any one of us.

The HIPAA documentation was developed by the Secretary of the U.S. Department of Health and Human Services. The primary role of this document is to provide protection of an individual’s health care information. Once our children leave the nest we no longer keep up with their medical records. Having this document would have allowed Mindy to request copies of Isaac’s medical records so that he could obtain the care he needed when he could not act on his own.

We never stop worrying about our children. The fact is we are proud of them and want them to see and explore the world in their own way. But when life happens we can always help them with a little paper armor just in case the need arises.

Have a question about Powers of Attorneys, Living Wills or HIPAA agreements? Call 800-439-8745 or click <https://www.cypresstrust.com/> for a free consultation.

Anita D. Calabro is a Vice President and Trust Officer of Cypress Trust Company. Ms. Calabro assists successful individuals and their families with custom investment management solutions and trust administration services.



As the year comes to a close and the holidays and travels begin, on behalf of everyone here at Cypress Trust Company we wish you and your family a safe and happy holiday season.

Welcome, Beverly Flanagan and Manju Sri Bhattu

Beverly Flanagan has joined Cypress Trust Company as Senior Vice President and Market Executive in our Jacksonville office. Beverly brings a wealth of experience and expertise in the areas of private banking, wealth management, and trust administration. She is the current President of the Planned Giving Council of Northeast Florida, and the Service Chair for the Ponte Vedra Rotary Club. Please join us in welcoming Beverly to the Cypress Trust family.

Manju Sri Bhattu has joined Cypress Trust Company as a Business Development Officer in our Palm Beach office. Manju attained her MBA from the University of New Haven in Connecticut, with a concentration on international business. During her graduate studies, she served as a Strategic Management intern for an information technology company, as a graduate student assistant overseeing all international student relationships, and served as Vice President for Diversity and Inclusion at the Graduate Student Body Council. We welcome Manju to the Cypress Trust family.

Be Cyber-Aware. Stay Cyber-Safe.

By Jim Parry, Vice President IT Services

Cypress Trust Company

We've talked about social engineering in the past as the primary way hackers exploit people's computers and online accounts. Using a variety of techniques, including phone calls and information from social media, these attackers trick people into giving them access to sensitive information. In the past we discussed hoaxes and phishing. Here is another common example of a 'social engineering' attack.

Spear Phishing

This is a variant of phishing. In this type of attack, the phishing e-mail is specifically targeted toward an individual, instead of being generic enough to target many people at once. In the phishing e-mail, the attacker will often use information that can be linked to the victim, such as personal information the attacker has already gathered by some other means. Examples might include the last four digits of the victim's credit card number or Social Security number, or a partial date of birth. This lends credibility to the attack and makes it easier to persuade the victim that the e-mail is genuine. Corporate executives have been targeted using this strategy, with the goal being to get their approval for purchases or money transfers.

It is good practice to install a reliable antivirus program on your computer and make sure it stays updated. It is equally important to always remain "cyber-aware" when opening e-mails from people you don't know, and especially when clicking on links contained in these e-mails.

At Cypress Trust Company, protecting our clients' privacy is a top priority. We take precautions to protect your information and believe that such protection is vital to our business. We maintain physical, electronic, and procedural safeguards to store and secure client information to protect against unauthorized access. It is important for clients to implement similar precautions when using their personal computers. As part of our commitment to help you stay cyber-aware, look for tips and recommendations in each issue of The Compass newsletter that you can use to help keep your personal information safe.



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, Winter Haven, and Jacksonville, with additional representation in Sarasota and The Villages.

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