

The Compass

First Quarter 2019

Executive Summary

- ❑ Continued strength in the U.S. economy was not reflected in the markets in the 4th quarter 2018.
- ❑ Investors' concerns contributed to extreme volatility in the 4th quarter.
- ❑ The Fed raised rates to the 2.25%-2.50% level in December, citing a strong labor market and household spending. Inflation remains at 2.0%.
- ❑ 3Q18 GDP came in a 3.4%.
- ❑ The S&P 500 returned a negative (13.9%) in the 4Q18 despite strong earnings and revenue growth.
- ❑ The 10-year treasury yield ended the quarter at 2.68%, after briefly touching the 3.25% level.

In this issue:

- ❑ How NOT to Burden Your Beneficiaries
- ❑ Be Cyber-Aware. Stay Cyber-Safe.



Cypress Trust Company Investment Committee

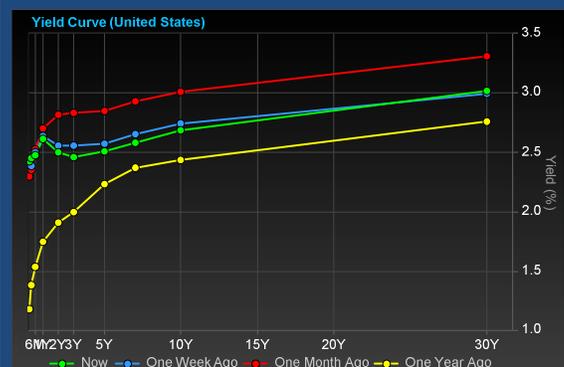
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S&P 500 Year to Date Price Chart



Source: FactSet 12/31/2018

Yield Curve (U.S.)



Source: FactSet 12/31/2018

U.S. Markets	12/31/18 Close	QTD % Change	YTD % Change
Dow Jones Industrial Avg	23327.46	-12.47%	-5.63%
S&P 500	2506.85	-13.97%	-6.24%
NASDAQ	6635.28	-17.44%	-3.88%
Russell 2000 (small caps)	1348.56	-19.39%	-12.18%
U.S. Treasury Yields	12/31/18	One Year Ago	
2 year	2.50%	1.91%	
10 year	2.68%	2.43%	
30 year	3.01%	2.76%	

Source: FactSet 12/31/18

Overview

Happy New Year! We hope your holidays were safe and joyful.

The 4th quarter of 2018 was one we are all happy to put behind us as we look toward the new year. While the U.S. economy continued to grow, the markets had much less confidence in their ability to continue the pace of expansion let alone growth at a slower pace. Have we reached peak growth and has this phase of the cycle come to an end? This is only one of the many concerns that contributed to investors' wall of worry.

Markets hate uncertainty and there was no shortage of items of concern; it sent the markets into bear territory (down 20% from the most recent highs). This is something we have not seen in almost a decade. Some of the issues that investors and the markets are not only dealing with, but looking to digest: Monetary policy and future Fed rate hikes; yield curve inversion; economic growth both domestically and internationally; the government shutdown; mid-term election results and ensuing policy changes; earnings growth; trade agreements; and global monetary easing. While these are some of the major concerns, this is by no means a complete list. While the markets have pulled back some 20% from the highs, has all the "bad" news been priced in or are further periods of weakness ahead?

Economic Backdrop

In the 4th quarter of 2018 the federal funds rate increased for the 9th time in this cycle to a range of 2.25%-2.50%. In its December 2018 meeting, the Fed noted that "the labor market has continued to strengthen and that economic activity has been rising at a strong rate . . . Household spending has continued to grow strongly, while growth of business fixed investment has moderated." Over the last 12 months, both overall inflation and inflation ex-food and energy have remained near 2.0%. The Fed reaffirmed that future adjustments to the federal funds rate will be based on employment conditions, inflation, and readings on financial and international developments which they will monitor closely. It also reaffirmed that it will continue to reduce its balance sheet as it moves toward normalization. This announcement of increased quantitative tightening sparked volatility in the U.S. equity markets.

Gross Domestic Product for the 3rd quarter of 2018 came in at 3.4% (third estimate), following a 4.2% read for the 2nd quarter 2018. The unemployment rate rose slightly in December 2018 to 3.9% after falling to 3.8% and 3.7% in October and November, respectively.

Equities

In the 4th quarter of 2018, the S&P 500 was down 13.9% as the markets looked forward and gave zero reward for both strong earnings and revenue growth. Earnings for the 3rd quarter 2018 grew by 28.4% and revenues by 8.4%. Earnings growth was led by Energy, while all sectors produced double-digit growth, except for Real Estate. Revenue growth was also strong as all sectors produced top line growth. 77% of companies beat expectations and while strong, it was a slight decline from last quarter with only 13% coming in below expectations. For revenues, 61% beat in 4Q18, again another solid number but well below 3Q18's 82% beat. Earnings and revenue expectations are a big question/concern for 2019. The question is how much has the market priced in current S&P 500 levels.

Fixed Income

The U.S. economy continues to grow as both GDP and employment reports have led the Fed to increase rates 4 times in 2018. The concerns of continued expansion or even the pace has led long term rates to pull back and parts of the yield curve have inverted. The 10 year U.S. Treasury ended the year at 2.68%, up from a year ago, but much lower than its highest level of around 3.25%. The Fed has recently forecasted patience in terms of further rate hikes, as they digest not only their dual mandate items - employment and inflation - but also additional factors that affect the economy and consumers. The rest of the world has joined the U.S. in looking to "normalize" rates after a decade of easy money.

Outlook

As we reflect on 2018 and look forward to 2019, volatility will persist until we start to get answers or solutions to each of the many issues that face investors and markets today. While we may have hit the high watermark on many economic metrics, that doesn't mean they have turned negative. Slower growth is still growth. While we can continue to have corrections (down 10% from the most recent level), an economic recession (at least 2 consecutive quarters of negative GDP) seems unlikely in the near term. The consumer is still strong and will benefit from lower long-term interest rates and lower gas prices. In addition, the capital markets still maintain plenty of liquidity.

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.

Experience is helpful, but it is judgment that matters.

- General Colin Powell

How NOT to Burden Your Beneficiaries

By Jane Goble, Trust Officer
Cypress Trust Company

Serving as a Personal Representative or Successor Trustee can be a time-consuming, and sometimes frustrating, job for the average individual, especially if they live in another state and/or have homes, families and careers of their own to manage. Let me give you an example using a blended family scenario:

Mr. X has a trust and his six adult children are named as beneficiaries. Of these six children, three are from Mr. X's first marriage and three are from his second marriage, each residing in a different state throughout the country. One child from each side of the family is named as Successor Trustee.

The two Successor Trustees can not agree on anything except for payment of necessary medical bills and the expenses on the homes. The homes need to be sold, but neither can agree on a price, a realtor, or even an attorney. The Successor Trustees had no experience with the issues that were arising, which could possibly lead to thousands of wasted dollars on needless expenses, and could result in each having to hire attorneys to settle these matters. In this case, an attorney may suggest the family talk to a corporate trustee who could manage everything for them.

A corporate trustee is experienced in facilitating the numerous items to be tended to in the most efficient manner. Further, a corporate trustee is objective, which removes all emotion from the transactions. It simply performs its duty and allows the children to grieve, and hopefully maintain positive family relationships.

The corporate trustee will meet with or hold a telephone conference with all the children to set some general rules; for example, establishing a majority rule for decisions and if there is a tie then the corporate trustee's decision will be the tie breaker. Additionally, the corporate trustee will take care of any property management, expense payments, and tax filings from the trust.

We all believe our children will always do what is right and fair, trust each other, and maintain good family relationships long after we are gone. Unfortunately, sometimes this doesn't happen. Naming individual family members as Successor Trustees or Personal Representatives puts an enormous burden on them, and could result in hard feelings and resentment among them at a time when they are also dealing with their loss.

Have a question about Personal Representatives or Corporate Trustees? Call 800-439-8745 or click <https://www.cypresstrust.com/> for a free consultation.

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

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Be Cyber-Aware. Stay Cyber-Safe.

By Jim Parry, Vice President IT Services
Cypress Trust Company

There has been a sharp increase in the incidence of emails threatening to expose the recipient to everybody in their contacts list unless a fee is paid. The emails claim that the sender has populated the recipient's computer with spyware which has detected the content being viewed and also, via webcam, footage of the recipient partaking in activities that you wouldn't want released to your friends.

These emails, which often contain poor grammar and spelling, are sent randomly and en masse, without the knowledge of whether the material has been viewed or not. These emails can result in fear and panic, especially if the recipient has indeed been indulging in what was claimed. Some of the emails, however, include mention of one of the recipient's passwords, making the threat seem more real. The password will almost certainly have been gleaned through criminal circulation of customer login details that have been stolen in large-scale data breaches. These username and password combinations end up in lists which are traded through criminal networks. Therefore, it is extremely unlikely that your password has been taken as a result of any kind of malware on your computer or mobile device. It does, however add a degree of credibility to the threat, making some people believe that they really have been spied on.

Whilst any fraudulent email is both legally and morally unacceptable, those based on blackmail seem particularly sinister as, in this case, the victim's reputation and potentially, moral standing, could be put at risk. If you receive a blackmail email threatening to expose you for viewing questionable content, remember the following:

- Don't panic
- Never pay the sum demanded
- Do not respond
- Do not click on links in the email

If one of your passwords has been correctly quoted in the email, change your password on the account or accounts on which it applies. **Please note:** Use strong passwords and remember that it is inadvisable to use the same password on more than one account. Consider using a password manager if, like most people, you will not be able to remember all of your different passwords.

Also, contact the company or website to which the email refers and let them know your password has been used in this way so they can investigate.

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 which 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.

Important Notes

This does not constitute an offer or solicitation. This information should not be considered investment advice or a recommendation to buy or sell any particular security. Opinions expressed reflect the judgment of the authors and are current opinions as of the date appearing in this material only. While every effort has been made to verify the information contained herein, we make no representations as to its accuracy and it should not be regarded as a complete analysis of the subjects discussed. The information in this material and specific securities mentioned are not representative of all securities purchased, sold or recommended for clients. Actual portfolio holdings will vary for each client and there is no guarantee that a particular client's account will hold any, or all, of the securities identified. It should not be assumed that any of the securities or recommendations made in the future will be profitable or will equal the performance of the listed securities. Past performance does not predict future results. Content should not be construed as legal or tax advice. Always consult an attorney or tax professional regarding your specific legal or tax situation.

NOT FDIC INSURED | NOT GUARANTEED | MAY LOSE VALUE

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