

The Compass

Second Quarter 2019

Executive Summary

- ❑ The S&P 500 gained over 13% in the first quarter of 2019, following strong earnings growth in the 4th quarter of 2018.
- ❑ Volatility was largely attributed to the Federal Reserve.
- ❑ The Fed maintained interest rates at 2.25%-2.50%.
- ❑ Inflation remains at 2%.
- ❑ The third estimate for 4th quarter 2018 GDP was revised down to 2.2%, following a 3.4% read in the 3rd quarter 2018.
- ❑ The 10-year treasury yield ended the quarter at 2.41%, after briefly touching the 3.25% level. Continued inversion of the yield curve is seen.

In this issue:

- ❑ *Aww, Boogie!* Planning for Your Pet
- ❑ Disposing of Electronic Devices and Media



Cypress Trust Company Investment Committee

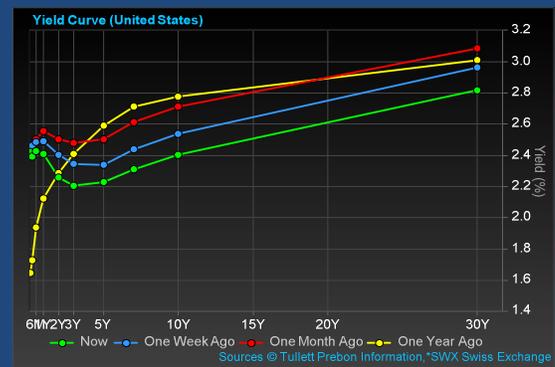
Brian Skarbek, Chief Investment Officer
Norton V. "Cap" Coyle, Jr.
John George, CFA, CFP, CTFA
Dee Giannotti
Theodore A. Libby
Patrice J. Neverett
Theresa Strickland

S&P 500 12 Month Price Chart



Source: FactSet 3/31/19

Yield Curve (U.S.)



Source: FactSet 3/31/19

U.S. Markets	3/31/19 Close	QTD % Change	1 Year % Change
Dow Jones Industrial Avg	25,928	11.15%	7.57%
S&P 500	2,834	13.07%	7.33%
NASDAQ	7,729	16.49%	9.43%
Russell 2000 (small caps)	1,539	14.18%	0.67%
Treasury Yields	3/31/19	12/31/18	One Year Ago
2 year	2.27%	2.48%	2.27%
10 year	2.41%	2.69%	2.74%
30 year	2.81%	3.02%	2.97%

Source: FactSet 4/1/19; U.S. Dept. of the Treasury.

Overview

The path has been extremely volatile over the last 6 months. The final 3 months of 2018 were ones we would all like to forget while the first 3 months of 2019 have been ones we've all enjoyed. There are several reasons/excuses for this volatility, while not one of them on their own is to blame or get credit. Market volatility has been a recurring theme for some time now, and it doesn't appear to be changing anytime soon. The leading (but not only) culprit is the Federal Reserve, in part due to the moves made over the last 3 years, but also the commentary on future moves and management of the balance sheet. In late 2018, the relatively new Fed Chair Powell issued a statement about remaining on the sidelines with regards to future rate increases and slowing down the reduction of the balance sheet. Both were applauded by the markets as they were unexpected, although hinted at by the traders as they spoke with their trades. Several other concerns seemed to be put in the back of our minds such as, is economic growth slowing or stalling; is a profit recession around the corner; and what is the direction of the global economy.

The recovery has brought us back to market highs that we saw in 2018. The questions we now ask are, where do we go next? What is the catalyst for future market moves? What other issues will affect market performance?

Economic Backdrop

"Patience" continues to be the central theme of recent Fed discussions. In addition to its double mandate of the labor market and inflation, it has added risks of global economic slowdown and an inverted yield curve to its consideration of any changes to the federal funds rate. At its March 20, 2019 meeting, the Fed decided to maintain the rate at the 2.25%-2.50% level. In its release, it noted that "the labor market remains strong but that growth of economic activity has slowed from its solid rate in the fourth quarter (2018)." Inflation excluding food and energy remains at 2%. The Fed pivoted from anticipating two rate hikes in 2019 to no rate hikes; there is some speculation on the street of a decrease. Patience and consideration of key factors will contribute to Fed decisions. Balance sheet reductions will wind down by September 2019.

4th quarter 2018 Gross Domestic Product (GDP) was revised down to a 2.2% increase according to the 3rd estimate. Third quarter 2018 came in at 3.4%. The lower fourth quarter

2018 number reflected deceleration in private inventory investment, personal consumption expenditures, federal government spending, and a downturn in state and local government spending, partly offset by an upturn in exports and an acceleration in nonresidential fixed investment. (Source: Bureau of Economic Analysis) Real GDP for 2018 increased 2.9% over full year 2017.

Equities

In the first quarter 2019 the S&P 500 was up over 13% as the markets recovered from the fourth quarter 2018 drawdown and reacted positively to the Fed accommodation. S&P 500 earnings for the 4th quarter 2018 grew by 16.9%. Earnings were led by Energy, with all sectors reporting growth except for Utilities. Revenues were also strong, growing by 5.1%. 69% of companies surprised on the upside, while 23% on the downside. This was a significant increase from the third quarter 2018 (13%). 60% of those companies also beat on revenues. As we start to get 1Q19 earnings many of the same questions remain. Can strong earnings persist or will they fall prey to the inevitable economic slowdown?

Fixed Income

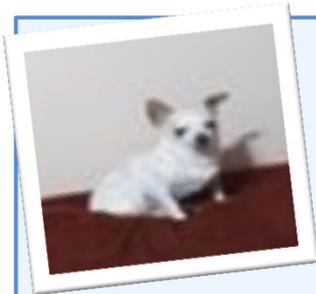
Although at a slightly slower pace, both GDP and employment gains have continued. The slower pace has led the Fed to pause with short rates as they have no control over longer rates. GDP grew 2.2% in the 4th quarter of 2018 and the 3 month average for job growth is 180,000. The unemployment rate holds steadily below 4%, while the participation rate continues to improve at 63%. With all of this, the Consumer Price Index (CPI) has remained tame at 1.9% over the last 12 months. Through all of these data points the 10-year Treasury closed the quarter at 2.41%. The low level was a major move down from touching 3.25% in the 4th quarter of 2018. We also saw the yield curve invert during the quarter. Although it can be a predictor of a recession, it is typically well into the future. The rest of the world has also joined in the "pausing" stance. This makes even the low rates in the U.S. very attractive for fixed income investors.

Outlook

Volatility continues to be the most likely outlook as many of the above concerns/issues weigh on the minds of investors and traders alike. This volatility is seen not only in major indices but also in the underlying sectors, as well as in the fixed income markets. International markets have not been immune, while the U.S. is still the investor's first choice, regardless of the valuation attraction. The U.S. economic indicators are positive, keeping recession probabilities low in the near term. We vigilantly monitor the ever changing dynamics of markets and economies to evaluate how they may impact client portfolios.

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.

This is one of the keys to successful investing: focus on the companies, not on the stocks. - Peter Lynch



Aww, Boogie!!!

By Anita D. Calabro, Trust Officer
Cypress Trust Company

There she is, our little princess! Many of my nieces and nephews live close to me and the one thing they love best is coming into my house and grabbing Boogie's leash to walk her. In a lot of my observations of them and Boogie, I always take note of how they sit on the floor and play with her and when she returns the affection, it's usually followed with a warm, sweet child's giggle and an "Aww Boogie!" Boogie, as you can see, is a Chihuahua, and at a whopping 7 pounds, what she lacks in weight and size she makes up for in her personality. She is the princess and ruler of our house - at least she thinks so!

For a lot of families, when it comes time to plan for the future, the need to protect their beloved pets is equally as important as planning for spouses, children, other relatives and charities. Some people also add language to other planning documents, such as the Designation of Health Care Surrogate, leaving instructions for a pet or pets to stay in the home should their medical situation change, or, if they are transitioned to alternate living accommodations that their pet(s) be allowed to visit them, where permitted. The beauty of planning ahead is that you can help take care of your pets even if and when something should happen to you, and you can enjoy the peace of mind in knowing that they can and will enjoy the life you expect for them.

Similar to trusts set up to protect your family, the same plan can be made for your family dog, snake, cat or parrot. Basically, you can protect any of your family pets. The trust works the same as other trusts in that a trustee can designate payments for the care and protection of your pet. You can be as specific as you desire when you and your attorney sit down and plan things like types of food, travel, and professional veterinarian care that can be provided. You can also make these same plans in your Last Will and Testament.

One of the most important decisions is deciding who to appoint as your agent to tend to your pet should something happen to you. The trustee of the of the trust could be that person, but having a person in charge of the money and a different person in charge of the care of the pet adds a layer of protection for both. Living in the state of Florida, we do have the option of purchasing pet insurance. Unfortunately, the current carriers are mostly limited to covering dogs and cats. A trustee can be directed to purchase the coverage. As with most insurance companies, there are limitations on annual payouts, coverage deductibles, and differences in types and levels of coverage, depending on what you can afford.

You can also specifically direct your trustee about the type of burial you would prefer for your pet upon his or her death, and have the ability to specifically make what plans you wish. Casket planning, cemetery markers, and any post-mortem planning you wish can be included as you create your pet protection plan. When the time comes and your pet passes on, the balance of the trust assets can then be distributed to family and/or charities.

Many of us here at Cypress have pets as part of our family, as do many of our clients. We have been entertained with spirited discussions about children, grandchildren and pets as we meet with our clients and colleagues, but reassuring clients that their beloved pets can also be protected while planning for family, friends and charities makes doing our jobs that much more fun.

If you have a question about pet protection planning and would like to talk to one of our trust officers, please call 800-439-8745 or click <https://www.cypresstrust.com/> for a free consultation.



Anita 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.

Cypress Trust Company Trust Administration

Christine Bell Becky Belt Scott Button Anita Calabro Jane Goble
Mary Lou Kalisz Allen Reid Jamie Reid Elizabeth Wagner W. Charles Weir

Disposing of Electronic Devices and Media

By Jim Parry, Vice President IT Services
Cypress Trust Company

The technology and computer equipment that you use may contain components that store sensitive information. For this reason, you should consider how you dispose of those items. Things like desktops, laptops, tablets, printers, smart phones, hard drives, and USB drives all contain data which may be personal in nature. Storage media used by electronic devices contains various kinds of data, some of which may be sensitive - such as financial information or protected health information.

What's at Risk?

Improper disposal of electronic devices and media puts the information stored on them at risk for a potential breach. Data breaches can be very costly. If your data is stolen it can lead to identity theft, theft of financial assets, or disclosure of your health related information. Dealing with these issues can require hiring attorneys and security specialists.

To reduce the risk of losing control of data stored on phones or tablets that are going to be discarded, the devices should be restored to their original factory settings using the utility that is on the device. Detailed instructions are: For Android devices open up the **Settings** app then tap **System > Advanced > Reset options**, and then **Erase all data (factory reset)**. On your iPhone, the equivalent option is in the **Settings** app under **General > Reset > Erase All Content and Settings**. The SIM card should be removed for either type of phone.

If you are discarding hard disks from desktops or laptops, or if you are getting rid of a USB drive, the drive should be physically destroyed. If you're getting rid of a printer that contains a flash memory card, remove that card and destroy it. Most consumer level printers don't have media that stores information permanently, so you don't have to do anything to prepare a printer without a flash memory card.

It's important to take these extra steps to clear your data off your old devices. The small amount of time it takes is definitely worth the effort.

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

251 Royal Palm Way, Suite 500, Palm Beach, FL 33480 | info@CypressTrust.com | cypresstrust.com | 1-800-439-8745