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THIRD QUARTER | 2023

Current Outlook & Portfolio Strategy

Weather the Next Storm with a Grab and Go Binder

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How New Anti-Money Laundering Effort will Impact Business Owners

Current Outlook & Portfolio Strategy

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> **We believe that a diversified portfolio of high-quality dividend and growth companies, combined with appropriate amounts of short-term bonds and cash, will help our clients meet their financial goals.**

As we entered the second quarter, the primary concern among investors was the solvency of both the global banking system and the United States government. After the rapid failure of only a few U.S. and global banks, however, the crisis of confidence has largely abated. Furthermore, the last-minute bipartisan deal to raise the U.S. debt ceiling until early 2025 has averted a U.S. debt default and temporarily calmed investors' nerves. We believe investors will now refocus on our overarching theme for 2023: the Federal Reserve's mandate to eradicate inflation while trying to avoid too much economic pain.

The Federal Reserve (the Fed) decided to maintain interest rates at their current target range of 5.00 – 5.25% during their June meeting. While we believe the Fed is nearing the end of their rate-hiking cycle, we view their recent decision and subsequent commentary as a |"hawkish pause." This means that the Fed is taking a brief break from raising rates but is likely to increase them again at a future meeting. This view is supported by the Fed's newly updated dot plot, which shows that a majority of Fed board members expect at least two additional interest rate increases of 0.25% by the end of the year. Moreover, the Fed board members have revised higher their prior expectations for stronger GDP growth, improved employment, and higher core inflation in 2023. These changes align with recent economic reports. Most importantly, recent inflation reports show that core inflation (i.e., excluding food and energy prices) remains persistently above the Fed's target of 2%. The bottom line is the current economic data suggests the Fed still has work to do on inflation and will likely keep interest rates 'higher-for-longer' than the market originally thought.

How has the market reacted to this higher-for-longer tone from the Fed? It has seemingly shrugged it off. Although the market has adjusted its rate expectations higher since the beginning of the year, it has also moved back into a bull market. Earlier this year, the market anticipated the Fed would soon start cutting interest rates. Now the market agrees with the Fed that interest rates will not be cut until 2024, at the earliest. Despite this shift in expectations, the market has largely disregarded the Fed's restrictive monetary policy by staging a strong rally. The U.S. stock market, as measured by the S&P 500 index, has returned 16% year-to-date. You may ask: "Why is the stock market rallying if the Fed is still increasing interest rates?"

It's important to note that not all economic sectors or companies participated in this rally. In fact, most of the S&P 500's return can be attributed to a handful of mega-cap technology companies with exposure to the burgeoning field of artificial intelligence (AI). The mega-cap technology companies comprise over 20% of the S&P 500, so their performance can have a significant impact on the overall index return. A meaningful comparison is the S&P 500 Equal Weighted index, which holds the same amount of each stock, thus limiting the impact of any one company or sector. The equal weighted index has returned only 6% year-to-date, which seems more reasonable given the current environment. Unfortunately, there is not one benchmark or index that can consistently provide an overall gauge on the health of the stock market. Instead, we will be closely watching the second-quarter earnings reports from our companies to assess the continued impact of higher interest rates on their businesses.

We believe that we are getting closer to the end of this interest rate cycle, but there is much that remains uncertain. Therefore, we expect both the stock and bond markets to continue displaying high levels of volatility. All eyes will be on monitoring monthly economic reports to gauge the Fed's likely decision at their next meeting in July. Despite the near-term uncertainty, we believe that a diversified portfolio of high-quality dividend and growth companies, combined with appropriate amounts of short-term bonds and cash, will help our clients meet their financial goals.

Weather The Next Storm with a Grab & Go Binder

Jeffrey A. Muddell
MBA, CFP

Those of us who fled Southwest Florida in the hours before Hurricane Ian recall the feeling all too well. What do we grab on the way out the door? What should we protect if the worst happens?

For many, the worst did happen last September 28th. Storm surge flooded prized possessions. Wind ripped holes in roofs, then drenching rains ruined home offices filled with important documents. In the months after Ian, families were left picking up the pieces of their lives, and often found themselves having to reassemble critical information washed away in the storm.

A simple tool nicknamed a "Grab & Go" binder could help mitigate some of that stress and heartache in the event of a future hurricane, natural disaster or other emergency situation.

The term "Grab & Go" represents convenience, ease and portability. An organized packet of important documents neatly prepared and standing at the ready, this binder should be the first thing you pack as you flee your home from a potentially dangerous situation.

"We have taken that concept and applied it to crisis management for families," said Annalee Kruger, founder and president of Care Right, during a Speaker Series event presented by the Trust Company. "With a Grab & Go binder, all of your work is done in advance so everything you need is right there at your fingertips."

Kruger, founder of the Bonita Springs, Florida-based Care Right – a concierge service for senior care planning that helps families navigate the complexities associated with the aging process – promotes the "Grab & Go" binder concept for aging individuals who might be rushed to a hospital for a medical emergency. But it is also a tool for people of any age to prepare for an array of circumstances in which you may be forced to evacuate your home.

Not only should your binder contain hard to replace government documents like birth certificates, Social Security cards, marriage license, and passports – but be sure to include estate documents and wills, banking information, insurance policies, home and car titles, contracts, and medical directives.

Storm season is a critical time to be sure the estate documents mentioned above are current. Are your personal assets titled properly? Are your beneficiaries listed correctly on all your accounts? Is your Will up to date? Time passes and choices change. Do your power of attorney (POA) and healthcare power of attorney (HPOA) documents still have the correct person listed in the event they are needed? Take time to visit with your trusted advisors to update all of these, so you're secure when time is of the essence.

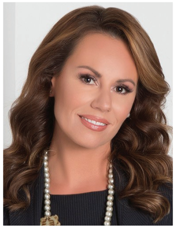
Often, homeowners keep these documents in a safe or a secure lockbox. But those who have experienced several feet of storm surge know that even a safe can't always keep items protected under those conditions. A "Grab & Go" binder will save them.

Outside of emergencies, it's always a good idea to keep photocopies in your binder of the items in our wallet in case they are lost or damaged. Make a copy of your driver's license, credit cards (including the back so you'll have the phone numbers in case you need to report a lost or stolen card), health insurance and prescription cards, and other IDs from work, school, businesses or organizations.

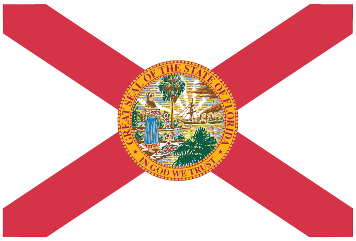
Also, don't forget important contacts. In the age of smart phones, most of us rely on our address book functions in our cell phones to save phone numbers and addresses. But in an emergency, you might not have access to your phone. Keep those key contacts at easy reach in your "Grab & Go" binder.

A simple three-ring binder available at your local office supply store is a great starting point for designing your custom planner. Use plastic sheet protectors, plastic pockets, tabbed dividers and envelopes to make your binder useful, neat, and ready at a moment's notice.

Northerners Fly South for Florida's Tax Benefits



Jeannine Stetson, CTFA
Trust Officer



So many people are making the transition from their northern home states to reside along the beautiful gulf coast of Florida. Partnering with local attorneys and offering advice to those changing their domicile is a daily occurrence at The Trust Company. We know it's not just the ideal temperatures and white sand beaches that attract retirees, but the tax structure and economy that is ideal for their lifestyle, as well as that of growing families and privately-held businesses.

Every state can determine a tax structure to drive how they want to derive revenues. Florida is one of nine states that does not impose income taxes on its residents. We do not tax pensions, IRA distributions or Social Security income. New Hampshire and Washington do assess state tax on certain investment earnings. Additionally, Florida does not have its own separate estate tax. These are tactical programs designed to attract retirees living on a fixed income as well as wealthy retirees. We rank 48th in all the states for State Tax Collections of just $2,264 per capita. But we also fare well in our State and Local Debt per capita coming in 43rd indicating we are successfully balancing the budget with our main source of tax revenue - sales tax that generates 80% of our revenue.

Out of a United States population of 332 million, Florida now ranks 3rd in the country with 21.8 million residents. We have experienced a massive migration to Florida with a reported 506,000 out of state licenses being exchanged for Florida licenses in just the past year. Some recent changes in taxation at the state level have compelled more Northerners to join their snowbird friends.

In November 2022, Massachusetts voted to amend the state constitution from a flat individual tax rate to a graduated tax rate that imposes a 4 percent increase on income over $1 million. The change is estimated to increase tax revenue by $2 billion but critics project it will have negative economic effect on small business owners and cause further migration of high earners from a state that has experienced a net outmigration of $23 billion of adjusted gross income to other states since 1993.

Even though Minnesota had a $17.6 billion budgetary surplus, they passed a new tax bill on May 24th. The proposal was born out of the Governor's objective of making Minnesota the best place to raise a family. The Minnesota Department of Revenue will be issuing refund checks for many working families with a new child tax credit. Retirees were not entirely forgotten. Minnesota has been one of the few states levying state taxes on Social Security (SS) benefits. The new tax act will no longer tax SS benefits for couples with under $100,000 income. This will eliminate tax paid on SS benefits for approximately 75% of Minnesotans. A 2021 Minnesota tax study determined the poorest MN households pay a larger share, up to 25% of their incomes towards taxes compared to the wealthiest that contribute 12% of their income to state and local taxes. The passed bill is an effort to redistribute wealth downward.

Covid caused many people to reevaluate city life, making Florida a destination for those previously living in metropolitan areas like New York and Chicago. Later, Hurricane Ian caused others to pause their plans to move to the Sunshine State. There will always be factors that create an ebb and flow to the population of Florida. While we can't predict Mother Nature's next move, the recent tax acts passed by Massachusetts and Minnesota demonstrate that we can continue to count on several northern states to pass legislation that will make Florida an attractive tax haven for the foreseeable future.

How New Anti-Money Laundering Effort will Impact Business Owners

Peter J. Knize, J.D., LL.M.
Fiduciary Services

A new law will go into effect this coming January 1, 2024, called The Corporate Transparency Act (CTA). This is all part of an international anti-money laundering (AML) push to protect the global financial system from illicit use of anonymous shell companies for the purpose of financing terrorism, money laundering, tax fraud and other illegal acts.
The law requires mandatory reporting of beneficial ownership information (BOI) for certain companies registered to do business in the United States to the U.S. Treasury Department's Financial Crimes Enforcement Network (FinCEN). Anyone subject to this new law needs to prepare now to avoid civil and criminal penalties for failure to comply with the CTA.

The Corporate Transparency Act requires "reporting companies" to submit to FinCEN information that identifies the "reporting company" and its "beneficial owners."

So, what exactly is a "reporting company?" The CTA defines a "reporting company" as a corporation, limited liability company (LLC) or other similar entity. Although the CTA provides 23 exemptions (mostly for large financial/investment/insurance institutions), one exemption is important to note:
An entity does not have to disclose any BOI to FinCEN if the entity (1) employs more than 20 employees full time in the U.S. (2) filed a U.S federal tax return the previous year showing more than $5 million in gross receipts & sales, and (3) has an operating presence at a physical office within the United States. All entities that do not meet one of the 23 exemptions will be subject to the CTA disclosure requirements.

The information required to be reported includes each "Beneficial Owner" who: (1) directly or indirectly exercises substantial control over the reporting company; or (2) owns or controls at least 25% of the ownership interest of the reporting company. Each reporting company will be required to identify as a beneficial owner any and all individuals who satisfy either of these two prongs. This includes, but is not limited to, the senior officers (CEO, COO, CFO, and general counsel), anyone with the authority over the appointment or removal of any senior officer or a majority of the board of directors, and anyone with authority to direct, determine, decide, substantially influence the important decisions made by the reporting company. Additionally, the definition encompasses any and all individuals who own or control at least 25% of the ownership interest of the reporting company.

Reporting companies will report to FinCEN the
- full legal name of the reporting company and any "doing business as" names,
- street address of the principal place of business,
- state where the entity was formed, and
- tax identification number (TIN) of the company.

For beneficial owners, the reporting company will report the
- full legal name of each beneficial owner
- date of birth
- current residential address
- copy of a non-expired identification document issued by a governmental agency (i.e., driver's license or passport).

Remember, the Act becomes effective on January 1, 2024, and senior officers of the company will be responsible for reporting to FinCEN to avoid severe penalties. Washington is taking this seriously, so for entities created prior to January 1, 2024, the deadline to file the BOI with FinCEN is at the end of next year - December 31, 2024. For entities created after January 1, 2024, the filing deadline is 30 calendar days from the date of the entity's incorporation. For more information visit fincen.gov/boi

We work with all kinds of businesses at The Trust Company and are here to assist you if you have any questions about this new rule or anything related to your business and financial future. Visit us at sancaptrustco.com

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