



# OUR VIEW

A Quarterly Newsletter from Sabal Trust Company

Third Quarter 2018

## “WHY, WHAT AND HOW?”

Periodically, we believe it is important to pause and reflect on what really matters. Understanding why you place your family assets into the capital markets can be achieved with basic questions about yourself and the environment around you. Engaging in a thought exercise of question-asking allows you to cut through much of the technical terminology and jargon regularly used by the financial industry. ***Furthermore, thoughtful introspection allows you to triangulate investment goals and an outlook on risk with your underlying portfolio strategy.***

## WHY DO I INVEST?

As an investor's life cycle evolves, financial needs change and their investment rationale adjusts. Wealth building and risk seeking become less of a priority. Aging brings greater experience and ultimately more perspective, which accompanies shifting thoughts on risk. ***Along life's journey, as priorities and goals re-align, the answer to “Why do I invest?” increasingly focuses on protecting and preserving your family legacy.***

## WHAT IS THE CURRENT ECONOMIC SNAPSHOT?

Consumer, business and government spending continue to drive the current economic cycle, now reaching its 10th year of growth. First quarter GDP represented the best start of the year for the economy since 2015. Recent consumption and investment data signal continued economic health and momentum. While questions surround the impact of a potential global trade war, ***stimulus from the recent tax cuts and elevated confidence levels are likely to extend the current economic cycle well into 2019.***

## HOW IMPORTANT IS THE CONSUMER?

Consumer demand represents 70% of the economy's growth rate. Consumer spending remains strong as recent tax cuts, modest wage gains and the “wealth effect” caused by elevated asset prices are positively influencing consumption patterns. Consumer confidence levels hover around all-time highs, which is important due to the high correlation with spending. ***A healthy consumer will likely remain active and engaged in a growing economy.***

## WHY FOCUS ON THE FEDERAL RESERVE?

The Federal Reserve's dual mandate includes promoting maximum employment and controlling inflation. Policy makers directly impact the money supply and interest rates by purchasing and selling U.S. Government securities, lending funds and adjusting reserve requirements for commercial banks. Remaining focused on policy decisions is critical, because ***implementing interest rate adjustments requires a constant calibration of economic data and can have unintended financial and economic consequences.***

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## Stock Focus: AFLAC INC.

Aflac, Inc. is a global provider of supplemental insurance solutions, including accident, life and health products. AFL operates a stable, predictable business model, which leads to consistent revenue and earnings growth. Margin expansion and a commitment to returning capital to the shareholder are consistent with AFL's solid superior fundamental performance. This stock is a core holding in the financial sector.

**Stock Symbol:** AFL

**Market Capitalization:** \$34B

**Dividend Yield:** 2.3%

**Long Term Earnings:** 8.0%

**2018 P/E:** 11.5x

**Return on Equity:** 12.8%



## WHAT IS THE IMPACT OF HIGHER INTEREST RATES?

**Interest rate changes permeate through the entire financial system.** Higher interest rates boost earnings on savings accounts and positively impact income earned on newly purchased fixed income investments. Conversely, rising interest rates increase borrowing costs and can reduce consumer and business loan activity.

## HOW DO STOCKS AND BONDS COMPETE?

As with any asset class, stocks and bonds compete for investor demand. Historically low interest rates forced many investors along the risk spectrum to boost income. **As interest rates rise, investors reach a tipping point and must decide where to invest the next dollar of investment as bonds become more attractive investments relative to stocks.**

## WHY DO WE SEEK POLITICAL CERTAINTY?

Recent tax cuts and a shifting regulatory landscape should have a stimulative effect on the economy. However, political risks manifest themselves many ways and the perpetual cycle of uncertainty from Washington D.C. remains elevated. In addition to the ever-present political wrangling and heightened geopolitical risks, the midterm elections will soon take center stage. **Any further deterioration in political overtones could negatively influence corporate decision-making, infrastructure expansion, hiring, and ultimately dampen the economic cycle.**

## WHAT IS THE IMPORTANCE OF ASSET ALLOCATION?

Market turbulence is unsettling, especially as you focus on protecting your family legacy. We have now shifted from a market environment of low volatility to more normal volatility where daily price swings of 1% or greater are more prevalent. Removing all investment risk is impossible. **The most important decision to effectively manage risk and influence long-term wealth protection involves determining the correct mix of stocks, bonds and cash.**

## HOW SHOULD I POSITION FOR SUCCESS?

Using well-balanced, diversified portfolios containing high quality, dividend paying companies and shorter-term investment grade bonds positions you for success. A regular review of your financial goals, risk tolerance, liquidity needs, and other factors is also critical. **Investing requires focus especially in the face of adversity and maintaining your discipline can have a lasting, positive impact on your wealth.**

### ST. PETERSBURG

200 Central Avenue, Suite 220  
St. Petersburg, Florida  
33701  
727-824-8700

### SARASOTA

1800 Second Street, Suite 103  
Sarasota, Florida  
34236  
941-556-0760

### TAMPA

4211 West Boy Scout Boulevard,  
Suite 190  
Tampa, Florida  
33607  
813-229-2180

### THE VILLAGES

1060 Lake Sumter Landing  
The Villages, Florida  
32162  
352-751-2199

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