Inflation, deflation, stagflation and disinflation: What’s the difference, why does it matter and what’s the best case?

A lot of press coverage recently has been dedicated to central banks and their effort to combat deflation—the outright fall of prices. We are dedicating this investment letter to different types of overall price movements. We’ll discuss what they mean and which is preferable for investors. Let’s start with a brief definition of each.

**Inflation** simply means rising prices of goods and services across the economy along with the resulting loss of purchasing power. We can see this loss when a steady dollar amount buys less of an item over time. A severe bout of inflation, where purchasing power drops drastically in a very short period of time, is known as hyperinflation and has occurred historically in various countries. The goal of central banks, whether stated or not, is a steady yet low rate of rising prices. In the U. S., for example, the Federal Reserve System targets the rate at 2 percent.

**Deflation** is the opposite of inflation. It designates falling prices of goods and services in the economy. Don’t get excited about this one; more on it later.

**Stagflation** is high inflation coupled with low growth and a steadily high rate of unemployment. As you may have guessed, this is a rather undesirable combination. The U. S. went through bouts of stagflation during the presidencies of Ford and Carter.

**Disinflation** is a quirky middle ground where prices are generally rising but at a decreasing rate. Said another way, it’s a reduced inflation rate where, for example, prices that were rising at 2 percent are now rising at 1 percent.

Now that we have defined each, we can discuss what condition is most favored by stock investors and why it matters.

The chart on the right illustrates which price regime engenders the best stock performance. It shows that price inflation occurs when the Consumer Price Index (CPI) is above 3 percent year over year. Prices are stable when the CPI is between -1 percent and 3 percent year over year. Price Deflation happens when the CPI is below -1 percent. The chart indicates the gain per annum versus cash for stocks (S&P 500), U. S. treasuries (long-term) and corporate bonds (long-term) during these three price scenarios and includes the percent of time it took to achieve that gain.

Are you surprised with the result? We weren’t. However, we were surprised at the margin by which stocks trounced the other asset classes in a “prices stable” environment. If our Federal Reserve can deliver on price stability, the returns to stocks could be handsome.

The chart also presents two more perspectives:

- **Inflation does not seem to agree with stocks.** This is because in an inflationary environment it is very difficult when parsing company earnings to tease out what gain is due to actual growth and what is simply due to rising prices. The quality of a company’s earnings becomes clouded. Moreover, few companies can pass on increases from their input costs on a dollar-for-dollar basis. The result is compressed profit margins.

- **There’s no need to get excited over falling prices.** Price deflation is probably the most dangerous scenario and the one that central banks want to avoid at all cost because a consumer who expects falling prices will keep putting off purchases like that new, long-desired Ultra High Definition TV. Demand suffers and guess what happens? Your paycheck is not immune to the drop in prices. This sets off a downward spiral in prices. Furthermore, your demand for taking on debt will decrease as debt is fixed. Meanwhile, all your assets are dropping in value. In relative terms, your debt grows versus your asset base—a rather scary scenario.

**CONCLUSION**

We remain of the mind that stocks provide better forward-looking return potential than bonds. At the same time, we would not be surprised to see stocks experience a correction. By last count, we had gone almost 900 market days without a 10 percent correction. Such a correction, if and when it comes, needs to be viewed within the context of stocks as the asset class of choice.
Susan Robes is new trust assistant in Sarasota

Susan Robes has joined Caldwell Trust Company as a trust assistant. She is based in the Sarasota office and reports to Jan Miller, executive vice president and trust officer.

Susan started her banking career in the trust and estate division at Rhode Island Hospital Trust National Bank (later Bank of America), where she handled trust and estate management. After ten years she transitioned to assisting high-profile company CEOs in managing their businesses, and in supporting their chosen organizations across the country. Later she managed offices in numerous industries, then worked directly for the head of the Ringling Museum of Art, one of the premier art institutions in the country.

Most recently Susan was officer manager and business assistant to the chairman and CEO of Summer Infant, a juvenile products company with offices worldwide. Named employee of the month and employee of the year, she was awarded five scholarships to attend the Katherine Gibbs School in Providence, Rhode Island, where she graduated from its advanced program. She also earned a Trust Certificate from the American Bankers Association three-year program at the University of Florida.

Susan enjoys traveling and lived for over a year in St. Thomas, Virgin Islands, where she worked at the Frenchmen's Reef Hotel.

Caldwell Trust Company hosts March ‘Business after Five’ for Venice Chamber

Caldwell Trust Company receptionist Roxanne Hirtir, left, and vice president/trust officer Susan Hines flank Ed Taylor at the Chamber's “Business After Five” on March 26. Caldwell hosted the event at its headquarters, providing food, music with steel drums and a number of gifts. Last year the Chamber chose Caldwell as its Large Business of the Year.

ODA senior seeks out Caldwell Trust Company for internship

Kimmy Comito joins Caldwell’s team as a marketing intern for a two-week program through The Out-of-Door Academy. She reports to Sheryl Vieira, assistant vice president of marketing.

“Kimmy will assist in the marketing department by co-authoring two blog posts, creating new trust officer videos and assisting with our social media strategy,” Sheryl says.

Now a senior, Kimmy has attended The Out-of-Door Academy since sixth grade. She made the dean's list in freshman year and the honor roll as a sophomore and junior, when she was named to the All American Academic Team. She has been a staff writer for ODA's online periodical "The Bolt" for two years and a member of ODA's Varsity Soccer and Lacrosse teams for four. She has been accepted into the School of Communications at American University and will play on the Women's Varsity Lacrosse team in the fall.

Sheryl Vieira and Scott Antritt, a Caldwell assistant vice president and trust officer, support ODA through their ongoing volunteer work with the Taylor Emmons Scholarship Fund (www.temmons.org).

2015 Celebrity Golf Classic draws 280 players to Plantation G & CC

Caldwell Trust Company was a proud Emerald Sponsor of the 22nd Annual Plantation Community Foundation Celebrity Golf Classic, known as the area's largest sports celebrity event. The Classic was held at Plantation Golf & Country Club in Venice on February 11-12.

Longtime Caldwell director Jim Woods represented the company at the event that attracted a capacity field of 280 golfers, 75 of them members of their respective Halls of Fame. These included Sam Jones, Cathy Rush, Pat Richter, Danny McManus, Paul Krause and Don Sutherin.

The Plantation Community Foundation was founded in 1988 to raise funds and award grants to not-for-profit agencies serving South Sarasota County and especially its youth. Annual aggregate donations normally exceed $100,000. In 2014 the Foundation exceeded $2.4 million in total gifts since its inception.
Some 500 people crowded into the Ritz-Carlton Sarasota on February 13 to support Tidewell Hospice and hear the keynote address by caregiver and celebrity Bill Rancic. The occasion was the Tidewell Hospice Sixth Annual Compassion in Caring Luncheon, for which Caldwell Trust Company repeated its ongoing support as presenting sponsor.

R.G. “Kelly” Caldwell Jr., CEO and president, introduced Marge Maisto, a Caldwell director since 2011 and president and CEO of Tidewell Hospice from 2000 to 2010. Caldwell also has other links with Hospice. For example, Jan Miller, Caldwell executive vice president and trust officer, has volunteered her services to Tidewell since 2004. She is past chair of its board of trustees and a current board member.

In her welcoming address Marge said, “It is with the greatest respect for the exceptional care and service that Tidewell Hospice provides that Caldwell Trust is honored to be the Presenting Sponsor for today’s program. At Caldwell Trust, we believe our two organizations are kindred spirits in service to our communities. The similarities may not be evident at first glance, but a closer look reveals the like motivation that inspires each organization. It’s about making a difference in the life experiences of others, finding the comfort zone between basic human needs and optimizing one’s experiences in physical or financial comfort. We know that Tidewell not only provides physical, emotional and spiritual support to patients; it also provides families with a sense of security and support through a life crisis.

“Like Tidewell, Caldwell Trust is focused on meeting the needs of others. With a long and respected tradition of serving the community, Caldwell provides their clients with peace of mind through fiscal wellbeing, family assurances of care and safety for their loved ones entrusted to our oversight, and diligent optimizing of resources for future wellbeing. The two organizations work to make a difference in the lives of others. Tidewell and Caldwell, helping people live better lives,” she concluded.

Bill Rancic became a national celebrity after winning the first season of “The Apprentice.” The entrepreneur has become a household name. He regularly appears on various TV programs as well as the E! reality series “Giuliana and Bill,” which he hosts with his wife Giuliana. This is heady stuff and Bill knows it. Instead of speaking about his celebrity, he drew on the part of his life that would strike a chord with the Tidewell audience—his extensive experience as a caregiver.

Bill witnessed firsthand the compassion and caring that his mother provided as his father battled renal cell cancer. He was able to draw on that knowledge again in 2011 when Giuliana was diagnosed with breast cancer while undergoing fertility treatments. Using the lessons he learned from his mother during his father’s illness, Bill was able to provide a strong support system for Giuliana during her battle with, and ultimate recovery from, cancer.

Tidewell Hospice, one of the largest not-for-profit hospices in the U.S., serves more than 1,100 patients daily in Sarasota, Manatee, Charlotte and DeSoto counties. It has provided the highest quality care to patients and families living with advanced illness for 35 years. Caldwell Trust Company believes strongly in the healthcare provider’s philosophy and has actively supported Tidewell in its mission for over a third of its existence.
Ron Foxworthy’s contributions to the charities and businesses of Sarasota County could probably fill this entire newsletter. An honored Korean war hero and avid golfer with 13 holes-in-one, Ron is probably best known for the 45 years he has devoted to the area’s handicapped children. In 1985 he co-founded the Suncoast Foundation for Handicapped Children, now under the aegis of the 501(c)(3) Suncoast Charities for Children. This organization serves special-needs children, teens, adults and their families by building and maintaining facilities where services are delivered. The Foundation leases these structures for one dollar per year to the Foundation’s building committee, Ron has been involved with the construction of buildings totaling some 100,000 square feet of space, valued at over 50 million dollars and serving approximately 8,000 special needs persons each year. He is still a director of the Suncoast Foundation and BBQ Bash. In addition, he and his wife Mary Helene are sponsors of the BBQ Bash along with Caldwell Trust Company. A grateful community has recognized his service with the Ronald Foxworthy Park (Special Olympics).

Ron’s business achievements are equally impressive. He founded and operated Rusty Plumbing from 1956-1999 and was a developer of prominent communities for 50 years. He was board chair or director of over a half-dozen banks and director of FCCI for 40 years. A co-founder of The Argus Foundation, he has been a director for 29 years and recipient of the Argus Lifetime Achievement Award.

Ron is high on Caldwell Trust Company. “They’re the best. I wouldn’t have anyone else handle my accounts,” he says. The feeling is reciprocated. When Ron was named a director of Trust Companies of America, Caldwell’s parent, board chair James F. Gabbert said, “We know that he understands our business and we welcome his insights. R. G. “Kelly” Caldwell Jr., CEO and president, says, “Ron has been a wonderful mentor to me and the company. We are honored by his presence and his inspiring example of what it means to give back to the community.” H. Lee Thacker Jr., CFP, Caldwell’s senior executive vice president, secretary and trust officer, joins in the praise. “Ron’s a top-quality guy. He is truly my hero.”