CORAL GABLES TRUST

COMMENTARY FROM THE INVESTMENT COMMITTEE OF CORAL GABLES TRUST COMPANY

Q3 2015 – A SELL OFF TO REMEMBER

It's been a while since investors have experienced such rampant volatility. On Monday August 24th, the Dow plunged more than 1,000 points in the opening minutes, only to recover most of its decline by mid-day. China's surprise devaluation of its currency was the event that triggered worldwide selling through late August and into September. With global growth in question, investors ran for cover as volatility spiked and bonds were large recipients of investor capital as the uncertainty grew more intense. The S&P 500 was down -6.44% for the quarter with dividends included. Looking deeper into the S&P 500, a flight to quality was evident as the utility sector was +5.40% for the quarter followed by consumer staples at -0.20%. These sectors are typical safe havens in times of stress due to the high quality characteristics of the equities within. The S&P 500 was down -5.29% for the year as of 9/30/2015 including dividends putting investors in unfamiliar territory after six years of gains. On the economic front, second quarter GDP was revised higher to 3.9% recovering nicely from a sluggish first quarter performance. Manufacturing continues to expand nicely while inflation remains rather benign at less than 2%. Jobless claims are currently at a 42-year low suggesting labor conditions are tightening. Adding to monetary policy uncertainty, the Federal Reserve remained status quo by not raising rates at their September FOMC meeting. The China situation and overall international concerns did affect their decision according to the recent meeting minutes released. Foreign markets were not immune to the sell-off as the MSCI EAFE fell worse than the U.S declining -10.23%. The emerging markets region was the worst performer for the quarter with the MSCI Emerging Markets index down -17.90%. We continue to avoid emerging markets directly within our equity allocation. According to sources, the MSCI EAFE index traded at 13.55x forward earnings on 9/30/2015. This compares to the S&P 500 of about 15x forward earnings. Valuations retreated to more reasonable levels towards the end of the quarter creating attractive entry levels for long-term investors.

WHAT A DIFFERENCE A MONTH MAKES

As we write, the correction we endured in the third quarter seems like a distant memory. A rally that started in late September continued with a vengeance that sent the S&P 500 up over 8.00% for the month of October. Investors have come to realize that the world did not fall apart, particularly when it comes to China. China continues to maneuver their economy from what was once an export driven economy to a more consumption driven economy. We believe this will be a multi-year event and we expect the transition to be turbulent at times. In October, both the People's Bank of China and European Central Bank announced additional monetary easing plans to stimulate their sluggish regions. China cut their key rates for the sixth time since November 2014 with plenty of accommodation in reserve if needed. The European Central Bank stands ready to increase and perhaps lengthen their QE program past the September 2016 time frame. Along with the positive monetary policy news globally, Q3 earnings at home have not been as bad as previously feared particularly in technology and consumer discretionary. The markets are now around flat for the year and have recovered most of the losses that incurred during the correction. Our client meetings over the last couple months have included thorough discussions of market events and asset allocation "check-ups." We are pleased that all of our clients remained dedicated to their asset allocations during the correction. As a result, they are in a better situation vs. investors that sold assets in favor of cash to avoid short-term discomfort.

ASSET ALLOCATION DISCIPLINE

The events of the third quarter should serve as a reminder of how important individual asset allocation is. We must be mindful that equity markets do not always go up in a straight line. Our TIC meetings in August and September led to thorough conversations resulting in very little change in strategy or managers. We maintained our stance for various reasons of which really haven't changed in the last few months. The U.S. economy continues to expand modestly, the uncertainty of Fed policy has been with us for months, Europe and Japanese quantitative easing is in full effect with possible enhancements to both programs, China slowing has been a headline for the past few years and commodities have been in retreat for more than a year. Regardless of what the headlines say about the market action, our primary goal is to keep our clients focused on their unique financial goals. Market noise and unexpected volatility is the price of admission in the investment industry and we remain committed to seeing our clients through the distractions. In our previous investment letter we stressed the desire of the TIC to gravitate towards investment managers that possess less downside capture in periods of market dislocation. Below we have listed managers that have delivered on that metric thus far in 2015.

***YTD MANAGER PERFORMANCE AS OF 9/30/2015**

Manager	***YTD Return***	***Benchmark***
AMI Large Cap Growth	-0.84%	-1.54% (Russell 1000 Growth)
Federated Strategic Value Dividend	-1.14%	-5.75% (Dow Jones Select Dividend)
Congress Mid-Cap Growth	-2.88%	-4.15% (Russell Midcap Growth)
Granite Investment SC Growth	-0.57%	-5.46% (Russell SC Growth)
Gratry International Equity	-4.78%	-5.28% (MSCI EAFE)

We look forward to speaking with all of our clients regarding our views and the performance of their respective portfolios, and we thank you for your continued confidence in our team and our firm.

For additional information or questions, please contact Mason Williams, CIO, at 786-497-1214, or mwilliams@cgtrust.com.

***Manager returns are composite returns. Past performance is not indicative of future results. Investments may lose value**