THE
A QUARTERLY PUBLICATION · JANUARY 2016
ADVISOR
MANAGING WEALTH. SECURING LEGACIES.

Please join us for the next Quarterly Investment Briefing.

Thursday, May 5, 2016
4:00 p.m. to 6:00 p.m.
Windsor Park Conference Center
4020 Edison Lakes Parkway
Mishawaka, IN 46545

Founded in 1988, Indiana Trust and Investment Management Company is an independent trust company chartered under the Indiana banking statutes. It is a single purpose financial institution dedicated exclusively to providing investment management and trust services to individuals, trusts, employee benefit plans, corporations, and not-for-profit organizations.

MANAGING WEALTH. SECURING LEGACIES.

Stock markets volatile heading into 2016

U.S. stocks took a beating last summer and early fall. Many market prognosticators proclaimed that volatility was back for good. Hedge funds and other market timers declared that stocks were headed for more trouble. To support their thesis, they pointed to the headwinds of slow growth in China, falling commodity prices, and the Federal Reserve's desire to raise its short term target interest rate.

The market had other ideas in October, posting a tremendous rally which pushed the S&P 500 positive for the year. Market timers and hedge funds had a terrible October due to their lack of exposure to global stocks. The fourth quarter 2015 served as yet another reminder that markets are inherently difficult to predict in the short term. They can move down very quickly – but can also move up very quickly. Attempting to fully time both of these moves in the short run can do lasting damage to portfolio returns.

The first weeks of 2016 have been very unstable in global equity markets, and the themes are much the same as back in August of last year. There is concern over China's ability to grow – and even more worry over whether Chinese leadership missteps in its continued desire to control its economy and its markets. This has extended to China's currency, the yuan, whose exchange rate versus the dollar is carefully managed by the Chinese government. China has recently devalued the yuan to help China's exporters be more competitive and to stimulate its economy. Currency markets reacted by selling the yuan and buying dollars, and, incredibly, Chinese authorities had to make public statements to assure markets that it has more than enough in U.S. dollar reserves to defend the yuan from slipping too far. Estimates are that China had over $3 trillion in reserves, but that figure declined by over $100 billion in December alone. This is quite a turnaround from recent years when it seemed there was nowhere for the yuan to go but up.

Oil prices have plunged dramatically. While much has been said about the supply glut and falling global demand for oil, less attention has been focused on the fact that oil prices tend to fall when the U.S. trade-weighted dollar strengthens. Yuan devaluation means U.S. dollar strength. This trend (strong dollar, falling oil) has notably continued in the first weeks of 2016 and, along with concerns on China, pushed down global equity markets.

The continued slump in oil prices has hurt energy company shares as well as overall U.S. market earnings. Energy sector stocks, which had the only negative sector return in 2014, fell another 21% in 2015.

(continued on page 2)

RETURNS AS OF 12/31/2015

ASSET CLASS	4Q 2015	2015
EQUITIES		
Large Cap US Equities (S&P 500)	7.0%	1.4%
Mid/Small Cap US Equities (Russell 2000)	3.6%	-4.4%
International Developed Market Equities (MSCI EAFE)	4.7%	-0.8%
Emerging Market Equities (MSCI Emerging Markets)	0.7%	-14.9%
FIXED INCOME		
Barclays Capital US Aggregate Bond Index	-0.6%	0.6%
BofA Merrill Lynch Municipals, 3-7 year	0.7%	2.3%
ALTERNATIVES		
Real Estate (FTSE EPRA/NAREIT Developed Index)	4.4%	0.1%

Stock markets volatile heading into 2016

(continued from page 1)

However, health care and consumer staples stocks rallied and, overall, large cap stocks (the S&P 500 index) ended up 7% for the quarter and were up 1.4% for the year. Although they have stumbled of late, a few well-known consumer discretionary names (Amazon and Netflix) had tremendous years in 2015.

In terms of style, growth outpaced value by a wide margin as investors continued to seek earnings growth over relative value. Small cap stocks ended the year down 4.4%. Small cap stocks typically witness more volatility than large caps due to the nature of their revenues and earnings streams, and in periods of rough markets, small caps can struggle.

Outside the U.S., developed market stocks had a good fourth quarter and a flat 2015. The 5% local currency return of developed foreign markets last year was eroded by U.S. dollar strength, and the MSCI EAFE index ended slightly down (0.8%) for the year. Japan was one of the best performing markets last year, up 9%. European shares performed well and were up 5%, but the euro fell relative to the U.S. dollar which negated those returns. Shares of both SAP and Anheuser-Busch InBev performed well in 2015.

Emerging markets equities had a year to forget in 2015: the MSCI Emerging Markets index was down 15%. The trifecta of the prospect of higher U.S. interest rates, a strong U.S. dollar, and languishing commodity prices landed many emerging markets in investor crosshairs. Brazil had an atrocious year in its capital markets and is dealing with several issues, including political corruption, high inflation, and waning demand for its commodities from its largest trading partner, China. Longer term, emerging markets equity is an important asset class due to its growth potential relative to developed markets. As a result of recent performance, the asset class may be seen as inexpensive compared to U.S. and developed market stocks on many valuation measures.

Portfolio Management Comments

Every year, mutual funds must distribute any capital gains they have recognized to their investors. This usually occurs at the end of each year. Also, while Indiana Trust is extremely tax conscious in our portfolio management process, capital gains may also be recognized within the rebalancing process by selling assets in client portfolios which have appreciated over their cost basis.

In taxable accounts, these long or short term capital gains may create a tax liability for our clients. Typically, to the extent possible we will attempt to offset gains at the end of each year by selling positions with unrealized losses. This is often referred to as "tax loss harvesting."

Given the bouts of market volatility in certain asset classes in 2015, such as emerging markets equity, we attempted to realize losses to offset capital gains wherever the gains were material in size. In some instances, we harvested more in losses than there were realized or distributed capital gains for the year. In those cases, some of those losses may be deducted from personal income on our clients' tax return and the remainder carried forward to future tax years, to offset future capital gains or income. Our investment philosophy at Indiana Trust emphasizes maximizing after-tax returns for our clients, and tax loss harvesting can be an important part of the portfolio management process.

Why is Tax Day Monday, April 18?

The regular tax return filing deadline is April 15. However, due to the Washington D.C. Emancipation Day holiday being observed on April 15 instead of April 16, 2016, Tax Day is on the following Monday.

IRA Charitable Rollover Now Permanent

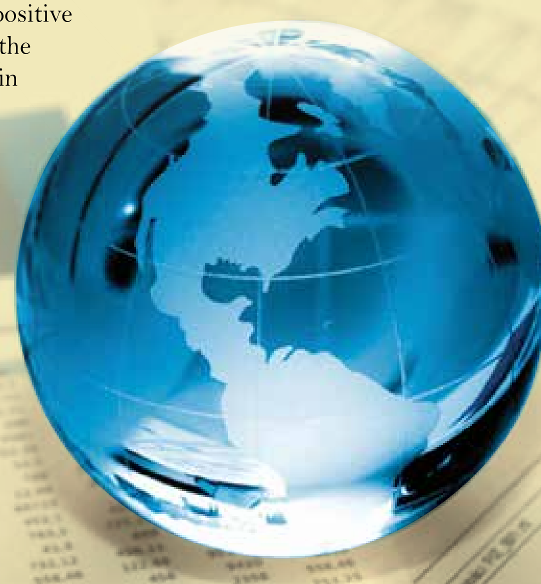
Congress passed the Protecting Americans From Tax Hikes (PATH) Act of 2015 which President Obama signed into law on December 18, 2015. As part of the bill, the IRA Charitable Rollover was made permanent. As a reminder, this allows an IRA owner over age 70½ to make a transfer of up to $100,000 per year to a qualified charity. IRA charitable rollovers are tax-free and not included in adjusted gross income. This is in lieu of receiving a charitable deduction for the donation. An IRA charitable rollover may be used to fulfill part or all of a client's required minimum distribution (RMD).

The IRA charitable rollover may be a very useful tool for gifting assets, but there are other ways of making gifts which may be more beneficial. Please call your ITC advisor so we can help you formulate the best gifting strategy for your specific financial situation.

Fixed Income Markets

In December, the Federal Reserve made its decision to (finally) raise its short term target interest rate by 0.25%, ending seven years of near-zero rates. This was received with a shrug by bond markets which had been expecting this move for some time. Over the last two years, there has been a "twist" in the yield curve with short term rates (out to 5 years) modestly bumping up and longer term rates (from 5 years out to 30 years) falling. One reason for this twisting/flattening of the yield curve is the expectation for inflation for the long term, which has remained stubbornly low, to remain low in the longer term. In 2015, rates edged up slightly and U.S. investment grade bonds had a positive total return of 0.6%. High yield and floating rate bonds, the riskier sectors of the market, were negative for the year. Municipal bonds have performed very well in recent years as municipal finances have recovered and net new municipal bond issuance has been flat.

The Federal Reserve stands alone amongst its central bank peers around the world as the only developed market central bank to be in the mode of raising interest rates. As points of comparison, market expectations in Europe and Japan are for short term rates to remain at or near zero through 2017. This monetary policy divergence, along with China's decision to devalue its currency, the yuan, has led to the strengthening of the dollar. The rising U.S. dollar has been a huge headwind for foreign markets and for commodities, especially oil which is globally traded in dollars.



INDIANA TRUST
& Investment Management
COMPANY

4045 Edison Lakes Parkway
Suite 100
Mishawaka, IN 46545
Phone: 574 271-0374
Fax: 574 271-0378

315 West Adams Street
Muncie, IN 47305
Phone: 765 254-3500
Fax: 765 254-3510

307 South Main Street
Suite 311
Elkhart, IN 46516
Phone: 574 294-3500
Fax: 574 294-3506

CHECK OUT OUR WEBSITE!

WWW.INDTRUST.COM

Welcome our new associate

KATIE HAMMOND

Ms. Hammond joined Indiana Trust in 2016. In her role as Management Associate, she provides support for the company's Board of Directors and senior company management. Prior to joining Indiana Trust, Katie worked as a Legal Associate in the University of Notre Dame's Office of General Counsel, where she focused on contract review and transactional support.

Katie received her bachelor's and law degrees from the University of Notre Dame in 2006 and 2012, respectively. She currently serves as a Mentor with Reading for Life and also leads the local chapter of the Notre Dame Women Connect Book Club of St. Joseph County. Originally from Olathe, KS, Katie lives in Mishawaka. She enjoys cooking, traveling, and spending time with family and friends.