TRUST

INVESTMENT PERSPECTIVES

A Publication of TRUST COMPANY OF OKLAHOMA *July 2016*

Whatever It Takes?

U.S. stocks were up modestly the first half of the year. The trip was anything but calm. A sharp drop early in the year was followed by a rally moving in tandem with higher oil prices. In an unexpected outcome, Britain voted to exit the European Union (EU) in late June and that decision drove equity markets down. Right at month end, the markets rallied. Now comes the grueling process of figuring out how to accomplish the first ever exit by a country from the EU. While central bankers around the world have pledged to do "whatever it takes" to revive economic growth, that phrase should be adopted by countries on both sides of the English Channel in order to achieve a split without lasting economic damage.

Many world economies seem to be stuck in a low-growth funk with interest rates bouncing around zero. What would have once been considered mediocre before the 2008 meltdown is now considered good. There is even an expression to describe what we have been experiencing: the new normal. After eight years, the newness has worn off, but has mediocre become the normal state of affairs? In exploring what has become a growth paradox, following are a few questions that keep going through my mind – along with my own answers.

Q: What is being done to address weak growth?
The dominant tool of the U.S. and many other nations has been monetary policy – lowering interest rates in order to encourage more spending and investment. The Fed and central banks outside the U.S. have taken some very unconventional steps. In spite of unprecedented monetary easing for some time, economic growth remains in a rut. No one is claiming victory.

Q: Maybe we just need more monetary easing to fix things?
We will likely find out. The latest and most extreme move is to force interest rates below zero. European and Japanese central banks have done this and now, about $8 trillion in government and corporate bonds have yields below zero. Yet, there are potential dangers with negative rates. Theoretically, lenders have no incentive to lend and borrowers have every incentive to take on as much debt as possible. Some people react by hoarding actual currency. And entities such as insurance companies and pension plans are threatened with the inability to meet their contractual obligations.

Continued on Page 2

Robert A. McCormick
Senior Executive Vice President & COO

MARKET RECAP

U.S. equities were modestly higher in the second quarter. International markets were negative due largely to Brexit and economic growth concerns.

	Second Quarter	YTD	Past 12 Months
Dow Jones	2.1%	4.3%	4.5%
S&P 500	2.5%	3.8%	4.0%
EAFE (Int'l)	-1.5%	-4.4%	-10.2%

VIEWPOINT

A message from the Desk of Tom Wilkins

It's always my pleasure to share our good news in Investment Perspectives, and this news usually comes in the form of new team members to serve you. Additionally, this quarter I am pleased to announce a new TCO company, TCO Title Services.

First, let me introduce you to Steve McQuade and Alex Kaiser, two officers who recently joined Trust Company of Oklahoma.

Steve McQuade joined TCO as a vice president to manage our Operations Division. With over 20 years of experience, Steve most recently worked as a senior business consultant at TIAA-CREF in St. Louis. Before this, he worked at other firms, including Edward Jones Trust Company and A. G. Edwards & Sons in St. Louis. Active in the community, Steve was instrumental in bringing the Head for the Cure 5k Run and Walk to St. Louis in 2013. This event has raised over $300,000 for brain cancer research to date.

Also joining TCO is Alex Kaiser, an assistant vice president in the Personal Trust Division who is part of our Oklahoma City office since December 2015. Alex worked for almost five years as both an in-house attorney and landman at Chesapeake Energy Corporation before coming to TCO. Prior to this, he worked as an associate attorney at a private Tulsa law firm where he specialized in estate planning and real property law. Alex graduated magna cum laude from Oklahoma State University with a bachelor's of science in economics and earned his juris doctorate from the University of Tulsa.

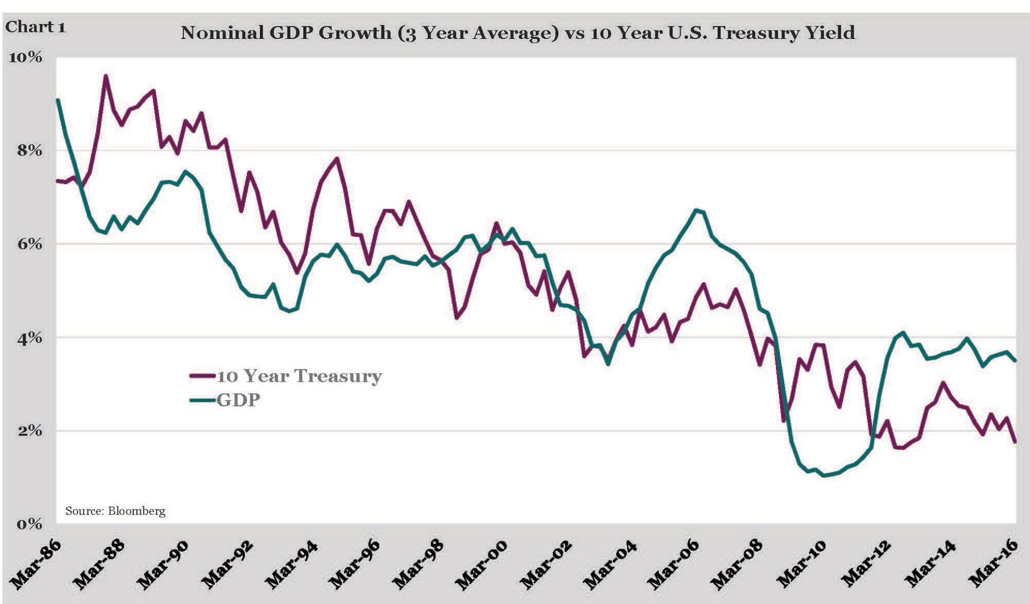
Finally, I'd like to introduce you to Vice President Janie Cotton. Janie, an experienced title closer, is managing our new venture, TCO Title Services. The company is based in Oklahoma City and was founded as an expansion of the real estate services we have provided for the past 35 years. TCO Title Services offers a wide range of title and escrow services. We are excited about this new sister company and feel privileged to have Janie as its leader.

We know that our success is because of the faith you as clients entrust in us. We are always grateful and will continue to work diligently on your behalf.

Thomas W. Wilkins *Chairman, President & Chief Executive Officer*

Importantly, economic growth and longer-term rates have tracked each other over time, as seen in **Chart 1** (below). With or without central bankers forcing rates below zero, rates would likely still be very low. How negative rates will get economies moving again and how long they will last is anybody's guess. To quote Charlie Munger of Berkshire Hathaway, "Anybody who is intelligent (and) who is not confused, doesn't understand the situation very well."

Q: Should governments turn to fiscal policy and aggressively spend their way out of the rut?
Perhaps. Some argue that the U.S. and other countries are being too tight fiscally, which is preventing a rebound. In the U.S., the last fiscal stimulus package was in 2009. In the years since, it has been difficult to sell politicians on the wisdom of a large increase in spending, which would be debt-financed, running up the deficit. The track record of past fiscal stimulus has not always been inspiring. Additionally, there is little agreement between the two political parties coupled with infighting within the parties. Besides, it's an election year so this option appears moot.



It is helpful to look at Japan as a comparison. Since 1992 its economy has shown little growth. In its "lost decade" of the 1990s, Japan had nine separate stimulus packages, each package averaging 4% of GDP - to little lasting effect. Bottom line: fiscal pump-priming might be an effective tool to bridge a gap but not a gulf.

Q: Are there *natural* causes that could be a source of persistently low interest rates and slow growth economies?
There are numerous reasons

Continued on Page 3

for our economic funk, including working off an over-leveraged debt binge and withstanding wrong-headed government actions. Yet, staying with Japan for the moment, demographic pressures have noticeably increased at the same time. After 40 years of a fertility rate below the replacement level, Japan's population finally peaked around 2010 and is now shrinking – down by nearly 1 million people in the past 5 years alone. The UN estimates it will fall by another 19 million people (15%) by 2050 and continue falling thereafter.

Germany's fertility rate also fell below the replacement rate of roughly two children per female of childbearing years in the 1970s. Its population has grown only through immigration. **Chart 2** (below) shows the natural population growth (excluding immigration) for Japan, Germany and the U.S. Both Japan and Germany are now experiencing more deaths than births.

One result getting baked into the mix is that there are fewer and fewer workers available to support retirees. The old age dependency ratio, which measures the number of retirees (65+) relative to working age people (15-64), is climbing sharply in both countries. In Japan, the ratio has gone from 17 per 100 in 1990 to 43 per 100 in 2015. Germany has gone from 22 per 100 to 32 per 100. And the forecasted trend is worrisome. Japan and Germany are the world's third and fourth largest economies in the world (U.S. and China are first and second respectively).

While demographics are not the only reason growth has been sluggish, there is a linkage. If the source of a country's economic growth is the combination of population growth and productivity improvements, it's no wonder growth has flat-lined.

Q: That sounds just a tad bleak. Is the answer to nurture our economies with some wine?

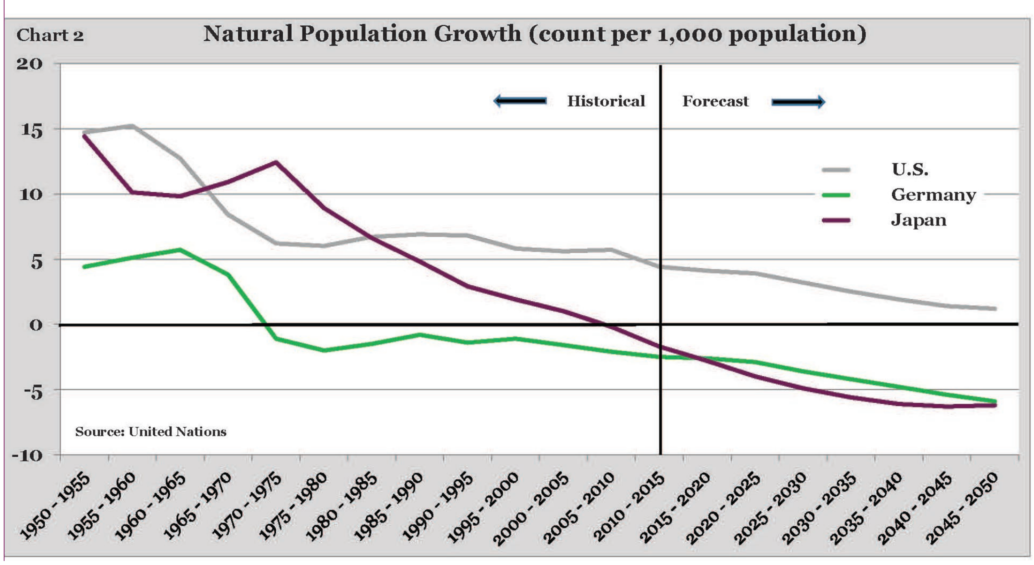
I am not sure that is the solution, but it might not hurt! It is hard to recover from a dearth in births. Japan and other countries are encouraging their citizens to have more children. Maybe this is where the wine comes into play. However, birthrates tend to change gradually and are difficult to alter without resorting to extreme policies or shocks to the system. Almost all areas of the world are facing a population growth slowdown.

The other growth component is productivity improvements – ingenuity and innovation moving us forward. While productivity has been surprisingly weak for several years, there are significant technological advancements occurring in virtually every segment of society. These advancements should ultimately produce economic gains.

Q: I'm ready to come home now. Where does the U.S. stand?

Many have quipped that the U.S. is the cleanest dirty shirt compared to other developed nations. Our working-age population (which includes immigration) continues to grow. Our old age dependency ratio is also well below that of most other developed nations (moving from 19 per 100 in 1990 to 22 per 100 in 2015). However, being a cleaner *dirty* shirt signals we too have forces that are a concern. **Chart 2** illustrates the slowdown in growth of our natural population. Our fertility rate has hovered at or just below the replacement level for decades. That is not an immediate concern but it will become a challenge if it turns down further or if immigration turns negative. Populist platforms here and elsewhere have made immigration a very hot topic.

The tools required to solve the growth paradox go well beyond manipulating interest rates or more government spending. Boosting productivity is key. Our country's financial strength coupled with *relatively* positive demographics also provides us with more flexibility compared to Japan and Western Europe. We are in a much better position to enact policies that encourage and nurture growth, not impede it. But we do need to act. Growth is critical to meet the future financial obligations we have bestowed upon our kids and grandkids.



Roth Rules

How to Make a Roth Work for You

Roth IRAs can be a great vehicle to save for retirement, but what are the benefits and, importantly, what are the rules to make it work? Let's begin with a few basics:

The Roth IRA was introduced in 1997, and some employees have been able to contribute to their employer's Roth 401(k) retirement plan since 2006. The idea behind the Roth is that contributions are deposited on an after-tax basis.

You voluntarily elect to pay taxes today on your contribution amount and your earnings are tax-free, not tax-deferred, as long as you play by the rules of the Roth. This tax-free benefit also transfers to your heirs, making the Roth a very effective vehicle for transferring wealth to the next generation.

As an example, you choose to contribute $10,000 to your 401(k) this year on a Roth basis. You will pay taxes on the $10,000 since you are not receiving a current tax deduction for the contribution. After 30 years of growth, let's say your balance is now $35,000, $10,000 of your original contribution plus $25,000 of earnings. Your entire balance is tax free, even the earnings. Contrast this with choosing to put the $10,000 in as pre-tax contribution. You receive a current tax deduction in 2016 for the $10,000 contribution and the balance grows to the same $35,000, but now every dollar of the $35,000 you withdraw is taxable to you in retirement.

The Roth Rules

Keep in mind that some of the rules are very different between a Roth IRA and a Designated Roth Account in a 401(k) plan. It is important to know which vehicle you are utilizing in determining the rules.

One of the most significant differences is your eligibility to contribute to a Roth. A Roth IRA is subject to income limitations, a married couple with adjusted gross income in excess of $194,000 in 2016 is not permitted to contribute to a Roth IRA.

This same income limitation does not apply for the 401(k) plan, so this same couple could contribute Roth funds to a 401(k) plan. You may also contribute far more to a 401(k) plan than a Roth IRA: $18,000 to your 401(k) plan versus $5,500 to a Roth IRA. And if you are age 50+, you may contribute an additional $6,000 to the plan or $1,000 to the Roth IRA as "catch-up contributions".

Required minimum distributions (RMD), the forced withdrawal of a portion of your balance beginning at age 70 ½, is another difference. Roth IRA balances are not subject to required minimum distribution rules, but Roth balances in a 401(k) plan will require distributions. You may rollover your Roth 401(k) plan balance to a Roth IRA in order to avoid a required minimum distribution.

In order to reap the tax-free benefits, any distribution must be considered a qualified distribution. In order for your distribution to be considered a qualified distribution, it must satisfy the five-year holding period and it must be made after you reach age 59 1/2, become disabled, paid to your beneficiary after your death, or meets the first-home exception.

The five-year holding periods work differently between an IRA and a 401(k) plan. For IRAs, even multiple IRAs, you can use the earliest contribution year of any of your Roth IRAs to determine if you have met the five-year holding period for all of your Roth IRAs.

For 401(k) plans, on the other hand, each plan has its own start date and the clock start date does not transfer to an IRA. When you are approaching retirement, you should consider the vehicle your Roth is located in. If you have used a Roth IRA, you are ready for retirement. However, if your Roth is in a 401(k) plan, you may wish to establish a Roth IRA and rollover your funds five years prior to retirement if your plan allows such a move. This would allow you to start your Roth IRA clock before your retirement and by the time your need to withdraw, you would have satisfied the five year holding period and your withdrawal could be tax-free.

Not all 401(k) plans offer the ability for Roth contributions. If your plan does not, ask your retirement plan representative to give us a call. We are happy to visit about your individual situation and offer our assistance in navigating the Roth rules.

Debi J. Combs
Vice President

TCO

Title Services, LLC

Janie S. Cotton
Vice President

CATERING *to clients who* EXPECT *more than a closing*

Trust Company of Oklahoma is proud to introduce TCO Title Services, LLC. The title agency is an expansion of Trust Company of Oklahoma's real estate services, as well as an addition to the services provided by TCO for 35 years. The new company will provide a wide range of title and escrow services for residential and commercial transactions, investment properties, bank closings, refinances and others.

Janie Cotton, vice president of TCO Title Services, is an experienced title closer and joined the new venture with great enthusiasm. "Our mission is to provide all parties a positive and pleasant experience, and we will go the extra mile to ensure a smooth transaction for our clients. We are confident that they will appreciate our personal and professional service," says Cotton.

Based in Oklahoma City, TCO Title Services will offer efficient, fast and accurate closing activities throughout the state.

Thomas W. Wilkins, chairman, president and CEO of Trust Company of Oklahoma, foresees significant financial growth. "We see an opportunity for transferring our high level of expertise and service to the real estate closing market. This is a natural fit for us. We are always looking for opportunities to take our successful relationship-focused model to complimentary areas of business."

Trust Company of Oklahoma has an established reputation and is committed to providing financial peace of mind for the individuals, families and businesses it's been serving over the last three decades. TCO Title Services will inherit and expand that commitment.

To learn more about our title and escrow services, call Janie S. Cotton at (405) 840-8401 *or email* **JCotton@TCOTitle.com**

The Money Market Reform

The Securities Exchange Commission (SEC) has issued new rules for prime (non-government) money market funds; both taxable and tax-exempt. These changes were implemented in response to events that occurred during the 2007 – 2009 financial crisis. In 2008, one prime money market fund lost a small amount of value for their investors, while the remaining funds held their value despite significant redemptions from many funds.

New Rules

Per the new rules, as of October 14, 2106 a prime money market fund will have the right to take two actions during a period of market stress:

(1) Not allow redemptions for up to 10 days (also known as a "gate")
(2) Impose a redemption fee of up to 2% (also known as a "fee")

We believe money market funds will be reluctant to take either action since either action would be considered extreme. Historically, sponsors of money market funds have occasionally covered small losses so their business would not be impacted.

Allowing a fund to impose a ten-day gate is not a significant change. Most prime money market funds already have the right to impose a seven day gate. The 2% redemption fee, on the other hand, is a new rule.

In addition to the new rules concerning gates and fees, some money market funds will continue to be valued at $1 every day and while others will now have floating values. Per the new rules, there will be two types of prime money market funds: "retail" and "institutional".

Retail funds will continue to have a constant daily net asset value (NAV) price (i.e., $1.00) at all times similar to how they have always operated. Institutional prime money market funds will now have a floating NAV, meaning their price may fluctuate daily. The SEC made this distinction since institutional investors are more likely to withdraw funds from money market funds during times of market stress.

How Do The New Rules Affect Your Investments?

Fortunately, the majority of our client accounts will be considered retail including agency accounts, 401k accounts, IRAs and irrevocable trusts where at least one of the trustees is a "natural person". Endowments, foundations, corporate accounts and irrevocable trusts that have a sole corporate trustee (TCO) will be considered an institutional investor.

While most market observers don't expect the NAV of institutional prime funds to vary much on a daily basis, we think it's prudent to monitor these funds to assess whether they are appropriate for our clients. As a result, unless a client directs us otherwise, we will not invest institutional accounts in a floating NAV fund.

To avoid using a floating NAV fund, we will invest institutional accounts in a Government or Treasury money market fund that has a constant NAV price. Additionally, Government and Treasury money market funds won't have the ability to impose a redemption fee or gate at any time.

We feel it's important to let our customers know of the upcoming money market rule changes. While we think it's unlikely a prime money market fund will impose a redemption fee or gate, it's now possible. We are comfortable investing retail accounts in prime money market funds.

However, if you would like to invest in a Government or Treasury money market fund to avoid the risk of a redemption fee or a gate being imposed, please let us know. Government and Treasury funds are currently paying a yield of .10% to .20% less than prime money market funds.

James F. Arens II
Executive Vice President & Chief Investment Officer

Establishing Trust, Step-By-Step

Creating a trust is a very important step in the estate planning process; but without funding the trust, there is no value to the trust document. Even after going through the process of detailing where assets should go, if the assets are not titled in the name of the trust, your will or intestate laws will determine who receives the possessions.

If you have a pour-over will, the assets will finally end up in the trust after an expensive and long probate process.

Many attorneys will assist in the transfer of assets to a trust, but you must provide them with a complete list of assets. As time goes on and additional assets are obtained, make sure to vest them in the name of the trust as well.

The following list is not all-inclusive list, but it can be a guide for the types of assets you should be sure to bring to your attorney's attention when considering what assets should fund the trust:

- Real estate
- Mineral interest to include royalty and working interests
- Annuities
- Life insurance
- Automobiles
- Notes receivable
- Business ownership
- Personal property
- Brokerage accounts
- Bank accounts
- Safe deposit box
- Copyrights and patents

The process of transferring the assets depends on the type of asset owned. Some assets, such as personal property and business interests, can be transferred by completing an assignment of ownership. But if the assets have a certificate of title, a trip to the tag office is required for ownership change. Items such as real estate and mineral interests will require a deed to be filed with the appropriate county clerk.

Be careful when dealing with retirement accounts. The owner of the account must be an individual. Also, naming the trust as the beneficiary of a retirement account, such as an IRA, could result in significant tax issues. Consult a tax advisor and/or attorney before making these changes.

While writing this article, I began to think through my assets and estate plan. I realized that I failed to transfer my safe deposit box and an ATV to my trust. Not one to ignore good financial advice, I will be making a trip to the bank and the tag office in the near future!

Jean Kates
Assistant Vice President

SPOTLIGHT

Oklahoma Firefighters Burn Camp is a five-day summer camp that accepts children ages six to 16 who have suffered severe burn injuries or traumatic injuries causing scarring and disfigurements. It began in 1999 and is held every August at Dry Gulch USA, in Pryor, Okla.

The camp is a place of unconditional love and acceptance, where scars do not limit future goals and successes. It's a place where children who have suffered tragic accidents can be normal kids. Campers participate in team-building activities, visit animal parks, go on fishing trips, engage in lake activities, kayak, watch movies, enjoy family time and participate in an awards ceremony.

The camp was founded by firefighters, police officers, teachers, nurses, doctors and adult burn supervisors. Volunteers from these same groups make up the team of camp organizers and staff. The camp has a remarkable one-to-one camper to counselor ratio. And, former campers are invited to come back and serve as volunteers or counselors, creating a family-like atmosphere where many of these kids become lifelong friends.

Today, the organization supports burn survivors in other ways as well, including the Fitzpatrick Scholarship Fund, which helps former campers reach their higher education goals. The organization also helps fund an annual spring retreat in the Tulsa area for young adult burn survivors from around the country through the Wise Foundation. In addition, each year the organization funds educational trips around the country for current and former campers.

Oklahoma Firefighters Burn Camp is a 501-c-3 non-profit organization made up of an exclusively volunteer staff. No one is paid and many put their own money into the organization to make it possible.

To learn more about the organization and how you can help, visit **okffburncamp.org**

TRUST
COMPANY of OKLAHOMA

P.O. BOX 3627
TULSA, OK 74101-3627

FORWARDING SERVICE REQUESTED

The name "Uncle Sam" originated in 1812, when a meat packer by the name of Sam Wilson provided meat to the U.S. Army. Someone saw the meat shipments that were stamped with U. S. and joked that the initials stood for "Uncle Sam", and the name stuck.

Enjoy the Spirit of Independence

Follow Us on LinkedIn