TRUST

INVESTMENT PERSPECTIVES

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Will the Bull Stumble in 2014?

With the S&P 500 beginning the year with the worst January performance since 2009 by declining 3.5 percent, the market then shifted dramatically to turn in its best February performance since 1998, rebounding by 4.3 percent, to close at a record high. The S&P 500 performance for March, while still volatile, has been relatively flat. Bond markets have also exhibited volatility with yields zig-zagging downward since the beginning of the year.

The volatility experienced year-to-date in both equity and fixed markets is reflective of current Federal Reserve policy whereby the Fed is tapering or reducing the amount of bonds it purchases every month. Historically, whenever the Federal Reserve has begun to unwind an accommodative policy stance, higher market volatility has ensued. While higher volatility is customary at this stage of an economic recovery, it does not necessarily mark the end of a recovery.

However, the late January to early February correction for the S&P 500 of approximately 5 percent is unlikely to be either the last or largest correction of 2014 if history is any guide.

During the 5 percent correction experienced this quarter, a question that surfaced with increasing regularity was whether this correction was the beginning of something more ominous. An answer to this question is provided by viewing the stock market in terms of presidential years relative to monetary and fiscal policy based upon almost 50 years of data (see chart 1 on pg. 3). As illustrated by the chart, the second year of a presidential term (or mid-term year) has been the weakest year (top clip) of the four on average as the market adjusts to tighter fiscal and monetary policy (bottom clip). Presently, the combination of fiscal and monetary policy is the most restrictive it has been since the beginning of the financial crisis in 2008. In addition to the mid-term year of a presidential cycle being the weakest, this year is also associated with the highest probablity of a meaningful correction. However, when a mid-term occurs during a bull market, the average mid-term year pullback is approximately 14 percent versus 20 percent if the mid-term occurs during a non-bull market, based on data going back to 1928.

As to when a correction of this magnitude may occur, a composite cycle for the S&P 500 may answer this question (see chart 2 on pg. 3). The graph shows that the performance of the S&P

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Michael P. Abboud
Vice President

MARKET RECAP

Equity markets worldwide have seen little change since the start of the year.

	First quarter 2014	past 12 months
Dow Jones	-0.2%	15.7%
S&P 500	1.8%	21.9%
EAFE (Int'l)	0.7%	17.5%

VIEWPOINT

A Message from the Desk of Tom Wilkins

I always look forward to spring and the natural beauty it brings, especially on our local golf courses! After our unusually harsh winter, I find myself pausing a bit longer to appreciate this year's budding trees and flowers. I hope you can take a moment as well to observe the natural beauty of Oklahoma as it awakens from our long winter.

With spring comes growth at Trust Company, which I am pleased to share with you.

First, I'd like to welcome the two newest members of our investment team: Vice President Nicholas Gallus and Investment Officer Mark Gibbens. Nick holds the designation of Chartered Financial Analyst (CFA) and earned his MBA from the University of California, Berkeley Haas School of Business. He comes to us after eight years of working as a research and risk analyst. Mark recently earned his MBA from the University of Kansas and is a candidate for the CFA charter. In addition, Mark has successfully completed the exam requirements to earn his Chartered Alternative Investment Analyst designation.

I would like to recognize our office in Oklahoma City led by Executive Vice President David Stanley. With nearly $500 million in assets under management, our Oklahoma City team of professionals continues to provide superior service and sound advice. Come by and see our new offices in the Waterford Building.

Because of our Oklahoma City growth and the potential for much more, we have formed an Advisory Board of business and professional leaders in the region. With their expertise and wise counsel, we are especially excited about the next twenty years. I would like to personally recognize and thank the exemplary members of our Oklahoma City Advisory Board: Karen Allen, John Austin, Gabe Bass, General Dick Burpee, Bill Fowler, Nick Harroz III, Bert Olah, Edie Roodman, and Paul Woolsey.

Finally, thank you to our clients for allowing Trust Company to serve you. Enjoy the spring and the beauty it brings.

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

500 year to date (red line) has thus far tracked what the cycle composite predicts for how the S&P 500 will perform this year. Analysis of this chart indicates the old market adage "sell in May and go away" may yet again ring true this year with regards to when the correction begins.

Viewing historical stock market results during mid-term election years within the context of today's bull market provides additional insight as to the stock market's future direction. Today's bull market advance and length compared to the median bull market since 1928 has thus far gained 62 percent more and is 10 months longer in duration than the median bull market. Historically, when bull markets reach their fifth anniversary, as this market did in early March, the market has on average produced another 26 percent in gains, if the bull market survived for another year.

As we come to the end of the first quarter for 2014 and enter the fifth year of the bull market, a natural question to ask is: what would end the bull market run, given the state of the markets and economy as we understand them today?

One of the possible threats to the bull market in recent weeks has been possible contagion from either the selloff in emerging markets or the unrest in the Ukraine. While the markets initially reacted to these developments in the first quarter, they eventually became complacent and shrugged off these impacts. This reaction is in line with the market behavior after every mini crisis since the onset of the financial crisis in 2008. Every dip in the S&P 500 due to Greece, Italy, etc. or every monetary policy decision, fear of a hard landing, or Washington standstill was a dip to be bought.

What really matters to the continuation of the current bull market is the outlook for economic and earnings growth in 2014. Due to harsh winter weather, near-term economic trends have been below expectations, but domestic spending should resume its vigor after this quarter and the US economy should grow at 2.8 percent for all of 2014 based upon consensus forecasts. Corporate earnings as measured by the S&P 500 should also continue to grow, increasing just over 8 percent this year, based upon consensus forecasts. Given the unprecedented 20 straight quarters of aggregate free cash-flow generation, corporate balance sheets have approximately $2 trillion in cash as of the end of 2013 to aid the economic recovery by investing and hiring additional employees.

As the first quarter of this year draws to a close, the bull market should continue based on continued economic growth. However, do not be surprised to see the bull stumble with a correction sometime over the next few months before resuming its upward trend for the remainder of the year.

CHART 1

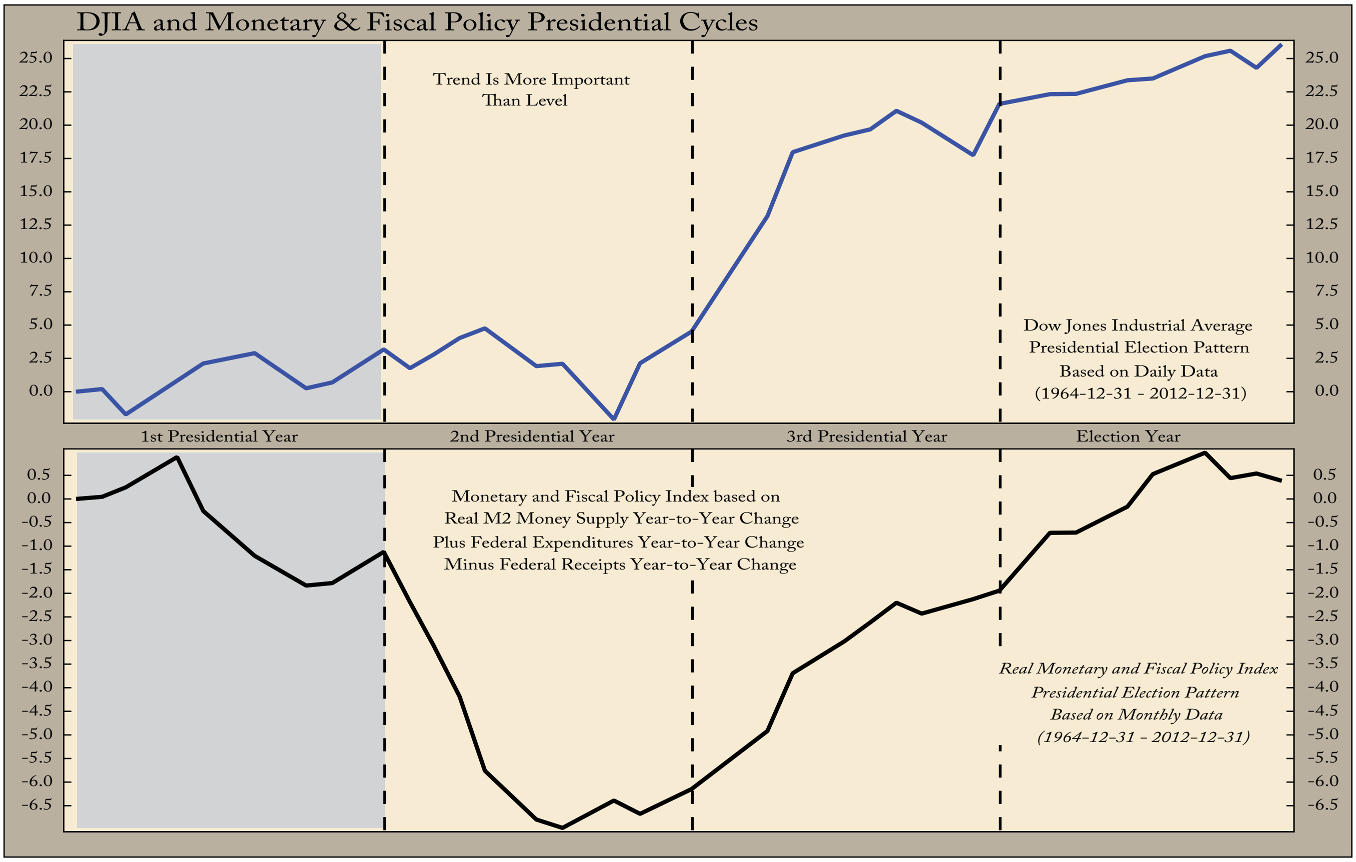

CHART 2

Making the Right Choice for What You Can't Take With You

The American Taxpayer Relief Act of 2012 (ATRA), made the relatively recent estate planning option of portability permanent.

What is portability? Simply put, portability allows the surviving spouse to use any remaining gift/estate tax exemption of his or her deceased spouse. The lifetime gift/estate tax exemption for 2014 is $5.34M per person. Portability allows the surviving spouse to use whatever portion of the exemption their deceased spouse didn't use, as well as their own exemption amount.

More specifically, if the first spouse to die does not use all of his or her gift/estate tax exemption, the executor of the first spouse's estate may elect to give the use of the remaining exemption to the surviving spouse. The surviving spouse can then use that exemption amount to make lifetime gifts or to shelter bequests at death. Thus portability provides an alternative to the traditional estate planning technique of using a bypass or credit shelter trust (CST). As a quick refresher, prior to the days of portability, in order to not waste or lose the deceased spouse's unused exemption amount, a CST was funded with all of the decedent's remaining estate tax and generation skipping transfer (GST) tax exemption as of his or her death.

A good way to see the pros and cons of whether to go the CST route or rely on portability is to walk through an example. For the purposes of this example, we will assume that the husband dies first as shown in the chart below.

CREDIT SHELTER TRUST	PORTABILITY
If husband's estate is below the threshold for filing a federal estate tax return, no return needs to be filed, thus saving the return preparation fees.	Portability requires that husband's estate file a federal estate tax return and elect to port his unused exemption to wife, even if no return would otherwise be required.
A CST provides asset protection for wife and any other beneficiaries.	All assets pass to wife, thus there is no asset protection.
Assets put in a CST appreciate outside of wife's taxable estate.	Husband's ported exemption isn't indexed for inflation, thus as the inherited assets appreciate, there will be less exemption to shelter assets from estate tax at the death of wife.
Assets in the CST do not get a stepped-up basis at wife's death.	Assets are included in wife's estate and get a stepped-up basis upon her death.
Husband's generation skipping transfer (GST) tax exemption can be applied to the CST.	Husband's GST exemption isn't portable, thus it is wasted if he doesn't use it during life.
An irrevocable trust allows for professional management of the assets, protection from undue influence, and peace of mind that the assets will benefit those the deceased intended.	Since irrevocable trusts typically aren't used when relying on portability, the expense of trust administration is eliminated.
A CST is an irrevocable trust, thus it can lack flexibility to plan for life's changes over the surviving spouse's lifetime.	Wife has complete control over the assets and can direct them as deemed most appropriate given changes in both her life as well as the lives of the beneficiaries.

Several factors may impact whether utilizing a CST or simply relying on portability is appropriate. Some of the key factors to consider when discussing your estate plan with your advisor include:

- Overall value of the estate, asset composition and anticipated growth
- Health and/or age differences between the spouses - likely period of time between the two deaths
- Likelihood of the surviving spouse remarrying and/or children from prior marriages
- Need for GST tax exemption, changes in the various tax rates, namely estate, capital gain, and income taxes

Should you have any questions regarding whether relying on portability or utilizing a CST is right for your estate plan, please contact us. We will be happy to discuss the pros and cons of each approach with you and your attorney to help determine which option is the best fit for your situation.

M. Shawn Crisp
Vice President

Planning For What Matters Most!

As my husband and I prepare to bring our second child into the world, we find ourselves thinking about how we will prepare for our children's future. How will we pay for college? If something happens to us, who will take care of our children? Decisions such as these are never easy, but vitally important.

One of the most important decisions you will ever make for your children is deciding who will care for them if you and your spouse cannot. If you have minor children even the simplest of wills should contain information about who should serve as legal guardian. It is always good to nominate at least one substitute guardian in case the first is unable or unwilling to care for your children, and both spouses should name the same individual(s) to serve, if possible.

Second, consider whether the person(s) you have named as guardian should also handle your children's financial affairs. Sometimes it's better to have a guardian vested with the day-to-day caretaking responsibilities and a trustee, whether individual or corporate, who is equipped to invest and manage your children's finances. This trustee will work with the guardian to plan for your children's financial needs today and in the future. If your estate plan does not include a trust, you may accomplish the same goal by nominating a guardian of the person and a guardian of the property in your will.

Finally, with college tuition increasing faster than the inflation rate, it is never too early to begin planning for your child's education. Gifting money to a 529 Plan or certain types of trusts, often referred to as "present interest trusts," are two common ways to save money for college. Gifts to both may qualify for the annual gift tax exclusion, currently $14,000 for 2014.

While it is tempting to rush out and obtain a perfunctory will just so you are covered, we recommend taking time to speak with family and friends and to consult with estate planning professionals to ensure your children's future is secure. Our professionals at The Trust Company of Oklahoma are available to share our experience and expertise with you. Please call for an appointment.

Jamie O'Shields
Vice President

SPOTLIGHT

Blue Star Mothers provides support for active duty personnel, promotes patriotism, assists veteran organizations, and is available to assist in homeland volunteer efforts to help our country remain strong.

Blue Star Mothers began in 1942 after 1,000 mothers of servicemen responded by mail to an ad in Michigan's Flint News Advertiser. Mothers across the country volunteered during World War II, working in hospitals and train stations, packing care packages for soldiers, and contributing as part of homeland security. In 1960, Blue Star Mothers of America was chartered by the United States Congress as a Veterans Service Organization.

Blue Star Mothers ships "freedom boxes" each month to men and women deployed throughout the world. These boxes contain a variety of items, including food, snacks, and toiletries as well as letters of encouragement from members of the local community.

Oklahoma is the home of 17 active chapters of Blue Star Mothers: Tulsa, Wagoner, Sand Springs, Broken Arrow, South Oklahoma City, Coweta, Edmond, Sapulpa, Enid, Muskogee (2), Duncan, Owasso, Pryor, Bartlesville, Claremore and Tahlequah each have a chapter.

About the Blue Star

Blue Star Mothers derived its name from the official banner authorized by the Department of Defense for display by families who have members serving in the Armed Forces during any period of war or hostilities. Banners of white with a red border containing a blue star for each active duty member are proudly hung the front window of homes. A gold star indicates a service member who was killed in action or died in service.

The flag was designed and patented by WWI Army Captain Robert L. Queisser of the 5th Ohio Infantry who had two sons serving on the front line. It quickly became the symbol of a child in service.

For more information about Blue Star Mothers and how you can help, visit ***www.bluestarmothers.org*** *to find your local chapter.*

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