

TRUST

INVESTMENT PERSPECTIVES

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October 2011

Double Dip

Ice cream or the economy?

“Double dip.” It wasn’t long ago when these two words would invoke pleasant thoughts. The only dilemma the phrase posed was which of the two flavors of one’s double dip ice cream cone should go on top. Unfortunately, when we hear “double dip” today, it generally refers to the fear that the all-too-recent recession will return.

Are we headed back into a recession? Or, are we just in for a period of slower growth?

The breakdown in confidence in our economy has been triggered by a variety of factors, including disappointing economic news, disruptions in manufacturing and supply as a result of the tragedy in Japan and fiscal problems in Europe. The list would not be complete without adding the frustration related to the political antics in Washington D.C. and most recently, the credit-rating downgrade of

U.S. government securities by Standard & Poor’s.

This lack of confidence can turn into a self-fulfilling prophecy: another recession. However, recessions require a large drop in many segments of the economy. Yet many segments - housing, automobiles, and small business - never really exited recession to begin with. Therefore, the likelihood of major drops from these levels is low. Let’s take a look at some of the major factors affecting the economy and the markets right now.

GDP GROWTH

First quarter 2011 GDP growth was revised down to a paltry .4 percent and second quarter GDP was reported at 1.3 percent. The textbook definition of a recession is that GDP must be negative for at least two consecutive quarters.

The first half of 2011 was plagued by uncharacteristically bad weather, unrest in the Middle East, and a devastating earthquake in Japan. Unfortunately, GDP movements tend to be persistent. Good news tends to be followed by good news and bad news by bad news.

The economy may still be hurting from a series of temporary hiccups, but unless the labor market improves that weakness will persist. This leaves the economy more susceptible to shocks and keeps global financial markets on edge.

MANUFACTURING

The closely followed Purchasing Manager’s Index (PMI) published by the Institute for Supply Management (ISM) was reported at 50.6 for August. The consensus expectation had been for the PMI to fall to 48.5. Levels above 50 are considered to be in expansion territory and below 50 to be contracting.

We should note that the PMI is a survey and not a gauge of actual manufacturing activity. It is a measure of how managers view current business prospects versus the prior month. We should also look at indicators of actual manufacturing activity.

While the ISM report suggests we could see slowing of the manufacturing sector, August’s report on capacity utilization should help reduce fears that a severe recession is on the immediate horizon. Capacity utilization in the manufacturing sector ticked up to 77.4 percent in August from 75.0 percent in July and

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Cameron Turner
Vice President

VIEWPOINT

A Message from the Desk of Tom Wilkins

As many of you already know, Trust Company of Oklahoma recently unveiled a new look and feel to our website. We hope our upgraded website, which can be found at www.trustok.com, enhances your online experience. Links to access your accounts, are conveniently located at the top left-hand corner of our home page. A significant amount of new information is now on the website. Please take a few minutes and visit the many pages of the website. As always, we would welcome any suggested improvements you may have.

I am also pleased to announce that Robert A. McCormick, Executive Vice President and Chief Operating Officer of Trust Company of Oklahoma, was recently honored by his alma mater, Oklahoma State University (OSU). In April of this

year, the Spears School of Business at OSU celebrated the 50th anniversary of its MBA Program. During that celebration, Bob was honored as one of the top 50 graduates of the MBA School. Please join me in congratulating Bob on this very prestigious honor. 



Thomas W. Wilkins Chairman, President & Chief Executive Officer

74.6 percent in June. This is still 3 percentage points below its average from 1972 to 2010 but trending up is always a positive sign.

THE CONSUMER

As evident in the chart on page 3, any measure of consumer sentiment or attitude is incredibly low right now. In fact, it has dropped to its lowest level since the recession ended in June 2009.

It is not hard to see why. GDP reports and the lack of meaningful job growth have been some of the original culprits of concern. In addition, the political gridlock in Washington D.C. over the debt ceiling culminated in a credit downgrade by the rating agency Standard & Poor's. During this time, volatility began to increase in the stock markets. With the childish games being played in Washington D.C. combined with less-than-

stellar economic reports, the markets moved up and down with very large swings. As if all of our domestic issues weren't enough, sovereign debt crises in Greece, Portugal, Ireland, Italy, and Spain continue to spook the markets.

The Bloomberg Consumer Comfort Index (red line on chart) fell to -48.2 through the end of August and mid-September's numbers show a further drop to -52.1. The Consumer Confidence Index (blue line) and the Consumer Sentiment Index (black line) have seen significant drops during this recent quarter after bouncing back significantly from the March 2009 lows.

An interesting note, the Consumer Confidence and Consumer Sentiment Index are composed of monthly surveys and incorporate a measure of future expectations. The Bloomberg Comfort Index is not

forward looking but surveys consumer's present situation. The Bloomberg surveys ask consumers to describe the state of the nation's economy and their personal finances "these days" and whether now is a good time to buy the things they need.

Even though consumer sentiment has been low throughout the entire quarter, retail sales have held up fairly well. Although it would seem that consumers would stop spending given their outlook on the economy, this is not always the case. Retail sales climbed .3 percent in July after a .2 percent gain in June. However, August retail sales were unchanged. Given the economic headwinds, it appears the consumer is now being a little more cautious.

OPERATION TWIST

In September, the Federal Reserve acted as expected and announced what is known as

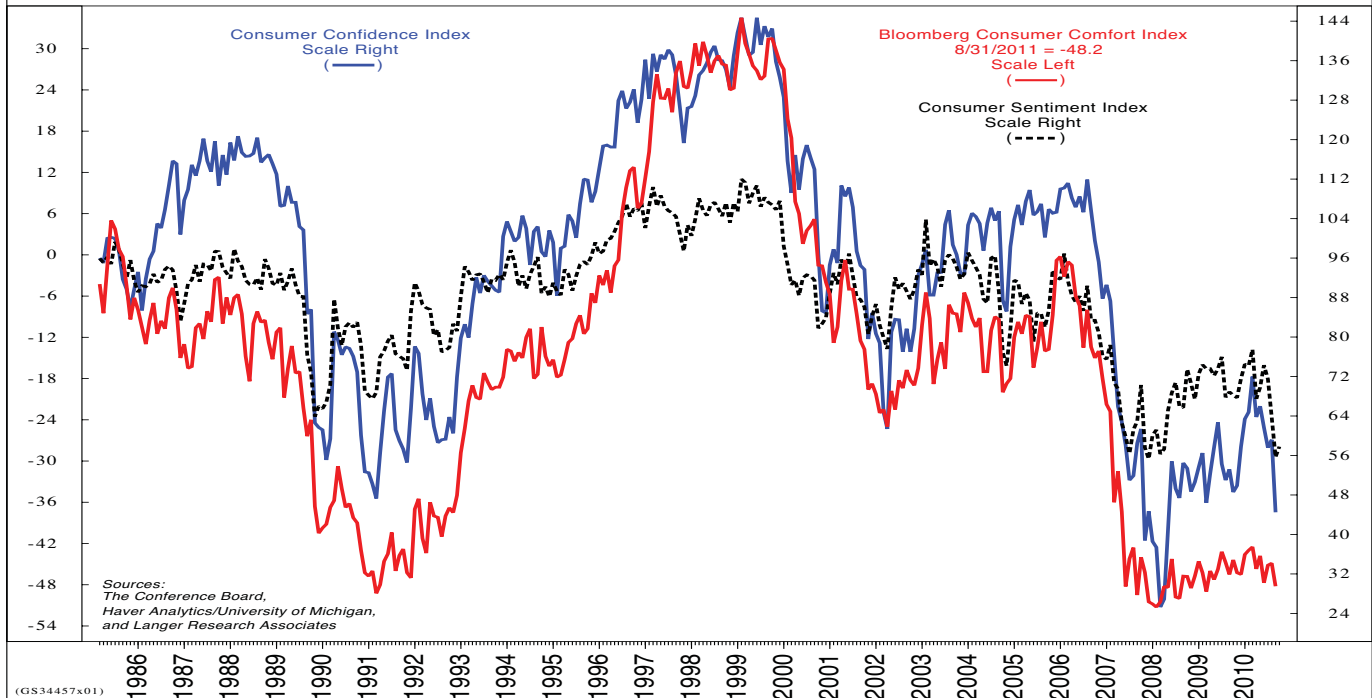
"Operation Twist". The goal of this program is to lengthen the average maturity of the Fed's balance sheet. The Fed has indicated it will buy \$400 billion of Treasury securities that mature in more than six years and sell an equal amount of its existing holdings that mature between three months and three years from now. The result, ostensibly, will be to lower longer-term borrowing rates, including mortgage rates.

The thesis behind the lowering of long-term borrowing rates is that money will find its way into the economy and create jobs. Unfortunately, the problem is not that interest rates are too high, but that we're in a debt de-leveraging cycle that started three years ago in the private sector. Corporations already have plenty of cash on the sidelines that could be used without the need for borrowing. Until

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Measures of Consumer Attitudes

Monthly Data 2/28/1986 - 9/30/2011



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the political landscape and economic picture improves, it is highly unlikely we will see an increase in borrowing. We applaud the efforts by the Fed, but it is unlikely these efforts will have much of an impact. Hope is not a plan.

PROCEED WITH CAUTION

As mentioned in the opening paragraph, a lot of talk recently has focused on the likelihood of a double-dip recession. The risk of another recession is certainly elevated, but it's not yet conclusive. Keep in mind a few segments, housing and small business, never really came out of the prior recession. Therefore, it will be hard to drop back into a "formal" recession.

A troubling relationship we are currently facing is between stocks and the economy. Historically, the stock market

is a discounting mechanism because it takes in all available information, both present and potential future events. Is the stock market signaling a weakness in the future economic growth (possible recession) or has the stock market become a catalyst, or "self-fulfilling" prophecy, actually triggering another recession? It is impossible to discount the fear currently baked into the market. It is also difficult to feel too good about the economy and the market when home prices are still depressed, unemployment is still high, Europe is still a mess, and the politicians are still quarrelling like the Hatfields and McCoys. However, we believe it is critical to not overreact to these severe market conditions. Over the long term, history has shown that a significant portion of stock market gains

have been generated when markets stabilize and rebound right after a severe down movement. Selling into these down markets could deny participation in the eventual stabilization and rebound.

In the U.S. corporate sector, earnings have been reasonably strong and balance sheets have continued to show healthy fundamentals. As a group, the companies within the S&P 500 have the largest net cash positions in more than three decades. Valuations of U.S. stocks remain quite reasonable, especially in comparison to the alternatives in fixed income. The current dividend yield on Wal-Mart (2.8 percent), Pepsi (3.3 percent) and IBM (1.7 percent) compares to the 10-year Treasury yield of 1.9 percent and the 30-year Treasury yield of 2.9 percent.

Would you rather lock in these Treasury yields or take a chance that these three U.S. behemoths would appreciate just one dollar over the 10-year or 30-year time horizon? I think I know what my answer would be.

One important thing to remember is an investment in U.S. stocks is very different than an investment in U.S. gross domestic product (GDP) growth or the U.S. government. We believe many corporations today are in better shape than either components of GDP or the U.S. government. We will continue to monitor events and movements around the world and how they affect the markets on a macro basis, but more importantly, how these will affect our clients' portfolios on a micro basis. 📌

The Road to (Trustee) Hell Is Paved with Good Intentions

As those with experience will tell you, the role of an individual fiduciary, whether it be as a trustee or personal representative of an estate, is complex and time consuming. The inexperienced can quickly become overwhelmed by the many, often unfamiliar, demands placed upon him.

The individual fiduciary must separate the trust assets from his own, protect and maintain those assets, and prudently invest for the benefit of both the current and future trust beneficiaries.

The individual fiduciary also must maintain accurate trust records that reflect the principal assets and the income earned, provide reports of trust holdings and activity to beneficiaries, and ensure that all tax filings are timely and accurately completed.

And all of the above is just the beginning.

Above all else, the individual fiduciary must always be cognizant of his duty of loyalty and impartiality to the beneficiaries in all matters related to the trust or estate.

Even when an individual fiduciary works diligently to carry out all of the estate or trust's responsibilities, he may

still find himself struggling to meet expectations. The courts are filled with cases involving individual fiduciaries who served with the best of intentions, but who still ended up in a dispute with one or more beneficiaries.

For all of these reasons, and for many others, individuals serving in a fiduciary capacity are strongly encouraged to seek guidance from experienced advisors.

For those individual trustees and personal representatives who want to fulfill their duties but desire assistance in meeting all of the legal and other requirements of a fiduciary, Trust Company of Oklahoma (TCO) offers our agency services. When I speak with individuals currently serving in a fiduciary capacity, they are often surprised to hear that there is a way to gain access to our expertise without having to give up the role they have accepted. There is a common misperception that a professional trust company is only willing to act when it is named as trustee or personal representative in the governing document.

This is not the case. Through our agency services, TCO is able to guide and advise the individual fiduciary

who wishes to benefit from our years of experience and expertise in all aspects of asset management and estate and trust administration while still maintaining his control and decision making responsibilities.

As part of every agency relationship, we work with the individual fiduciary to accomplish the following:

- Establish an appropriate investment program featuring a diversified portfolio designed to balance the needs of both the current and future beneficiaries.
- Provide custody of all assets along with day-to-day administration, including collecting trust income, paying bills and making other distributions as authorized under the governing document.
- Maintain accurate record keeping, including principal and income accounting.
- Produce periodic statements of the trust or estate account holdings and activity for delivery to the beneficiaries.
- Generate tax information for use by the tax preparer to complete and file all necessary trust tax returns.

In addition to those services above, the individual fiduciary will have access to experienced

and unbiased professionals who will work with him to make the difficult decisions and manage family dynamics when necessary. In fact, it is the family member serving in a fiduciary capacity who may most benefit by hiring an agent. When family is involved, the ability to rely on an unbiased professional to guide decision making and communicate to the beneficiaries can go far in maintaining family harmony. TCO recognizes that each trust and estate has its own unique circumstances and personality. When TCO is appointed to serve as agent, we tailor our services and identify the appropriate resources to meet the particular needs of each relationship.

The role of individual fiduciary is both honorable and challenging. By employing an experienced and trusted agent such as TCO, the individual fiduciary may take comfort in the fact that he is meeting his legal and administrative responsibilities and avoiding the pitfalls that await the good intentioned but ill-informed. 🍷



Joanna K. Murphy
Vice President

Handling Overlooked Mineral Interests of Deceased Owners


For many years, most individuals held title to their assets in either their name individually or as joint tenants with right of survivorship, often with their spouse. Upon the death of the individual title holder or of both joint tenants, the assets were distributed to the designated beneficiaries named in their Will through a probate proceeding.

In these probate estates, it was not uncommon to overlook one or two small mineral interests in the probate inventory, but the Final Decree often stated that 'later discovered' property still passed to the designated beneficiaries. If a mineral interest was discovered at a later date, a copy of the Final Decree from the probate was filed in the county clerk's office where the discovered mineral interest was located.

Today, substantially fewer estates are probated. More families utilize revocable living trusts or transfer-on-death or payable-on-death registrations to hold title to their assets, thereby avoiding probate.

So, the challenge becomes what to do with newly discovered mineral interests on estates that are not probated? Beneficiaries have needed a workable, affordable solution and, until recently, there was not one under Oklahoma law.


In order to help alleviate this problem, Trust Company of Oklahoma initiated legislation that was passed by the Oklahoma Legislature in 2010. This legislation provides for an Affidavit of Death and Heirship that can be used to pass the ownership of the severed mineral interests to the heirs at law if there is not a Will or to those named as beneficiaries in the Will, as long as the Will was not probated. For the Affidavit of Death and Heirship to be applicable, the total value of this personal property and severed mineral interests titled in the decedent's name cannot exceed \$20,000.

Even with diligent estate planning, small mineral interests are often discovered long after someone is deceased. Now families have a simple, cost-effective method of transferring ownership to the proper beneficiaries. If you are in need of help with your family's mineral interests, our oil and gas professionals are ready to help. 



M. E. Thornley, Jr.
Senior Vice President

RECOGNITION

Each quarter Trust Company of Oklahoma features area non-profit organizations in our Investment Perspectives publication. In this issue, we are pleased to highlight Iron Gate 

Iron Gate - Feeding the Hungry and Homeless of Tulsa - Everyday

In 1984, parishioners of Trinity Episcopal Church in Tulsa began making sandwiches for the downtown homeless, a growing urban phenomenon. They handed out the food from the church's cloister garden and word spread: if you're hungry, go to the church with the iron gate. The name stuck.

Iron Gate is still located in Trinity Episcopal's basement and the church provides free rent and utilities, but now Iron Gate is a separate non-profit organization. It is a nonsectarian social service organization that depends on contributions for its operation. Iron Gate is one of Tulsa's three largest hunger-fighting ministries.

The mission is simple and focused: to feed hungry people. In this recessive economy, the number of people needing food assistance has exploded. Since 2008, Iron Gate has seen a 45 percent increase in hungry people. Last year, 201,000 people ate at Iron Gate.

Not all who are hungry are without a roof. The hungry people who come to Iron Gate are varied: workers who have lost jobs or had wages cut, homeless teens couch surfing, families with children who have been evicted,

seniors struggling with a fixed income.

Iron Gate feeds people three ways:

1. The Soup Kitchen's hot, nutritious meal served every day of the year, 8:30-10:30 a.m.
2. The Pantry's emergency grocery bags (11,000 last year)
3. Kids' Packs of gallon-size, plastic bags of nutritious snacks for children (5,000 last year.)

Iron Gate is financed entirely by contributions from individuals, foundations, the faith community, businesses and social organizations. Most of the food served comes from the Community Food Bank of Eastern Oklahoma; most of the labor is voluntary (620 volunteers last year).

Iron Gate is located in downtown Tulsa at 501 South Cincinnati. For more information, please call us at 918-582-4128 or visit us online at www.irongatetulsa.org.



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