TRUST
INVESTMENT PERSPECTIVES

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Is Inflation Back?

Hint: Depending upon your outlook, there could be multiple "right" answers.

This would not normally be presented as a multiple choice question, but in today's financial climate, we could get a variety of answers, so please choose one below:

A. Yes, unfortunately,

B. Yes, thank goodness,

C. No, this isn't bad,

D. No, the real inflation is yet to come.

If you are a consumer who recently purchased groceries, gasoline, or a variety of other products, you probably answered A. (yes, unfortunately.)

Indeed, many commodity based items are significantly higher than one year ago. A few items selected from the commodities page of The Wall Street Journal in mid June shows corn up 126 percent, wheat up 95 percent, coffee up 32 percent, and West Texas Intermediate oil up 29 percent versus one year ago. These, of course, are items or ingredients of items we all buy every day.

The official CPI index of all items through May 2011 shows prices are up 3.6 percent from one year ago. Just six months ago that year-over-year number was only 1.1 percent. So the increase in inflation has been relatively sudden and dramatic for such a short period of time.

Many economic reports quote inflation two ways: the all-items CPI and the core rate, excluding food and fuel. They will point out that food and fuel are more volatile on a monthly basis and that Federal Reserve policies have less effect on non-core items. While this is all true, consumer prices and the CPI report include all items. The core rate does remain low, indicating that the current spike is heavily influenced by food and fuel, but did take an unexpected jump in May.

If you are a person who has an economic or investment background you may have answered B (yes, thank goodness.)

Yes, some people are thankful inflation is back because just a few months ago they were worried about deflation. Many think of deflation as a depression-era occurrence. But two years ago, at the height of our economic crisis, the CPI fell into negative territory on a year-over-year basis (deflation) for a period of eight months.

The prospect of longer-lasting deflation is serious stuff. Would you buy a car, a washing machine or a new sweater today if you thought prices would be lower next week or next month? Businesses are breathing a sigh of relief because in a deflationary environment, their products would just sit on the shelves.

In 2008 and 2009, the Federal Reserve, which had spent much of the last 30 years trying to bring inflation down, found itself trying to stimulate the economy out of deflation through massive stimulus policies. You might argue against the effectiveness of the Fed's policies, but we did climb out of deflation and few, if any, are worried about overall deflation occurring now.

But the coast is not yet clear. Housing prices continue to drift lower. This negative wealth effect weighs on consumers' overall buying plans when they know their house is worth less than a year ago and maybe worth less than they paid for it. The odds of

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William S. Boedeker
Senior Vice President

VIEWPOINT

A Message from the Desk of Tom Wilkins

At Trust Company, we place a priority on professional service to our clients. One of the things we love about our profession is we can't just sit still and do our jobs for our clients. We must invest in ourselves to maintain a high level of expertise. That is why I am pleased to report that Tim Breedlove and Debi Combs have both recently earned the designation of Enrolled Retirement Plan Agent (ERPA). With this designation, both Tim and Debi are enrolled to represent taxpayers before the IRS on retirement plan matters. In addition to this designation, Debi also recently earned the designation of Qualified Pension Administrator (QPA). This designation is earned by professionals who are qualified to perform the technical and administrative functions of qualified plan administration. Debi and Tim are not sitting still, and for that I congratulate them.

Speaking of not sitting still, our Investment group is constantly examining changes needed to keep our clients' portfolios well-positioned in these volatile markets. One such change we recently made was to move our clients' liquid cash out of two of our fully taxable money market funds and into a fund that invests only in U.S. Treasury and government agency bonds. The two fully taxable funds, like most similar funds in the marketplace, have very substantial holdings of European bank debt. Given the financial position of several European countries, specifically Greece, and the banks' exposure to these countries, we concluded a change was needed. Since these funds, again like virtually all money market funds, are yielding close to zero, we determined that the reward of the exposure to European debt was not worth the risk. Our Investment group will continue to monitor the situation and determine when it is appropriate to move back into these taxable money market funds.

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

deflation returning now are low, but not zero.

If you were alive in the 1970's, you might have answered C (No, this isn't so bad.), thinking, "Back in my day, we knew real inflation." Indeed, the chart on page 3 shows that inflation has been in a 30-year decline after peaking at 14 percent in the early 1980's, with a few bumps in the road--including now. The recent blip up cannot be deemed a turning point in this long-term trend, yet. Relative to some people's perception of what "inflation" is, today's environment is like a walk in the park when compared to the inflation era of the 1970's. However, it does bring back painful memories.

Finally, you may be an inflation "bear." If so, you believe the government's massive stimulus and easing policies, combined with rising commodity prices, will stoke the inflation fires to the point of becoming uncontrollable. And as such, you probably answered D (No, the real inflation is yet to come.).

There remains some question as to whether the spigot of liquidity can be turned off fast enough to keep inflation from becoming imbedded and harder to control. This cannot be ruled out, but we would need to see a serious increase in consumer or labor demands.

So, how would we at Trust Company answer the question I posed: "Is inflation back?"?

A little of A, B and C. But not D.

We are not happy about the sharp uptick since last year and are concerned that it is occurring primarily in basic commodities where supply and demand factors (prices) are often determined by uncontrollable events or situations (weather, disasters, political upheaval, etc.). Yet, we are encouraged by the fact that the prospect of deflation now seems remote compared to the fear that we and others had two years ago.

And, as the long-term chart shows, things could be a lot worse. You would need to have a few grey hairs to remember the double-digit inflation years of the 1970's and 1980's, and the uncertainty everyone felt.

We believe the odds of a return to runaway inflation are low. Our economy is growing, but at a subpar rate. Unemployment remains stubbornly high so wage demands are not a meaningful factor. Consumers are paying down their debt, not increasing it. Industrial capacity utilization remains well below levels that have historically increased inflation pressures.

All this argues for little pressure from "demand pull" inflation. "Cost push" inflation pressures have been strong, but may be easing some as commodity prices start to hit resistance levels. Crude oil, for instance, has backed off of its April high of around $115 to the low to mid $90's.

We expect year-over-year CPI levels to ease back into the 2-3 percent level and not present a serious problem for economic growth or securities markets.

Mid-Year Market Update

There's an old saying in the investment world that bull markets climb a "wall of worry." That is, of course, as long as there's not too much to worry about. That's the question we face at mid-year 2011.

Year-to-date returns from stocks are unexciting, certainly not as high as we hoped or expected, and current levels are down considerably since the year's high achieved in April.

There's no question that bulls are being tested by a growing

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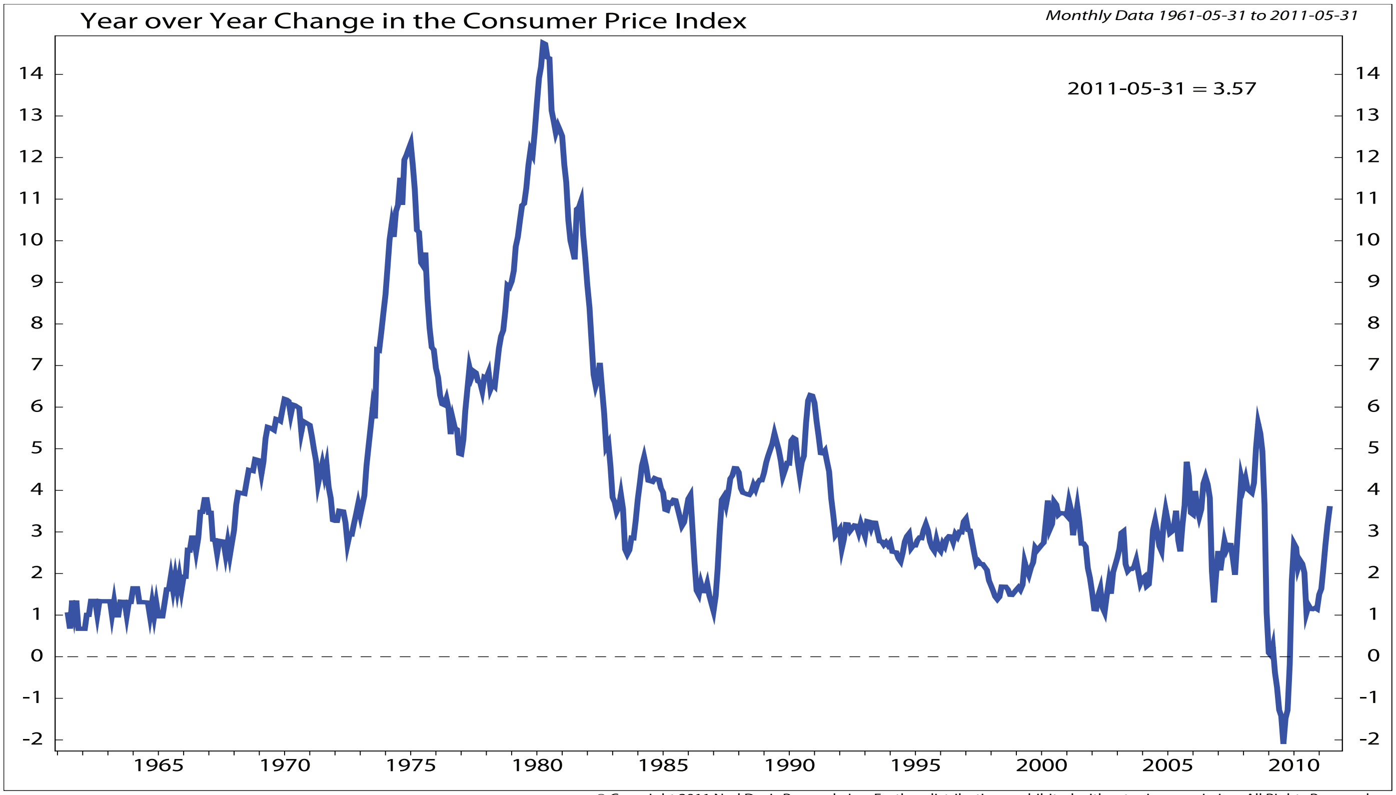

number of "worries" including, but not limited to:

- An unexpected jump in inflation (just discussed).
- The end of QE2. The Fed ended its buying program of Treasury securities in June. Lack of this support could cause interest rates to rise and borrowing costs for individuals and businesses to increase.
- Housing, the cornerstone of most families' wealth, remains dismal with more foreclosures predicted.
- The European financial crisis. Will Greece be Europe's Lehman Brothers? What effect will the resolution of the crisis (whether default or bailout) have on the U.S. Markets?
- Stubbornly high unemployment and dismal job growth.
- Increasing political acrimony over debt-limit increases and budget cuts or tax hikes.
- The recent lowering of forecasts for economic and profit growth for the second half of 2011.

Wow, that's quite a list. As this is written, the European crisis is currently front and center and certainly has the possibility of a meltdown similar to the situation in the U.S. a few years ago.

This has created a level of uncertainty that markets don't like. Fear has overtaken greed, at least for the short-term. Stocks are down while safe Treasury securities are up in price, down in yield. The 10-year Treasury currently yields a paltry 3.2 percent, down from 3.6 percent a few months ago.

Six months ago, we envisioned 2011 being a middle year of the economic growth cycle with GDP growth of 3 percent, substantial profit growth, and stocks advancing 8-10 percent. We now see lower economic growth – but still growth. Profit growth will also be lower than previously expected, but still healthy.

After doubling between March 2009 and April 2011, stocks have given back some gain and seem to be facing a high wall of many worries. It may be tough to achieve meaningful gains until some of these problems are cleared up.

Nevertheless, we don't see any of the excesses that would lead us to believe we are near the top of this bull cycle. We think it's a good time to build stock positions, and that many of the current problems will be corrected over the next few months, and stocks will resume their upward move.

Patience will be rewarded.

MARKET RECAP

Second Quarter 2011

U.S. stocks were up modestly in the second quarter with major indices returning a 0-2%. International stocks also showed modest gains.

Dow Jones Industrial Average	- 1.4%
S&P 500	- 0.1%
EAFE International Index	- 1.8%

Prosperity with a Purpose

Plant the seeds now so your wealth will grow long after you are gone.

Is there a purpose for your prosperity? In other words, what are you trying to accomplish with your wealth? Most people want to make sure their retirement is secure. Beyond that important goal, they may want to pass wealth to future generations.

But is it really a purpose just to pass wealth to the next generation?

We often hear of stories where wealth created in one generation was squandered away by the third.

According to the book, The Millionaire Next Door , over 80% of the millionaires in America have created their own wealth and not inherited it. They are first generation millionaires.

If you are in this newly minted millionaire group, do you want your wealth to be a long-lasting legacy for many generations?

Even if you inherited wealth, do you believe you have a family obligation to build upon the good fortune of your predecessors so your heirs can have the same opportunities?

Putting aside all the legal and tax strategies needed to accomplish a legacy, a family can preserve lasting wealth by preventing an entitlement attitude. Admittedly, this can be a tall order as an entitlement attitude results from one generation not fully appreciating inherited wealth, wealth they themselves did not create. Without diligent planning, this attitude can become more pervasive with each successive generation.

There are some common threads among families who grow wealth from generation to generation. The first is an understanding and appreciation that while very few in the family may have initiated their wealth, all members have an obligation to continue building it. This requires a plan communicated throughout the family.

Think of your descendants as a garden, if you will. It is common knowledge that before a garden is planted, the soil must be prepared. In doing so, the soil is broken up and tilled because nothing can grow in hard soil. Providing a superb education and instilling the benefit of being teachable allows the soil of your children to be broken up and sets the stage for them to be productive. Also, don't forget that a crucial ingredient for fertile soil is manure! During difficult times, it is the manure that drives our children to be better and not take the good things in life for granted.

Creating a vision statement of the family purpose of its wealth is a good idea. This type of communication preserves the family "memory" from one generation to the next. It is common for entities such as endowments to have such a statement since they are designed to be in perpetuity. However, families are designed to continue as well so it makes sense for the creators of the wealth to layout their visions.

It may be difficult to convince each successive generation to buy into the vision of sustaining the wealth. To be successful, clear and early communication of family values and ideals is required.

Of course, if just talking about family goals guaranteed success, life would be pretty easy. But life is full of unforeseen events. That is why trusts are extremely good tools to protect the financial health of future generations. There are many types of trusts and one size does not fit all so we encourage you to consult with your legal advisor. With that said, a properly drafted document can provide an incentive for your children to achieve something on their own and not be reliant exclusively on family wealth.

An example of this is the decision on the length of time funds should remain in trust for children and grandchildren. A few may be ready to take control at an early age, but most need time for maturation. One of the benefits of a later maturing trust is creditor protection for your children. Properly drafted trusts can protect assets from creditors, divorce proceedings and other court judgments.

As mentioned earlier, another benefit to having a trust is standards for beneficiary access to family funds. Some trusts will hinge access to money with benchmarks such as attending college, being gainfully employed, etc. Trusts are not cookie-cutter documents so they can be structured to meet the needs of individual families.

Remember, the requirements you put into your trust document must be administered by your designated trustee. The more onerous the requirements, the more challenging work for your trustee. For this reason and for the invaluable expertise in investments and trust law, seriously consider a corporate trustee.

Many people name a child or their children collectively as their trustee. Before doing so, ask yourself: if my son or daughter was not related to me, would I want them to manage all of my financial affairs?

Naming a corporate trustee insures prudent money management and unbiased expertise. No one wants emotion to cloud the decision making process as it relates to the execution of their wishes.

If you would like to discuss what trust would best suit your family's needs, please feel free to contact me or another member of the Trust Company team.

David Stanley
Senior *Vice President*

Ronald McDonald House of Oklahoma City

Helping Children Heal - Keeping Families Near

You may never know the families served by Ronald McDonald House Charities (RMHC), but know that the support provided is an incredible blessing to families when they need it most. Very few, if any, have ever planned to stay at a Ronald McDonald House until a medical situation suddenly affected their child. The Ronald McDonald House and the Ronald McDonald Family Room provide a "home away from home" for families with seriously ill or injured children receiving medical treatment in the Oklahoma City area.

By providing lodging, meals and laundry facilities, the Ronald McDonald House helps relieve some of the financial burdens and stress for families during difficult times. The supportive environment at the House allows families to focus on helping their children heal. For some families, it is a place where parents and siblings may stay together. For others it is a safe place for Mom to stay while Dad returns to work or spends time with a sibling at home.

While dealing with the uncertainty of illness or injury, parents are often reluctant to leave the hospital. Located on the sixth floor of The Children's Hospital at OU Medical Center, the Ronald McDonald Family Room is open daily and provides a home-like atmosphere where families with inpatient children can recharge with a snack, shower or by connecting to their email.

In 2010, RMHC of Oklahoma City served 1,092 families from 210 different cities and 17 states. Plans are underway to build a second house of 14 rooms inside Garrison Tower in the old Children's Hospital facility. When built, parents will be just 2 minutes away from their child, giving them the peace of mind that helps them better cope during this critical time in their child's life.

Ronald McDonald House Charities of Oklahoma City provides services to families at no charge. Although local McDonald's owners/operators fund a portion of our annual budget, we rely on families, churches and businesses in the community to meet the bulk of our operating requirements.

Oklahomans are fortunate to have two Ronald McDonald Houses. RMHC of Tulsa operates a house adjacent to Saint Francis Hospital. For more information about the Ronald McDonald House Charities of Oklahoma City or to schedule a tour, please contact Susan Adams at (405) 424-6873 or visit our website at www.rmhokc.org.

Ronald McDonald House Charities of Oklahoma City, Inc.

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 Ronald McDonald House of Oklahoma City

The Oil & Gas Industry in Oklahoma

Many do not realize that gasoline accounts for less than one-half of the products made from a barrel of crude in the U.S. The other half goes to everything from diesel and jet fuel to plastics and chemicals products most of us use every day such as appliances, crayons, toys, computers, carpets and artificial joints. With crude oil's contribution to such a wide array of products, you can see why it is referred to as the "lifeblood" of the U.S. economy.

In the U.S., the oil and gas industry is responsible for more than 9.2 million jobs and over $95 billion in taxes. In Oklahoma, the oil and gas industry accounts for more than 322,000 jobs and nearly $1 billion collected in gross production tax. These funds help build roads, bridges and schools as well as fuel economic and capital development in Oklahoma. The oil and gas industry is the economic engine of the state of Oklahoma with the statistics to prove it.

It is widely acknowledged that the oil boom in Oklahoma began in November, 1905 with the Ida E. Glenn #1 gusher, located in the town we now call Glenpool. From these early beginnings, our state gave birth to some of the biggest oil companies in the nation. With Oklahoma's deeply rooted oil and gas history, it seems appropriate that the Oklahoma state capitol building is the only capitol in the world with an oil well under it.

It is also not surprising that many Oklahomans own much of the oil and gas that comes out of the ground through their holdings in oil and gas properties, referred to as mineral interests. These interests have provided income to generations of Oklahomans and will likely continue to do so.

The Trust Company's Property Management Division provides professional management expertise for property owners. We manage over 10,000 oil and gas properties, both in Oklahoma and surrounding states, for our clients. Our focus is to maximize our clients' income while protecting their oil and gas assets. With our experience and expertise in the industry, we can provide assistance or complete management of your oil and gas assets.

T. Raylene Rogers
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FORWARDING SERVICE REQUESTED

Questions

Trust Investment Perspectives is a quarterly publication written and produced by Trust Company of Oklahoma. It is intended to provide insight and investment perspectives to the company's clients and associates.

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