TRUST

INVESTMENT PERSPECTIVES

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Hope Springs Eternal

This spring marks the 15-year anniversary when the dot-com bubble of the 1990s began to burst. The collapse eventually led to a brutal 78 percent decline in the technology-heavy NASDAQ stock index and the demise of many now infamous companies such as Pets.com, whose sock puppet enjoyed a brief career in television commercials.

Market highs like we are currently experiencing are often viewed as important milestones, conjuring up apprehension and healthy skepticism on the part of investors. We believe the present-day market is a reflection of today's battle-scarred investors who are cautiously growing in confidence as the economic world improves. These investors are composed of equal parts workman-like persistence and humble recognition of past downturns.

On Main Street there is talk, or at least headline-grabbing surveys, that the majority of people no longer believe in the proverbial American Dream. Yet, along with the stock market, household wealth also recently hit a new all-time high.

And, 2014 was the best year for job creation since the good old days of 1999 (when the Federal Government ran a budget surplus and 'that Internet thing' was going to be huge)!

How do we reconcile our lingering economic pessimism with the un-abashedly positive financial statistics? Increasing economic inequality among Americans may play a factor, but stocks don't have a conscience or a heart to care about equality. Stocks primarily focus on profits.

However, you could make the argument that the U.S. is operating below its full potential. While corporate profit margins are higher than ever, median family income is roughly flat today versus 15 years ago. On the bright side, studies show that corporate earnings growth typically accelerates in the middle stage of a bull market when wage growth also picks up, a point which we believe the economy is approaching. With unemployment at 5.5 percent and wages rising, particularly for highly skilled labor, the economy may be approaching a sweet spot where both wages and profits improve, making everyone better off.

To evaluate the current investing environment, it helps to start by recognizing how vastly different today's market is compared to the infamous early 2000 peak.

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Nick Gallus
Vice President

MARKET RECAP

U.S. equities posted their 9th straight quarterly gain. International stocks outpaced U.S. stocks for the first time since the third quarter of 2013.

	First Quarter 2015	Past 12 Months
Dow Jones	0.3%	10.6%
S&P 500	1.0%	12.7%
EAFE (Int'l)	4.9%	-0.9%

GET TO KNOW US

A closer look at one of our team members

A chocolate lover. This is how most of her colleagues at Trust Company of Oklahoma would describe Julie Lees. But, there is so much more to her than just a box of chocolates. In Julie's own words, here are some things you may or may not know about her.

I have been with the company for over 12 years in the Retirement Plan Services department. I support and assist the department's officers and staff in administrative duties. One of my key responsibilities is calculating the required minimum distributions (RMD's) for all of the company 401k plans and IRA's.

I love to spend my free time with my daughters (ages 24 & 19). I try to do most everything they do and am able to keep up pretty well. I have rock climbed, zip lined and repelled. I enjoy taking walks and reading non-fiction, mystery, self improvement and motivational books.

My friends often describe me as straightforward, dependable, responsible, a realist and introverted. Given my last trait, it might be surprising to know that I have recently done some karaoke.

As an adult, I learned sign language and have even judged a sign language contest. In the future, I would like to expand my sign language skills and begin taking piano lessons once again. I am currently participating in the Run For God 5k challenge in order to raise funds for Kibo International. And, if I were not living in the beautiful state of Oklahoma, I would be sitting on a balcony overlooking the ocean.

My personal philosophies are "Seek guidance." "Make the best decision you can with what you know at the moment." "Trust God to work it out." "It is what it is" and "Own it".

Julie Lees, Retirement Plan Services Associate (Tulsa)

Consider the numbers in the chart on page 3.

Simply considering these numbers, two key observations are clear. First, things are fundamentally much better for U.S. companies today: there are more customers (population) and more people working; economic output (GDP) is higher; companies are earning significantly higher profits; more of those profits are coming from places outside the U.S.; and inflation is very low. In fact, for consumers, inflation is temporarily non-existent due to the recent steep decline in energy prices. While lower energy prices may disproportionately hurt Oklahoma's economy, world-wide they are helping pad consumer wallets, while also supporting lower bond yields.

Secondly, while far from cheap compared to the 2009 market low, we believe the market's current valuation as measured by the price-earnings multiple (P/E) for the S&P 500 Index at 18 is reasonable given the current low-inflation environment and the valuation of other investment alternatives. After all, investors must put their money in something other than cash or low-interest bonds if they intend to at least keep up with inflation over the long run.

Comparing investment alternatives in yield terms, the 5.5 percent earnings yield for the S&P 500 is appealing relative to the 4.2 percent yield earned for loaning money to the average large U.S. company (long-maturity, investment-grade corporate bond index) or just 2.5 percent earned for loaning the U.S government money for 30 years. Indeed, if time is on your side and the higher volatility of stocks versus bonds is considered acceptable, it appears wise these days to invest in stocks for the long-term. This is in contrast to the relatively unappealing 3.3 percent earnings yield of the S&P 500 that was apparent in early 2000.

Let's Get Philosophical

Numbers and cold-hearted analysis make up one perspective, but we often hear from clients that things "still aren't very good" economically speaking, a reflection of the stagnant median incomes mentioned previously. Perhaps a more bold reason to invest in stocks is that today's new market highs are anticipating continued growth and prosperity beyond what the average American is feeling at the moment. Markets attempt to foretell the future, and this wouldn't be the first time in history stocks have rallied in anticipation of better days ahead.

Protracted bear markets during the Great Depression of the 1930s and the stagnation of the late 1960s and 1970s each led to two approximately 20-year-long bull markets whose returns made up for lost time. The recent recovery from the dual economic crises of the 2000s were similarly born of pessimism and struggle, fueled by fundamental economic improvement and pushed higher by investor optimism. Intriguingly, the timing of each bull market cycle roughly corresponds

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with the handoff from one generation's dominance of the economy to another generation's zeal for crafting the world to fit its own values.

In the first half of the 20th century, hardship of the Great Depression and World War II gave way to the baby boom era, stability, and suburbia, coinciding with a 20-year stock market advance from the early 1940s to the mid-1960s. Then, in the late '60s through '70s, stagnation in politics (Watergate), in the military (Vietnam), and the economy (energy crisis, inflation) coincided with a sideways bear market, but ultimately gave way to the ambitions of the Baby Boomers.

This rise in prominence of the Baby Boomers overlapped with an 18-year bull market advance throughout the 1980s and 1990s. However, the dot-com bubble of the 1990s and the housing bubble of the 2000s created another sideways market episode from 2000 until new highs were first reached in 2013.

Likewise today, as damage from the most recent bubbles is repaired, wounds of the Afghan and Iraq wars are healed, and political lethargy is hopefully overcome, the Millennial generation may lead the next prolonged bull market. This will play out as Baby Boomers retire and Millennials hit their early to mid-life stride, eclipsing Baby Boomers and Generation X in sheer size and influence.

Lifestyle and technology trends inspired by Generation X are now fully embraced by Millennials. New technology networks such as Uber, Kickstarter, and Khan Academy are good examples of organizations at the forefront shaping our future. Respectively, they are democratizing personal transportation, fundraising campaigns, and high quality education. Other technology trends such as smart personal devices like Fitbit and the Apple Watch could be instigators of an incentive-driven healthcare system in the future. And on the lifestyle front, the U.S. homeownership rate, which has been falling since 2004, may actually improve future economic growth due to increased worker mobility.

While some of today's trends will be fleeting, many will generate new opportunities and create wealth in the process. The benefit to investors from advancements is more apparent than ever. It may be easy to look at immediate financial struggles and focus on past economic downturns, but beware that market history is not on the side of those who doubt human creativity to overcome obstacles. Rather, history tells us that it is the optimists who triumph in the long-term.

Then vs. Now

	Spring 2000	Spring 2015
Economics:		
U.S. Population (millions)	281	321
U.S. Employment (millions)	134	147
U.S. GDP (prior year, trillions)	$10	$17
Inflation (Consumer Price Index)	3%	0%
S&P 500 Profits (prior year, per share)	$48	$118
S&P 500 Profits (percent outside the U.S.)	34%	49%
Investments:		
S&P 500 P/E Ratio	30	18
S&P 500 Earnings Yield (inverse of P/E ratio)	3.3%	5.5%
U.S. Government Bond Yield (30 year maturity)	5.8%	2.5%
U.S. Corporate Bond Yield (long-maturity, investment grade)	8.2%	4.2%

Oh, The Ways To Show An 'Interest' In Oil

"If you don't have an oil well, get one!"

This was the iconic tagline of the 1970's television marketing campaign from Eddie Chiles, chairman of The Western Company.

Many of our clients have done just that. They got one, two, or even more. How they acquired these assets may vary, but perhaps the most common way they now own an interest in oil and gas is by inheriting it from a family member. Oil and gas properties often produce for generations, so they tend to get divided over and over as families grow. Here are four common ways ownership can occur.

- Originally, your grandmother may have owned mineral interests under the family farm. When a well was drilled on the land, she received a **royalty**, a percentage of the income without having to pay any expenses.
- At one time, your uncle may have worked as a geologist for a small firm and received as a part of his compensation an **overriding royalty interest (ORRI)**, a percentage of the revenue stream exclusive of expenses.
- Or maybe your dad was an oil and gas investor who actively participated in wells with an equity **working interest**, a sharing in the costs and expenses of drilling and producing the wells while receiving a proportionately reduced **revenue interest** in the wells after royalties and ORRI's were paid out.
- And last but not least, you could also participate indirectly by owning stock in Exxon, Chevron, or other companies that own and operate wells. Whether you own the stock outright or through a mutual fund you are part of the oil and gas industry. You may not own any wells but you own stock in a company that does.

If you own land, and the mineral rights under the land, an oil and gas opportunity may come your way some day if it has not already.

If it was easy, everyone would be doing it.

Flatt and Scruggs came up with their memorable tune to The Beverly Hillbillies,

"…up through the ground came a bubblin' crude. Oil that is, Black Gold, Texas Tea. Well the first thing you know old Jed's a millionaire…"

In reality, there aren't too many Jed's around. Approximately 20 counties produce over 50 percent of the oil produced in the United States. Even in Oklahoma and the surrounding states where oil and gas production is active, finding oil and gas can be illusive. There are land hurdles, drilling and completion issues, management of the income stream, and a myriad of third-party inquires. It is not as easy as just poking another hole in the ground.

Over 550,000 wells have been drilled in the state of Oklahoma alone. Of those wells drilled, only approximately 80,000 are currently producing. The rest were either dry holes when they were drilled, are idle or have been plugged and abandoned after they produced.

Technology is making an impact.

In 1956, a geoscientist at Shell Oil, M. King Hubbert, predicted that conventional oil production in the United States would "peak out" in the 1970's at about 10 million barrels a day and then decline until the U.S. ran out of oil. His theory held true, and oil production did indeed peak in the 1970's and therafter was declining until technological advancement in the oil and gas industry changed everything.

Horizontal drilling combined with fracture treating and the search for unconventional oil formations reversed a four-decade decline in our domestic production.

As a result, since 2010 we have seen oil production in the U.S. begin to rise once again. This new supply has changed the world's supply-demand balance for oil.

This shift is great if you are a consumer, but undoubtedly tough for oil and gas owners whose income has eroded.

While commodity prices go up and down and production ebbs and flows, mineral ownership is forever. That is, as long as you hold on to your mineral rights.

There may still be oil in the ground that is not worth extracting today. Yet, who knows what technological advancements the future holds to make future drilling commercially viable.

Clark Southmayd
Senior Vice President

Turning Lemons Into Lemonade

Tune in to virtually any financial news network and you will hear someone talking about *alpha*. Alpha describes how much extra return a money manager earns above and beyond what would be expected given the level of risk taken in a portfolio. For many investments, alpha can be an important driver of returns as it represents the return coming from the skill and knowledge of the manager.

However, investors often forget that a money manager should help make money in ways other than interest earned or capital appreciation. One way often overlooked is the generation of *tax alpha*.

Tax alpha refers to a money manager's ability to mitigate taxes. While not often discussed, it is real. Tax alpha protects returns generated from both income and appreciation by ensuring that a client's wealth is not unduly diminished by taxes. As the old saying goes, "It's not what you make but what you keep that counts."

You might think that the holiday season is a slow time for a money manager, but I can assure you, it is not for tax-alert advisors. While the world is out shopping for gifts, good advisors are working feverishly to review their clients' realized gains for the year.

If an investor has significant realized gains, tax-alert managers look for ways to realize losses in order to offset those gains reducing the overall tax liability. This form of tax alpha, known as tax-loss harvesting, makes tax-savings lemonade out of investment-loss lemons. A smart manager will consider harvesting loss opportunities throughout the year.

Effective advisors also find other tax alpha opportunities such as using the right amount of tax-preferred investments given the client's tax situation or locating different types of investments across accounts with different types of tax treatment.

Though none of these tax alpha strategies are particularly sexy, they can all be amazingly effective ways to add value and grow wealth.

David T. Stanley
Executive Vice President

SPOTLIGHT

Established in 1973, Street School is an award-winning, alternative high school of choice in the Tulsa area that provides education, therapeutic counseling and outreach programs for students in grades 9 through 12.

These students have chosen to work toward their high school graduation in a non-traditional setting. We are a dropout prevention, intervention, and recovery program accredited by Tulsa Public Schools.

Students choose to attend our school because they are committed to graduating from high school, learning life skills, resolving substance abuse problems, dealing with behavioral issues, and filling the void of support traditionally provided by family.

We served 131 students in the 2013-2014 school year. On average, 90 percent of our seniors graduate; 85 percent continue their education.

These numbers show the significant community impact of our program and Street School has thousands of success stories, such as Latisha's.

She came to Street School scared and withdrawn. Her childhood was fraught with poverty. She was frequently left home alone with no food or utilities. Because of these circumstances, Latisha often missed school.

STREET SCHOOL

After attending our program for three years, Street School provided Latisha with a high school education and gave her the confidence she needed to change her life.

Latisha graduated in 2013 and enrolled in community college. She became the first person in her family to go to college. Without Street School, Latisha would not have learned to trust again or get her education back on track.

For more information about Street School and how you can help, please visit streetschool.org or call us at (918) 833-9800.

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