

# TRUST

## INVESTMENT PERSPECTIVES

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July 2015

## Multi-Coping

If the early scrum of the presidential campaign doesn't hold your attention, you can fight the summer doldrums by starting an argument between two economists. Just offer up this quote:

*"Nothing has been more central to America's self-confidence than the faith that robust economic growth will continue forever... Unfortunately, the evidence suggests to me that future economic growth will achieve at best half that historic rate."*

When economist Robert Gordon wrote these words in the Wall Street Journal

in December 2012 he caused quite a stir. Other economists, politicians and tech executives promptly took sides.

The fact of the matter is we have been coping with the slowest recovery since WWII (see Chart 1, page 2). But Gordon was specifically talking about how fast the economy grows due to productivity gains. From this perspective, the economy can grow in two ways: first, more people working more hours; and second, workers producing more given the same hours worked previously. Over time, strong

economic growth is driven by productivity gains and the increased productivity comes from innovations boosting output and not simply working harder.

Large productivity gains are the payoff from industrial revolution-type achievements in which visionaries have risked everything in the arduous development and commercialization of innovations. The steam engine, electricity, indoor plumbing and the computer/internet are examples that greatly benefited society and led to higher living standards worldwide.

### INNOVATION EVERYWHERE, EXCEPT IN THE NUMBERS

The most controversial part of Gordon's argument is that most of today's innovations pale in comparison to those of past eras. Recent technologies help us in many ways, but they are more incremental and not game changers. And they often focus on comfort, not

productivity. To summarize his example, assume you can keep your 2002 technology and choose either indoor plumbing or all of the tech advancements since 2002: I pads, Facebook, Twitter and the like. Which option are you going to select? This comparison may be unfair as it can take years for an innovation to show results. But for those who choose to forego indoor plumbing, please stand downwind.

Gordon's assertions might have ended up a forgotten footnote except for one thing: he has been right so far, at least about productivity.

*Continued on Page 2*



Robert A. McCormick  
Senior Executive VP & COO

## MARKETRECAP

U.S. stocks are experiencing their third longest run since WWII without a 10% correction. International stocks outpaced U.S. equities in the second quarter.

	SECOND QUARTER	YTD	PAST 12 MONTHS
Dow Jones	-0.3%	0.0%	7.2%
S&P 500	0.3%	1.2%	7.4%
EAFE (Int'l)	0.6%	5.5%	-4.2%

# VIEWPOINT

## *A Message from the Desk of Tom Wilkins*

In this issue of Investment Perspectives, Trust Company professionals touch upon several subjects that may help you plan for your financial future, including aging in place and gifting with a long-term perspective. In my letter, I'm happy to announce a new addition to our team as well as a new Oklahoma law that may benefit you and your family.

We know that what one generation earns future generations often spend. That's one reason so many people find value in having trusts for their families: to help insure the preservation of wealth. But until recently, Oklahomans were limited in the length of time they could leave funds in trust. That changed on April 21, when Governor Fallin signed Senate Bill 774. This piece of legislation allows Oklahomans to utilize perpetual

trusts. It allows for certain trusts to exist indefinitely (as long as someone has the power to sell trust assets). If you would like to learn more about this important legislation, please contact us or your estate planning professional.

Finally, I am pleased to announce that Marcia Brookey has joined TCO as Marketing Officer. Marcia's background is diverse and strong, and she brings both expertise and passion to the company. She has proficiency in international public relations, writing, editing, producing and researching. Before joining TCO, Marcia worked as a public relations consultant in Tulsa and in her native country of Brazil.

I cannot close without thanking you, our clients, for putting your faith in us. We are always grateful and will continue to work tirelessly on your behalf.

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

Since 2012, productivity growth has averaged a mere 0.5% per year through March 2015 – a fraction of the 3% average annual gain experienced from 1996-2005 when widespread adoption of the internet drove growth upwards. Without more workers collectively working more hours, economic growth would have been close to flat since 2012. That's a shortfall one could drive a

fleet of Uber cars through. If current advancements are truly game changers, they are not showing up in the official numbers yet.

We find ourselves in a slow-growth economy that does not have easy or fast fixes by Gordon or anyone else. Part of the puzzle is that we face a demographic headwind of an aging population that is barely growing. In fact,

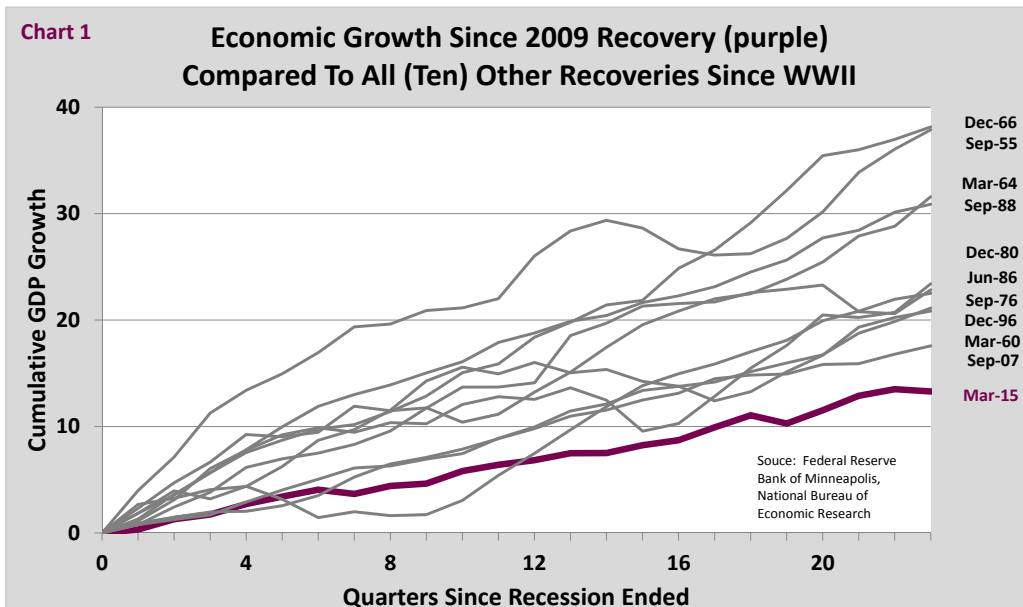
without immigration, our population would actually be shrinking as the national birthrate has dropped noticeably since the 2007 recession. With near-flat productivity and population growth, it follows that economic growth is weaker than in the past.

Yet, we are still in much better shape economically and demographically than

most other developed countries - the cleanest dirty shirt, as they say. History is also well documented with a chorus bemoaning the future, only to be surprised by a "doer" in a garage who is too busy to listen. Naively optimistic? Perhaps, but we have faced worse conditions, much worse in some cases. The 1930's experienced a near-fracturing chain of events, but also witnessed significant technological innovations.

I was thinking about our current challenges after attending a gathering where the presenter patiently explained to the group that people cannot effectively multi-task regardless of age, gender or job title. We can only focus well on one task at a time and task-time isn't measured in seconds. Our *personal* productivity is greatly diminished as we jump back-and-forth between "to-do" items,

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especially as we try to use different parts of our brains along the way.

It would seem a better description of our too-common mode of daily operation is *multi-coping*. We cope, but do we complete? Layer on the electronic distractions of a flood of useless emails and social media hypnosis and, well, where has the day gone? It makes you wonder just how much “actual thinking” or “true doing” our connected society does at times. Now, I am not suggesting that all of these wondrous apps on our smart appliances are actually bringing down our collective productivity as opposed to raising it up, but if this struggle resonates with you, please email this article to 20 other people, “like it” on Facebook and give it a shoutout on Twitter.

## COPING WITH VALUATIONS

Investors have other things to cope with these days such as a Fed seeking a way to end its zero interest rate policy and a market that has climbed upwards for 45 months without even a 10% correction.

Investors are also refocusing on geo-political issues, particularly in Greece with its severe fiscal crisis. At least to date, investors appear to be less concerned about a Greek default as opposed to its problems spreading to other European nations. (See Breaking News sidebar).

One other item of concern for investors, which cannot be ignored, is equity valuations. To over-generalize, *absolute* measures of valuation such as price/earnings (P/E) appear full to high, depending upon

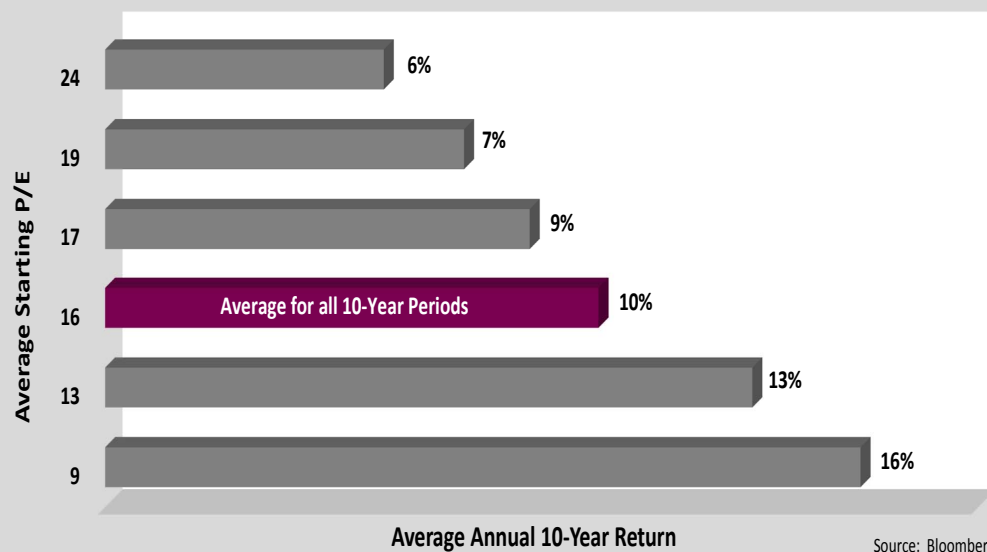
how far back you want to make the comparison to today’s levels. When these same valuation measures are compared *relative* to current low interest rates (and inflation), they often appear reasonable; again depending upon how far back you want to go to make the comparison.

While valuations are a poor short-term market timing tool, they are better than almost all other tools at forecasting long-term equity returns. Buying stocks cheap (low P/Es) has usually led to better than average returns. And when P/Es are high (expensive), future returns tend to be low. See Chart 2 below for a long-term perspective regarding this tradeoff between valuations and subsequent stock market returns. On Dec. 31, 2000, near the top of the

tech bubble, the S&P 500 carried a P/E of 24, quite high by historical standards. Since that date, the average annual return was roughly 5% through June 2015 - half what most investors probably consider normal. Today, the P/E is around 18; not nearly as high, but still above its long-term norm of 16.

Investors might recoil at the chart’s implied future return of mid-single digits based upon a P/E of 18. Then again, the current 10-year U.S. Treasury yield of 2.4% is low versus the past as well. If equities do perform in line with the historical averages shown on this chart, future equity returns will be close to normal relative to current bond yields. Now I can cope with that. 📌

**Chart 2** S&P 500 Average Annual 10 Year Returns (Mar 1964 - Jun 2015)  
Based Upon the P/E at the Beginning of Each 10 Year Period (Mar 1954 - Jun 2005)



Historically, when starting P/Es are low, future returns tend to be high. When starting P/Es are high, future returns are usually low. Each of the five gray bars represent one-fifth of all P/Es since March 1954, from highest (top bar) to lowest (bottom bar). Over this entire period, the average P/E was around 16 and returns averaged 10%. Today, the S&P has a P/E of about 18.

## BREAKING NEWS

As this publication went to press, Greece announced its intention to not repay the debt it owed creditors by the June 30<sup>th</sup> due date. Instead, Greece will hold a nation-wide referendum on July 5<sup>th</sup> regarding acceptance of current creditor demands in exchange for continued financial support. These events threaten Greece’s ties to the rest of Europe, including a possible abandonment of the Euro as a currency by Greece. Puer-to Rican debt concerns have also increased. The resulting uncertainty has caused markets worldwide to fluctuate sharply.

# The Gift of Lasting Generosity

Philanthropy is one of America's greatest values and there are a variety of reasons why people make gifts. It may be to assist a favorite charity, to reduce taxes, or perhaps to establish a lasting memorial to themselves, a friend, or family member. Most gifts are made directly to charities. However, gifts can also be made through the use of trusts.

Some of the advantages of using trusts to make charitable gifts include

*“Helping people doesn't have to be an unsound financial strategy.”*

*– Melinda Gates*

providing a source of life-time income to an individual or individuals, avoiding estate and capital gain taxes by transferring highly appreciated property, and the feeling a person receives by making a commitment to a charity which shares their particular interests.

The types of trusts that can be used in making gifts include a charitable trust and a private foundation. These are sophisticated but commonly used methods of making charitable gifts through trusts.

## CHARITABLE TRUSTS

There are essentially two types of charitable trusts: charitable lead and charitable remainder. Both of them provide benefits to a charity and a non-charitable beneficiary such as the donor, the donor's family or to any person chosen by the donor.

With a charitable lead trust the charity receives benefits annually from the trust for the life of the donor or for a certain period of time.

Upon the donor's death or after the specified period of time has elapsed, the balance of the trust is either given back to the donor or to other non-charitable beneficiaries. Since the charity receives benefits first from the trust, it is the lead beneficiary. Thus, the trust is called a charitable lead trust.

The annual payment from the trust to the charity can be calculated in a couple of different ways. If the payment is a fixed amount, the trust is a charitable lead annuity trust. If the

payment is recalculated annually, then the trust is a charitable lead unitrust.

A charitable remainder trust is similar to the charitable lead trust, except the beneficiaries are reversed. In this case, the individual receives benefits annually and the charity, as the remainder beneficiary, receives the balance upon the death of the donor or termination of the trust. Like a charitable lead trust, the charitable remainder trust can be either an annuity trust or a unitrust depending on how the annual payment is determined.

## PRIVATE FOUNDATIONS

Another method of gifting to a charity through the use of a trust is the private foundation. A private foundation can be created either in the form of a corporation or a trust. In most instances, trusts are easier to manage than corporations. If it is created as a trust, the individual creating the private foundation can name a trustee and make contributions directly to the trust.

Funds held in the foundation would be invested and grants could be made from the foundation to charities selected by the trustee or

as specified by the trust document. Contributions to private foundations are deductible for gift, estate and income taxes. Also, private foundations themselves are exempt from federal income tax.

While there are restrictions that must be observed, such as making the trust irrevocable, the advantages of using a charitable trust or foundation in charitable giving can be very valuable to a family's gifting and estate plans.

If you are interested in setting up a charitable trust or foundation to meet your family's gifting and estate needs, consult your legal and tax advisors early in the process to consider any potential income, estate and gift tax issues. Feel free to give us a call if you would like to start the conversation. 📞



Michael R. Hairston  
Senior Vice President



# There's No Place Like Home

This iconic line from Judy Garland in "The Wizard of Oz" referred to her farm in Kansas. Most of us would agree that home is where we want to be, especially as we age. What is the best way to age in place considering all the obstacles of aging, including physical and mental health issues?

As much as people want to stay at home as they age, the reality is that our health is increasingly compromised as we grow older, making it difficult to live independently. It is very likely that as we age, we will need assistance with our daily lives. In 2010, AARP published a study reporting that seven in 10 people 80 and older had some kind of disability. More than half suffered a severe

disability while nearly one in three needed assistance with one or more activities of daily living.

If staying at home is the goal and assistance is necessary, how do we find help for our loved ones and ourselves? One option is to rely on a friend or family member. Or one could hire a caregiver directly. Another option is to use an in-home health agency. There are considerations either way. First, the level of care should be determined. Do you need someone a couple of afternoons a week to run errands and do housework? Or is round-the-clock care required?


Hiring someone directly is cheaper, and you have more

control over who is providing the care. But is there a substitute caregiver when your regular caregiver can't be there?

Although more expensive, there are certain advantages to hiring an in-home health care agency. These licensed, bonded and insured agencies handle everything. They will send a registered nurse to do an assessment to determine the level of care needed. The agency schedules the certified care providers and handles the intricacies of payroll as well as workers' compensation insurance.

Although unthinkable, the stories of elder abuse are all too frequent. To reduce the chance of abuse, in-home health care agencies conduct

background checks and random drug testing on their caregivers, offering invaluable peace of mind.

Aging is inevitable, and we all want to have options as we grow older. Most of us would choose to age in place, but there could be significant costs to staying in our homes. It is important to keep this in mind as we plan. 



Kathy King  
Vice President

## SPOTLIGHT



Lack of access to water affects all aspects of life, including economic development, agriculture, health, education and employment. With so many regions of the globe experiencing extreme water shortage, we are facing a worldwide water crisis.

Oklahoma City-based Water4's mission is the eradication of water crisis in places where it occurs. Its vision is one of self-supply and self-sufficiency for communities in developing countries whose biggest hope is more independence and less reliance on outside aid.

Richard and Terri Greenly of Oklahoma City founded Water4 in 2008 after witnessing the water crisis first hand in China. The Greenlys, along with their close friend Steve Stewart, made it possible to serve the remote, rural areas of the developing world. Stewart rebuilt ancient water-raising devices with modern day material and his work inspired the invention of a unique manual

drilling method. Together, these advances have become the current Water4 system.

The nonprofit trains local men and women to drill their own water wells and install their own hand pumps. As a result, these trained local teams not only have a vocation and a means to provide for their families, but also the tools and skills to bring access to safe drinking water to their communities. Water4 believes that local entrepreneurs in developing countries are the key to solving the water crisis.

Although a lack of water impacts an entire community, it affects women and children disproportionately. The United Nations estimates women and children often spend six hours or more a day fetching water for their families and communities. The Water4 model offers women more freedom, gives children an opportunity for education and gives men dignity by providing work. And, the Water4 model gives communities local, sustainable economic engines, paving the way toward paid public utilities in lower developed countries.

*For more information, please visit [water4.org](http://water4.org).*

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## DID YOU KNOW?

*The nation's first shopping cart was invented and used in Oklahoma City in 1937.*

*Cimarron County is the only county in the U.S. that touches four states: Colorado, New Mexico, Texas and Kansas.*

*The country's first tornado warning was issued in Oklahoma at Tinker Air Force Base on March 25, 1948.*