TRUST

INVESTMENT PERSPECTIVES

A Publication of TRUST COMPANY OF OKLAHOMA *January 2015*

Climbing The Wall Of Worry

It was another great year for stocks. The equity markets were up 14 percent in 2014 following a 32 percent gain in 2013. Since March 2009, the market rally has only experienced minor disruptions with the S&P 500 tripling from its lowest point. Clearly, Fed policy has provided a tremendous tailwind for the market. At the same time, U.S. companies are profit-seeking missiles – taking advantage of low interest rates, weak labor markets (which are starting to strengthen) and tax benefits from generating profits overseas.

As we enter 2015, the Fed has ended its quantitative easing program and the market is focused on when the Fed will start raising interest rates. It seems pretty clear that, barring a setback to our economy during the first half of 2015, the Fed will start raising rates in either the summer or fall. While the "when" question seems to be getting all the attention, the more interesting question is "how high?" Several members of the Federal Open Market Committee (FOMC) have indicated the Fed funds rate will be above 1 percent by the end of 2015.

Yet, looking at the Fed funds futures contract, the market is forecasting that the Fed funds rate will be closer to 0.6 percent by the end of 2015.

A 0.5 percent or 0.75 percent Fed funds rate is probably more realistic. The Fed has a dual mandate: both full employment and stable prices with an explicit target of 2 percent inflation. There is no question that the labor market has strengthened. We've added an average of 241,000 jobs per month for the first 11 months of 2014 and this has emboldened the Fed to raise rates. Of course, the 5.8 percent unemployment rate masks the fact that many people have dropped out of the labor force and many others have accepted part-time work even though they want full-time employment.

While we could argue about the meaning of 5.8 percent unemployment, certainly labor markets are much stronger than the 10 percent unemployment in 2009. This alone justifies a Fed funds rate above 0 percent. However, we have to question how quickly the Fed can raise rates when inflation continues to be significantly below its 2 percent target. Low inflation is a reflection of tepid demand, which is not exactly the environment that screams for significantly higher rates.

Continued on Page 2

James F. Arens II
Executive Vice President & Chief Investment Officer

MARKET RECAP

U.S. equities posted their third straight year of double-digit gains in 2014 while most international markets were down for the year.

	Fourth Quarter	Past 12 Months
Dow Jones	5.2%	10.0%
S&P 500	4.9%	13.7%
EAFE (Int'l)	-3.6%	-4.9%

VIEWPOINT

A Message from the Desk of Tom Wilkins

As we roll our calendars to 2015, I'd like to celebrate Trust Company of Oklahoma's (TCO) achievements with you. Our company continues to be exceptional as a result of two primary factors: our clients and our employees. Ultimately, our success comes from helping our clients succeed.

Joining our outstanding team, we have two additions to our investment division: Sydney Wilson, Assistant Vice President and Jared Buchan, Investment Officer.

Sydney is a Tulsa native with over 20 years of experience in the investment industry. As our new securities trader, she works with our portfolio managers and clients to ensure all trades are executed quickly and proficiently.

Also a native Tulsan, Jared previously performed insurance/retirement planning and served as an attorney in the energy industry. His main focus at TCO is on retirement planning and investment analysis for our clients. He is currently pursuing his Chartered Financial Analyst designation.

It also gives me great pleasure to congratulate my Trust Company colleagues who have earned promotions. We have named four new Senior Vice Presidents: Michael Abboud, Shawn Crisp, Zac Reynolds and Clark Southmayd. In addition, Jean Kates has earned a promotion to Assistant Vice President and Lynn Bockmeulen has been named Trust Officer. Please join me in congratulating all of them on their well-deserved promotions.

I am very grateful for all of you and I would like to wish everyone a great holiday season and a very Happy, Healthy and Prosperous 2015.

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

Recently, the inflation issue has become even more interesting as the price of a barrel of West Texas Intermediate oil has dropped approximately 50 percent to $53 from its 52-week high of $101. The price of oil will most likely result in lower headline inflation numbers. The Fed may well argue that the lower inflation rate is a transitory issue and that moderate inflation will resume from these lower levels.

The sum of all of these issues is that the Fed is anxious to raise rates. It wants to recognize that the economy is recovering. However, in the face of low inflation, it will be hard to raise rates too quickly. One of the Fed's greatest fears is that it will raise rates and then have to hurriedly lower them again. Also, it's important to recognize that the two most vocal FOMC hawks, Dallas Fed President, Richard W. Fisher and Philadelphia Fed President, Charles Plosser, are both retiring in March. In other words, the two loudest "we need to raise rates immediately" voices on the Fed will soon be fading echoes. Once they retire, we don't believe rates will increase too rapidly, as long as the Fed doves remain in control.

It's also important to recognize that a higher Fed funds rate simply results in higher short-term rates. There is no guarantee that longer-term rates will rise. Longer-term rates tend to respond to inflation and, as mentioned above, inflation has been low. We also have to question how high our 10-year Treasury yield can rise when the German 10-year bund is yielding 0.5 percent. In a world of global money flow, foreign investors may be attracted to our higher interest rates (and stronger dollar), leading to continued buying of our bonds. This has the potential to keep bond prices high and yields low. With all that said, it's hard to see much upside for bonds, while downside risks certainly exist.

As we watch for risk in the markets, we have our eyes on the high-yield "junk" bond market. This is where we often see the first signs of weakness. Recently, we've seen higher rates for energy companies with significant debt. Debt issued by energy companies comprises approximately 15 percent of the junk bond market. The market is debating whether lower oil prices are simply a short-term issue reflecting weaker global growth or whether the tremendous increase in supply, largely as a result of fracking, is a permanent change. See the chart on page 3. Our guess is that the answer lies somewhere in the middle – both factors are at play.

The Equity Markets

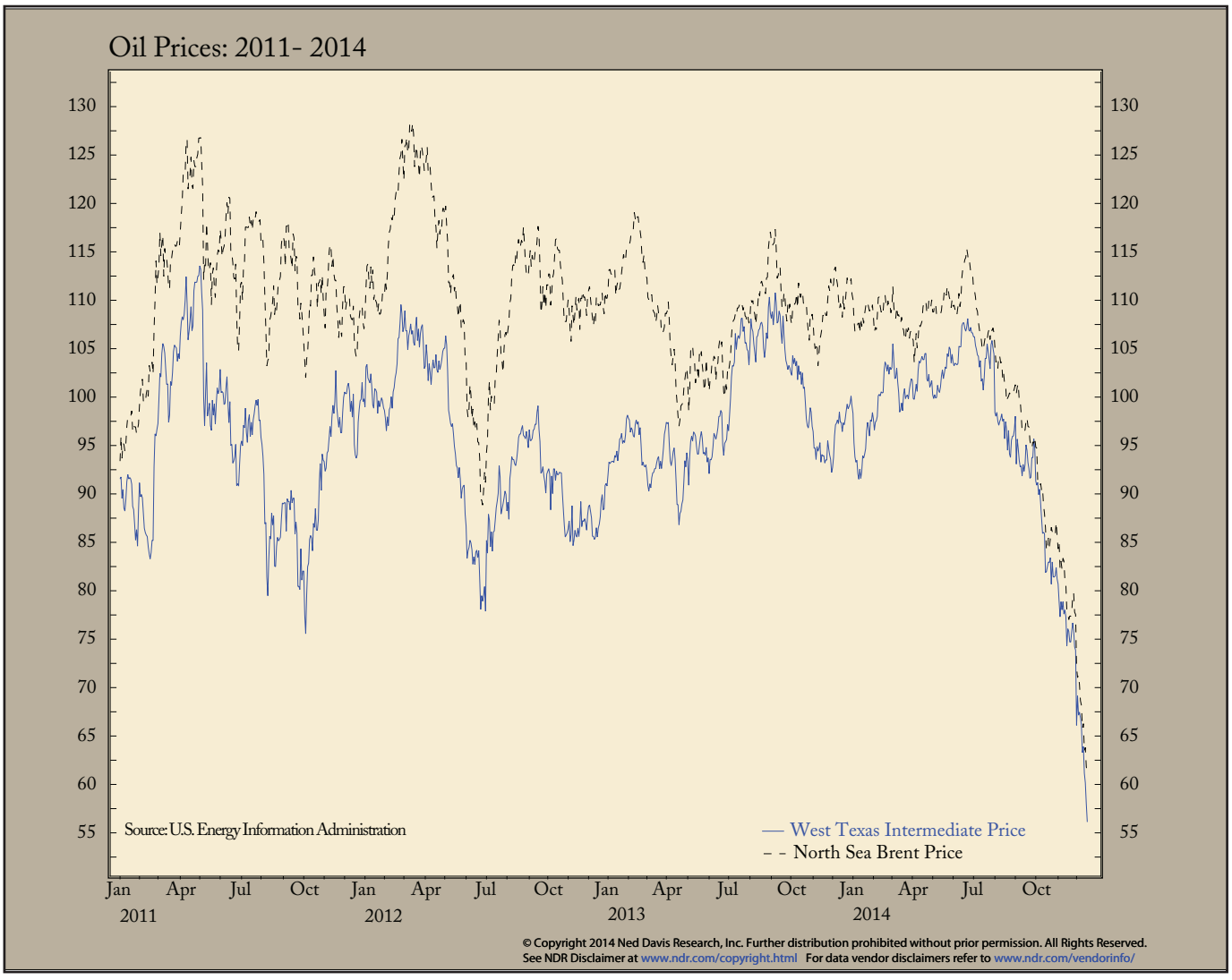
When we think about stock prices, we look at returns as a combination of three factors: earnings growth, multiple expansion/contraction, and dividends. Earnings growth is expected to be in the 7 percent range for 2015. Valuation multiples appear to be reasonable; certainly not cheap, but nowhere near the bubble days that marked the end of the last century. The S&P 500 price-to-earnings multiple of 18 is on the higher end of a "fairly valued" range while the dividend yield is 2.0 percent.

Continued on Page 3

Equities continue to be helped by money flowing into this asset class. Some commentators have referred to the last five years as the "most hated bull market ever," a reference to the fact that some investors have sat on the sidelines, fearful of repeating the pain they experienced in 2008 and 2009. These investors have been slowly returning. In addition, many international investors have flocked to the U.S. because our recovery seems stronger than other developed nations. Japan is back in recession despite implementing a tremendously accommodative monetary policy and Europe is teetering on recession. There is fear in the emerging markets due to the strengthening of the dollar. While many emerging markets enjoy the benefits of a weaker domestic currency, which allows them to export more, there's concern that capital outflows could cause a run on their currencies. This has led some nations to raise their interest rates – protecting their currency, but slowing their economic growth. It may be fair to say that the U.S. is the tallest person in a room full of short people.

The markets still have plenty to worry about. Domestically, we worry about the threat of lower inflation, the potential of the Fed losing credibility if inflation turns down, the potential loss of higher paying energy jobs, the impact of the stronger dollar on U.S. exports and earnings from abroad, as well as the impact of $50 oil on S&P profits. Internationally, we're concerned about slowing growth in China, potential recession in Europe, Japan's fiscal/debt problems, and increasing geopolitical uncertainty. You might have heard the old saying, "the market climbs a wall of worry." We currently have plenty to worry about! Ironically, if we didn't have anything to worry about, everyone would have already loaded up on stocks, and the direction of the market would likely be headed south.

Our expectation for 2015 is higher short-term interest rates, continued low longer-term rates, and moderate, yet attractive, stock returns. Of course, the best expectation is for the unexpected – finding out what surprises we'll have this year.



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It's Too Late To Build A Fence When The Cows Are Out

I had the privilege of growing up on a farm in Iowa. Among the many things I learned while living on a farm was how to build and maintain a strong fence. Estate planning and asset protection are really nothing more than building and maintaining fences. A successful plan keeps the cows (assets) in and the wolves (creditors) out.

In 2004, the Oklahoma Legislature created a better way to build a fence in order to protect assets against future creditors. Known as The Family Wealth Preservation Trust Act, the law was passed as an "exemption" from creditors. It is similar to the homestead exemption, retirement funds exemption, and other exemptions designed to protect the family. The statute provides for both a revocable or irrevocable trust, called a Family Wealth Preservation Trust (FWPT). This trust would be established for the benefit of your spouse, lineal heirs (children, grandchildren, etc.) or charity - but not for yourself. However, if you make the trust revocable, you may be able to partially revoke it to provide payments to you, the grantor.

The act also requires an Oklahoma trust company to serve as a trustee (similar in a way to the third-party custodian requirement for an IRA) and requires that a majority of the trust's assets be invested in "Oklahoma" assets. The law initially capped contributions at $1 million.

Effective November 1, 2014, the legislature amended the FWPT statute to define Oklahoma assets to include an Oklahoma-based limited liability company or other Oklahoma entity, regardless of the nature of its underlying assets. The legislature also removed the $1 million cap, making contributions to a FWPT unlimited.

A limited liability company, or LLC, is a very simple business entity anyone can create which provides some asset protection. An LLC created under Oklahoma law can be deposited into and owned by a FWPT. This is similar to building a corral within your larger fence. For example, if you have stocks and bonds in your individual name, you can transfer those to the LLC owned by the FWPT. If predators come, they must go through both the outside fence (FWPT) and the corral (LLC) to reach your assets.

Since the inception of the FWPT Act, we have been asked many times whether this law has been tested in court. It has not. If and when that day comes, it will be important to have previously designed your fences to meet your unique needs. One size does not fit all. It is necessary that your fences are erected prior to the need for protection to avoid any allegations of fraudulent transfer. It is also important to understand that some assets must continue to reside with you outside your fence. If a FWPT is tested, a creditor will be more likely to break through the fence if you do not have sufficient assets outside the fence to support yourself.

"Everyone pushes a falling fence"

-Chinese Proverb

The recent changes to the FWPT statute give us better materials to build even stronger fences. However, primarily due to the removal of the $1 million cap on contributions, FWPTs may become a more tempting target in the future for creditors. If you currently have a FWPT, it would be wise for an attorney to review the trust in light of the new legislation as well as recent case law in other states.

Whenever Trust Company of Oklahoma is named as trustee, we will take an active role in both the creation and management of the FWPT, including any underlying LLC or other entity that is a trust asset. Above all, we will help preserve your strong fences.

Lesa A. Creveling
Senior Vice President

A Long Life May Not Be Good Enough... But A Good Life Is Long Enough

Isn't it remarkable how scientific advances have transformed our lives? The latest technology quickly becomes outdated, replaced by something smaller, faster, and generally better. I remember my father's old record player. It was eventually replaced by the eight-track, cassette tape, compact disc, and now the digital audio file. Yet, despite how incredible these progressions have been, they pale in comparison to the biggest advancement technology has provided us: significantly longer lives.

According to the World Health Organization, a female born in the United States in 1900 had a life expectancy of only 48 years. By 2012, that number had reached an astounding 81 years! Initially, longevity gains were due to dramatically decreasing childhood deaths. Later, medical advancements resulted in adults living longer. Medical progress has continued the trend of increasing life expectancy, focusing most recently on heart disease and other age-related complications. Even now in the 21st century, life expectancies have continued to steadily climb.

This ever-increasing human longevity is rapidly changing demographics worldwide. Some estimates project a 188 percent increase in all people over age 65 by 2050. Meanwhile, individuals under age 65 are projected to increase a mere 22 percent during this same time frame (2010 - 2050).

Assuming these predictions materialize, we need to change our approach towards retirement. Future retirees will need to save considerably more, spend far less, and work longer to ensure they can meet their retirement goals.

Absent difficult and unpopular changes to Social Security, retirees will also need to become more reliant on their own financial resources. With advancing life expectancies comes the challenge of funding living expenses well beyond what one thinks will be needed upon retirement. In a generation, retiring at 65 could mean a time span in retirement nearly equal to the time spent working.

Corey Redington
Assistant Vice President

SPOTLIGHT

Did you know that over 20 percent of our neighbors will not have enough money to purchase food at some point during 2015?

Harvest House is dedicated to helping Tulsans experience a higher quality of life and escape the devastation of poverty. Our mission is: "Delivering a harvest of services with dignity to our less fortunate neighbors in Northeast Oklahoma."

Harvest House provides a variety of services to our clients, through scheduled appointments at our agency located near 71st & Riverside. These services include groceries, clothing, help with overdue utility bills, transportation, infant services, and special gifts at Christmas to families with household income less than 150 percent of the federal poverty line. At their personal appointment, clients are able to select from a menu of available food items (fresh meats, fruits, and vegetables) and shop our gently used clothing racks in order to choose items that best fit their family's needs.

In 2013, Harvest House provided groceries to 1,909 households at an average cost of less than $15 per household for five days of food. Included in these households were 1,500 children and over 550 elderly.

When Virginia Runnels founded Harvest House in 1996, she designed it based on her passion for the inherent dignity of the individual. This remains the core principle that motivates our volunteers. With donated space and utilities, over 94 percent of donations go directly to clients.

While so many quality services are being delivered at Harvest House, we also diligently seek to connect our clients with other services available in the community. It is our belief that any problem a client may present can be resolved by coordination within the continuum of care provided by the Tulsa nonprofit community.

For more information, please visit ***tulsaharvesthouse.org*** *or call us at (918) 492-5511 x 32.*

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