TRUST
INVESTMENT PERSPECTIVES
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Geopolitical Events - Abroad and Here

Crises around the globe have consumed much of our attention as of late. These events are important, but we should not lose focus on economic matters at home.

The year is only one-quarter over, but it has already been full of market-moving events, including:

- Mideast unrest (more than normal)
- Devastation in Japan
- Continued fiscal deterioration in Europe

Revolt in the Mideast and North Africa has covered most of the alphabet, ranging from (B)ahrain to (Y)emen. Investors and nations worldwide have been jolted into a new reality, unsure what the implications are, much less how to respond. Are we witnessing the beginning of a true democratic movement in the region? Will those cries be stamped out by the extremists and the renewal of tribal conflicts?

It is unlikely these questions will be answerable for some time. Given that the Mideast and North Africa produce over one-third of the world's liquid fuels, the questions are particularly relevant. Oil markets are tight as there is no excess oil being produced. The price of oil has spiked over 25 percent since mid-February as a result of the unrest, especially due to the civil war in Libya. Fortunately, Libya provides only 2 percent of the world's oil supply.

On top of this unrest, Japan has been hit with an earthquake, tsunami and, perhaps most importantly, a nuclear disaster. Japan is the world's third largest producer of nuclear power so the potential fallout from a core meltdown is enormous for that country and its power needs. Japan is also the third largest economy in the world and these domino disasters have had reverberations worldwide. Manufacturing around the globe is being impacted. For example, in mid March, General Motors ordered all non-critical expenditures be put on hold and was temporarily halting production at some facilities in the U.S. and in Europe due to parts shortages from Japan. Is this a hiccup or something much more serious? At this point, global growth is likely to slow through the spring as manufacturing is taken off line. The rebuilding of Japan should provide a stimulus later in the year and into 2012, both for Japan and for worldwide growth. This disaster may prove to be a watershed moment for Japan, but we firmly believe its citizens have the resources to rebuild.

As for continued fiscal problems in Europe, in March alone, the government debts of Spain, Portugal and Greece were all downgraded. This might have made bigger headlines without the Mideast and Japan on the front page, but it is hard for many U.S. investors to stay focused on Europe as its continual financial crisis resembles a slow train wreck. As someone recently asked me, "Wasn't Europe's fiscal crisis in 2010?" Well, yes it was. And in 2009. Unfortunately, the fiscal crisis is not going away anytime soon. Like our own fiscal problems, European overspending and borrowing will not be fixed with anther bailout in the form of more

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Robert A. McCormick
Executive Vice President & Chief Operating Officer

VIEWPOINT

A Message from the Desk of Tom Wilkins

Companies that are satisfied with the status quo and do not try to improve eventually find themselves running behind the pack. It is with that healthy reminder that we as a company move through 2011. Our commitment to delivering top quality service to our clients has caused us to make two substantial investments – one on the technology side and one on the human side.

In the technology area, we are making significant improvements this year to the accounting and investment systems we use to manage and safeguard our clients' assets. These enhancements may be transparent to many of our clients day-to-day but they will allow us to manage investments with greater effectiveness and provide our clients with more comprehensive information. This is a major undertaking which will actually take us into next year to complete. There is always some trepidation when you install new software, whether it is on your pc or for an entire company, but we are very pleased with the progress thus far and excited for what the future holds.

We are even more excited about the recent addition of David Stanley in our Oklahoma City office. David joins us as senior vice president and manager of the Oklahoma City region for TCO. He has over 20 years experience in trusts and investments, both for clients in the Oklahoma City area and in Texas. David is a certified trust and financial advisor and a certified wealth strategist practitioner. With David joining our highly-experienced group in Oklahoma City, we think we have the strongest financial advisory team in the area and in the state for that matter. If you are in the Oklahoma City area, give David a call to discuss your investment, trust or retirement plan needs. His number is (405)840-8401. Tell him, Tom sent you!

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

borrowing. To be fair, one can make the case that Europe is taking its fiscal challenges more seriously than the U.S. is presently. If this is true, it is probably because Europe has been forced to while we have not…yet.

Is the Goosing Laying a Golden Egg?

With a few notable exceptions, it is clear our elected officials will not take the necessary steps to get our fiscal house in order until forced to do so. From the market's perspective, one of the more debated issues is that the Federal Reserve has been pursuing an aggressive easy money policy. This includes the second round of quantitative easing (QE2) and short-term rates maintained near 0 percent since December 2008. With QE2, the Fed is simply buying lots of government bonds ($600 billion) in order to put this cash into the economy in hopes that it will goose the economy.

As Fed Chairman Ben Bernanke said in his November 2010 Washington Post editorial to justify QE2:

"And higher stock prices will boost consumer wealth and help increase confidence, which can also spur spending. Increased spending will lead to higher incomes and profits that, in a virtuous circle, will further support economic expansion."

Stock prices have certainly moved up (9 percent) since QE2 was started in November. But so have gold and many other commodities. The Fed is not trying to goose commodity prices upward, but one could make a cause-and-effect connection. If the Fed wants the credit for higher stock prices, surely it accepts some responsibility for higher commodity prices. The Fed's easy money policy has many investors scrambling to find inflation hedges, including commodities. Higher commodity prices have many consumers feeling the pinch, primarily due to higher food and gas prices. Prices are moving up worldwide and it is less-developed countries such as those found in the Mideast that are being hit the hardest. Many governments in this area of the world control the prices of food and energy in order to keep citizens less enraged by bad economic policies, a common strategy for dictatorships. Interestingly, higher food and energy prices appear to be contributing to much of the unrest in this part of the world. Subsidies to citizens must be increased in some fashion or governments must allow price increases to pass through to them.

A second quote of Bernanke comes from his 60 Minutes interview in December 2010, answering critics of QE2 who were concerned about the inflationary impact of so much economic goosing:

"We could raise interest rates in 15 minutes if we have to. So, there really is no problem with raising rates, tightening monetary policy, slowing the economy, reducing inflation, at the appropriate time. Now, that time is not now."

This sounds all well and good in theory but in practice there can be unintended consequences which can result in things not going exactly to plan. Often, unintended consequences result from time lags in taking action. This starts with the Fed recognizing a need to start raising interest rates. Even after recognizing a need for change and implementing the change, the full impact of higher rates slowing unwanted inflation may take up to a year. This job is even more difficult due to the Fed's inflation goal of 2 percent versus the 1 percent inflation rate present when QE2 started in November. This is a small needle to thread.

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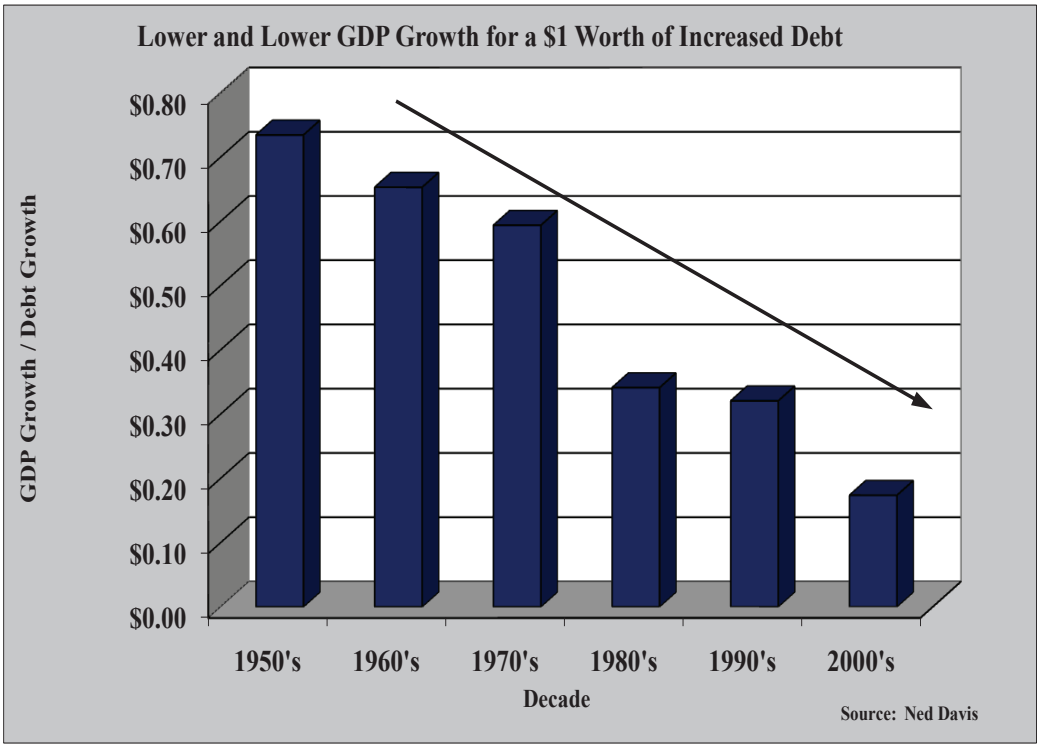

Are the Fed's Two Jobs One Job Too Many?

With QE2, The Fed has clearly signaled the significance of its dual mandate of promoting maximum employment while fighting inflation. The importance of this is that these mandates are at times diametrically opposed to one another. If inflation starts to exceed 2 percent on a sustained basis, does the Fed tighten even in the face of weak employment? Our employment problem shows signs of being more structurally based and less influenced by the Fed attempting to lower interest rates or increase stock prices. The long-term unemployment rate remains very high by historical standards. In addition, the percentage of the population that considers itself as part of the labor force, whether working or not, has dropped dramatically over the past 10 years. Not only are many people not working, they are not even looking for work. Together, these factors indicate it may be difficult for an easy money policy to have much of an impact on getting people re-employed.

Does the Fed's action guarantee inflation is going to climb upwards? Certainly not. The Fed is only half of the equation. The second half is the banking system – banks have to make loans in order to expand the money supply; otherwise the money just rests in the banks' vaults. If the banks do not lend, the Fed is simply pushing on a string. The Fed views the economy as containing enough slack that will allow it to react quickly and bank lending will not grow too fast.

A risk of this strategy, however, is that the Fed's actions are inflationary while at the same time, it is pushing on a string in terms of generating increased employment. Is that even possible given the Fed's aggressive actions at flooding the economy with cash? Unfortunately, the answer is yes. As we build up increasing amounts of debt, that debt has less positive impact on growth and at some point could have a negative impact on growth. The chart above shows that for every dollar increase in debt since the 1950's, the increase in GDP has consistently been less, decade after decade.

Quite simply, we are getting less bang for our buck as we leverage up. More borrowing will likely not fix this either. While consumers have reduced their debt loads either through savings or default, governments at all levels have continued to take on more and more debt. Much of this debt increase now and especially in the future is to fund transfer payments from one group of taxpayers to another. Under QE2, the Fed has been the primary buyer of Treasury debt. If debt issuance does not result in a faster growing economy on its own, there is skepticism that the Fed's purchase of the debt will alter that basic equation.

Besides a higher stock market creating a wealth effect, part of the rationale for QE2 was to reduce interest rates to encourage more economic growth. Since QE2 began in November 2010, the interest rate on a five-year Treasury Note has actually increased by one percentage point. The bond market seems to be saying QE2 may not be the answer to our employment problem.

It has been speculated that the Fed may initiate a third round of quantitative easing when the QE2 expires in June, given continued weak employment. We would add that a QE3 sequel when QE2 is finished may not be a blockbuster hit either.

MARKET RECAP

First Quarter 2011

U.S. stocks posted strong returns for the first quarter with major indices up 6-7 percent. International stocks were up 3.5% due to strength in Europe. The Japanese and other nearby markets were weak.

Dow Jones Industrial Average	+7.1%
S&P 500	+5.9%
EAFE International Index	+3.5%

What About My Retirement?

When I think about my retirement, I think about the Dr. Seuss book, "Oh, the Places You'll Go."

When I retire, I plan to travel to exotic places, spoil the grandkids I hope to have someday and spend lots of time on the beach. I know these dreams won't come true without some wise decisions on my part--many of which have to do with my retirement plan.

Be encouraged to know that retirement plans have become more flexible than in the past. Companies now often offer provisions to maximize your benefits.

If your employer offers a retirement plan, ask yourself these questions:

Should I join my company's retirement plan? Or could I save enough on my own?

More and more employees are responsible for saving for their retirement through a 401(K) plan where the employer will often put money in as long as the employee contributes to the plan. There are other types of plans, but this is increasingly the most common. Very definitely, you should contribute to your plan if you have the option to do so, especially if your employer is willing to match your contribution. After all, the matching portion from your employer is "free money." It will be very difficult to save as much outside your retirement plan as you can inside the plan. Not only because of the employer match, if there is one, but because your contributions will likely reduce the amount of taxes that come out of your paycheck. Putting money in a retirement plan generally means you pay less in taxes while you are working and trying to save.

How much should I save?

Standard wisdom says you need to save as much as you can possibly afford, but at least contribute enough to receive all of your company match.

A plan can be designed to allow all eligible employees to contribute up to $16,500 in 2011 regardless of income. Employees age 50 or older by year-end can contribute an additional $5,500 as a catch-up contribution.

Regardless of the dollar amount you are allowed to put into your plan, contributing the maximum amount is a good rule of thumb to follow. After all, these are most likely funds you will need to live on during retirement. A little sacrifice now can go a long way to a happier retirement.

If you are not financially able at the present time to contribute the maximum amount, a good strategy is to set a schedule where you gradually increase your contributions over time until you do hit the maximum amount.

In addition, salary increases are another great way to help you reach your maximum annual contribution. Since you have not yet become accustomed to the increase in pay, funneling it to your retirement plan is an easy way to boost your contributions.

Which is best – traditional pre-tax contributions or after-tax Roth 401(k) contributions--or a combination of both?

Pre-tax contributions provide a larger paycheck now because they reduce your current payroll taxes. These contributions are made before taxes are calculated, allowing deferral of the taxes until the funds are withdrawn from the plan, giving employees more money in their pocket at the end of the month. When you retire, the money taken out of the retirement plan is then taxed at your current tax rate. The logic is that once retired, you will be in a lower tax rate. However, this may not always be the case.

Roth 401(k) contributions are after-tax contributions so your paycheck is smaller, but your earnings grow tax free.

Which option is best depends upon a variety of factors, including your tax rate now versus your expected tax rate at retirement.

What is the best way to invest?

Will you review your account periodically and rebalance among stocks and bonds? Or would you be better off with funds managed by professionals?

Either way you go, the first investment decision ought to be how much to have in safe investments such as cash equivalents and bonds and how much to have in riskier investments such as stocks. This is commonly called the asset allocation decision.

Most retirement plans are offering "Lifestyle" and "Target Retirement Date" funds. With both types of asset allocation, you can take advantage of professionally managed funds based on your needs. Lifestyle funds maintain a consistent stock/fixed income allocation, ideal for those who want to control when to alter their investments based upon their changing needs. With Target Retirement Date funds, your allocation becomes more conservative as you near your retirement age.

Studies suggest asset allocation is probably the single most important investment decision you will make as it will impact your return more than anything else. Remember, you can change your asset allocation so it is important to review your allocation periodically and make changes as necessary.

Will I have enough to retire?

Will your retirement be all you hoped for or will it be more like another Dr. Seuss classic, "How the Grinch Stole Christmas?"

TCO can help you reach your retirement goals. Please give us a call to schedule an appointment.

Karen Ellis
Vice President

Planning & Caring for Children with Special Needs

Parents of children with disabilities are often faced with the challenge of providing a level of care most families never experience.

Specialized care can be very expensive, and parents may have to provide this care well after the child has become an adult. If parents can no longer provide specialized care for the child for whatever reason, a third party must be engaged. This can take extensive planning, planning that not all parents of special needs children may consider.

Help may come from a family member, a private program or perhaps from one or more public programs. When the parents pass away or are no longer able to provide for the child's care, items such as housing, supervision, and special medical needs must somehow continue to be afforded. This is why special needs planning is essential.

One option available to families with disabled children includes a special needs trust, also referred to as supplemental needs trust. This trust protects family assets and maintains public assistance programs while sustaining a disabled child's care and quality of life after the parents or guardians have passed away.

A trust holds money that might have otherwise passed to the child through an inheritance, a settlement of a personal injury lawsuit, as a gift from a relative or through the parents' personal planning for the disabled child. By holding the assets in a special needs trust with the child as beneficiary, the child's eligibility for public benefits such as Supplemental Security Income (SSI) and Medicaid can be preserved.

The money held in trust must be used for the child's supplemental needs such as education, vacations, entertainment, special interests or hobbies. If the money is paid directly to the child or used for the child's basic needs such as food, clothing or shelter, it can be counted as income and may disqualify the child from receiving full public benefits from SSI and Medicaid.

There are different types and requirements of special needs trusts, and each trust must contain specific language in order to maintain the child's right to receive public assistance. We can help you choose which option is best for your family.

If you have a special needs child, please let us provide you with the peace of mind to know that your child will be taken care of after you no longer can.

Michael Hairston
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 Tulsa SPCA

Tulsa SPCA Speaks for Those Who Cannot Speak for Themselves

Visit the Tulsa SPCA and you'll see how the organization's motto is lived day in and day out by the staff and volunteers who spend their time providing love and care for homeless animals in Tulsa and the surrounding area.

The Tulsa SPCA has served Tulsa for almost 100 years, serving hundreds of thousands of animals and providing them temporary homes while they await a second chance. These animals rely on private donations to ensure that the shelter, veterinary clinic and Tulsa SPCA programs continue in an effort to educate the public and to stop the abuse and neglect that is seen on a daily basis.

The animals at the Tulsa SPCA come from a variety of sources. Cruelty investigations and drop offs are the most common ways for animals to find their way to the shelter and to begin the process of finding their forever home. Upon arriving at the Tulsa SPCA, each animal must be examined by the veterinary staff before it is cleared for adoption.

At that point, it is showcased on the Tulsa SPCA website www.tulsaspca.org, introduced to interested parties at the shelter or included on the Mobile Adoption Center (MAC) at various locations around Tulsa. The MAC is manned by volunteers and participates in parades, festivals and other community celebrations, as well as making visits to retail locations around town.

A dog or cat waiting to be adopted could also become a part of the PAL (Pets Are Love) program. The project is supported by a team of volunteers who regularly visit area nursing homes to provide entertainment and companionship to the residents.

The Tulsa SPCA offers a low-cost vaccination and microchip placement clinic for dogs and cats. Tulsa residents can bring in their furry friend to get yearly shots and to be checked for common diseases and disorders. All animals put up for adoption are spayed or neutered before heading to their new family.

Animals bring out the best in people and the Tulsa SPCA works hard every day to maintain a happy and loving atmosphere for them until they are adopted.

To help the Tulsa SPCA continue its tradition of serving animals, please visit www.tulsaspca.org or call us at (918) 428-7722.

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If you have any questions or comments regarding this publication please call 1-800-411-2843 or visit us online at TrustOk.com.

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