TRUST
INVESTMENT PERSPECTIVES
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The Path to Bringing Jobs Back Home

America must address currency manipulation and focus on exports so as to lessen our dependence on personal consumption and housing as sources of economic growth.

America's jobless recovery is reminiscent of the "giant sucking sound" referred to by Ross Perot when he spoke of the North American Free Trade Alliance during his presidential candidacy 18 years ago. Perot's comments resonate more strongly today with China's export-based economy and its impact on America's manufacturing sector and the general economy.

ASIAN FLU

The 30-year decline in the U.S. manufacturing sector has resulted in a structural shift in the economy that has radically changed the nature of U.S. recoveries. The traditional recovery model is broken. That model would have the U.S. economy rebounding as inventories are rebuilt and accompanying surges in employment and income ensue. Instead, the surge in employment and income now occurs in China. This pattern is illustrated in the graph on page 3, which shows the decline in U.S. manufacturing jobs since 1990. The most acute job losses occurred in the expansion leading up to the recession of 2008-09. During this period the U.S. lost 2.1 million manufacturing jobs, while Chinese exports to the U.S. grew by a factor of 14 from $2.5 billion to $35 billion. Without Chinese government intervention, Chinese exports could not have multiplied at this rate in such a short period.

The prolific increase in Chinese exports over this period is significantly due to China's manipulation of the value of its currency in order to make its exports to the U.S. cheaper than what those goods could be produced in the U.S. China manipulates its currency (renminbi) by printing renminbi to purchase billions of U.S. dollars. This action makes U.S. dollars appear more valuable and the renminbi less valuable. This systematic currency devaluation by the Chinese has caused the renminbi to be undervalued by 20 to 40 percent according to some estimates, resulting in a de facto subsidy for Chinese exports. To gain some perspective on the trade imbalance: since 2005, Americans have spent $1.1 trillion on Chinese goods while Chinese consumers have spent just $272 billion on American goods. Currently the U.S. trade deficit with China is $230 billion, representing 42 percent of America's total merchandise trade deficit. Some economists estimate that addressing Chinese currency manipulation alone would add half a percentage point to GDP, add approximately one million jobs, and reduce the U.S. trade deficit by $100 to $150 billion.

TRADE DEFICIT TRAP

The combined severity and longevity of our trade deficit has produced a "trade deficit trap". So many industries have moved offshore or outsourced their manufacturing inputs over

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Michael Abboud
Vice President

VIEWPOINT

A Message from the Desk of Tom Wilkins

With this edition of Investment Perspectives, we roll out a new look, both for the newsletter and for the company itself. Our goal in the redesign was to establish a clearer connection between our identity and our commitment to our clients' financial wellbeing. While all of us at Trust Company are excited about our new look, we will let you, our friendly readers, be the judge.

Also, I am particularly excited to introduce to you Joanna Murphy, our newest trust and financial advisor. Joanna is a native Oklahoman, but comes to us having worked for seven years as vice president and trust officer for Citigroup in both New York and Zurich, Switzerland. This experience, along with her strong educational background, positions Joanna to provide our clients with the highest level of expertise they expect and deserve.

Joanna received her J.D. from the University of Tulsa and her LL.M. in taxation from Washington University in St. Louis. She is a member of the Oklahoma and Missouri bars as well as the Tulsa County Bar Association.

Joanna wasted no time in getting up and running at Trust Company. She, along with Paul Giehm, authored the article on taxes featured on page 4 of the newsletter.

To meet Joanna personally, feel free to drop by our Utica office, the place she now calls home.

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

time that even as the dollar has depreciated, many products continue to be imported and prior levels of domestic manufacturing remain unrestored. This condition, developed over decades, makes it difficult to reduce large trade deficits once they become engrained in the economy. An associated side effect of America's large trade deficit is what Federal Reserve Chairman Ben Bernanke has described as a "savings glut".

The savings glut is in reference to countries such as China who eagerly lend America the funds required to pay for excess U.S. imports over exports, which effectively transfers employment from America to China. From 2002-09, this savings glut contributed to the addition of $2 trillion dollars to China's foreign exchange reserves. In addition to contributing to U.S. job losses, excess foreign savings by China and other countries allowed the U.S. to finance expenditures beyond what the national income and domestic savings would have otherwise permitted. This in turn likely contributed to inflating U.S. asset values (i.e. housing).

Given the size and entrenched nature of our trade deficit, what possible solutions exist to reduce it? Two such solutions can be found by looking at certain U.S. cities and in a plan proposed by Warren Buffet.

MORE WICHITAS & PORTLANDS

Wichita, Kansas is a vanguard example of the necessary fundamental transformation of the U.S. economy towards investment and exports and away from such an overreliance on U.S. consumers and housing. With its high exposure to the aviation industry, Wichita leads the nation with nearly 28 percent of its gross metropolitan product exported abroad. Portland, Oregon is a close second due to its focus on the computer and the electronic industries. A look at the U.S. economy as it emerges from the Great Recession shows why creating more Wichitas and Portlands may be essential.

Personal consumption has not grown anywhere near the pre-recession rate of two percent per year since the recovery began. And, housing investment, normally one of the main drivers of an economic recovery, is 40 percent lower than its level three years ago and is unlikely to bounce back anytime soon, given the current oversupply. Left to fill the void once occupied by personal consumption and housing are investments outside the property sector (i.e. equipment and software) and in exports. Transforming the U.S. growth model from personal consumption to more export focused will be an arduous task, but nonetheless could be the norm 10 to 15 years from now. Surprisingly, aiding this transformation are current structural changes in China's labor force.

HELP FROM CHINA

For six decades in China, picketing and disrupting production has been illegal and subject to harsh punishment. However, under new proposals, as long as workers first try negotiation and refrain from violence, they will be allowed to strike. As all workers in China belong to one union, these changes would give the union long sought after power. In 2008, there were an estimated 40,000 labor protests in China. In some provinces, strikes have resulted in big increases in factory wages, including increases in the minimum wage by as much as 35 percent. By formalizing workers rights, China could advance its goal of reducing the wage gap and getting Chinese consumers to spend more. This in turn would lessen China's dependence on export driven growth and generate much needed internal demand.

THE ORACLE OF OMAHA'S PLAN

A trade policy proposal by Warren Buffett would aid in reducing the U.S. trade deficit by radically stimulating essential goods producing

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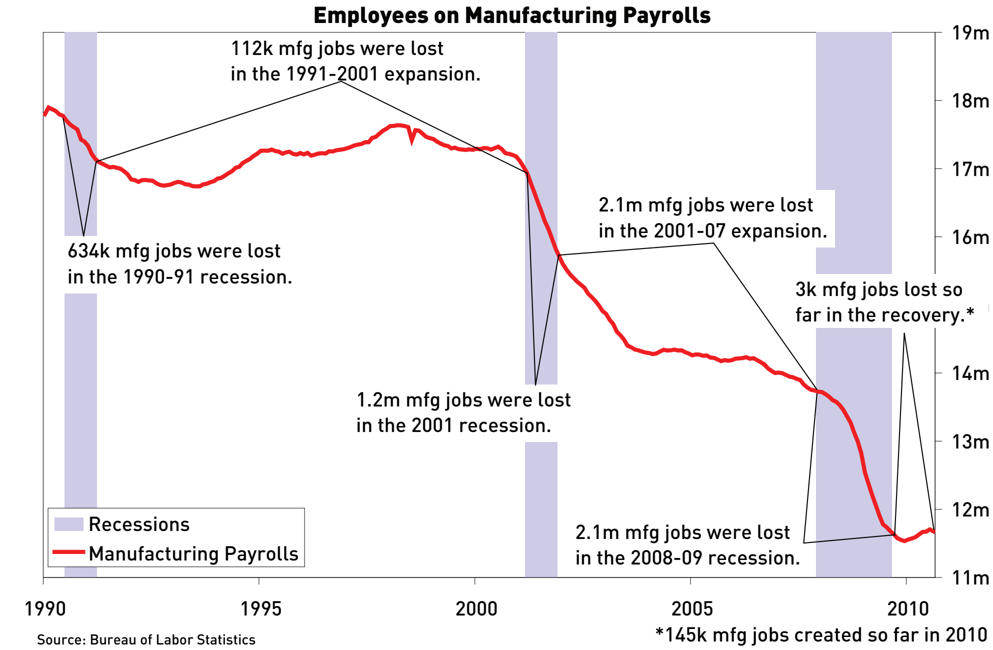

Made in the USA? Decades of manufacturing job losses have resulted in manufacturing accounting for just 9 percent of total employment.

sectors of the economy, specifically domestic manufacturing industries. While no one can say with certainty that Buffet's proposal is the solution to solving the trade deficit, the proposal does offer a framework to improve the current structure, which is certainly not desirable.

Under Buffett's proposal, import certificates would be given to U.S. exporters in exchange for each dollar worth of goods produced domestically and sold abroad. Think of import certificates as tickets exchangeable for the right to import a certain dollar amount of goods into the U.S. An American exporter (i.e. General Electric) could then use these certificates for their own use to purchase imports or sell them to foreign importers (i.e. China) looking to sell goods in the United States. The supply of import certificates would effectively serve to limit the total value of U.S. imports to the value of U.S. exports, as they would be equalized by this plan.

Buffett's proposal is more likely to achieve trade balance than the traditional methods of tariffs or quotas on specific products. In his proposal, the equalization of U.S. imports to exports is accomplished without naming a specific quantity and importers are required to obtain import certificates without naming a specific price. Free market forces (effectively side stepping the currency manipulating practices of nations such as China) would then determine the value of U.S. imports as well as the value of the certificates.

The use of investment certificates would provide both short- and long-term solutions to the U.S. trade deficit. In the short term, profits from selling the certificates would provide the incentive for U.S. industries to expand production and their demand for labor. This alone would aid in restoring the U.S. economy's old engine of growth in the first few years of an economic recovery. Over the long term, the plan would aid in stabilizing the economy by reducing our reliance on foreign capital inflows to finance trade deficits, which also would aid in stabilizing the U.S. dollar.

In response to concerns that the plan would ignite trade wars, Buffett maintains that countries with trade surpluses would not create their own import certificates because they would be worthless (since exports exceed imports for those countries). Buffett further notes that for decades, the world has struggled with a maze of tariffs, export subsidies, and dollar-pegged currencies that were used by countries trying to accumulate trade surpluses. However, they have not triggered trade wars. In practice, just the opposite has occurred as the U.S. has entered into various Free Trade Agreements and brought trade surplus countries into the World Trade Organization, which has lowered trade barriers and compounded the U.S. trade deficit and associated job losses.

THE NEW WAY FORWARD

By combining efforts to create specialized manufacturing cities with the use of import certificates, the U.S. could repair its structural fault in manufacturing that none of the current stimulus programs address. The outcome would be the creation of capital-intensive jobs having productivity levels in line with advanced economy incomes. Such a targeted effort would leave the vast majority of labor intensive production in developing nations but protect and bring back those jobs for which the U.S. has a relative competitive advantage. This effort would ultimately place the United States on a more sound growth path as we lesson our dependence on personal consumption and housing for sources of economic growth.

MARKET RETURNS
September 30, 2010

	QTD	YTD
Dow Jones	11.1%	5.6%
S & P	11.3%	3.9%

The Unknown Certainty of Taxes

As the old saying goes, nothing in life is certain but Death and Taxes.

But with the Bush tax cuts enacted in 2001 and 2003 set to expire on December 31, 2010, the certainty of the second part – taxes – is not quite as strong as the first part - death. Oh sure, we know we will have taxes next year. We just don't know what they will be. With Congress deadlocked on the issue of taxes, both income and estate taxes, and no resolution in sight, we cannot be so certain of what the tax burden will be on either the living or the dead come January 1, 2011.

As things stand today, the highest income tax bracket rests at 35%. Both capital gains and dividends are taxed at 15% and the estate and generation skipping taxes have disappeared entirely. Should Congress choose the easy way out and do nothing, on January 1, 2011, all of the Bush-era tax cuts currently in place will disappear and tax rates will reset to 2001 levels. This inaction will not only affect the high income earner but almost all taxpayers. Not only will most marginal rates go up, taxpayers may find themselves pushed into even higher rates due to the phasing out or limiting of various deductions. The following table illustrates the change in tax rates:

INCOME TAXES	
Current Rate	Rate Next Year*
10%	15%
15%	15%
25%	28%
28%	31%
33%	36%
35%	39.6%
DIVIDENDS	
Current Rate	Rate Next Year*
15%	up to 39.6%
CAPITAL GAINS	
Current Rate	Rate Next Year*
15%	20%

* Rates assuming tax cuts expire

In his 2011 budget proposal, President Barack Obama has proposed an extension of the Bush-era tax cuts for middle class taxpayers only. Under President Obama's plan, higher earning taxpayers, defined as individuals with incomes over $200,000 and couples earning over $250,000, could expect to see income tax marginal rates rise as high as 39.6%, up from 35% this year. Dividends and capital gains taxes would rise, up to 39.6% and 20% respectively. On the estate tax side, the President has indicated a desire to see the estate tax revived at 2009 levels. Those estates valued under $3.5 million would continue to enjoy exemption from the estate tax and the highest estate tax rate would be 45%.

The President's proposal however does not enjoy universal support among either Republicans or Democrats. Although neither party advocates allowing all the Bush-era tax cuts to expire, the plans competing with the President's proposal are many. Congressional Republicans support a permanent extension of all Bush-era tax cuts regardless of income level. Support in Congress also can be found for a temporary, two-year extension of income tax cuts, either for all income levels or only for those affecting the middle class and below. The proposals are just as varied on the estate tax side.

With the estate tax currently set to jump next year from a marginal rate of zero to 55% and an exemption of only $1 million, this may be the one place where the parties can find room for compromise. As of the publication of this newsletter, no Congressional action had been taken. Indeed, any action by lawmakers will likely be put on hold until after the November elections for fear of angering voters by either raising taxes or cutting them. With the year running out and tax law changes possibly occurring near year-end, what is an investor to do?

Perhaps the best advice at the moment is to watch and wait but be prepared to consult with your tax and estate advisors near year-end, after any action by Congress and the President. If no action is forthcoming, taxes will go up as scheduled. In this case, investors who will be needing cash in 2011 may want to consider accelerating gains in 2010. Likewise, capital losses may be more valuable in 2011 as they could offset higher taxed gains then. Investors should not let the tax tail wag the dog, but timing of income and deductions between 2010 and 2011 could be a significant issue for some. Death and taxes may still be a certainty, but uncertainty in the tax code reigns supreme as we look into 2011.

Paul Giehm
Senior Vice President

Joanna Murphy
Vice President

RECOGNITION

Each quarter Trust Company of Oklahoma features area non-profit organizations in our Investment Perspectives publication. In this issue we are thrilled to highlight two of Tulsa's major medical non-profit organizations, Osteopathic Founders Foundation and Tulsa County Medical Society.

Osteopathic Founders Foundation

In early 1943, 10 visionary osteopathic physicians had a dream to create a new Tulsa hospital where they would care for the sick and train future generations of physicians. The dream of these founding members of the Osteopathic Founders Foundation became reality on December 17, 1944, when they proudly opened the doors of Oklahoma Osteopathic Hospital. Over the next 52 years, Oklahoma Osteopathic Hospital (later known as Tulsa Regional Medical Center) provided quality care to the community and trained scores of physicians.

Following the hospital's sale in 1996, the Osteopathic Founders Foundation remained true to its mission of supporting osteopathic medical education, enhancing the public's understanding of osteopathic medicine, and improving the health of the community. To date, the foundation has awarded nearly $2 million dollars in grant funds to community agencies who are meeting the healthcare needs of our citizens.

With a focus on food, shelter, and primary care services, the foundation invests in those organizations who substantially improve the quality of life for Northeastern Oklahoma's most vulnerable citizens. Both through grants from its endowment and through funds generated from the osteopathic community at the annual event Winterset, the foundation has partnered with charitable programs who are effective in meeting the overwhelming need for improving health and healthcare in the Tulsa region.

The foundation continues an investment in the education of young physicians as well as those physicians currently in practice. Scholarships to medical students and financial assistance to young doctors in postgraduate training will return more providers to chronically medically underserved areas.

The development of an American Heart Association approved Emergency Cardiovascular Care training site has allowed the foundation to respond to an educational need of community practitioners as well as reach out to citizens with CPR information. The foundation's recent accreditation as a Continuing Medical Education provider challenges it to provide timely, relevant, evidence-based clinical knowledge to osteopathic physicians throughout the area.

The roots of the Osteopathic Founders Foundation remain firmly planted by the seeds sown by its founders. To learn more, contact the foundation at (918) 551-7300 or osteopathicfounders.org.

Tulsa County Medical Society

In 1987 the Tulsa County Medical Society, a professional organization representing over 1,200 physicians, established The Community Development Fund Trust which recently has been renamed the Tulsa County Medical Society Foundation.

This charitable organization was established to provide support for health related projects in the community. Over the past 23 years, the foundation has provided financial support to the Day Center for the Homeless, Parent-Child Center, Domestic Violence Intervention Services, American Red Cross, Registered Nurse Community Volunteers, Retired Senior Volunteer Program, Hamilton Middle School (a Partner in Education with TCMS), Salvation Army and to physicians volunteering in local indigent medical clinics, by paying their liability insurance.

The TCMS Foundation has had a scholarship program since 1963 for allopathic/osteopathic medical students and to date, over $1 million dollars in scholarships has been awarded to 1,164 medical students. The foundation is proud to invest in educating physicians for the future.

The foundation owns the medical society building that houses the executive offices of TCMS and provides meeting rooms for non-profit community service organizations at very little cost. Many local groups have benefited from the affordability and convenience of the meeting room.

In 2009, the TCMS Foundation restated its mission as follows, "Through the professional expertise and engagement of the Tulsa County Medical Society, member physicians and alliance, utilizing the prudent management of its resources, and with the help of donor funding, the Tulsa County Medical Society Foundation will develop, create and maintain programs in the Tulsa area designed for health promotion, health education, and disease prevention and treatment".

To translate that mission into action, the foundation plans to embark on a project to address the needs of the uninsured/underinsured residents of Tulsa County.

To sustain its support of the community, the TCMS Foundation depends upon donations from members of TCMS and others. For more information please contact TCMS at (918)743-6184. You can find additional information about the TCMS Foundation on the website, tcmsok.org.

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