

# TRUST

## INVESTMENT PERSPECTIVES

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April 2013

### Can Stocks Stay “In The Zone”?

The stock market has been on an impressive run since the end of last year when Congress narrowly avoided the tax portion of the fiscal cliff. The rally has been significant with both the Dow Jones Industrial Average (Dow) and S&P 500 surpassing their all-time highs in March. Their previous highs were set in October 2007, over five years ago. After the strong performance of the equity markets in 2012 and in the first quarter of 2013, many wonder whether stocks can maintain their run or if these new highs will bring worries

that the markets have come too far, too fast.

In our opinion, the rally has been healthy because two factors have converged to create a sweet spot for stocks in recent months: improved economic momentum and a resilient consumer.

#### ECONOMIC MOMENTUM

Before 2013 began, expectations for the U.S. economy were muted at best. Consensus estimates were for gross domestic product (GDP) growth to be around 1.8 percent for the year. The historic

average for GDP growth is 3.25 percent per year. Given the fiscal policy headwinds and lower economic forecasts, the bar was set rather low as it relates to expectations for the first quarter of 2013. Fortunately, most of the economic data so far has been coming in better than expected. Housing, the labor market, and manufacturing are all surprising to the upside.

The housing market recovery picked up steam in the final three months of 2012 with prices rising at an annual rate of 7.3 percent, according to S&P Case-Shiller. The home price increase marked the third straight quarter of year-over-year gains and represented the biggest annual increase since the second quarter of 2006, near the height of the housing boom.

of 2005. The improvement in the housing market is driven by many factors, including near record-low mortgage rates, a drop in the number of home foreclosures, the tight supply of both new and previously owned homes available for sale, and an improvement in the overall economy, including a lower unemployment rate. These factors are combining to bring buyers scared to buy during the housing downturn back into the market. The housing numbers are impressive, but we must also keep in mind they are coming off a really low base. The percentage growth rate is not sustainable, but the direction is clearly a healthy sign.

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### MARKET RECAP

*Both U.S. & International stocks are up during the first quarter of 2013 as well as over the previous 12 months.*

	FIRST QUARTER 2013	PAST 12 MONTHS
Dow Jones	11.3%	13.4%
S&P 500	10.0%	14.0%
EAFE (Int'l)	5.2%	11.3%

The number of new homes sold in January jumped more than 15 percent from December and nearly 30 percent from a year earlier. There is only a 4.1-month supply of new homes available for sale on the market, the tightest supply since the bubble days



Cameron J. Turner  
Senior Vice President

# VIEWPOINT


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

If you are like me, the market's strong showing in the first quarter elicited as much relief as it did joy. With all the talk of tax increases, sequestration and government shutdowns, I think many investors were braced for the worst. That just goes to show you that timing the markets, especially by news headlines, is a fool's game. Staying focused on your plan is the right way to go.

I am always proud to recognize members of our team who have received accolades and honors, and this quarter is no exception. M. Shawn Crisp, vice president, has been recognized as a 2013 Trailblazer by the Oklahoma Society of Certified Public Accountants (OSCPA). Shawn's expertise in auditing and compliance are a valuable asset to our company,

furthering our commitment to provide you, our clients, with the highest level of service you deserve and expect.

In addition to this good news, I am pleased to share my belief that we have assembled the strongest asset management team in the region. Whether you are looking for pure investment management, trust administration or retirement planning, we have made the commitment to make sure Trust Company is your first stop.

Enough of the commercial. Let me close by thanking you, our client, for your business. We probably do not thank you enough. You are why we are here. You have placed your trust and, in most cases, your life savings with us. Importantly, you are why we want to be here at Trust Company. If I can ever be of service to you, please let me know. 

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

The labor market continues to show its resiliency. U.S. employers added 236,000 to non-farm payroll jobs in February, up from 119,000 in January. This was the best payroll growth since 247,000 jobs were added last November and the second best month for job growth in the past 12 months. The unemployment rate dropped to 7.7 percent from 7.9 percent in January with 12 million people still looking for work. That is the lowest unemployment rate since December 2008, when the rate

part because the labor force shrank by 130,000 workers. Labor-force participation has never recovered from the recession, suggesting either that large numbers of workers have retired early, or have simply given up trying to find jobs.

The U.S. economy has added 5.7 million jobs since the labor market bottomed in February 2010. However, non-farm employment is still three million jobs lower than before the start of the recession in December 2007,

jobs in February, and those numbers could rise later this year as the effects of the sequester related budget cuts take effect. This is further evidence of the private sector fueling the growth in jobs.

Manufacturing also has been a source of momentum for 2013. Industrial production grew 0.7 percent in February surpassing expectations of 0.4 percent. Industrial capacity utilization, a measure of how fully firms are using their resources, rose to 79.6 percent in February. This was the highest average since March 2008 when it was 80.1 percent.

Another encouraging report was the February 2013 ISM Manufacturing Survey. This survey showed PMI (Purchasing Managers Index) increased by 1.1 percentage points to 54.2 percent and is in expansion (a reading above 50 percent) for the third month in a row. This is the fifth time in nine months manufacturing PMI has been in expansion and the highest manufacturing PMI since June 2011.

### **A RESILIENT CONSUMER**

The biggest concern and likewise the biggest surprise thus far in 2013 has been the consumer who makes up the largest sector of the U.S. economy. In the past few years, consumer spending has been equal to more than 70 percent of GDP. Without a strong consumer, the economy will stagnate very quickly. We are concerned that the economy could weaken this year because of tax increases at a time when the unemployment rate is still high.

The income tax changes received much of the attention at the end of last year. However, the payroll tax rate increasing from 4.2 to 6.2 percent gave us just as much unease. This rise means an individual making \$50,000 per year would have \$1,000 less in disposable income to spend. However, retail sales figures have continued to be very strong, generally exceeding consensus expectations.

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was 7.3 percent. However, it is not hard to find disappointing data in the same report. January job growth was revised down sharply, from 157,000 to 119,000 jobs and the unemployment rate fell in large

making this the slowest labor-market recovery since World War II.

A final positive from the latest jobs report is that the government sector cut 10,000

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It appears we are experiencing the “wealth effect.” Consumer spending has remained resilient this year despite slow income growth and higher taxes because consumers have seen the value of their home and investment portfolios increase. Equally important, households have increased savings and reduced their debts during the past few years. As a result, the percent of after-tax income necessary to service outstanding mortgages and consumer credit has dropped to its lowest level on record, going back to 1980. (see chart below)

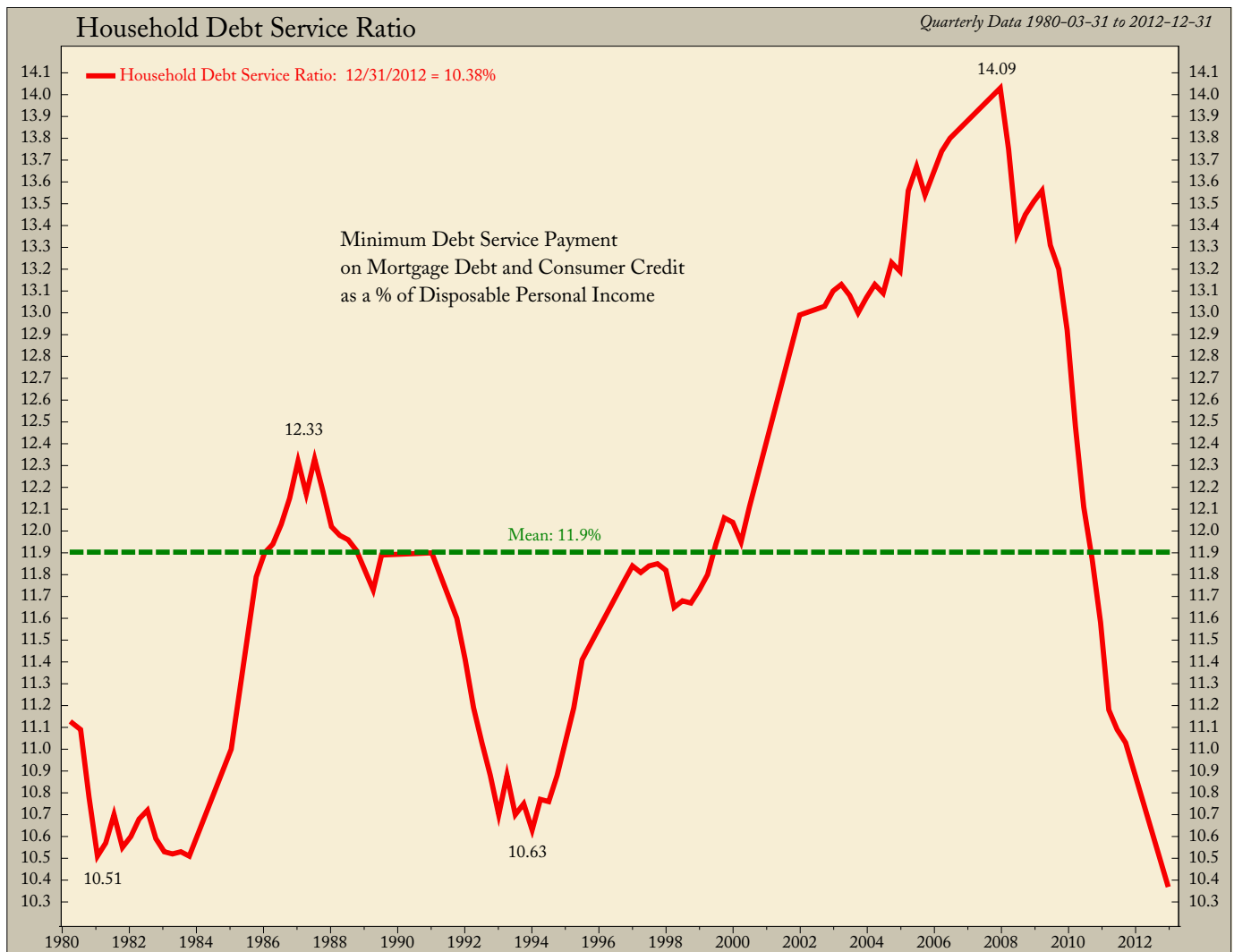
Households can spend more of their after-tax income when they do not have to use as much of their income to service outstanding debts. History suggests that the current low debt-service burden is a significant positive for the U.S. economy. The last two times the debt-service ratio was near the current level (in the early 1980s and 1990s), the U.S. economy continued to grow for more than five years afterward. Deleveraging hurts the economy when it is taking place but typically sets the stage for healthier economic growth later. In our opinion, we could see the benefits of

this deleveraging during the next few years. But, student loan debt and rising debt burdens from retirees are still a growing concern; and with current interest rates very low, we are unlikely to see rising interest rates as we did in the 80s and 90s.

As with any positive investing environment, things can change rather quickly. Investors and the markets have generally been ignoring much of what is happening in Washington. However, the sequestration related cuts can have a significant impact on the economy’s growth (GDP) going forward. Housing will

most likely level off and while the consumer has been very resilient, less disposable income from the payroll tax increase could impact spending.

Also keep in mind, in each of the past three years the stock market has peaked sometime in the spring (April 2010, May 2011, April 2012) and then proceeded to correct 10 percent or more over the summer. While the market may be due for a pullback over the near term, we recommend investors maintain a long-term view and evaluate the proper asset allocation mix given long-term goals and objectives. **1**



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# Are Your Assets Protected?

It often seems that in today's litigious society, asset protection and wealth preservation are at risk more than ever.

Even though Oklahoma passed tort reform in 2011 to place limits on damages for pain and suffering at \$350,000, a judge and jury still have the ability to award additional amounts for circumstances such as negligence, fraud and reckless disregard--all of which are usually non-insurable. So a defendant will have to pay the additional damages out-of-pocket. This should get the attention of medical, legal and business professionals who can be exposed to malpractice lawsuits.

Asset protection, whether from litigation or creditors, is becoming increasingly difficult, but there are still several planning techniques available for asset protection and wealth preservation. These include family limited partnerships, limited liability companies, wealth preservation trusts, spendthrift trusts, and special needs trusts.

First, identify what assets are already exempt under state law. These include retirement plans, your personal residence and certain life insurance products. After these assets are identified, consider other asset protection vehicles such as a family limited

partnership (FLP), limited liability company (LLC), or a protective trust.

Through an FLP, the transferor of the property becomes the general partner and other family members are named as limited partners. As the general partner, the transferor manages the partnership and keeps control over the assets for the benefit of all the partners. The assets are generally protected from the claims of creditors. The court can issue a charging order which allows a creditor to receive a limited partner's share of any distributions from the partnership. However, the general partner may withhold distributions until after the limited partner has settled the debt. FLP's also have estate planning benefits such as saving estate and gift taxes through valuation discounts.

LLC's essentially offer the same protection as an FLP. However, with an LLC all members have the same limited liability as do the limited partners. In addition, you can establish an LLC with a single partner.

Other vehicles available for asset and creditor protection are protective trusts. Oklahoma is the only state that allows for both revocable and irrevocable family wealth preservation

trusts where individuals can transfer up to \$1 million in assets. The income and appreciation from those assets are also protected should the value of trust grow to over \$1 million. To qualify as a protective trust, the trust must have an Oklahoma corporate trustee or co-trustee. In addition, a majority of the assets held in the trust must be invested in Oklahoma-based assets. Oklahoma-based assets include stocks and bonds of an Oklahoma-based company, bonds or obligations of municipalities within Oklahoma, deposits and accounts at Oklahoma-based banks and real property located in the state. Another requirement is that the beneficiaries of the trust must be either the grantor's spouse, parents, spouse's parents, children or a charity. Married couples might consider creating two trusts, one for each, and sheltering up to \$2 million in assets.

A spendthrift trust is another type of protective trust. A parent or grandparent transfers assets to an irrevocable trust to be managed by an independent trustee. The trustee has discretionary powers to pay out income and/or principal to a child or grandchild beneficiary. The trust agreement contains a "spendthrift provision" which protects the trust by preventing the beneficiary from encumbering the assets and prevents the beneficiary's creditors from claiming against his interest in the assets. This type of trust protects the beneficiary

from not only creditors, but also from divorce property settlements.

If you wish to protect family assets for the benefit of a disabled child, you might consider a special needs trust. With this type of trust, public assistance programs can be maintained for a disabled child after the parents or guardians have passed away. The trust holds assets that might have otherwise passed to the child through an inheritance, a settlement of a personal injury lawsuit or as a gift from a relative. By holding assets in a special needs trust with the child as the sole beneficiary, the child's eligibility for public benefits can be preserved. In addition, the trust provides asset protection in that the trustee has absolute discretion to make income and/or principal distributions for the benefit of the disabled child.

We encourage you to visit with your attorney and your estate planning professionals to ensure that your wealth preservation and asset protection plans are complete. 📞



Michael R. Hairston  
Senior Vice President

# Why Establish a Trust?

## *A perspective from a rancher's daughter.*

Recently my parents asked me why they would need a trust. All of their assets are held jointly in both of their names so what purpose would a trust serve? If one passes, the assets are automatically transferred to the surviving spouse without any problems such as probate, court proceedings, etc., correct? Well, not necessarily, I said.

As farmer/ranchers, my parents have worked hard their entire lives. And, over time they have obtained a number of assets.

Their primary concern about a trust is the initial cost of the document. Yes, I said, depending on the size of the

estate, a trust could cost several thousand dollars; but this small, upfront investment in a trust will save your surviving spouse or your estate tens of thousands of dollars at the time of your passing.

My parents also worry that creating a trust will cause them to lose control of their assets. I assured them that placing an asset in a trust does not mean loss of control.

Additionally, I asked my parents to consider what would occur if something happened to both of them and they did not have a trust. How will my sister and I run the cattle operation? Will we be forced to use personal funds to run the

operation until we can obtain access to their accounts?

The more I talk to my family and friends in my hometown of Canute, I realize that the benefits of trusts are often not understood. Many people think their estate is too small or that they are simply too young to worry about estate planning.

The common misconception is that only certain asset or age groups (i.e. wealthy and old) benefit from a trust. This is simply not true. Having a trust in place provides peace of mind and ensures that the assets you worked so hard to accumulate will pass according to your wishes and in the most cost effective manner.

After asking me a lot of good and tough questions, my parents understand the value a trust can provide in protecting their estate. They are now seriously considering establishing a trust.

If you own a business or if you own your assets in joint tenancy, consult a good estate planning attorney or CPA regarding the advantages and disadvantages of the various ways of titling property to protect your assets. 📌



Jean Kates  
*Trust Officer*

## SPOTLIGHT

### *National Alliance on Mental Illness, Oklahoma*

NAMI is a grassroots mental health organization dedicated to building better lives for Oklahomans affected by mental illness. NAMI Oklahoma advocates for access to services, treatment, support and research. We are steadfast in our commitment to raise awareness and build a community of hope for all those in need.

Mental illness is a medical condition that disrupts a person's thinking, feeling, mood, ability to relate to others and daily functioning. Just as diabetes is a disorder of the pancreas, mental illness is a disorder of the brain. Mental illness often results in a diminished capacity for coping with the ordinary demands of life.

Regardless of race, age, religion or economic status, mental illness impacts the lives of at least one in four adults and one in 10 children across the United States. One in 17 adults live with a serious mental illness such as schizophrenia or major depression. Because mental illness devastates the lives of so many

Oklahomans, NAMI Oklahoma works every day to improve the quality of life for all whose lives are affected.

As our statewide navigator of nine signature education programs and numerous support groups, NAMI Oklahoma ensures hundreds of families, individuals and professionals are supported and have access to education, information, and the most current mental health research.



To foster mental illness awareness and understanding, NAMI Oklahoma sponsors events and activities, including NAMI-Walks. The 10th annual NAMIWalks Oklahoma is planned for Saturday, May 18, 2013. During this event, thousands of Oklahomans will gather and walk to raise awareness about mental illness and break down the pervasive stigma that surrounds it.

*For more information about NAMI Oklahoma or to find your local affiliate, go to [ok.nami.org](http://ok.nami.org) or call 405-230-1900.*

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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](http://TrustOk.com).

## Locations

OKLAHOMA CITY  
6307 Waterford Boulevard  
Suite 215  
Oklahoma City, OK 73118  
405-840-8401

MUSKOGEE  
810 Severs Building  
215 State Street  
Muskogee, OK 74401  
918-683-6761

TULSA  
Two Warren Place  
6120 S. Yale Avenue  
Suite 1900  
Tulsa, OK 74136  
918-744-0553

1924 S. Utica Avenue  
Suite 500  
Tulsa, OK 74104  
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