What a predictable year it’s been. Who didn’t expect oil to go below $28 and then close the year near $50? Or, if predicting the price of oil isn’t your talent, at least it was easy to predict the two big votes of the year: Brexit and the U.S. presidential election.

Okay, those events weren’t so predictable.

Maybe the stock and bond markets would have been easier to predict. Remember all of the experts who said that the market would tumble if Trump were elected president? Yet, stocks have rallied 5% since Election Day. Remember the talking heads also told us that higher interest rates would be bad for stock prices? Well the 10-year U.S. Treasury yield has jumped from 1.8 to 2.4% while the stock market has continued to rally strongly.

In short, it’s been an unpredictable year. Let’s take a look at the current state of the market and the economy.

**Higher Interest Rates, The Dollar and Stocks**

As already mentioned, interest rates have increased significantly in the final two months of the year. Higher interest rates typically result from higher growth and/or higher inflation expectations. By looking at changes in interest rates since the election, investors can estimate that the market has increased its GDP economic growth expectations by half a percent and its inflation expectations by a quarter of a percent.

The higher economic growth expectations are based on the possibility of lower corporate and personal income taxes, increased infrastructure spending and decreased regulations. It makes sense that if the U.S. lowers corporate taxes and gives consumers more money to spend, businesses should be worth more. This helps to explain the year-end rally in stocks as the market clearly believes the improving profitability scenario.

Fed has been suggesting for several years as it realized there were limits to what monetary policy could do. As a result, investors will be monitoring the effectiveness of our fiscal policy initiatives (lower taxes and increased spending) in the next few years.

Of course, this doesn’t mean that we can ignore monetary policy. As was widely reported, the Fed raised the Fed funds rate in December – one year after its ini-

**Continued on Page 2**

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**M A R K E T  R E C A P**

U.S. markets rallied sharply in the 4th quarter, with most of the gains coming after the election. International stocks were flat.

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<thead>
<tr>
<th></th>
<th>Fourth Quarter 2016</th>
<th>Past 12 Months</th>
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<tbody>
<tr>
<td>Dow Jones</td>
<td>8.7%</td>
<td>16.5%</td>
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<tr>
<td>S&amp;P 500</td>
<td>3.8%</td>
<td>12.0%</td>
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<tr>
<td>EAFE (Int’l)</td>
<td>-0.7%</td>
<td>1.0%</td>
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James F. Arens II  
Executive Vice President & Chief Investment Officer
VIEW POINT
A message from the Desk of Tom Wilkins

I try to pause at the beginning of each New Year for reflection on the previous 12 months while also appreciating the possibilities of the upcoming year. I hope you can take a moment to do the same.

This new year brings Trust Company good news that is my pleasure to share with you. I want to recognize three TCO employees who received promotions in the fourth quarter of 2016. Let me begin with our newest senior vice presidents, Debi Combs and Scott Cravens.

Debi Combs joined TCO in 1989 in Tulsa. Her long-time commitment to our clients is a valuable asset in our Retirement Plan Solutions Division. Debi’s expertise includes retirement plan design and consulting, compliance and ERISA testing, as well as client and tax reporting. She is also active in the Tulsa community, serving on various nonprofit boards.

In our Oklahoma City Region, Scott Cravens provides real estate advisory and management services. He has extended experience in property redevelopment, active management strategies, asset and portfolio planning, and property acquisition.

Our newest trust officer is Sara Wilson. Sara joined the Oklahoma City office in 2011. Prior to this, she worked in the brokerage industry for 13 years. Sara earned her bachelor degree from the University of Central Oklahoma. She is a graduate of Cannon Trust School, earning the Certified Trust and Financial Advisor (CTFA) designation by the Institute of Certified Bankers.

Congratulations to these three colleagues. Their promotions are well deserved.

In this issue of Investment Perspectives, TCO officers have written several very informative articles, including articles detailing certain aspects of estate planning that are sometimes underestimated, but that can cause conflict among family members when not taken into account. I hope you take a moment to read.

On behalf of everyone at Trust Company of Oklahoma, it is my privilege to wish you a joyful and healthy 2017. It is because of you, our clients and friends, that we are here. Thank you for allowing us to work on your behalf.

Thomas W. Wilkins Chairman, President & Chief Executive Officer

...Continued on Page 3
bonds. We have seen some investors exhibit this behavior in recent years as they aggressively shifted money from bonds to stocks. Hopefully this is a short-term trend that will stabilize as interest rates continue to increase.

**Looking Forward**

As we turn our attention to our outlook for 2017, it’s clear that we’ve seen some trends in certain stock market sectors since the election. Financials have been helped by higher interest rates and a belief that regulation will decrease (including possibly lower capital requirements for banks). The energy sector has been helped by higher growth estimates, expected reduced regulation, possible approval of the Keystone pipeline, and promises of reduced supply from OPEC. Industrials have rallied based on promised infrastructure spending. Defense companies have also done well. This isn’t surprising, given Republicans have historically been supportive of our military and now control the White House and both houses of Congress.

As we look ahead, higher interest rates will be a headwind to bond returns over the short-term. But again, we see this as a net positive for our clients since these higher rates will provide more reasonable returns for bond investors in the future.

With respect to stocks, we believe there is still room for stocks to increase in value. There’s no question that stocks have had a great run since bottoming out in March 2009 – they are up more than 250%. We recognize that valuation of the overall market (as represented by the price to earnings ratio) is above average. However, given our belief that interest rates and inflation will remain low over the near-term, we believe that market multiples can stay elevated. In addition, increased government spending, lower personal and corporate tax rates and increased consumer confidence should help stocks going forward. We are hopeful that the market can continue its bull run over the next few years with positive (but below average) annualized returns of 6 to 8%.

Before closing, let me voice one long-term concern. Throughout this article, I’ve mentioned increased infrastructure spending, lower regulation, and lower taxes. While I am certainly supportive of increased infrastructure spending (if focused on the right projects), lower taxes and fewer regulations, our track record has not been very good when it comes to increasing spending while lowering taxes at the same time. Historically, our elected officials have promised us that increased spending will result in increased economic growth and thus lower deficit spending and debt over time. That has not been the case.

As we all know, our debt levels have increased substantially over the last 20 years. My hope is that if Republicans are successful in cutting taxes and/or increasing infrastructure spending, there will be sufficient cuts in spending in order to balance our budget. While I’m skeptical this will occur, I will be encouraged if there are serious discussions on reducing spending going forward, specifically reforming Social Security and Medicare since these programs are expected to be the biggest drivers of our deficit spending going forward.

So, there you have it. It was a year full of surprises. We’re anxious to see how 2017 evolves. We will continue to monitor the markets on your behalf and adjust portfolios as future surprises unfold. Thank you for your business. We wish you a happy and healthy New Year.
It was the fall of 2005. As I made my last pass through the family lake house, I was overcome with emotion. I thought about the day my grandfather took me out on the lake with red beginner skis tied together with rope to teach me how to get up out of the water. I recalled the time I caught five large catfish in less than two hours, which sparked an impromptu fish fry on our deck. I chuckled at the recollection of my uncle throwing firecrackers over the balcony while I attempted to flee across the rocky shoreline below. Almost every precious memory I hold from my childhood was made at that house, and now it was time to leave. It was the second most emotional moment for me in my family’s journey with Alzheimer’s.

In 2001, my grandfather was diagnosed with this terrible disease. In 2004, his deterioration began to accelerate and we began to discuss what to do in preparation for full-time care and end-of-life planning. We made the decision to sell the lake house. It was the right decision, but it wasn’t the easy one.

Family legacy properties are extremely emotional assets. The feelings triggered by the thought of parting with the family farm, lake cabin or beach house can become the cause of tension among family members. There may not be a more challenging asset for our clients, and we see families hang on to these properties for all of the wrong reasons.

At Trust Company of Oklahoma, we try to help clients balance the emotion of the property against the practicality of the asset. Often times, generational-wealth transfer divides an estate, making retention of family properties difficult. In these situations, retaining real estate would mean altering the next generation’s financial goals and well-being. Trying to hold on to it can be dangerous, particularly because this type of property often requires significant financial resources to properly maintain. The strain of upkeep can further escalate emotions as the property declines or time demands accelerate. Having lived through this experience, here is my best advice:

1) Analyze the property through the prism of the financial goals you had before the ownership of the property passed to you. It’s easy to say, “This was grandpa’s cabin, and I’m not going to sell it.” It’s much harder to say, “This lake house is worth $200,000 and by selling it I can significantly improve the likelihood that my retirement goals can be met.” No one wants to put a price on their memories or family history. It feels cold. However by doing so, a mathematical reality may appear.

2) Ask yourself whether or not you would buy it today. Emotion clouds judgment. If you weren’t in the market for a second home before – you probably shouldn’t be now. Would you buy the beach house next door for $500,000? If not, then why would you keep the family beach house when you could sell it for the same price? Force yourself to analyze the property independently, so you have something to keep your emotions in check.

3) Remember that your family member bought the property for his/her needs, not yours. Family farms are the ultimate culprit here. “Dad was a farmer. Dad quit farming, but he kept the farm.” If you are not a farmer, this is the time to monetize the asset. Your dad’s tax consequences were different; as well as his financial decisions and life goals. This ultimately affected his decision making, and it should also affect yours.

4) Take the root of your emotion and memories with you. One of my prized possessions is a 1977 CJ-5 Jeep that my grandfather bought brand new. It was parked in the garage at the lake house up until the day we sold the house. Today, it sits in my garage waiting for me to take it out on beautiful days. Every time I get in, I remember learning how to drive on the streets surrounding our lake house. In my office, I have a picture of my two daughters playing in it. This photo always makes me smile. My grandfather drove it; I drive it; and they’ll learn to drive in it. Whether it’s a Jeep, a jar full of sand, a picture of the farm, or other personal mementos – let those objects carry the memories forward.

It’s been over 11 years since we sold the lake house. If my grandfather were here today, I know he would tell me that we made the right choice. We did what was right for us, and I still have the “property” that really matters – all of my memories. Those will never be for sale.
Some of us remember Sergeant Joe Friday and his famous line, “Just the facts, ma’am.” Many estate planning attorneys (myself included) tend to stick to the facts, e.g. names, birthdates, relationships and so forth. With Oklahoma’s passage of a statute allowing trusts to be perpetual, it now behooves us to get personal.

The new statute covering perpetual trusts generally provides that the Oklahoma Constitution is not violated as long as there is any person who, alone or in combination with one or more others, has the power to sell, exchange, or otherwise convey the trust property. If the terms of a trust provide for this, the trust may exist in perpetuity.

Imagine your hard-earned savings being utilized by your great -great -great grandchildren. Obviously, they never met you, so they have no idea how hard you worked, how wise an investor you were, or what your values and priorities were. It is also probable by then that the individual trustee and/or the corporate trust officer didn’t know you either.

One way to personalize your trust so that beneficiaries and, more importantly, successor trustees can get to know you is to add a personally drafted statement explaining your philosophies, intentions, goals and desires for future generations and provide examples of incentives you would recommend the trustee implement or behaviors which you would expect the trustee to take action to stop or, at least, not reward.

Another way to personalize a perpetual trust is to appoint a trustee advisor or trust protector. This is a person or entity appointed by the terms of the trust instrument to act as an advisor to the trustee with regard to all or some of the matters relating to the administration of the trust.

Your perpetual trust can outline the powers given to the trustee advisor as well as outline the types of individuals who might be appointed to serve, e.g. attorney, accountant, minister, or other trusted party.

If you would like to discuss the pros and cons of a perpetual trust and the various ways to personalize such a trust, please give us a call.

In the field of military operations, a bunker is a place for respite and rest, a place to regroup and prepare to reengage. It is a place of peace – if just for a short while. For Tulsa area veterans attempting to reintegrate into civilian life, Coffee Bunker is their place of peace.

For many veterans, transitioning into civilian life is difficult. When the process fails, the consequences can be heartbreaking. Tulsa Marine Daniel Ligon struggled after serving his country and tragically took his own life in 2009. After Daniel’s death, his mother, Mary Ligon, founded Coffee Bunker.

Veterans and service members visit Coffee Bunker everyday to benefit from connection and supportive reintegration. It is a drop-in center for veterans of all ages, providing a variety of programs and activities for personal support as well as connections to other organizations serving veterans. The key to its success is the vet-to-vet, peer support system.

Each day, up to 90 veterans and service members stop by to get together, use computers, access Wi-Fi, enjoy games and group activities, watch TV, or just hang out. Coffee Bunker’s safe and relaxing atmosphere welcomes all current and former military servicemen and women, as well as their family members.

The nonprofit relies on volunteers and will soon provide extensive training to select veterans in the following areas: mental health issues, pursuit of education goals, employment preparation, and creation of strong relationships. Coffee Bunker functions solely on the generosity of personal donations, grants, company sponsorships, and in-kind gifts.

To learn more about Coffee Bunker and learn how you can help, visit www.coffebunker.org
FORWARDING SERVICE REQUESTED