Trust Company Oklahoma

INVESTMENT PERSPECTIVES

October 2018

Tariffs And Raisins

Children Pick Up On The Darndest Things

Raisins were not my favorite lunchtime snack as a child, yet they were usually in my lunchbox. I didn't like the flavor; they were sticky; and you could never get them unstuck from the bottom corner of that little red box. However, I had a friend – we'll call him Clark – who absolutely loved raisins. Clark's lunchbox was packed with chips, which conveniently happened to be my favorite. We traded most days in the cafeteria. I gave up my raisins without hesitation (sorry, Mom!) and gladly accepted his chips. It was a good trade because we both ended up better off, and it did not cost us anything.

What if the cafeteria monitor told us any lunch trade would cost us each $.25? That's big money to a seven-year-old. At the time, 25 cents easily bought a pack of gum (currency to a second grader), a first-class stamp, or a pay-phone call. At 25 cents, I might not be so inclined to trade for chips. What about $.50? A dollar? Definitely no trade if the cafeteria monitor charged us a dollar each. Effectively, the cafeteria monitor would have placed a *tariff* on our trade.

A tariff is a tax on trade activity. It is a tax on goods imported from another country. For example, a 25% tariff on a $1 bag of chips would cause the chips to cost $1.25 to the importer. The extra $0.25 paid would go to the taxing authority, and the producer still receives $1. A "protective tariff" is a tariff applied on foreign goods being imported in order to make domestic production of the same good more competitive. This could be to create a trade advantage or to reduce an existing trade disadvantage. It's exactly what has been dominating the news over the last few months.

PRIOR U.S. TARIFF ESCALATIONS

Before I dive into the current situation, let's look at a few notable tariff escalations in this country's history. The Tariff of 1828, which is usually referred to as the "Tariff of Abominations," applied a 38% tax on 92% of all goods imported into the United States. By taxing most imported goods, the government hoped to protect the fledgling industrial production of the Northern U.S. However, the Southern states felt the impact of price increases to their imported products, without any of the protectionist benefits. Further, it impacted Southern exports of agricultural products (mainly cotton) since their trading partners were now squeezed by tariffs on their exports. There was significant

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PHILIP MOCK, CPA, CFP®
Vice President

MARKET **RECAP**

U.S. stocks continued their strong run in the 3rd quarter. International stocks posted much more modest gains. The Fed raised short-term rates for the 4th increase in the past year.

	Third Quarter	YTD	Past 12 Months
Dow Jones	9.6%	8.8%	20.8%
S&P 500	7.7%	10.6%	17.9%
EAFE (International)	1.4%	-1.4%	2.7%

VIEWPOINT

A message from the Desk of Tom Wilkins

I can still remember walking into Trust Company of Oklahoma's Utica office for the first time. It was January 1990, and I had just joined Trust Company of Oklahoma. Paul Kallenberger managed the recently opened office, and did a fantastic job taking care of the clients who found it convenient to meet with our advisors in Midtown.

The first thing I noticed about the office, other than the employees' outstanding friendliness, was its classic and welcoming atmosphere. Mr. Kallenberger kept an old world environment that our clients always appreciated.

Since 1989, when our Utica office opened its doors for business, Tulsa and Trust Company of Oklahoma have changed a lot. Kallenberger retired in 2016, and Michael Hairston is now heading the trust administration division. He oversees all of our trust services, therefore it makes sense to have his team closer.

So it is with pride (for what that office has always represented) and excitement (for what is coming) that I inform you that our team occupying the 21st & Utica location has joined us at the Yale headquarters. Michael Hairston, Joanna Murphy and Sydney Wilson now office at 6120 South Yale Avenue, Suite 1900.

We've always had a team approach across our offices, but now we get to help you and your family from one Tulsa location.

Come visit Michael, Joanna, Sydney, Lisa and Emilee at their new offices.

Once again, thank you for allowing us to serve you.

THOMAS W. WILKINS, Chairman, President & CEO

political tension between John Adams, who signed the bill, and his opponent, Andrew Jackson. Jackson won the presidential election later in 1828, after sweeping the South in defiance against the tariff.

Taxation policy between North and South continued to be an incendiary issue over the next 35 years leading up to the Civil War. After the war, tariffs remained an important revenue generator for the U.S. as it recovered from the Civil War's economic damage.

In recent history, tariffs have been used to alter consumption and production patterns of Americans. The Smoot-Hawley Tariff Act (officially, Tariff Act of 1930) arose in the industrially productive years following World War I. During the early 20s, U.S. domestic output far exceeded U.S. consumption, and legislators thought that applying a tariff to imported goods would encourage Americans to consume more domestically produced goods. When the economy began to falter after the 1929 Stock Market Crash, the motivation to protect domestic jobs skyrocketed, and the Smoot-Hawley Tariff Act was passed. The timing was unfortunate because the global depression that followed overshadowed any clear benefits of this legislation.

The Smoot-Hawley was reversed when Franklin D. Roosevelt became president and implemented his New Deal policies. Shortly thereafter, Congress passed the Reciprocal Trade Agreement Act of 1934, shifting tariff negotiating power from Congress to the President for tariffs up to 50%. The Smoot-Hawley Tariffs were not fully neutralized until the General Agreement on Tariffs and Trade (GATT) after World War II. Additional tariff acts in the 1960s and 1970s further empowered the executive branch.

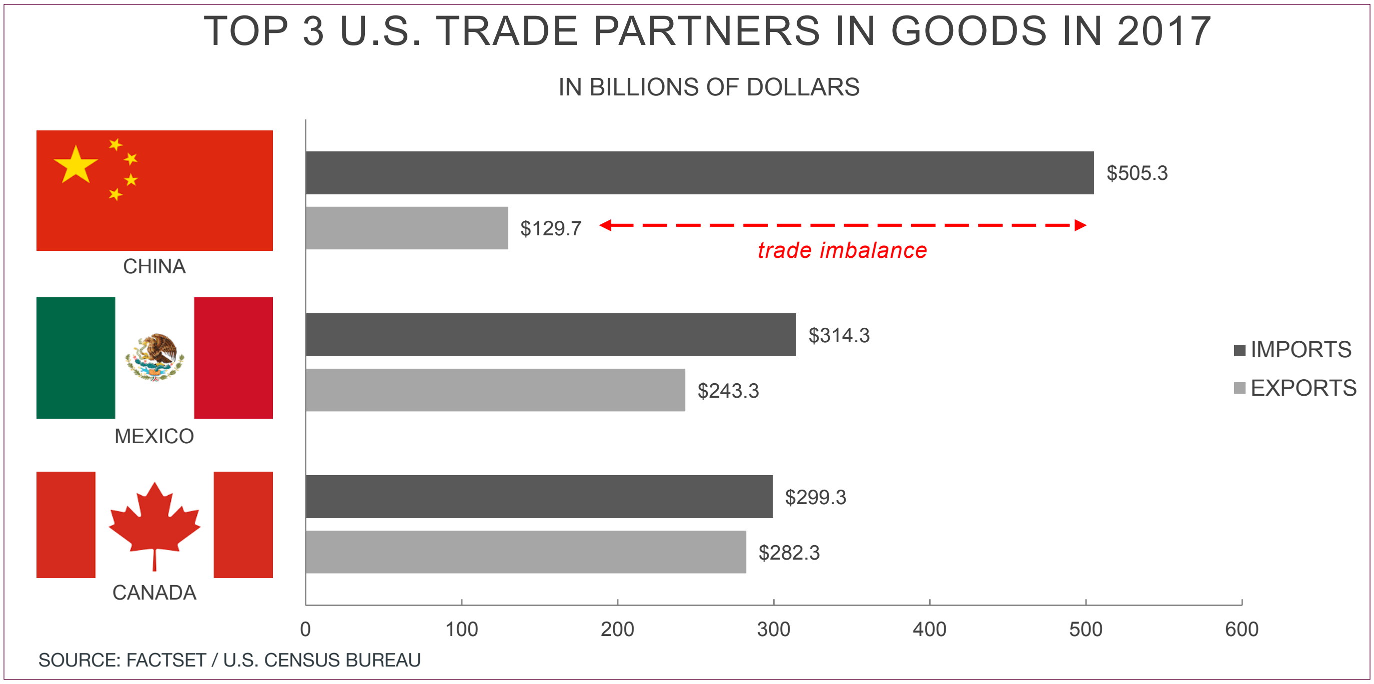
TARIFFS FROM AN ECONOMIC PERSPECTIVE

Economically, tariffs are complicated. If free trade already exists between two countries, a tariff on one side will create an imbalance. There will be decreased demand for the particular good and decreased revenue for the country that produces it. If free trade does not presently exist between two countries, tariffs act more like points in a game: there is a persistent quest to even the score. A country with a disadvantaged trade position may actually benefit from applying tariffs in an effort to improve their trade position. For example, a country with a trade deficit (meaning, it imports more than it exports) might find tariffs useful in reducing imports to balance trade.

Unfortunately, tariffs do not always play out the way they are intended. Typically, the importer raises the price of the good being taxed, effectively passing the cost to the end consumer. Sometimes, an exporter will simply look for another country with whom to trade rather than pay a new tariff to a particular country.

Free trade is most efficient for a global economy in a perfect world. In a perfect world, political friction is non-existent so countries can focus on the goods they produce most efficiently. Economists call this "comparative advantage." Countries can maximize their potential Gross Domestic Product (GDP), which is the cumulative value of what they produce, when they produce the greatest number of goods that they produce most efficiently.

Obviously, this sounds easy in an ideal world, but free trade comes with other indirect costs of its own. International leaders are faced with difficult decisions regarding



protecting certain industries (and their employees) and also maximizing their GDP. They must choose between the benefits and costs of promoting certain industries versus overall domestic production and economic health. Much like a coach, they strive for successful outcomes for both players (industries) and team (country), given limited resources and information.

TARIFFS TODAY

The Trump administration has recently applied tariffs on imports from a number of countries, most notably China. In turn, there has been some retaliation from those countries in the form of their own tariffs on U.S. exports to them.

As you can see **above**, in 2017 the United States imported 4-5 times the value of goods from China than we exported to China. We have the largest trade imbalance with China out of all of our trading partners. So, in a sense, the tariffs employed by the current administration do seem logical. The retaliatory tariffs from China (and other countries) are the real concern though, because those *may* have a greater impact than the tariffs on the consumption and production patterns of Americans.

But what exactly are we importing from China? According to the International Trade Administration, we import computer and electronic products from China more than any other category of product (about 36% of imports). What about exports? Our top export to China is transportation equipment (i.e. vehicles), at about 23% of exports.

Some of the more notable tariffs (imposed by the U.S. or by China in retaliation) have been on electronics, steel, aluminum, and soybeans. While soy may seem like an odd item on the list, it is actually our second largest agricultural export. China imports much of our soybean production (over half), and we export 12 times as much soybean value to China as we do the next highest grain.

Chinese tariffs will certainly have a negative impact on U.S. soybean farmers. So far this year, the price of soybeans has fallen considerably, with tariffs being the likely culprit. Farmers will be forced to look for other markets to sell their crops to, such as Europe. As of 2017, Europe accounted for about 10% of U.S. soybean exports. The European Commission reported on August 1, 2018, that EU imports of soybeans increased 238% from August 1, 2017. To that end, the EU's share of U.S. soybean exports has jumped to 37% as of August 1, 2018.

SO, WHAT DOES ALL OF THIS MEAN FOR YOU?

You will probably see some price increases on a number of different products over the coming months. Stocks of certain domestic producers will benefit and domestic users of imports will feel some pain. The more important impact will be on the economy domestically and globally, and that impact will depend on how long this trade conflict continues. Could it push us in to recession? Perhaps. Could it accomplish its goal and promote years of improved U.S. growth? Perhaps. Could it change the way we trade for decades? Probably. Will we feel some sort of impact years from now? Most likely.

While the current tariff situation is certainly important, this too shall pass. Stay the course, weather the storm, and pack chips instead of raisins.

HOW TO TALK TO YOUR HEIRS ABOUT YOUR ESTATE PLAN

Without Ruining Your Relationship With Them

Football season is upon us once again, and I am an avid college football fan. Before the season starts, I watch every practice video and interview available because I can't contain my excitement. One thing that is abundantly clear in those preseason videos is how much time the coaches spend developing schemes to give their teams the best chance to win. Imagine the chaos if all those x's and o's that the coaches developed were never communicated to the players. In many ways, the success of each coach comes down to how well they communicate their plan. The same could be said with regards to the success of an estate plan.

It takes hard work and a great deal of thought to craft an estate plan. One of the best ways to ensure the plan's success is to communicate the game-plan with the players (your family). Communicating clearly with those who will be impacted by the plan can increase the chances that your plan is carried out smoothly, and reduce confusion and chaos when it comes time to execute it.

This concept of intergenerational planning is simple, but that doesn't mean it is easy. Complex family relationships and the emotional nature of passing on assets make open conversations on these topics difficult for many families. For some, such conversations may even be viewed as taboo. Family meetings aren't for everyone. If you believe it will benefit your family, here are a few tips to help you have a successful family meeting about your estate plans:

CONSIDER HAVING A TRUSTED FINANCIAL OR LEGAL ADVISOR PRESENT

This option can work well in meetings where estate plan details will be discussed. Your advisor likely already knows the details of your plan and your family dynamics. He or she can help you plan for the meeting and help cover the necessary topics on the day. An advisor is also less likely to become emotional about the family finances and can help keep the conversation moving in a positive direction.

CLEARLY EXPLAIN THE ROLES OF EACH FAMILY MEMBER AS IT RELATES TO THE PLAN

In many cases, adult children will play different roles in carrying out the family's financial plan. Some may take over a family business; some may assist with the sale or upkeep of family-owned property; and some may have a much less active role to play in the management of family finances. Whatever the case may be, it is important that these plans are communicated in a clear manner to avoid confusion and potential hurt feelings in the future.

PROVIDE COPIES OF APPLICABLE LEGAL DOCUMENTS

If there is a trust or will that helps explain your estate plan, consider providing copies to those named in the document. The language used in legal documents can at times be difficult to understand. Allowing those individuals that are specifically listed to review documents provides the opportunity to see in advance what the plan outlines.

ALLOW FOR TIME TO ASK QUESTIONS

Effective communication goes two ways and this may be the most important aspect of your family meeting. Many elements of an estate plan only become active upon a significant change in mental or physical capacity or death, at which point asking questions will no longer be a viable option. A time to ask and answer questions can help clarify the plan for everyone involved and give everyone an opportunity to be heard and feel a part of the process.

HOWEVER...

As I previously mentioned, these conversations can be difficult. There are families for which a family meeting might not be the best for the success of the plan. Only you know what is best for your particular situation.

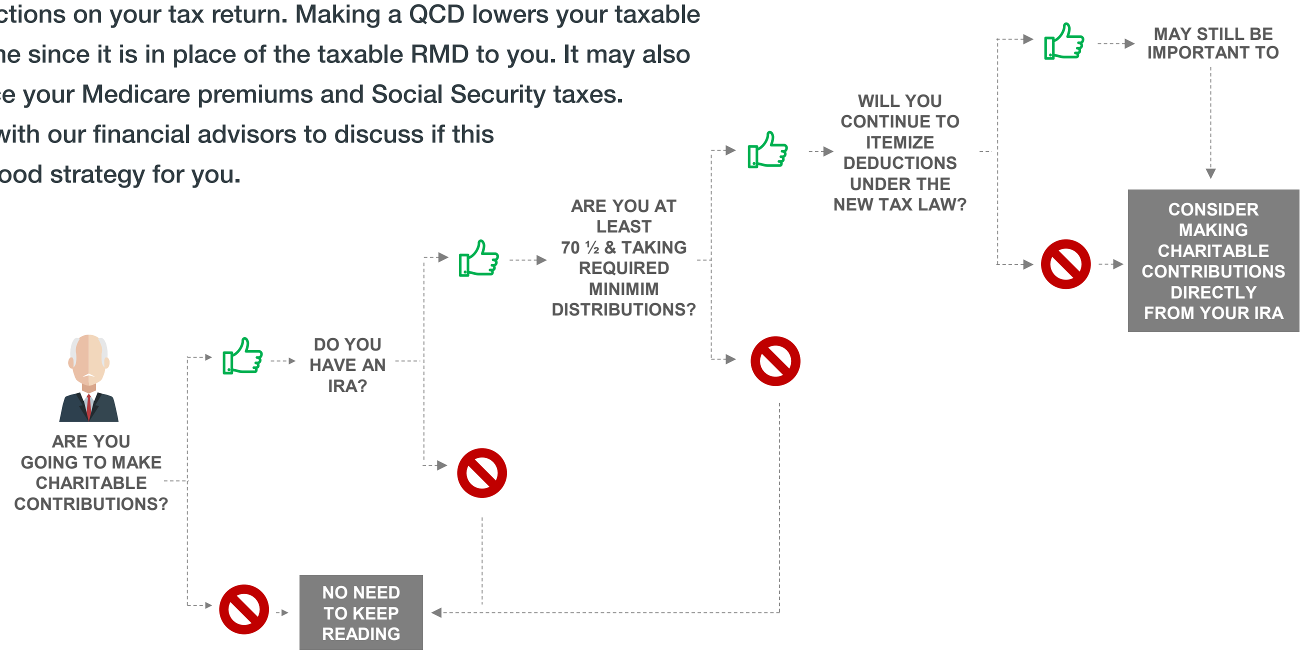
I encourage you to think about your own financial plans, and the desires you have for the future. Carefully consider how your family may be involved and impacted, from your grandparents down to your grandchildren. No matter how simple or complex your plan, a family meeting can be a fruitful and meaningful time to improve the chances of success for your plan.

At Trust Company of Oklahoma, we have years of experience with these types of meetings. We are here to help you with your estate, from deciding whether a meeting is right for your family all the way to hosting the meeting.

DOUG CASTLE, CFP®
Trust Officer

Qualified Charitable Distribution
A Smart Tax Strategy for Generous Folks

If you have an Individual Retirement Account (IRA) and are at least 70 ½ years old, you must take a Required Minimum Distribution (RMD) from the account annually. If you also give to charity, consider making those gifts from your IRA. With a Qualified Charitable Distribution (QCD), you can directly contribute your RMD amount (up to $100,000) and have it satisfy your distribution requirements. This is an especially attractive strategy if you are no longer able to itemize deductions on your tax return. Making a QCD lowers your taxable income since it is in place of the taxable RMD to you. It may also reduce your Medicare premiums and Social Security taxes. Visit with our financial advisors to discuss if this is a good strategy for you.



SPOTLIGHT

The statistics of domestic violence are disturbing. According to the National Coalition Against Domestic Violence, 1 in 3 women and 1 in 4 men have been victims of physical violence by an intimate partner within their lifetime. Tulsa County has the highest number of domestic violence homicides in Oklahoma.

Thankfully, there's a certified and nationally accredited nonprofit agency in Tulsa and Creek counties. Domestic Violence Intervention Services provides comprehensive intervention, prevention, and education services to families and individuals affected by domestic violence, sexual assault, stalking, and adult sex trafficking.

The impact does not stop there, though. The single best predictor of children becoming either offenders or victims of domestic violence later in life is whether or not they grow up in a home where there is domestic violence. By acting before, during and after the crisis, DVIS helps create safe family environments today and in the future. The agency offers a variety of trauma-informed services, which are free for survivors and their families, and a 24/7 crisis line for survivors.

Families in crisis find temporary housing at the DVIS emergency shelter, with over 90 beds. This transitional housing program offers survivors a long-term housing solution while the families work towards self-sufficiency. Because domestic violence has such a profound impact on family members, DVIS offers a counseling center to help survivors of domestic and sexual violence, their children, and their family members.

Aside from housing and emergency services, the nonprofit assists survivors who are applying for a protective order. DVIS Legal has five staff attorneys to help with civil matters. Finally, the agency works to prevent violence by educating young adults in the Tulsa county school systems.

For more information and to learn how you can help DVIS rebuild lives affected by domestic and sexual violence, visit **dvis.org**.

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FORWARDING SERVICE REQUESTED

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/fi-doo-shi-er-ee / *noun*

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