

Trust Company Oklahoma

INVESTMENT PERSPECTIVES

APRIL 2021

BITCOIN BASICS

Late last year, Bitcoin eclipsed its prior bull market high set in 2017 of around \$20,000 per coin. Its remarkable run has continued into 2021, recently reaching over \$1 trillion in total market value.

Bitcoin’s rapid price appreciation over the past several months has been different from prior episodes. This time around, it has received the implicit “blessing” from well-known people and investors, including not only Elon Musk but even stodgy institutional investors such as Mass Mutual Life Insurance Company.

While not yet mainstream, Bitcoin has become easier than ever for ordinary people to transact, via Cash App and PayPal, for example. It has also become more institutionalized, with several U.S. banks receiving licenses to hold and transact the digital coin on the Bitcoin network.

MORE THAN DIGITAL GOLD

Bitcoin is often referred to as ‘digital gold,’ which is fairly accurate. Similar to gold, it is an asset that acts as a store of value. But it is different in that it can be transferred to another person digitally, over a network. Also unlike gold, it lacks any kind of intrinsic value.

Bitcoin is undoubtedly polarizing. Whether because of

its libertarian roots and ideals or its inherently abstract nature, Bitcoin is difficult to wrap one’s head around. At a minimum, Bitcoin is entertaining. Truly, it is fascinating.

While digital gold is an apt description, a more thorough way to consider Bitcoin is this: *decentralized scarcity*. Let’s break down each of these two terms.

DECENTRALIZED

What makes Bitcoin unique is that it is a peer-to-peer system of sending money (i.e. value) via software by distributed consensus. A network of computers, each called nodes, connect to one another and operate the Bitcoin software by enforcing an agreed-upon (consensus) set of rules known as the Bitcoin consensus rules.

Because this network of computers and the rules they follow in concert are where the record of Bitcoin transactions and ownership are stored, no single person or organization controls it. This database of transactions and ownership, known as the ledger (similar to an accounting ledger), is replicated on thousands of computers around the world, all running the same Bitcoin software. Thus, it’s decentralized.

This stands in sharp contrast to almost all other financial institutions throughout history. Typically, a single organization, such as a bank custodian or the Visa network, verifies monetary transactions and keeps a record of who owns which asset.

This decentralized nature of Bitcoin is abstract. In order



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Senior Vice President & Director of Investment Research

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MARKET RECAP

Solid corporate earnings, an increasingly vaccinated population, and the continued gradual reopening of the economy helped to boost U.S. equities. The US dollar reversed course and strengthened notably in Q1, creating a slight headwind for international equity returns.

| | YTD | Past 6 Months | Past 12 Months |
|----------------------|------|---------------|----------------|
| S&P 500 | 6.2% | 19.1% | 56.3% |
| EAFE (International) | 3.5% | 20.1% | 44.6% |

VIEWPOINT

A Message From the Desk of Jim Arens

It is hard to believe, but a year has now passed since the beginning of the COVID-19 pandemic. Over that time, many aspects of our lives and our economy have undergone a remarkable transformation.

Trust Company of Oklahoma has also adapted to these challenging and unique circumstances, with many employees working remotely and many meetings occurring virtually. In a post-pandemic world, we will without a doubt continue to evolve.

Regardless of what the future brings, however, I can

assure that one aspect of our business will never change: **our commitment to our clients**. We have been and will always be a business that delivers personalized, exceptional service.

On a related note, I would like to proudly announce the release of TCO Mobile, a safe and secure iOS app for clients to easily access information regarding their TCO accounts. The app is available from the Apple App Store for both iPhones and iPads. For more information, please contact your account administrator.

On behalf of everyone at TCO, I sincerely thank you for your business and look forward to seeing you in person in the near future!

JIM ARENS, Chairman, President & CEO

for a Bitcoin transaction to be accepted as legitimate, a consensus must be formed by all users on the network that a given transaction is legitimate. If not, the transaction is rejected. This is difficult to do, but possible through the set of incentives and the cryptographic technology on which Bitcoin is built. Nodes on the Bitcoin network represent the interests of Bitcoin holders, whose job it is to protect the value of their assets. This is similar to how a bank or custodian safeguards assets. These nodes typically have a vested monetary interest (i.e. their own Bitcoin holdings) to ensure that the network functions securely and properly.

If any rogue operator on the network tried to disrupt the truthful ledger or operation of the network, the other users would reject these bad actors. Thus, the entire Bitcoin network functions through the social construct and users protecting their own interests.

SCARCITY

The second important characteristic of Bitcoin is its scarcity. Lots of scarce things in the world are highly valued: the Mona Lisa, the Hope Diamond, and LeBron James, for example. In general, the scarcer something is, the more valuable it becomes. An old college professor of mine had an insightful catch phrase: "Scarcity gets paid." Essentially, he was referring to something known in mathematics as power law distributions.

POWER LAW DISTRIBUTIONS

Power law distributions are everywhere. One way to grasp the concept of a power law is the saying, "The rich get richer," or perhaps more accurately, "The scarce get richer."

For example, in the National Football League, the scarcest player is an elite quarterback. They're the biggest difference makers on a football field. Dallas Cowboys quarterback Dak Prescott recently signed a

contract making roughly \$40 million annually. Meanwhile, Andy Dalton, a respectable but average former starting quarterback who filled in when Prescott was injured in 2020, made *only* \$3 million last year. Even in the NFL, where all players are presumably in the 99.99th percentile of athletes in their sport, the power law is at work. *Scarcity gets paid.*

HARD MONEY

Likewise, in the commodity world, gold is orders of magnitude more valuable per ounce than silver, which is in turn orders of magnitude more valuable than copper. This difference stems from their relative scarcity, a function of their relative difficulty to mine. Gold is the most difficult, making it very expensive to mine new supply and is thus considered "hard" money. The "harder" something is to find or create more of, the lower its rate of supply growth (aka inflation) will be and thus more valuable as a store of value. Hence, gold has been used as a store of value for millennia.

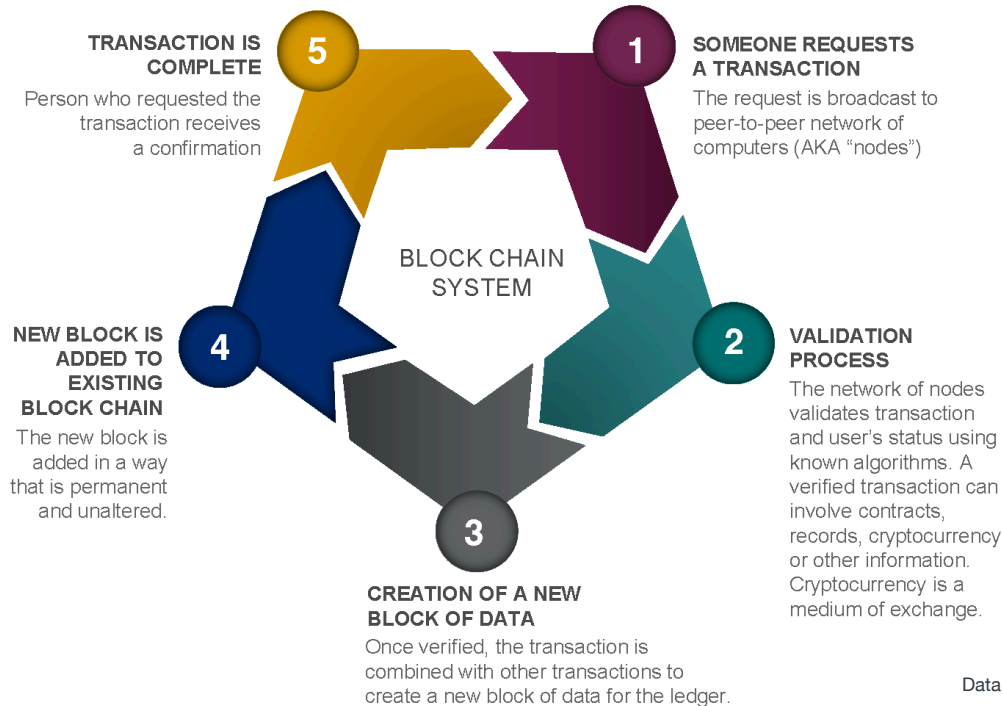
BITCOIN HAS UNIQUE SCARCITY

What makes Bitcoin unique, relative to other forms of money, is that its rate of supply growth is predetermined and independent of its price, and as a result its rate of inflation perpetually declines. There are currently approximately 18.65 million Bitcoins in existence, and according to the rules of Bitcoin, no more than 21 million will ever exist. That limit will not be reached until sometime next century.

From July 9, 2016, to May 18, 2020, the rate of Bitcoin supply increased around 4.1% annually (CAGR). Approximately every four years, the amount of Bitcoin rewarded to miners for facilitating transactions reduces by half. Thus, Bitcoin becomes "harder" over time because its new supply decreases. The current inflation rate of Bitcoin has been roughly 1.75% since May 2020, and supply will continue to grow at slightly below this rate

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HOW THE BLOCK CHAIN WORKS



for the next three years. This marks a key tipping point because U.S. inflation, as measured by the Consumer Price Index, has averaged 2.0% annually over the last 20 years.

Sometime in early 2024, the supply growth rate of Bitcoin will reduce by half again and then by half once more some time in 2028. At that point, with a supply growth rate at 0.4% annually and lower, Bitcoin may very well be the scarcest money in existence, more so than gold and almost certainly more so than U.S. dollars.

For comparison, the number of U.S. dollars in circulation (known as M2 money stock) has risen by 26% over the last 12 months as both fiscal and monetary stimulus hit high gear in response to the pandemic. Understanding these dynamics in supply growth, one can begin to grasp why the price of Bitcoin has risen rapidly of late, especially relative to U.S. dollars.

Although it's impossible to predict future U.S. money supply or inflation, one can be confident that it will probably be more than 1% annually for the foreseeable future. In fact, according to the Federal Reserve Bank of St. Louis, as of March 15, 2021, investors expect inflation to be approximately 2.0% annually, looking out five to 10 years.

Technology investors, many of which have probably been driving the price of Bitcoin higher recently, always try to be ahead of the curve. In this situation, ahead of the curve means getting ahead of future U.S. dollar printing and/or the declining future bitcoin supply growth. While some of

Bitcoin's recent price increase can certainly be attributed to pure speculation, there appears to be another factor at play: *scarcity is getting paid.*

THE RISK

Considering how much of Bitcoin's recent rise in value is presumably derived from its commodity-like hedge against future Federal Reserve money printing and higher inflation, there is certainly risk that such inflationary concerns never come to fruition and Bitcoin prices fall as a result. Keep in mind, Bitcoin does not pay dividends or interest to investors so its investment returns depend entirely on price increases.

Furthermore, even though Bitcoin has recently gained ground with government authorities, the lax regulatory environment it has enjoyed to date may change. There are increasing calls for greater oversight and taxation. Recently, the U.S. Financial Crimes Enforcement Network has proposed rules which would require financial institutions to collect information about owners of Bitcoin and other cryptocurrency wallets. If this proposal or other future regulations are enacted, investment in Bitcoin and other cryptocurrencies could be significantly curtailed.

Although Bitcoin has made substantial gains in security and credibility over the past several years, the technology behind it is only 12 years old, and Bitcoin's future as a virtual commodity is an open question. For now, we plan on sticking primarily to the more battle-tested world of traditional stocks and bonds.

THE HOME-BUYING BOOM

A year ago, real estate professionals were asked to predict how the pandemic would affect home sales. Almost all those surveyed agreed that the market would see a dramatic drop during the looming shutdowns and economic distress. But hindsight is... well, you know.

Oklahoma real estate sales were shockingly robust throughout 2020. In fact, pending sales and average home sale prices in January 2021 soared about 25% higher than the same month the prior year.



What has sparked the home-buying bug? Whatever the answer, we certainly won't ask those "professionals" again. The average sale price increase can be explained through the classic law of supply and demand.

People are buying, and new inventory is scarce. Soaring lumber prices (caused by increased demand for DIY home projects and mill shutdowns) has resulted in a dramatic decrease in new home starts. This in turn has placed increased pressure on the existing home sale inventory. Increased demand, lower supply and historically low mortgage interest rates have created the perfect storm for sellers.

Given these conditions, you may be considering selling

your home. If so, there are a couple of new variants (*sorry*) to the sales process you may want to consider:

First, the hot market means you may be pleasantly surprised by your home's current value. This can lead to the temptation to "test the market" and potentially overprice your home. But alas, the fundamentals of real estate remain intact, and an overpriced property will miss the excitement the market has for a new listing. Lack of interest necessitates a price drop which means lost time and possibly lost value. A properly priced home is more likely to receive multiple offers which allows the seller to maintain the upper-hand.

Second, it is important to understand the possibility for a contract price to exceed the buyer's loan appraisal for your property. Appraisals can only use past data to consider home values. So, if your home is selling considerably above what comparable homes have sold for in the past, the new buyer may run into financing problems. While you can't entirely inoculate yourself from this possibility, there are strategies that can be put in place.

Trust Company of Oklahoma's Real Estate Department can help you formulate a strategic plan for selling your home. Contact us for guidance in navigating this unique and generous market.



JIM BLOOMFIELD
Vice President

SPOTLIGHT

The Parent Child Center of Tulsa (PCCT) is a non-profit whose mission is to prevent child abuse and neglect through education, treatment and advocacy. PCCT works to prevent child abuse and neglect by increasing protective factors, including teaching responsible parenting skills and reducing risk factors to make the home environment safer.

Prevention pays tremendous dividends for the individual child, the family and our entire community. Children who are safe and nurtured in their early years are more likely to thrive, learn and become healthy, productive citizens, contributors to the community and loving parents themselves.

PCCT has worked proactively on the change side of child abuse by strengthening parent-child relationships for over 40 years. PCCT's prevention programs range from trying

to break the cycle of abuse with programs focusing on community outreach, family support, and therapy. All told, for the year 2019, PCCT's programs reached over 80,000 people in the Tulsa community.

PCCT is a partner agency of Tulsa Area United Way and nationally accredited through the Council on Accreditation, an independent evaluator of community-based behavioral health care and social service agencies.

To learn more about their impactful work, please visit parentchildcenter.org.



SPOUSAL LIFETIME ACCESS TRUSTS

An Old Technique for a New Tax Regime

We have all heard the saying, “The only constant in life is change.” The past year has shown us how true that phrase is. And now, with a new political party at the helm in Washington, D.C., we can anticipate the likelihood of tax law changes that impact current estate planning techniques.

Proposals put forward by President Biden would reduce the current \$11.7 million individual estate tax exemption back to \$5 million or even lower. Additionally, these proposals would increase the highest rate for estate tax from 40% to 45%. Even if President Biden is not successful in implementing these proposals, the current exemptions are set to expire in 2026. Should that happen, exemption levels will be reduced to \$5 million per individual and \$10 million for a married couple (adjusted for inflation).

Given the current historically high exemption amount and the very real possibility that it will meaningfully decrease in the near future, now is an excellent time to review your estate plan and consider whether changes to take advantage of the current exemption amounts might be in order.

ENTER THE SLAT

While there are a number of different estate planning techniques designed to fully utilize the high exemption amounts, increasingly estate planners and commentators have been talking about one technique in particular: the Spousal Lifetime Access Trust, better known as a SLAT.

The reason for the heightened interest is not because the SLAT is a new estate planning technique. It has been with us for years. Instead, the potential for changes to the tax laws has given this type of trust its moment to shine. A properly drafted and funded SLAT can take full advantage of the current high exemption amounts, remove assets from the reach of the estate tax and potentially provide protection from creditors. The feature that may make the SLAT most appealing is the opportunity to make a significant gift of assets while still maintaining the possibility of indirectly benefitting from those assets.

How does the SLAT do all of this? The structure is relatively straightforward. As the name suggests, the trust is most commonly used by married couples. One spouse, called the “donor spouse” creates the trust and funds it with his or her own individual assets. This is a critical point. The donor spouse must use his or her own separate (not jointly owned) assets to fund the trust.

The trust is irrevocable and contains language allowing the other spouse, called the “beneficiary spouse,” to request distributions, usually to support the beneficiary spouse’s standard of living.

As with any trust, a trustee is named to administer the trust according to its terms. As long as the couple remains married, any distributions from the trust to the beneficiary spouse will

indirectly benefit the donor spouse.

Whether a SLAT is the right fit for your particular situation is a decision to be made in consultation with your estate planning attorney and other financial advisors. There are a number of important items to consider. Most importantly, a gift to a SLAT is an irrevocable gift. The donor spouse ultimately cannot get those funds back. Careful planning will be necessary to determine the appropriate amount of funds to gift, taking into account the need to keep sufficient assets back to support the married couple’s lifestyle.

Although the SLAT is designed to provide for distributions to the beneficiary spouse, those distributions will be at the discretion of a trustee and thus cannot be guaranteed. Along those same lines, thought should be given as to what might happen in the event of the beneficiary spouse’s death. Once the beneficiary spouse has passed away, the trust assets will no longer be, even indirectly, available to support the donor spouse.

And while no one likes to think about the possibility of divorce, your estate planning attorney should discuss drafting techniques to protect your assets should the worst happen.



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FORWARDING SERVICE REQUESTED

INTRODUCING TCO MOBILE

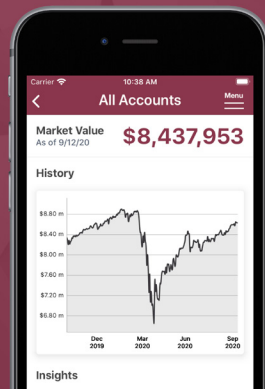
Trust Company of Oklahoma has an app!

TCO Mobile provides a safe and secure way to access your TCO account information. You can easily view market values, holdings, and even transaction details while on the go.

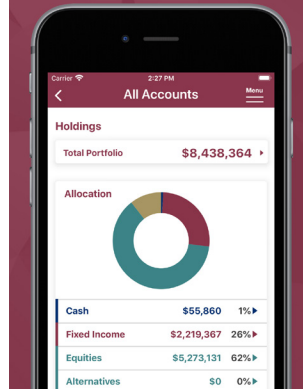
For more information on how to download and login to TCO Go, please contact your account administrator.



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