

Trust Company Oklahoma

INVESTMENT PERSPECTIVES

OCTOBER 2021

TAKING STOCK OF BIG TECH

Big Tech Has Enjoyed Big Gains During the Pandemic, but How Long Can Its Dominance Last?

As we navigate year two of the pandemic, it has never been more apparent that we now live in a digital world. The pandemic has not only underscored the extent to which technology had already been integrated into the economy and our daily lives, but it has also accelerated these changes. By far, the biggest beneficiaries of these trends have been technology companies.

The S&P 500 ended last year up over 18%. A significant portion of that improbable performance can be attributed to the “FAANGM” stocks (Facebook, Apple, Amazon, Netflix, Google, Microsoft), which alone accounted for *nearly half* of the 2020 performance gains for the S&P 500. The market capitalization analysis chart on page 2 reflects this strong performance, showing the virtually exponential increase in the combined market value of these stocks. In 2020 alone, FAANGM’s share of the collective market value of the S&P 500 increased by approximately 8%, accomplishing in one year what had taken the prior five years to achieve.

Given the size of the tech giants in relation to both U.S. and international stock markets, the main question asked by investors today is, “Can Big Tech continue its market share dominance?”



Illustration by TCO

THE WILD CARD

One of the potential roadblocks to future growth is regulation. Both in the United States and Europe, technology companies increasingly find themselves in the crosshairs of regulators and lawmakers. For example, earlier this year the U.S. House Judiciary Committee approved several bills seeking to break up the larger technology companies. Although committee-approved bills do not always become law, these measures had bipartisan support and indicate an increased willingness from both sides of the aisle to consider such extreme measures.

Even if a breakup scenario were to occur, this could potentially unlock more value for shareholders of these firms. Consider Amazon, which currently has a total market capitalization of approximately \$1.6 trillion. Amazon has several very profitable divisions. If each of these divisions were separate companies, their aggregate value over the long-term could be much higher than Amazon’s value today. For example, using a conservative multiple of 15



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MARKET RECAP

The S&P 500 had an up-and-down calendar third quarter, but it still finished with a slightly positive return, and is up nearly 16% year-to-date. International stocks continue trailing U.S. large caps, but the gap in returns narrowed during the most recent quarter.

	YTD	Past 3 Months	Past 12 Months
S&P 500	15.9%	0.6%	30.0%
EAFE (International)	8.3%	-0.4%	25.7%

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VIEWPOINT

A Message From the Desk of Jim Arens

A point of pride I have in TCO is the variety of services we offer our clients. I'm sure many of you know that we often serve as corporate trustees and asset managers, but one of our hidden-gem services is Retirement Plan Solutions.

I know that helping your employees reach their financial goals is just as important to you as reaching your company's corporate goals. In fact, your employees' retirement plan may have become one of your bigger 401(k) concerns.

We are committed to taking on that responsibility and helping your employees prepare for retirement. As a fully

bundled provider, we deliver all services relating to the plan and your employees from right here in Oklahoma. Our retirement plans provide investment options with competitive performance and reasonable fees to ensure the future well-being of your valued employees.

We partner with you to develop a 401(k) plan that you and your employees need in order to achieve long-term goals. Our dedicated team of seasoned experts truly customizes every aspect of your plan. While every retirement plan is intended to prepare employees for retirement, our experts can assist with identifying plan features that meet your company's needs for recruitment and retention.

If you'd like help with the responsibility of helping your employees plan for the future, give us a call. We're always here for you.

JIM ARENS, Chairman, President & CEO

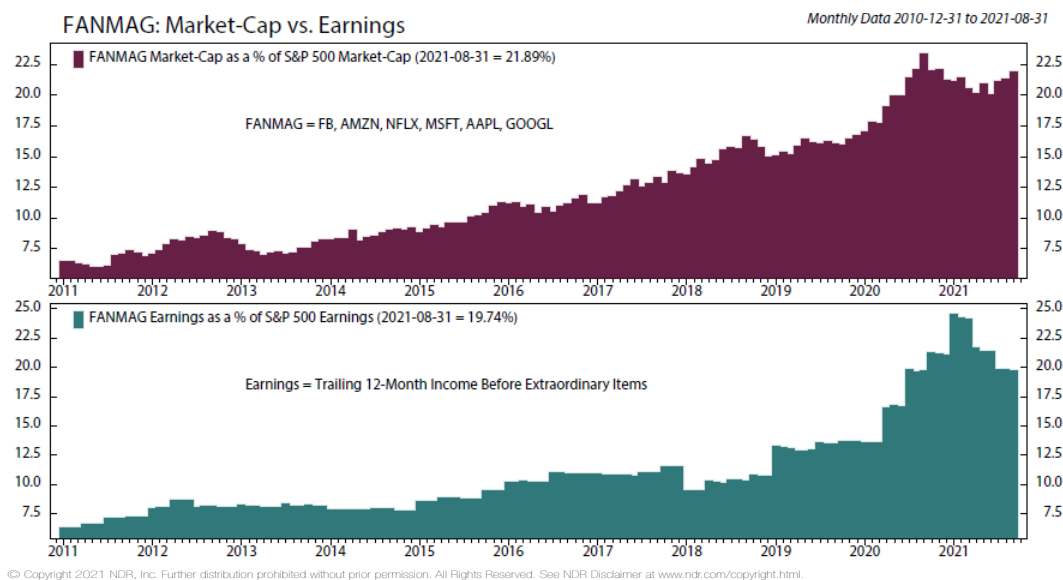
times sales, Amazon's Web Services division alone could be valued at \$1.5 trillion based on forecasted sales growth of \$100 billion by 2023. If that estimate is accurate, the market assigns little value for Amazon's other business lines, such as e-commerce and advertising.

As long as regulation does not impede the growth prospects for Big Tech, investors will continue to give these firms premium valuations relative to the broader stock market.

DECELERATING GROWTH?

A potentially greater impediment for the growth of Big Tech is the law of large numbers. In the context of investing, this means that the larger these fast-growing companies become, the more difficult it will be for them to maintain the same pace of growth, and the more likely their returns will eventually resemble the broader market. Investors have had these concerns for years.

This fear may not be new, but the rate of recent market share increases may warrant additional caution. For example, the market values for Apple and Microsoft stand at \$2.5 trillion and \$2.2 trillion, respectively. Since first crossing a trillion dollars in market value in August



2018, Apple has subsequently added \$1.5 trillion in market value. Microsoft added \$1.2 trillion since crossing the same milestone in April 2019. Historical analysis (per the chart on page 3) of the stock market shows that it will be harder for Big Tech to continue this pace of outsized returns over the next half a century, as no single stock market sector has retained its dominance of the U.S. stock market. Sectors move in and out of the top spot, and dominant individual companies do as well.

UNCHARTED TERRITORY

A recent study conducted by Bernstein Research evaluated high growth rate stocks for the top 1,500 companies each year over the past 40 years (1980-2020). The list contained over 6,000 total companies, with more than 1,000 in technology. Over that time period, only 31

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companies were able to grow sales at 15% or more for 10 successive years, with only 13 out of the 1,000 tech companies accomplishing this same feat.

The numbers were somewhat better using compound annual growth rates (CAGR), which smooth out the annual sales numbers and better account for year-to-year fluctuations (CAGR is effectively an average annual growth rate for the entire analysis period). By this measure, nearly 20% of tech companies grew revenues at a 15% CAGR for more than 15 years. However, when factoring in company size, these rates of growth become much harder to achieve. In fact, no tech firms with greater than \$25 billion in sales were able to grow revenues at a 15% CAGR for 15 years or more over this period. Given these difficult statistics, how can Big Tech possibly continue to gain market share?

KEYS TO CONTINUED EXPANSION

The answer may come from an examination of both macro-economic and company-specific demand drivers. Global, secular technology trends in communication and collaboration, cloud computing, and digital experiences will continue to position Big Tech at the epicenter of future innovation. Additionally, there are also novel trends on the horizon that investors have yet to fully account for. Some

potential examples include Apple's possible entry into automobiles, Amazon's entry into health care, Alphabet's self-driving car plans, and Facebook's metaverse, whereby people would interact over the internet in 3D.

“Though Big Tech faces increased regulatory risk and the law of large numbers, for the foreseeable future they should retain their market share dominance.”

Firm-specific drivers depend on their ability to continuously innovate and the scale at which they do so. One of the best examples of this is our cell phones, which seemingly are now used for everything but calls. In the case of Apple, CEO Tim Cook recently noted that the firm has an installed user base of more than *one billion* iPhones. This base gradually turns over as newer features become available. Additionally, the installed base for these companies generate

annuity-like streams of revenues, such as the monthly charge for streaming services. Should one of these firms become less innovative, the revenue stream could shrink, which in turn would negatively impact the stock's price and market share.

Though Big Tech faces increased regulatory risk and the law of large numbers, for the foreseeable future they should retain their market share dominance, while gaining market share at a slower pace than in recent years. These firms will not only leverage the behavioral shifts caused by the pandemic to expand their businesses but also increase investment in and, in turn, demand for emerging technologies.

TOP 5 U.S. COMPANIES BY MARKET CAPITALIZATION

	1960	1970	1980	1990	2000	2010	2020
1	AT&T	IBM	IBM	Exxon	Microsoft	Exxon Mobil	Apple
2	General Motors	AT&T	AT&T	General Electric	General Electric	Microsoft	Microsoft
3	Dupont	General Motors	Exxon	IBM	Cisco	Walmart	Amazon
4	Exxon	Eastman Kodak	General Motors	AT&T	Walmart	Apple	Facebook
5	General Electric	Exxon	Amoco	Philip Morris	Exxon Mobile	Johnson & Johnson	Alphabet
Percent of Market Share	27%	24%	17%	13%	15%	11%	23%

Source: Schroders; Refinitiv; S&P Dow Jones

*Technology companies highlighted in maroon.

DECANTING STATUTE WILL REWRITE OKLAHOMA'S TRUST PLAYBOOK

On a cold, gray afternoon in November 1912 the Carlisle Indian Industrial School beat the U.S. Military Academy in a game of football. Led by Jim Thorpe, already a sports legend, and coached by Glenn Scoby "Pop" Warner, the game cemented Carlisle as the front-runner for being the best team in the country. It also was the debut of the double-wing formation, designed by Pop Warner specifically for the game against Army.

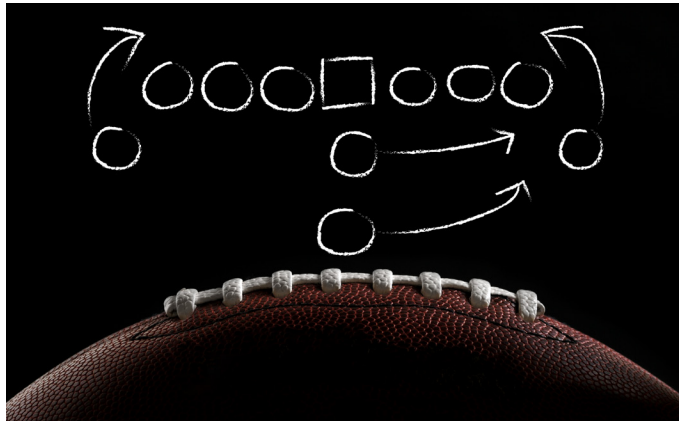


Photo by iStock.com | Illustration by TCO

The Carlisle football team was, in both size and strength, a smaller team. The entire lineup contained only 12 members, none of whom exceeded 170 pounds. What they lacked in size or number, however, they made up for with speed, skill and an innovative playbook.

Army played football like a steamroller. Their players were larger; there were more of them. Their coach, Ernest "Pot" Graves, liked to encourage his team to "carry the fight to the opponent and keep it there all afternoon."

The double-wing formation allowed Carlisle to increase their opportunity for trick plays. The way the offense approached the field was fresh and proved to be influential. The next day, the New York Times proclaimed that the Carlisle team had played "the most perfect brand of football ever seen in America." The Carlisle team had a history of creative plays prior to 1912, including the single-wing formation developed by Pop Warner in the 1907 season. However, the win against Army helped drive the game from one that emphasized brute force into one that favored the intellectual capacity of the playbook. In short, the Carlisle Indian Industrial School rewrote the game of football.

The State of Florida similarly rewrote the trust law playbook with the state Supreme Court decision *Phipps v. Palm Beach Trust Company*, cementing the common law practice of trust decanting as a valid practice. However, decanting became a popular trust technique after a series of states began enacting decanting statutes. Decanting is a way in which a trustee can make a distribution of the assets in the trust from an old trust to a new, substantially similar trust.

This November, the State of Oklahoma will enact a decanting statute that will rewrite our state's trust law playbook. The statute will allow trustees to refresh trusts that have drafting language that prevent the trustee from accomplishing the goal of the person who created it. Some trusts have lived past the era in which they were drafted and are burdened by a lack of modern drafting language. A

trustee might need to sell real property, and the trust might not have a paragraph that allows the sale. The trust might contain tax language that has been rendered inefficient by a more recent tax law.

Up until this point, if a trustee needed to change a trust that was irrevocable, they had to take the trust and the proposed changes to court. As of Nov. 1, a trustee is no longer required to have a trust changed through court action; the trustee can make use of Oklahoma's new decanting statute.



EMILY CRAIN
Senior Vice President

This statute requires that an authorized trustee give notice to the affected beneficiaries, and must include a statement that the authorized trustee intends to exercise the power of distribution, that the beneficiary has the right to object to the exercise of power, and the beneficiary may petition a court to approve, modify or deny the exercise of the trustee's power to make a distribution under the act. The notice must describe the way that the trustee intends to exercise the power, and it must state the date that the trustee intends to fund the new trust. The notice must include copies of the old and proposed new trust, and it must be sent to the beneficiaries at least 90 days before the creation of the new trust.

Jim Thorpe once said of football, "You have to use a lot of creativity out there." Oklahoma's new decanting statute allows trustees to use a little creativity to benefit the beneficiaries they serve.

DEFENDING YOURSELF AGAINST KEYBOARD CRIMINALS

During a recent visit to my mother- and father-in-law's, I found them huddled anxiously around their computer while talking to someone unfamiliar on speakerphone. As I drew nearer to their monitor, I could just make out an internet pop-up claiming that their computer had been infected with approximately 12,353 different viruses and urging them to contact "Apple tech support (*sic*)" immediately for assistance.

Sensing what was really happening, I asked the "Apple employee" if he had ever heard the names Steve Jobs or Tim Cook. The reply came back, "Never heard of them. Who are they?" At that point, my father-in-law thankfully realized the scam and ended the call before any damage could be done.

Unfortunately, cyberscams and cyberattacks like this have become all too common — not only for individuals but for corporations and municipalities, too. Earlier this year, a ransomware attack on Colonial Pipeline resulted in fuel shortages across the East Coast, all due to a single compromised password. Locally, hackers gained access to the City of Tulsa network, crippling a variety of city services for months and potentially exposing thousands of residents' private information.

Thankfully, you can help protect yourself by following these five tips:

- Use strong passwords with eight or more characters, containing a mix of letters, numbers and symbols. Perhaps of even greater importance, never reuse passwords across different sites and apps. If you

struggle with that last point, consider using a password manager such as Dashlane or LastPass.

- If a website or app offers two-factor or multi-factor authentication, use it. By entering both your password and a randomly generated code sent to your cellphone, it becomes exponentially more difficult for a hacker to breach your account. This extra layer of protection helps you avoid being the lowest-hanging fruit for would-be hackers.
- Never open attachments or click links in emails from unknown senders, no matter how urgent or real they appear to be. Most malware or ransomware attacks are initiated through links or attachments in fake emails, otherwise known as phishing emails.
- If you use social media such as Facebook, only add people you know. Of equal importance, limit the amount of personal information you share on social media.
- When in doubt, ask someone you trust for a second opinion. Scammers frequently create a false sense of urgency or familiarity with you, and they can often be very convincing. Let someone you trust act as a second set of eyes.



MICHAEL HOPPER,
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& Chief Operating Officer

SPOTLIGHT

Sunbeam Family Services is the state's longest-serving social service agency. The agency serves vulnerable children, families and seniors throughout central Oklahoma.

Sunbeam works to provide "help, hope and the opportunity to succeed," through their early childhood, foster care, mental health and senior services programs. Each year Sunbeam helps around 9,200 central Oklahomans.

Sunbeam's early childhood services include education centers that assist young children from prenatal to 5, as well as in-home early education support programs, increasing caregivers' knowledge and confidence, building bonding and connecting caregivers with resources.



A traditional foster care agency, Sunbeam offers temporary care and supportive services for children in OKDHS custody. They work with children from birth to 18 to improve the safety, well-being and permanency by inclusively recruiting and training new foster parents.

Senior services including helping caregivers of those 60+, as well as grandparents raising their grandchildren. Sunbeam also offers a senior engagement volunteer program to help seniors stay active and connected.

Sunbeam offers affordable mental health services for people of all ages, as well as provides employee assistance programs to employers.

Sunbeam Family Services offers opportunities to support their mission through item and financial donations, as well as volunteer opportunities. For more information, visit sunbeamfamilyservices.org.



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FORWARDING SERVICE REQUESTED

