

# Trust Company Oklahoma

## INVESTMENT PERSPECTIVES

TrustOk.com

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# AI: THE NEXT REVOLUTION?

Examining the Impact and Implications of Artificial Intelligence on Markets and Beyond

While rising inflation monopolized headlines in 2022, artificial intelligence (AI) has captured the imagination of investors in 2023, and has steered both the S&P 500 and Nasdaq 100 to fresh year-to-date highs. The embrace of AI by the world's largest companies is a welcome relief to the recent bear market, but it's critical to understand its far-reaching implications and how it will affect us moving forward.

### AI's History

Let's take a step back to understand how we got here. Before AI became the latest buzzword in corporate earnings calls, scientists, mathematicians, and philosophers pioneered it as far back as the 1950s. The technology made slow and steady progress over the decades, limited primarily by costly computing power. Still, it achieved a landmark goal in 1997 when IBM's Deep Blue, a chess-playing computer program, defeated reigning world chess champion and grandmaster Garry Kasparov.

Fast forward 20 years, and in 2017



**Garrett Guinn**  
CFA

Assistant Vice President

Google's AlphaZero program defeated Stockfish 8, the world's 2016 computer chess champion. Stockfish 8 had centuries of accumulated human experience, decades of computer experience, and could calculate 70 million chess positions per second. AlphaZero, on the other hand, could calculate merely 80,000 chess positions per second, and its developers did not teach it any chess strategies. Instead, the creators of Google's AlphaZero chess program implemented the latest machine-learning principles to let the program self-learn chess — in only four hours — by playing against itself. Out of 100 matches between AlphaZero and Stockfish 8, Google's AlphaZero won 28 and tied 72. It didn't lose a single game.

The recent AI craze among the general public began late last year with

the release of ChatGPT by OpenAI, a research-oriented company founded in 2015 by Elon Musk, Sam Altman, Ilya Sutskever, and others. OpenAI was initially formed as a nonprofit tasked with building safe AI technology for the benefit of humanity. However, in 2019 the company created a for-profit arm, allowing it to raise billions of dollars from Microsoft and develop increasingly expensive models such as ChatGPT.

What makes ChatGPT and similar chat tools so unique is that they're not simply AI, which essentially consists of algorithms used to classify and predict something, but they're considered generative AI. Generative AI can generate text (e.g., ChatGPT responding to your queries), art (e.g., DALL-E generating an image based on a prompt such as "an astronaut playing basketball with dogs in space"), computer code, etc., and it's currently driving the next wave of innovation.

For consumers, ChatGPT has attracted users to its platform so people can quickly get suggestions for an affordable family vacation, write a homework report on the U.S. Revolution, or make a reservation for dinner at their favorite Thai restaurant. Rather than search, evaluate, and click multiple links in a simple query, people can ask questions and receive detailed human-like responses in seconds. Users can also review and access the links in ChatGPT's response if they want additional information.

In response to ChatGPT, companies like Google, Microsoft, and Salesforce have released their own competing AI-driven

## MARKET RECAP

With inflation receding and a resilient jobs market, the S&P 500 rose 8.7% and Barclays Aggregate fell 0.84% during the quarter.

**5.10%**

Fidelity Prime Money Market Yield

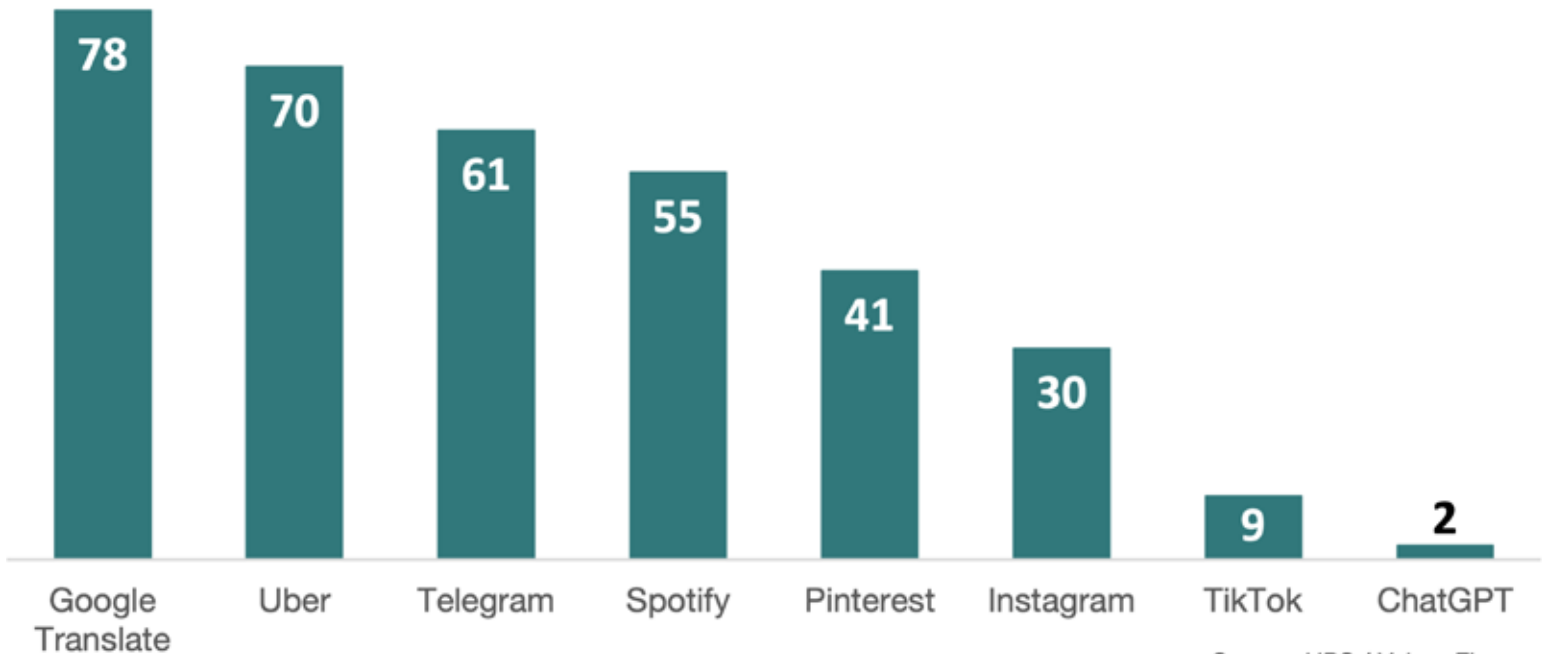
	Second Quarter	YTD	Past 12 Months
S&P 500	8.7%	16.9%	19.5%
EAFE (International)	3.0%	11.7%	18.8%

Continued on page 2

# Months to Reach 100M Users

## Months to get to 100 million global Monthly Active Users

Chart 1



Source: UBS / Yahoo Finance

Continued from page 1

products: Bard, Bing Chat, and Einstein GPT, respectively.

It's highly likely the spotlight will be fixed on AI going forward as companies leverage this technology to drive efficiencies within existing products and services, and spur the next evolution of innovation.

### AI and Markets

One of the key questions here is whether the recent hype in AI is warranted and, if so, to what degree will it resemble previous technological advancements like the printing press or the internet? After its release to the public in November 2022, ChatGPT reached 100 million users after two months, making it the fastest-growing app of all time (see *Chart 1 above*) and far outpacing the likes of runners-up TikTok and Instagram.

AI benefits from user engagement, improving its performance by learning from users, and progressively generating higher-quality content. Thus, large tech companies will further benefit in this next technological leap forward by having access to immense, high-quality, and proprietary data (possessed by the likes of Google).

## Bloomberg Intelligence projects the total market for generative AI will increase from \$67 billion in 2023 to \$1.3 trillion by 2032 and capture about 10% to 12% of total technology spend.

Moreover, to play in this game there's a prerequisite: You need to have deep pockets. It was reported that OpenAI spent approximately \$545 million last year alone developing its AI models and that Microsoft would invest an additional \$10 billion in OpenAI.

The interest in adopting AI is not limited to tech giants; even established consulting firms such as PwC and Accenture have recognized its usefulness and have committed billions of dollars toward expanding and scaling their AI offerings.

While the cost per computing unit has declined over the past few decades, the price to effectively scale AI models

has risen rapidly, significantly raising the barrier to entry for startups and companies with comparatively fewer resources. This sentiment is shown in the year-to-date performance among the "AI stocks" — essentially Facebook, Apple, Tesla, Google, Amazon, Microsoft, and the S&P 500 Semiconductors & Semiconductor Equipment Index — and the remainder of the S&P 500.

The immediate impact of AI on stock returns this year has led to greater concentration within the S&P 500, where more than 100% of the year-to-date gains (through May 31) came from the top 10 weighted stocks, an unprecedented level of outperformance; the bottom 490 stocks in the index surprisingly fell 4.3%.

The year-to-date outperformers benefitting from AI have robust business models that complement this new technology and have immense amounts of proprietary data. For example, Nvidia, the premier GPU (graphics processing unit) chip designer for AI platforms, recently approached the \$1 trillion market capitalization threshold after forecasting current-quarter sales of nearly

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# VIEWPOINT

A Message From the Desk of Jim Arens



**Jim F. Arens II**  
CFA

Chairman, President &  
Chief Executive Officer

Summer is here, with plenty of holidays and opportunities to gather with friends and family. We have had many reasons to celebrate at TCO, and I'd like to share those with you.

I am happy to announce that **Holly Ferguson**, SVP, has joined TCO. Holly joined our Retirement Plan Solutions department, bringing expertise in retirement plan design and consulting, among a wealth of other experience. She holds several credentials, demonstrating her commitment to staying current on the latest trends and best practices in the retirement plan industry.

It also gives me great pleasure to report that **Garrett Guinn**, AVP in our Investment Management department, has earned his Chartered Financial Analyst designation. The CFA® charter is the most prestigious designation in the investment industry. To obtain it, candidates must complete the CFA® program, which consists of a rigorous three-part

exam testing the fundamentals of investments, valuing assets, portfolio management, and wealth planning. TCO is fortunate to now have seven CFAs on staff.

I am also proud to announce the opening of our Oklahoma City office located within the Waterford Building complex. Our OKC team put in tremendous effort to create an inviting space that enhances our ability to serve our clients in central Oklahoma and provides a convenient and accessible location for in-person meetings. We look forward to welcoming clients and their families to our new location.

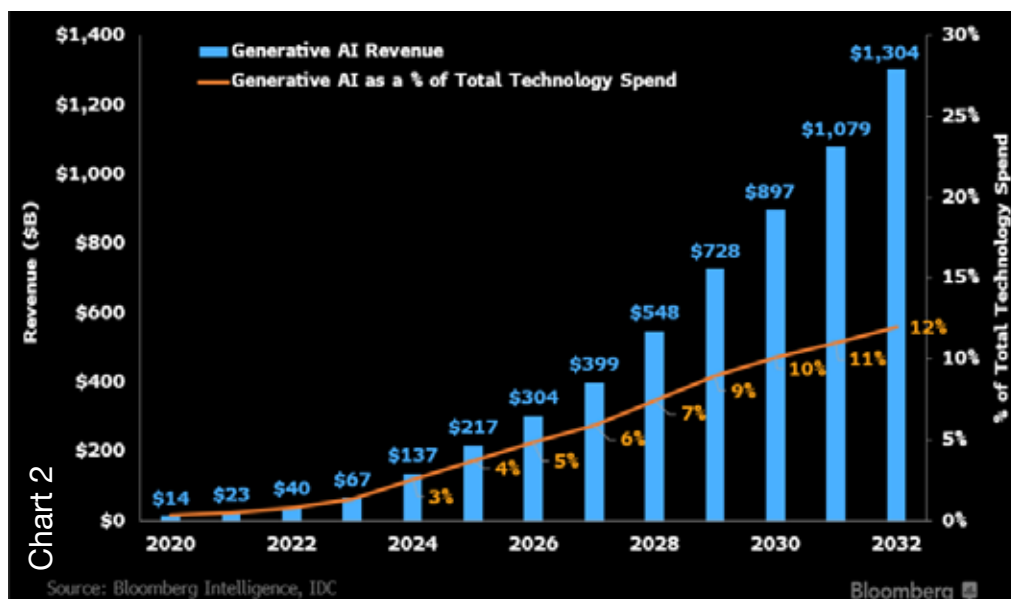
TCO remains committed to providing the highest quality service to our clients, and we are confident that our recent hirings and new office location will improve our ability to do so. I hope you have a summer filled with relaxation, family, and friends. Thank you for your continued trust and for allowing us to serve you.

## Continued from page 2

\$11 billion, up 64% from a year earlier and significantly higher than the \$7.2 billion expectation on Wall Street. In a single day, Nvidia's market capitalization increased by nearly \$184 billion, making it one of the most significant one-day market capitalization gains in American corporate history. For perspective, the one-day gain in market capitalization for Nvidia on May 25 was greater than the entire market capitalization of Disney and about equal to that of Netflix.

Bloomberg Intelligence projects the total market for generative AI will increase from \$67 billion in 2023 to \$1.3 trillion by 2032 and capture about 10% to 12% of total technology spend (see *Chart 2 to the right*). The primary drivers for generative AI growth include infrastructure-as-a-service used to train large language models (\$247 billion), digital advertisements (\$192 billion), servers (\$134 billion), and conversational devices (\$108 billion).

The enthusiasm for generative AI seems well-founded due to evidence that companies across all industries can adopt it and the technology may drive significant efficiencies. Furthermore, generative AI is still a nascent technology with plenty of room for growth, as described above, with 70% of organizations polled in a Gartner survey claiming to be in the exploration



stage. The survey data also indicate that most executives believe investment in enterprise-grade generative AI outweighs the risk, suggesting a meaningful generative AI adoption cycle is on the horizon.

Although the accuracy of any long-term forecast is always subject to scrutiny — be it this weekend's weather or next year's Super Bowl champion — there is little doubt that generative AI will develop into a substantial market, spanning from hardware and software to gaming, advertising, and business services.

Overall, this year's investing landscape

has turned surprisingly positive — developing into a technical bull market — as job growth remains supportive, inflation concerns wane, and banking headwinds remain contained. Moreover, when reviewing data from Bloomberg Intelligence, we can see positive 12-month forward returns in times, similar to today, when there is narrow market outperformance (i.e., Apple, Microsoft, Google) compared to overall stock market returns. Looking forward, we will continue actively monitoring developments in this technological revolution to identify attractive opportunities. **TF**

# MAXIMIZING PROFITS AND TAX EFFICIENCY

Exploring the Power of a Deferred Sales Trust for Financial Flexibility



**Emily Crain**  
Senior Vice President

In the world of investment and asset management, finding effective strategies to maximize profits and minimize tax liabilities is crucial. One such strategy that has gained significant attention recently is the Deferred Sales Trust. This estate planning tool allows individuals and businesses to defer capital gains taxes on the sale of appreciated assets while maintaining control over the investment and enjoying possible growth.

## What is a Deferred Sales Trust?

A Deferred Sales Trust is a legal and tax strategy that allows sellers to defer capital gains taxes on the sale of highly appreciated assets, such as real estate, businesses, or stocks. It is a versatile tool that can be utilized by individuals, business owners, and investors looking to optimize the proceeds from a sale of an appreciated asset while effectively managing their tax obligations.

## Benefits of a Deferred Sales Trust

There can be many reasons to set up a Deferred Sales Trust, including:

- **Tax Deferral:** The primary advantage of a Deferred Sales Trust is the ability to defer capital gains taxes, which can result in significant savings, especially for high-net-worth individuals and those facing substantial tax liabilities.
- **Flexibility and Control:** Unlike other tax deferral methods, such as 1031 exchanges, a Deferred Sales Trust provides more flexibility in choosing investments and allows the seller to maintain control over their funds.
- **Diversification and Growth:** The funds placed in the trust can be

## A Deferred Sales Trust ... can be utilized by individuals, business owners, and investors to optimize the proceeds from a sale of an appreciated asset while effectively managing their tax obligations.

invested in various assets, enabling potential growth and diversification of the portfolio.

- **Estate Planning:** As the Deferred Sales Trust is inherently an estate planning technique, a Deferred Sales Trust can also offer traditional estate planning benefits, allowing an organized plan to transfer wealth to children and grandchildren.

## How Does It Work?

The process of setting up a Deferred Sales Trust involves the following steps:

- **Drafting of the Trust Agreement:** A trust agreement is established, outlining the terms and conditions of the trust, including the payout schedule to the seller.
- **Sale of Assets:** The seller transfers the ownership of their assets to a specially created trust managed by a third-party trustee.
- **Deferred Payments:** Instead of receiving the full proceeds from the sale immediately, the seller gets regular payments over a specified period or according to a predetermined schedule.
- **Tax Deferral:** By structuring the transaction in this way, the seller can defer capital gains taxes until they receive the payments from the trust over time instead of taking all of the

gains at the time of the sale. This could allow the trust beneficiary to take advantage of lower tax rates or utilize other tax planning strategies.

- **Investment and Growth:** The funds in the trust can be invested in various assets, providing the potential for growth and generating income during the tax deferral period.

## Considerations and Limitations

While a Deferred Sales Trust offers numerous advantages, it is important to consider certain factors:

- **Complex Structure:** Setting up and maintaining a Deferred Sales Trust requires careful planning and the assistance of experienced professionals, including tax attorneys and financial advisors.
- **IRS Scrutiny:** The Internal Revenue Service (IRS) closely scrutinizes transactions involving Deferred Sales Trusts to ensure compliance with tax laws. It is essential to ensure proper adherence to avoid potential legal and financial consequences.
- **Deferral Period:** The deferral period can vary based on individual circumstances and the terms of the trust agreement. Sellers should consider their cash flow needs and long-term financial goals when structuring the trust.
- **Limited Eligibility:** Not all types of assets or transactions are eligible for a Deferred Sales Trust. Assessing the suitability and eligibility of the specific assets before pursuing this strategy is crucial.

A Deferred Sales Trust is a powerful tool that offers significant tax benefits and financial flexibility for individuals, business owners, and investors looking to lower their capital gains tax liabilities. While it requires careful planning and adherence to tax regulations, a well-structured Deferred Sales Trust can result in substantial savings and increased control over investment decisions.

# WHEN FIREWORKS AREN'T FUN

Taking proactive steps with your estate plan can diffuse tensions among beneficiaries.



**Ryan Short, CFP®**  
Senior Vice President

When the Second Continental Congress voted to declare independence from Britain on July 2, 1776, John Adams quickly predicted, in a letter to his wife, “that it will be celebrated, by succeeding Generations, as the great anniversary Festival ... to be solemnized with Pomp and Parade, with Shews, Games, Sports, Guns, Bells, Bonfires and Illuminations from one End of this Continent to the other from this Time forward forever more.” Indeed, the Sons of Liberty fulfilled Adams’s vision on July 4, 1777, enlivening the skies with fireworks and merriment. Americans still gather 246 years later from sea to shining sea to marvel at these colorful explosions, joyfully expressing gratitude for our great nation.

While we welcome fireworks on Independence Day, we earnestly hope to avoid them in estate and trust administration. Fireworks, in that context, can be expensive, time-consuming, and often lead to irreparable family discord. Even a thorough estate plan formulated by an experienced attorney and properly executed by a grantor can become the focus of friction among beneficiaries.

Sometimes, family conflicts manifest during estate settlement, leading to costly litigation. In many cases, the fight isn’t about the about plan; it’s really about the feelings of hurt that develop over the years. Perhaps one child feels slighted because another child was named trustee. *Why did Mom and Dad trust you instead of me?* Maybe one sibling cannot forgive another for perceived preference during childhood. *Why did Mom and Dad always give you more than me?*

Sometimes, these fireworks are unavoidable. Fortunately, there are some simple steps that you can take during life to mitigate the risk of an explosion.

## Communicate Your Plan

After finalizing your estate plan, consider sharing it with all impacted parties. Some of our clients choose to have a family meeting where they provide copies of documents

and share the thinking behind their choices. By doing this, the family has an opportunity to discuss and digest the plan before it’s put into action. The conversation can be especially helpful if there are unequal distributions among siblings after death.

## Consider an Independent Trustee

Naming an independent trustee can also reduce the risk of conflict. An independent trustee can administer the plan and communicate dispassionately with those inheriting assets from an estate. Although a responsible family member can impartially execute estate plans, the emotional baggage that accumulates within families can sometimes skew perceptions of fairness and manifest in unforeseen ways.

These simple steps may prevent the wrong kind of fireworks from erupting at the next Fourth of July family cookout.



## SPOTLIGHT

To learn more about this organization and how to assist in its mission, visit [PositiveTomorrows.org](https://www.PositveTomorrows.org).



**Positive Tomorrows** is a central Oklahoma nonprofit focused on assisting homeless students, helping them through their many challenges.

Students who are homeless typically face three barriers to academic and social development: transportation, hunger, and basic needs. Positive Tomorrows helps its students meet each of these needs. They provide a bus to take students to school, regardless of location. The organization ensures each student has a nutritious and filling meal so they may focus on learning rather than where their next meal may come from. Positive Tomorrows also helps provide basic necessities, including clothing, shoes, and toiletries.

Positive Tomorrows also recognizes that breaking the cycle of poverty includes not just the

students but also their families. Their programs assist families in finding shelter, food, and clothing. They then help those families learn life skills and find jobs, giving them stability and self-sufficiency to ensure their students can focus on their studies. They also provide transportation to and from school, a meal, and childcare for every school event, ensuring families with limited resources may attend school functions.

Positive Tomorrows has many opportunities for involvement. They welcome volunteers to serve as mentors, help in special programs, and more. They also welcome donated supplies and financial contributions, through either direct contributions or various fundraising events throughout the year.



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