



Trust Company Oklahoma

INVESTMENT PERSPECTIVES

July 2018

Decrypting the Bitcoin Bubble

A decade since inception and six months since their price meltdown, cryptocurrencies have yet to deliver on the promise to replace the currencies issued by central banks. Despite this, the interest in cryptocurrencies by businesses and consumers has only intensified. We invited **Senior Vice President Michael Abboud** to talk to us about the cryptocurrencies bubble and their future.

INVESTMENT PERSPECTIVES: Michael, let's start with the basics: What exactly is a cryptocurrency?

MICHAEL ABOUD: A cryptocurrency, such as Bitcoin, is a digital currency – merely bits of data on a computer network. Unlike the cash balance in your checking account, there is no physical object like a coin or dollar bill to which it is automatically equivalent. The currency gets its “crypto” name because it uses strong cryptography techniques. These techniques make it virtually impossible for a hacker to break through the computer algorithms and counterfeit more cryptocurrency.

IP: There are other cryptocurrencies. Why is Bitcoin the most popular?

MA: The idea of digital currency – convenient and untraceable, liberated from oversight of governments and banks – has been around since the beginning of the internet. Numerous attempts to create a digital currency, however, failed due to the problems of double spending

and lack of a trusted third party administrator. The reason is simple: since a digital currency is merely bits of data, how could someone be prevented from simply copying and pasting it (like a portion of text) and then spending it as many times as they want? How could theft be prevented by the trusted third party? These questions were answered in 2008, when an entity, using the alias Satoshi Nakamoto, released a whitepaper describing a new digital currency network, Bitcoin. Nakamoto described it as an electronic cash system that uses a peer-to-peer network to prevent double-spending, a system completely decentralized. The innovative step to employ the use of peer-to-peer networking (a number of computers configured to share files and processing power with one another) made the advent of digital currency finally possible. In this digital currency system, Nakamoto replaced a traditional centralized third party control source with one that was de-centralized and publicly available using a technology he called “block chain”.

IP: How does the block chain work?

MA: In this system, computers keep track of all transactions and currency account balances in a “digital ledger” by recording each piece of information as a block of information. Then they attach it to other blocks forming the block chain of information (**see chart on page 2**). The computers solve cryptographic equations to add a block to the chain, that once added becomes

EXCITING NEWS

Our team currently occupying the historic Utica location will soon join us at the 61st & Yale headquarters. Nothing will change about our relationship with our advisors, though. We've always had a team approach across our offices. Going forward, our combined expertise in Tulsa under one roof will strengthen our ability to help you achieve a worry-free financial future. Come visit Michael, Joanna and Sydney at their new offices later this fall.

MARKET RECAP

U.S. equities posted positive returns in the second quarter while international stocks were generally lower due to concerns over trade and slower economic growth.

| | Second Quarter | YTD | Past 12 Months |
|--------------|----------------|-------|----------------|
| Dow Jones | 1.3% | -0.7% | 16.3% |
| S&P 500 | 3.4% | 2.6% | 14.4% |
| EAFE (Int'l) | -1.2% | -2.7% | 6.8% |

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VIEWPOINT

A message from the Desk of Tom Wilkins

The last few years at Trust Company of Oklahoma have been filled with many positive changes. Our company has grown, built momentum, and expanded our range of services. Yet, we take pride in remaining committed to our founding mission and values.

We are fortunate to rely on the skills and knowledge of many professionals who work at TCO. They serve our clients diligently and tirelessly. I would like to take a moment to share great news about our professional team.

We have restructured our Oklahoma City office, and I'm honored to introduce this dedicated group to you. Under the management of Senior Vice President Joe Ray, some of the most experienced and respected trust and investment

advisors in the region are working to protect and grow the assets of families and organizations across Oklahoma and beyond. Please help me welcome Senior Vice President **Tim Hopkins**, Vice President **Brooke Holman**, Vice President **Emily Crain**, and Investment Officer **Jordan Hunt**. They are devoted to continuing our 30-year legacy of serving you in the Oklahoma City area.

It is also my pleasure to announce the hiring of two highly respected officers in Tulsa: Vice President **Matt Matheson** and Vice President **Bri Ghosn**. In addition, later this fall, our colleagues from the Utica office will move to our main location at the Warren Two Building in south Tulsa.

As you can see, we continue to strengthen our company. I hope your summer is filled with relaxation, family, and friends. Thank you for your continued confidence and for allowing us to serve you.

THOMAS W. WILKINS, Chairman, President & CEO

irreversible and impossible to hack. The computers in the network (known as "miners" since they "mine" information) are in turn rewarded with bitcoin as compensation. The amount of bitcoin each miner is awarded is also designed to decrease over time so that the currency will reach its predetermined limit of 21 million bitcoins by 2140, and thus - theoretically - avoiding hyperinflation.

IP: We assume a currency is something with which we can buy things. Can Bitcoin let me do that?

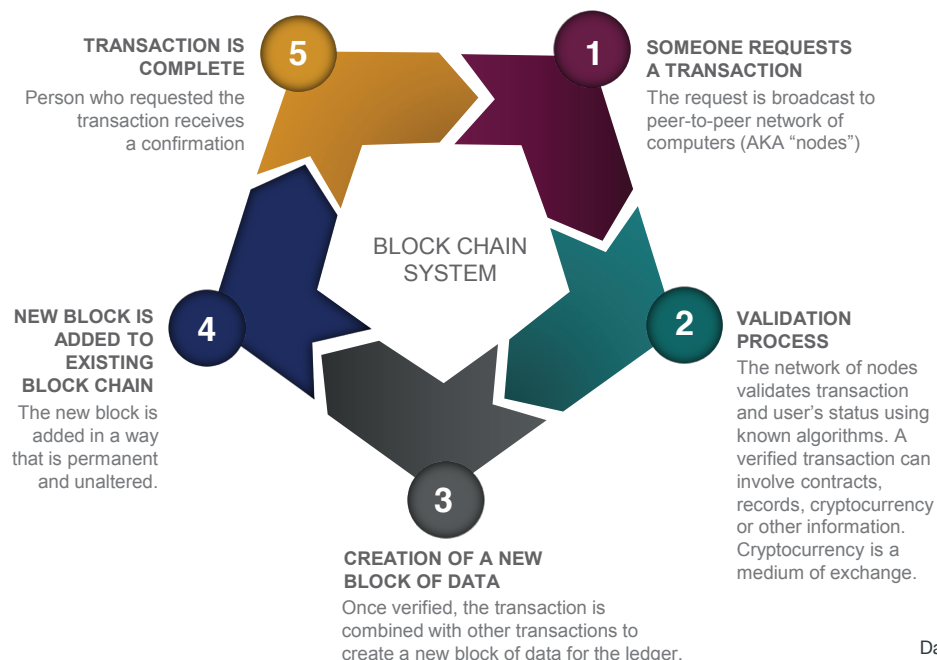
MA: Right now, it is very limited. In fact, the cryptocurrency is accepted by very few sellers. Transactions take about an hour to verify, and they consume massive amounts of electricity. It currently takes as much electricity to produce one bitcoin as the average U.S. household consumes in two years. The amount of electricity necessary to mine bitcoins

is equivalent to Switzerland's annual energy consumption. It appears that the quest for Nakamoto's decentralized administration with Bitcoin has created a potential environmental disaster. Based on our current technology, the internet would come to a halt if all digital retail transactions were replaced by bitcoin. Bitcoin's associated information load would simply overwhelm the internet.

IP: Should we view cryptocurrencies as potential investments even if they don't satisfy all the requirements of a traditional currency?

MA: Contrary to what Bitcoin advocates claim, it has proven to not be a good means of payment, store of value, or even an entity in itself. As it relates to store of value, extreme price volatility and ongoing hacks of cryptocurrency exchanges have worked against the currency. However,

HOW THE BLOCK CHAIN WORKS



Data Source: Blockgeeks

Bitcoin as an entity in itself is this digital currency's most perplexing claim because Bitcoin has zero intrinsic value, i.e. no actual asset or taxing power backs the value of Bitcoin. Because of this, the fundamental price of Bitcoin comes down to transactional demand relative to supply. Today, transactional demand is quite limited.

IP: Would you outline Bitcoin's rise to popularity?

MA: Speculative financial bubbles generally follow the same storyline, beginning with innovation and enthusiastic adoption, eventually followed by rampant speculation, and ultimately fraudulent behavior. Bitcoin was conceived during the 2008-09 financial crisis, so it capitalized on the public distrust of banking systems and contempt of government intervention. This cryptocurrency gained viral attraction in the summer of 2009 and gradually rose in value. Its price began to increase rapidly when it gained media attention. A spring 2010 Forbes story on Bitcoin caused the price of one bitcoin to spike from US\$0.86 to \$9. Later that year, a Gawker piece on the currency's popularity among drug dealers spurred the price to more than triple in a week to US\$27. Suddenly, the market value of all bitcoins in circulation was approaching US\$130 million. With serious money now at stake, people began to see it as a commodity in which to speculate and investors flocked to Bitcoin. Between early 2009 and early 2017, the dollar price of Bitcoin increased to \$1,150. During the next nine months, it began to rise exponentially in value, achieving a peak price of US\$19,511 in December, 2017. Over that eight-year span, Bitcoin's return was close to 1,600%!

IP: If Bitcoin is protected by strong cryptographic techniques, how did it get hacked and manipulated?

MA: Though the code and idea of Bitcoin remained impregnable, the bitcoins themselves still had to be stored somewhere, and this is where hackers concentrated their efforts. Bitcoin users have digital wallets, which are stored on online exchanges. Ironically, even though Bitcoin might have been decentralized, Bitcoin holders had to trust these centralized third-party exchanges to house their bitcoins. Even the most radical libertarian would be hard-pressed to argue that these exchanges were safer than FDIC insured banks. For example, in June 2011, the Bitcoin exchange Mt. Gox, which handled 90% of all Bitcoin transactions, was hacked. After the dust settled, the price of Bitcoin declined in value and the Bitcoin community's confidence was shaken. Mt. Gox would later claim bankruptcy in 2013 after a mysterious hack of the exchange wiped out US\$450 million from client accounts. In addition, a report published recently by professor of finance at the University of Texas John Griffin indicates that the exchange Bitfinex artificially inflated the price of Bitcoin in 2017.

IP: What is Bitcoin's trading environment today?

MA: Prior to December 17, 2017 it was extremely difficult to make bets against the price of Bitcoin for two main

reasons: no derivative market existed to do so and about 40% of all bitcoins were held by approximately 1,000 users. These holders often coordinated their buys and sells of Bitcoin, and could easily fend off bets on the decline in price of Bitcoin. All that changed when futures for Bitcoin started trading on the Chicago Mercantile Exchange (CME). Bitcoin pessimists could now bet on the price of Bitcoin declining by selling a promise to deliver Bitcoin at some point in the future at a lower price than the current market price. As short selling pressure continued to build, Bitcoin's price eventually bottomed at the same price it currently trades – around US\$6,400, declining some 66% from its all-time US\$19,511 high. Currently, the market capitalization of all 1,629 cryptocurrencies is US\$259 billion, with Bitcoin at roughly 40% of that (US\$110 billion). To put that into perspective, the market capitalization of all cryptocurrencies combined is a few billion greater than Intel Corporation's stock market capitalization of US\$232 billion.

IP: What's your outlook for cryptocurrencies?

MA: Even the purest technology has to live in an impure world. Nakamoto's idea of Bitcoin was fool proof, but the practical execution of the idea has not been. The decade-long journey of Bitcoin has proved that it is difficult to use, obtain, and create. And, in what rational universe could one write electronic scrip and, out of thin air, create billions of dollars of value worth more than Intel? Something just does not sit well here. There is an exhibition at the British Museum (Room 68) that displays stones, shells, countless coins, and other objects. These are tangible, historical examples of currencies that have failed due to lack of trust in their value. While cryptocurrencies may not work as money, their legacy is contingent upon future applications of their underlying block chain technology. The value of this technology is derived from the simplification of administrative processes related to complex financial transactions.

IP: Could we apply block chain to anything else?

MA: Yes. For example, using this technology, cryptopayments may be transacted using legitimate sovereign currencies for cross-border payments, where the cost and speed of execution are superior to traditional payment networks. Countless other applications built upon block chain technology will emerge, but at some point, cryptocurrencies will join the failed currency ranks in the British Museum as market participants realize these currencies have no intrinsic value and, in turn, their demand gradually wains.



MICHAEL ABBLOUD, CFA
Senior Vice President

Tax Reform: How It Affects You

A lot has happened in the first half of 2018: royals have married, trade disputes have been waged, and, of course, tweets have been tweeted. In fact, so much has happened that you would be completely forgiven if you forgot that a major overhaul of the tax code was signed into law late last year. However, the tax bill, otherwise known as the Tax Cuts and Jobs Act (or TCJA), is now the law of the land, and it impacts everyone so it is important that you know how this new tax code impacts you.

One of the most profound changes introduced with the TCJA is the dramatic reduction in the number of taxpayers who will itemize their deductions. Estimates vary, but most now put the number of filers who will take the standard deduction at an astounding over 90% of all filers. For the millions of Americans who were previously itemizing, there is a good chance that their charitable good deeds will no longer result in tax savings.

So How Does It Impact You?

When you file your tax return, you claim the higher of the standard deduction or the total of your itemized deductions. To illustrate, consider Lucy and Ricky Ricardo, a hypothetical married couple in their 50s. For tax year 2017, the Ricardos paid \$7,500 in state income taxes, \$10,000 in property taxes, and made charitable donations of \$7,500; they had no other deductions. Since the total of their itemized deductions (\$25,000) exceeded their standard deduction (\$12,700), the Ricardos wisely chose to itemize their deductions.

Even if their financial picture remains identical to the prior year, the Ricardos will experience significant changes on their 2018 tax return. With the state and local tax deduction now capped at \$10,000, their itemized deductions will be limited to \$17,500. And because that number is less than the new, higher standard deduction amount (\$24,000 for married couples filing jointly), the Ricardos will take the standard deduction. In effect, since they are now standard filers, Lucy and Ricky will receive no tax benefit for any expenses that would have been itemized deductions, including their charitable giving.

Before you write to your congressman, keep in mind that, even if your situation resembles the Ricardos, there is still a good chance you will pay less federal income taxes than in the past. Regardless of whether you are one of the millions of Americans who will now take a standard deduction, there are a few practical measures you can take today to make the most of your charitable giving in the new tax era.

Time Your Gifts Strategically

Even though one synonym of charity is “write-off,” it is unlikely that you donate simply for a tax deduction. But if you are planning on giving, there is no reason why you should not receive the maximum tax benefit possible.

One way to get the most of your giving is to combine several years of gifts together at once. Returning to the Ricardos, rather than giving \$10,000 to charity in 2018 and another \$10,000 in 2019, Lucy and Ricky could combine their charitable giving for both years together and potentially receive \$20,000 in charitable deductions. Doing so would put them over the standard deduction and back into itemized status for one year, where they receive the full benefit of their charitable inclinations.

Use Qualified Charitable Distributions

As an alternative, if you are over the age of 70 ½ and must take Required Minimum Distributions (RMDs) from an Individual Retirement Account (IRA), there is another option: the Qualified Charitable Distribution (QCD).

Rather than taking a distribution from your IRA, paying income tax on it and then using those funds for charitable giving, a QCD allows you to transfer up to \$100,000 per year directly from your IRA to your favorite charity. By doing so, you lower your taxable income and therefore reduce your overall tax liability. Thus, even if you claim the standard deduction, you can still receive a tax benefit for your charity.

To illustrate how this works, consider the Ricardos once more. Lucy and Ricky have now retired, and they each have IRAs from which they must take a total of \$40,000 in RMDs. They still want to make a charitable donation so they direct their IRA custodian to make a QCD of \$10,000 directly to the charity; the other \$30,000 they distribute to themselves. Even though they claim the standard deduction, the QCD effectively reduces their income by \$10,000. If they are in the 32% tax bracket, the Ricardos could see up to a \$3,200 drop in their federal tax liability. The other advantage of a QCD is that it can reduce Medicare taxes as well since the extra \$10,000 never shows up on Lucy’s and Ricky’s tax return.

The Bottom Line

Tax laws remain complex and the new tax law puts greater limits on the ability to deduct expenses. Besides the aforementioned ideas, it’s always good to consult with your tax advisor about other options and strategies. Even with most filers likely to use the standard deduction, tax laws remain complex—albeit not as interesting as what we see in our Twitter feed.




EMILY CRAIN
Vice President

CATCHING UP WITH YOUR RETIREMENT SAVINGS


Strategies for Late Starters

So you're over 40, retirement age is around the corner, and your retirement savings are not where they should be. What can you do? Whether it's because you started contributing later in life or put kids through college, the reality is you wish you had saved more at this point. Even if your retirement savings are nowhere near what you will need in retirement, don't panic. You can catch up with a few strategies and enjoy financial peace of mind soon.




BOOST SAVINGS

It's not pleasant: You have to save more every month. Start by reducing expenses. Consider finding an additional source of income. Eliminate consumer debt: credit card debt is expensive. Also, it's important to save outside your retirement plan.




KEEP THE MEMORIES, TRIM DOWN EXPENSES & INVEST MORE

For most Americans, their home is their biggest asset. If the house is beyond your needs or your budget in retirement, consider downsizing to a less expensive house. By doing so, you reduce mortgage expenses now and free up money later by reducing maintenance costs in retirement. The same goes for the vacation home that you rarely visit. Perhaps it can become a source of income in retirement.



MAXIMIZE RETIREMENT CONTRIBUTIONS

You can contribute up to \$18,500 annually into your 401(k) retirement plan. Yes, you could use that money towards consumption, dinners out, gifts and unnecessary items. All of which will not increase your financial security in retirement years. Instead, you can maximize the value of tax deferral and employer matching contributions by maxing out your 401(k) every year.



CATCH-UP CONTRIBUTIONS

You get an extra incentive to save when you reach age 50. Take advantage of catch-up contributions for retirement plans. In 2018, if you are 50 years or older, you may add \$6,000 to the annual \$18,500 as a catch up. In addition, consider having more than one retirement plan. If you can afford it, maxing out more than one tax-deferred plan is a great way to catch up on retirement savings. When it comes to Roth IRAs, as long as you've owned your account for 5 years and you're age 59½ or older, you can withdraw your money when you want to and you won't owe any federal taxes.

SPOTLIGHT

Quick: What comes to mind when you hear "61st and Peoria?" If it is a hopeless crime scene and police cars, you are not alone. The infamous intersection has been the stage for much crime, but it really is so much more.

South Tulsa Community House (STCH), located in the heart of the Riverwood area (from 51st to 71st and Riverside to Lewis), focuses on serving this vulnerable community.

The population of Riverwood that STCH serves includes working parents struggling to feed their children, veterans traumatized by war, disabled men and women unable to work, the elderly choosing between food and medication, and the chronically un- and under-employed despairing without meaningful work.

Daily and gratefully, these Tulsans head to STCH seeking food for their families, transportation to job interviews



or medical appointments, and use of the nonprofit's computers or fax machine to complete job applications or apply for medical care. The doors of STCH are open and help is available. Moreover, at STCH, hope is available.

The doors at STCH are also open to other organizations, allowing them space to provide their desperately needed services: Emergency Infant Services, Union Public Schools ESL and GED programs, TRIO Educational Opportunities, Tulsa Health Department, Legal Aid, Improving Lives Counseling Services, and more.

Together, with valued partners, STCH touches the lives of over 400 households per month, meeting needs and fulfilling STCH's mission: "Help a Little, Empower a Lot!"

This year, STCH will distribute enough food for more than 100,000 meals. For more information, visit www.southtulsacommunityhouse.org.

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FORWARDING SERVICE REQUESTED

OUR OKC TEAM.



Left to right: Brooke Holman, vice president | Tim Hopkins, senior vice president | Joe Ray, senior vice president | Jordan Hunt, investment officer | Emily Crain, vice president.

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