

# A MATTER OF TRUST

SECOND QUARTER 2019



Joby  
Mills



Chris  
Klemme



Todd  
Wetsel



Alisa  
Scott



Terry  
Wright



Terri  
Wright



Bryan  
Limmer



Jason  
Carter



Kevin  
Rider



Buffy  
Haden



Shannon  
Van Campen



Brooks  
Smith



Hunter  
Vagrosky



Scott  
Richardson





# SECOND QUARTER INVESTMENT UPDATE



## Todd Wetsel

Senior Vice President  
Senior Trust Portfolio Manager

Todd has 16 years of trust and banking experience. He began his banking career while attending West Texas A&M University. After graduating with a BBA in Finance, he went to work in a local trust department where he served as an assistant trust administrator. Todd enlisted in the United States Army in 2005 and served two tours of duty in Iraq. In 2010, he joined HAPPY STATE BANK where his principal duties include market research and portfolio management. Todd has attended the Texas Trust School and Texas Graduate Trust School offered by the Texas Bankers Association. He is a member of the Amarillo East Rotary Club and serves on the board of the Wesley Community Center Foundation.

**M**arkets continued to do well this quarter although not climbing at the pace of the first quarter. The same could be said regarding economic growth which was very strong in the first quarter. However, it appears to be slowing slightly in Q2 with likely causes such as waning effects from the 2018 tax cut and concerns over global trade conflicts. Thankfully, household income and spending levels continue to rise while consumer confidence remains resilient. Economists estimate that approximately 70% of economic activity is driven by consumer spending. A healthy consumer is vital to a growing economy. As investors, it is always important to ask how the consumer is faring. How many Americans are unemployed? How available are jobs? What kinds of jobs are obtainable? What is the rate of wage growth? Let's take a look.

### Jobs, Jobs, Jobs

The unemployment rate remains near 50 year lows at 3.7% as the economy added 224,000 jobs in June. The average in 2019 has been just over 170,000, which is slightly lower than last year. This rate of job growth continues to be more than enough to keep up with population growth. There have been 105 straight months of job gains and the number of job openings have outnumbered the number of unemployed Americans for 15 consecutive months - the longest stretch on record. Many companies are struggling to hire employees in the trades. Craftsmen such as electricians, plumbers and carpenters are hard to find. Very few people are going into these trades while many are exiting as they reach retirement age leaving a shortage of workers. As of April, there remained over 400,000 unfilled construction jobs in the U.S. Health care and professional service sectors have experienced some of the biggest job gains this year whereas manufacturing has been more of a mixed bag and retail services has continued to decline.

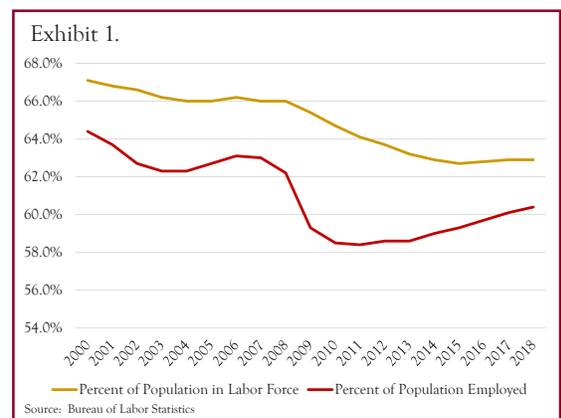
### Wage Growth and Inflation

With such a tight labor market one would expect wage growth to be accelerating, however the opposite has been true this year. Wage growth

slowed to 3.1% in May compared to 3.4% in February. Not only is wage growth slowing but inflation dropped from 1.8% to 1.6% in June. The Federal Reserve's inflation target is 2%. Federal Reserve board members have stated that they believe this dip in inflation is only temporary, but that conclusion is far from certain. In recent congressional testimony, Fed Chairman Jerome Powell admitted that he is surprised that wage growth and inflation has not been higher and that it appears that the link between employment and inflation may not be as significant as it was a few decades ago. Frankly the low rate of wage growth has many economists puzzled, and it is challenging the long-held beliefs that low unemployment leads to higher wage growth and inflation.

### Effects of Prolonged Recovery

After an economic downturn it is common to see the labor force participation rate to go down. Jobs are not as plentiful as they once were and therefore some workers will eventually stop looking for work and drop out of the workforce altogether. During the subsequent recovery economists typically expect a sequence of events to occur: 1. The unemployment rate will go down as more people are able to find a job. 2. Once the unemployment rate gets low enough that it is difficult to find available workers, employers will raise wages. 3. As wages rise, workers that had left the workforce will come back in and begin to look for employment. You can see the effects of this in Exhibit 1. The maroon line, representing



INDEX RETURNS

|         | U.S. Stock Market | International Developed | Emerging Markets | Global Real Estate | U.S. Bond Market | Global Bond ex U.S. |
|---------|-------------------|-------------------------|------------------|--------------------|------------------|---------------------|
| Q2 2019 | STOCKS            |                         |                  |                    | BONDS            |                     |
|         | 4.10%             | 3.79%                   | 0.61%            | 1.29%              | 3.08%            | 2.75%               |
|         |                   |                         |                  |                    |                  |                     |
| 1 YEAR  | STOCKS            |                         |                  |                    | BONDS            |                     |
|         | 8.98%             | 1.29%                   | 1.21%            | 8.81%              | 7.87%            | 7.61%               |
|         |                   |                         |                  |                    |                  |                     |

the percentage of the population that is employed, plummets in 2008 and then slowly begins to recover. At the same time, the gold line, representing the entire labor force (those employed and/or looking for work) also falls. Recently the employment situation has improved enough to cause some of those sidelined workers to re-enter the workforce demonstrated by the gold line rising. A higher labor force participation rate is considered a sign of a healthier economy.

workers as one of the most important reasons we need to do what is necessary to sustain this economic recovery. Many believe that he was laying the groundwork for lowering interest rates in the near future.

**Unintended Consequences**

There are some signs, however, that the labor market is cooling. In addition to the slower pace of hiring, the growth rate in the number of hours worked is slowing overall, and the number of hours of overtime worked in manufacturing is declining. There has been a focus on manufacturing jobs and returning those jobs back to the U.S. from China and other locations of cheap labor in the world. These efforts have been met with modest success, but it appears that the recent tariffs imposed on China are not having quite the effect that was anticipated. Many companies are shifting production from China to Vietnam and other low cost Asian countries instead of back to the U.S.

The unemployment rate is one of the most often cited indicators of the condition of the economy. However, no one metric will give you an accurate and complete view of the situation. There are other less well known indicators that are also important to gauging economic health. Our goal is to help you understand these terms and know how they can be used for your benefit. An informed investor is an investor that is much more likely to have success over the long-term.

**HAPPY Investing.**

**Terms to Know**

**GDP (Gross Domestic Product):** The total monetary or market value of all finished goods and services produced within a country in a specific time period.

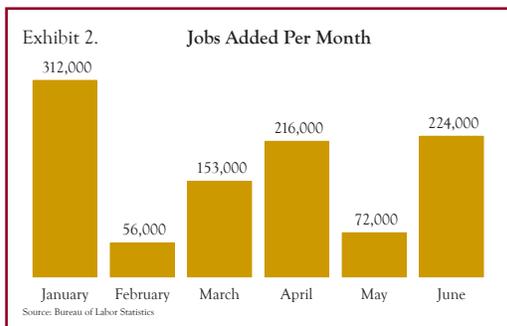
**Unemployment Rate:** The percentage of population actively looking for employment but unable to find work.

**Labor Force Participation Rate:** Measures an economy's active labor force, the percentage of the total working age population that is employed and/or actively looking for work.

**Natural Rate of Unemployment:** Minimum unemployment rate resulting from voluntary economic forces. Exists when the economy is essentially at full employment and those not working are doing so willingly.

**Federal Funds Rate:** Interest rate that banks charge other banks for lending them money from their reserves on an overnight basis. This rate is set by the Federal Reserve.

Source: Investopedia.com



Chairman Powell also cited research showing that lower income workers are finally beginning to benefit from the economic expansion. During recessions, workers with a high school diploma or less are typically the hardest hit with their employment rates and wages falling the most. It has long been believed that these workers did not have the skills necessary to succeed in an increasingly globalized economy. Many have speculated that this situation could be a permanent obstacle for these workers as demand shifts to a more highly skilled labor force. However, recently these lowest income earners have been gaining ground and making up a larger percentage of the overall workforce. In his testimony, Chairman Powell mentioned the improved conditions for low income

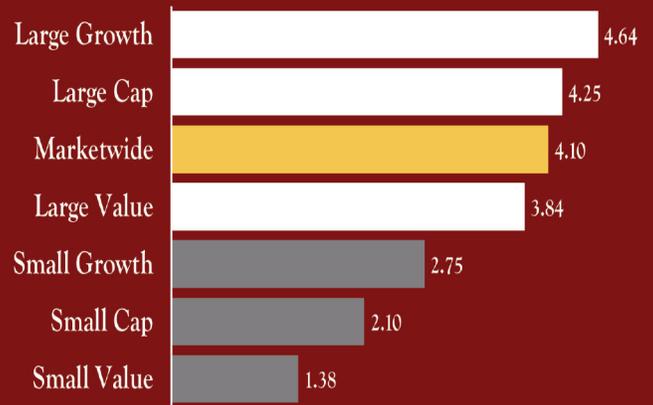


# MARKET SUMMARY

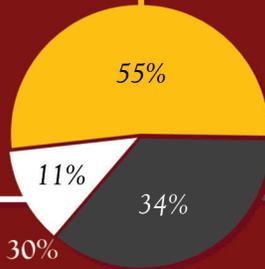
## US STOCKS

In the second quarter, all major global equity indices advanced. Large cap stocks outperformed in the U.S., International Developed Markets, and the International Emerging markets. Growth stocks fared better than value across the board. Bond markets and real estate were all positive for the quarter. While commodities were negative. For a more detailed quarterly report please see the publications tab at [www.happytrust.com](http://www.happytrust.com).

### RANKED RETURNS FOR THE QUARTER (%)



### WORLD MARKET CAPITALIZATION

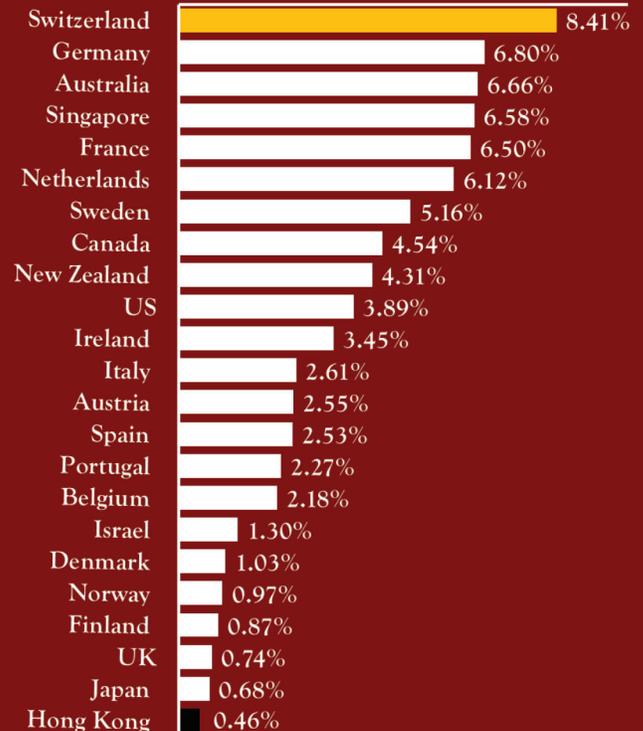
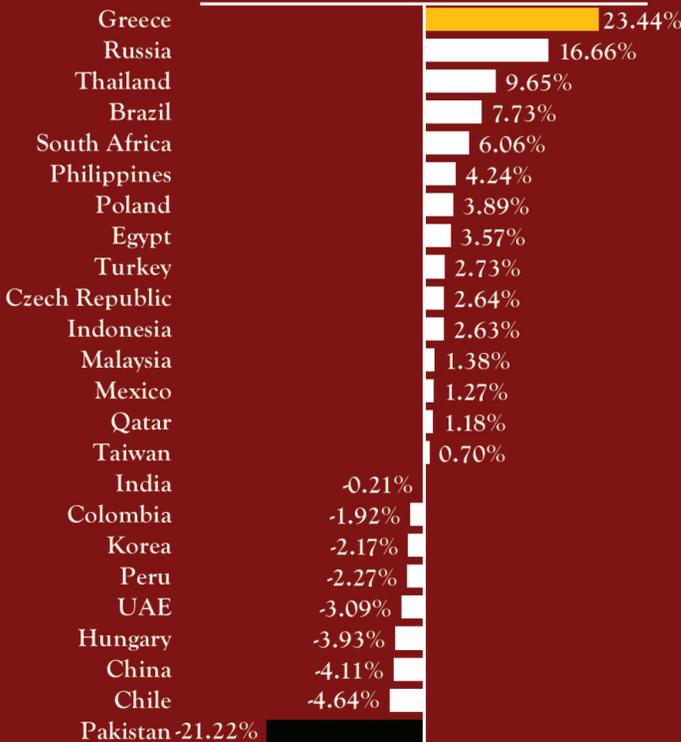


## EMERGING MARKETS STOCKS

## INTERNATIONAL DEVELOPED STOCKS

-30% -20% -10% 0% 10% 20% 30%

0% 2% 4% 6% 8% 10%



## MEET THE TEAM

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**Marissa Spalding**

Trust Specialist

Amarillo Office

**M**arissa was born and raised in Amarillo, Texas where she attended and graduated from San Jacinto Christian Academy. She joined HAPPY STATE BANK AND TRUST COMPANY in October 2015, and she serves as a Trust Administration Specialist in the Amarillo Trust office. Marissa’s focus is on serving clients and supporting the trust officers. She continues her education through completion of courses offered by the Texas Banker’s Association and the Cannon Financial Institute. Marissa is also a member of the Amarillo Area Estate Planning Council. She considers her coworkers at Happy as her extended

family and could not ask for a better workplace environment.

She is involved in the community and enjoys volunteering at many events held by the Chamber of Commerce, United Way and the Amarillo Area Bar Association. When she isn’t working, Marissa enjoys traveling as often as possible to some of her favorite places, such as Ruidoso, Oklahoma City and Chicago. She is always on the lookout for a great new live music venue. Marissa values family, friends and traditions and spends as much time with them as possible.



**Brooks Smith**

Senior Vice President

Trust Portfolio Manager

Addison Office

**B**rooks has twenty-seven years of experience in wealth management, developing client relationships and managing investment portfolios. Brooks started his career with Fredric E. Russell Investment Management Co., a boutique investment management firm in Tulsa. After moving to Dallas, Brooks began working as an Institutional Regional Account Representative with Schwab Institutional’s Services for Investment Managers. In 1998, Brooks began as a Portfolio Manager with Nations Bank Private Bank (which ultimately became U.S. Trust), where his primary responsibilities included constructing portfolios for high net worth clients,

endowments, and foundations, by assessing the client’s goals and risk tolerance. During Brooks’ tenure, he helped his clients successfully navigate both “The Tech Bubble” and “The Financial Crisis.”

In 2018, Brooks joined HAPPY STATE BANK AND TRUST COMPANY in Addison as a Senior Vice President and Trust Portfolio Manager. Brooks has earned the right to use the Chartered Financial Analyst (CFA) designation, and graduated from Oklahoma State University with a B.S. in Finance. He and his wife, Joanna, live in Dallas and are members of Lord of Life Lutheran Church.



# ESTATE ADMINISTRATION



**Bryan Limmer**

Senior Vice President  
Senior Trust Officer

Bryan has worked in the trust field since 1993. He is a Texas Tech University graduate with a degree in Animal Science. Bryan has furthered his education through the Texas Bankers Association Trust School and Graduate Trust School as well as the Cannon Trust School. In his role with HAPPY STATE BANK AND TRUST COMPANY, Bryan serves as an account administrator on various types of accounts including trusts and estates, investment agencies and IRA's. Bryan also serves oversees the Lubbock region for HAPPY TRUST COMPANY. Bryan is a board member of the South Plains Trust and Estate Council, currently serving as Vice President.

Estate administration is a term used to describe how a person's estate will be managed, processed and eventually disbursed after that person's death. If a person owns any assets at death, then that person has an estate. An estate is made up of real and personal property. Real property are assets such as land, land improvements and oil, gas and mineral interests. Personal property includes everything else other than real property. Personal property consists of cash and bank accounts, personal effects like clothing, household items like furniture and dishes, vehicles, investment assets, life insurance policies and employee retirement benefits. Although most retirement accounts, insurance policies, and some bank accounts have beneficiary designations and do not require probate to pass the asset to heirs, those assets are still considered part of a person's estate. We refer to these assets as non-probate assets, since the assets transfer by other contractual means rather than through the probate administration of an estate.

*“ There are several aspects...but one of the most important is deciding who you appoint to serve as executor. ”*

There are several aspects that fall into the category of estate planning, but one of the most important is deciding who you appoint to serve as executor of your estate in your will. A will is a written legal document that is used to make sure certain assets called “probate assets” are transferred correctly to your named beneficiaries under the terms of your will. When a person names an institution such as HAPPY TRUST COMPANY as executor, there is comfort knowing that your final directions,

intentions and wishes will be carried out by experienced and impartial professionals.

*“ [With] HAPPY TRUST COMPANY as executor, there is comfort in knowing that your final directions, intention, and wishes will be carried out by experienced and impartial professionals. ”*

As for who to nominate as the future executor of your estate, the initial thought might be to name a family member, particularly a spouse, or a child or even multiple children as co-executors. It is understandable that your family might have better knowledge of your intentions and can more easily locate your assets, but do family members have the expertise if complex issues arise? What if you are not married or do not have children? What if your children do not get along or communicate and there is evidence of family conflict? You might consider naming a trusted friend, but what if you outlive that person? You also need to consider what kind of burden you are placing on these individuals with regard to the time and effort that may be involved. These are some of the many things to consider before nominating a family member or other individual to serve as the executor of your probate estate. Additionally, most individual executors do not obtain insurance to protect the executor from liability if he/she mishandles the estate administration process and causes financial loss to the estate beneficiaries. For banking institutions and trust companies with trust powers, these institutions are required by law to carry adequate insurance to further protect the estate beneficiaries from financial loss if

# WHO SHOULD YOU NAME AS EXECUTOR?

the executor commits a mistake and causes financial loss.

Another aspect of deciding who to name as your executor is whether or not you have assets that need urgent and/or constant attention before those assets are disbursed to your heirs. After the person dies and his/her will is admitted to probate, the estate assets are under control of the executor and the executor must identify all of the assets, pay all valid expenses and debts of the estate, and then deliver the assets to the named estate beneficiaries. It is important to have an executor that is equipped to manage specialty assets such as farm and ranch property or mineral interests.

*“It would be unfortunate if your estate was mishandled due to inexperience or family conflicts.”*

With HAPPY TRUST COMPANY serving as executor, there is peace of mind in also knowing that the bank has an experienced staff to administer and settle the estate, and can carry-out its fiduciary duties under the terms of your will in a neutral and unbiased manner. You have worked hard to acquire, build and preserve your wealth. You have

the opportunity with a solid estate plan to pass that wealth to your family, friends and/or your favorite charities. It would be unfortunate if your estate was mishandled due to inexperience or family conflicts.

Another consideration in the process of naming an executor is the opportunity to have HAPPY TRUST COMPANY serve as agent for the executor. For example, you may want to name an individual as executor because you are more comfortable with a family member or a close friend, but you like the idea of having an institution involved based on the knowledge and expertise that the institution can provide. HAPPY TRUST COMPANY can serve as agent and assist with completing the duties necessary to settle the estate. The individual that is serving as executor would maintain the authority granted in the probate process and has final say with decisions, but the agent would work to accomplish many of the duties required to settle the estate and keep records for the executor.

If you should have any questions about this article or need help in finding an estate planning attorney in your area, please do not hesitate to give us a call. We are happy to help you get started in developing an estate plan that meets you and your family's needs.

## *Duties of an Executor*

- Consult with an attorney, CPA or other advisors
- Arrange for probate of the will
- Obtain probate court's approval to act on behalf of the estate
- Take custody of assets and submit an inventory to the probate court
- Obtain appraisals of real estate and other assets
- Notify creditors of their rights and pay valid claims
- Pay the estate's debts and expenses
- Manage assets and make investment decisions
- File federal and state tax returns on behalf of the estate
- Disburse assets according to terms of the will
- Fund a testamentary trust, if applicable
- Make a final accounting to the beneficiaries, or probate court

**HAPPY** ★  
to serve you!

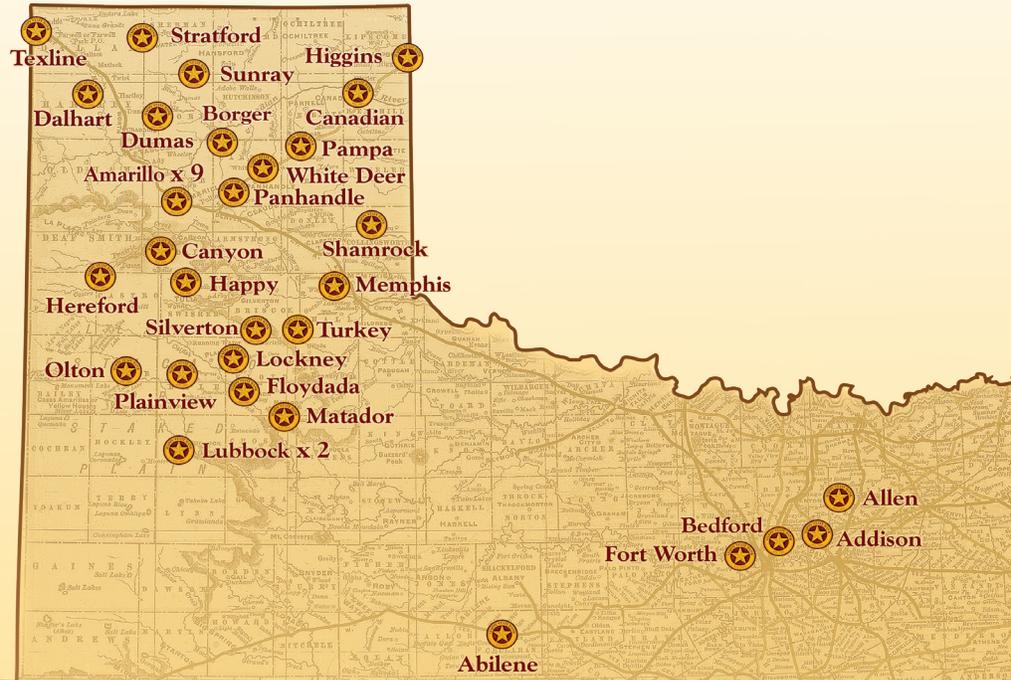




# HAPPY TRUST COMPANY

CREATING, MANAGING & PRESERVING WEALTH

For more information about investments and trust services please visit: [happytrust.com](http://happytrust.com) AND [dimensional.com](http://dimensional.com)



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