

A MATTER OF TRUST

FOURTH QUARTER 2018



Joby
Mills



Chris
Klemme



Todd
Wetsel



Alisa
Scott



Terry
Wright



Terri
Wright



Bryan
Limmer



Jason
Carter



Kevin
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Buffy
Haden



Shannon
Van Campen



Brooks
Smith



Hunter
Vagrosky



Scott
Richardson





FOURTH QUARTER INVESTMENT UPDATE



Todd Wetsel

Todd has 16 years of trust and banking experience. He began his career with Bank of America while attending West Texas A&M University. After graduating with a Bachelor of Business Administration, he went to work for the trust department at Herring Bank 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.

Happy New Year! I hope that each of you had a great year in 2018. For HAPPY TRUST COMPANY it was a year of continued growth and success. Our Trust team continued to grow with the addition of two new Portfolio Managers and additional operational support to better serve our clients.

There is no doubt that in terms of the equity markets, 2018 was a year of extremes. Last year saw significant volatility return to the markets. The S&P 500 Index began the year at 2,683 and through mid-September had risen to an all-time high of 2,940 (an increase of almost 10%) with plenty of ups and downs along the way. Nonetheless, in the fourth quarter the market plummeted to a low of 2,346, amounting to a drop of nearly 20% from the highs. Thankfully a modest rebound towards the end of December brought the index to 2,506, a loss of almost 5% for the year. This level of volatility in the markets is not uncommon, but it has been quite some time since we ended the year in negative territory.

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The U.S. Economy and Markets

The U.S. economy continues to be one of the strongest economies globally. While there has been some mixed economic data, overall conditions point to prolonged growth. In-store retail traffic was down on Black Friday, but online sales surged. Tax cuts, lower gas prices and rising hourly wages are helping many Americans spend more, especially lower-income earners.

Existing home sales declined much of the year in 2018 while rebounding slightly towards the

end of the year. On a year-over-year basis, sales had their biggest decline in over 7 years through November due in large part to higher mortgage rates. Sales are slowing most significantly in the higher end markets.

One of the most cited measures of small business confidence has fallen for four straight months. The decline in December was slight, but most importantly still remains at historically high levels. Consumer sentiment rose in December as the economy continued to experience strong job and wage growth. The unemployment rate ticked up to 3.9% in December, however the increase is due to more people re-entering the workforce after sitting on the sidelines for an extended period. These workers have come back into the workforce as wages have been increasing.

Interest Rates

The Federal Reserve raised rates four times in 2018 while seeking a “neutral” interest rate policy that neither stimulates nor slows economic growth. The Fed Funds target rate is now between 2.25% and 2.5%. Rate increases in September and December, along with comments from the Federal Reserve Chairman, caused a dramatic sell-off in the equity markets throughout the fourth quarter. The seemingly high likelihood of additional rate increases in 2019 frightened many investors into believing that the Fed would raise rates too high and push the economy into a recession. However, the market was provided with significant relief in early January when Fed Chairman Powell stated that inflation was below the Federal Reserve’s target and he was willing to take a wait-and-see approach if further rate increases would be necessary.

The U.S. yield curve continued to flatten during 2018 and for a period of time the yield on the 2-year Treasury bond was higher than

INDEX RETURNS

	U.S. Stock Market	International Developed	Emerging Markets	Global Real Estate	U.S. Bond Market	Global Bond ex U.S.
Q4 2018	STOCKS				BONDS	
	-14.30%	-12.78%	-7.47%	-5.79%	1.64%	1.89%
						
2018	STOCKS				BONDS	
	-5.24%	-14.09%	-14.58%	-5.90%	0.01%	3.17%
						

the 5-year. Many investors are worried about a possible yield curve inversion, but yield curve inversions do not always predict recessions or bear markets. The timing is also not immediate and can be delayed by months or even longer. Furthermore, a true inversion is considered to have occurred when the 2-year yield is higher than the 10-year yield.

Trade

The trade disputes between the U.S. and China have not yet been resolved and continue to add to market concerns and volatility. China’s economy and markets seem to be experiencing more pressure from the imposed tariffs. Factory orders, retail sales, and exports are all indicating that the Chinese economy is slowing and thereby putting pressure on their leadership to work out a trade deal with the U.S.

The U.S. and China just wrapped up their first face-to-face meetings since they declared a tariff truce in December. Some progress was made on opening up Chinese markets, but disagreements still remain on the issue of the protection of intellectual property. Talks to this point have helped narrow the gap and prepare the way for the next round which will likely be between cabinet-level officials. If a deal isn’t in place by March 1st, the current U.S. tariffs of 10% could be increased to 25%.

International and Emerging Markets

In addition to concerns over interest rates, global economic conditions have continued to be a primary cause of anxiety. The Eurozone economy was expected to only grow by 2% in 2018 with the uncertainty regarding Brexit still plaguing the United Kingdom and European Union countries, and as mentioned previously, the Chinese economy is softening in part due to the continued trade dispute with the U.S. Equity markets in the

international and emerging market countries continued the long-term trend of under performing the U.S. as can be seen in the charts above.

2018 was the first time in 10 years that the U.S. equity markets ended up in the red, however it was not nearly as catastrophic as 2008. Volatility in the markets is natural and to be expected. Markets cannot go straight up forever. They need to go down and will do so on occasion. You should not panic and expect

“...market-timing and chasing returns, instead of properly diversifying your portfolio, often leads to short and long-term underperformance.”

the Great Depression every time the market falls. Whenever we experience volatility and negative markets, as we have recently seen, our conversations with clients almost always come back to the importance of diversification and maintaining our focus on the long-term. This was certainly the case last year. Case in point: prior to 2017, international and emerging markets had significantly underperformed the U.S., so many investors were underweight or were even avoiding exposure to those markets. Then in 2017 international and emerging markets outperformed and many of those same investors increased their exposure just in time for them to underperform again in 2018. This attempt at market-timing and chasing returns, instead of properly diversifying your portfolio, often leads to short and long-term underperformance. Stay tuned for our next newsletter as we will take a deeper dive into the data and the important reasons for diversification.

HAPPY Investing!

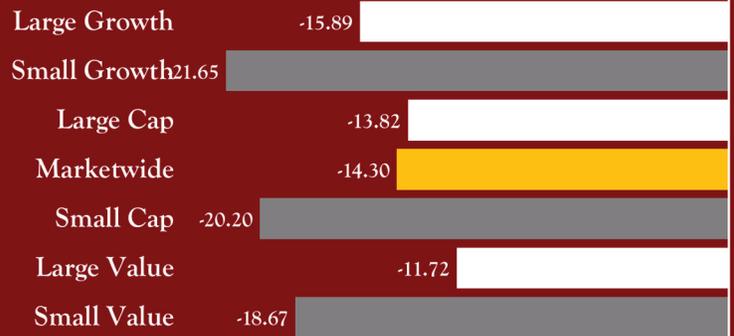


MARKET SUMMARY

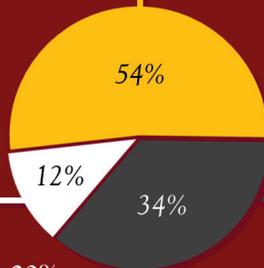
US STOCKS

In the fourth quarter, all major global equity indices declined. Small cap stocks underperformed in the U.S. and in international developed markets while outperforming in emerging markets. Value stocks fared better than growth across the board. Bond markets were up slightly while real estate and commodities were negative. For a more detailed quarterly report please see the publications tab at www.happytrust.com.

RANKED RETURNS FOR THE QUARTER (%)

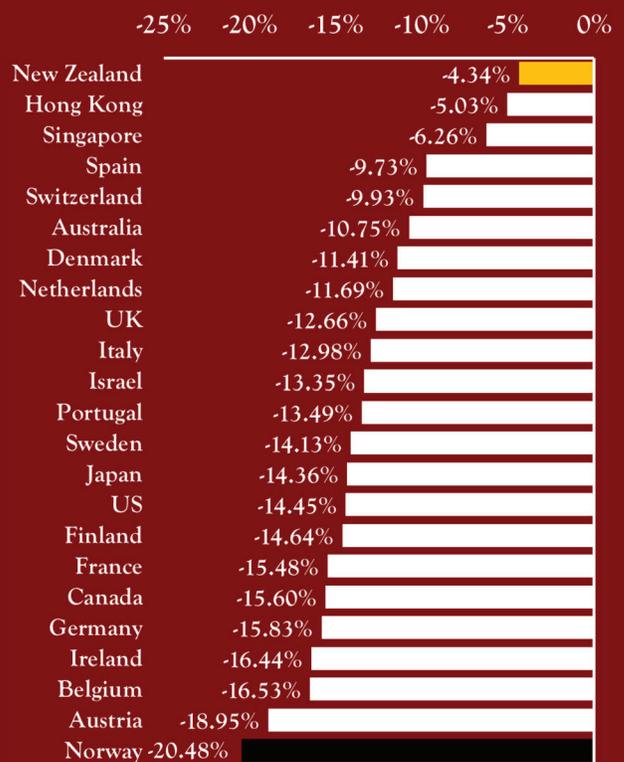
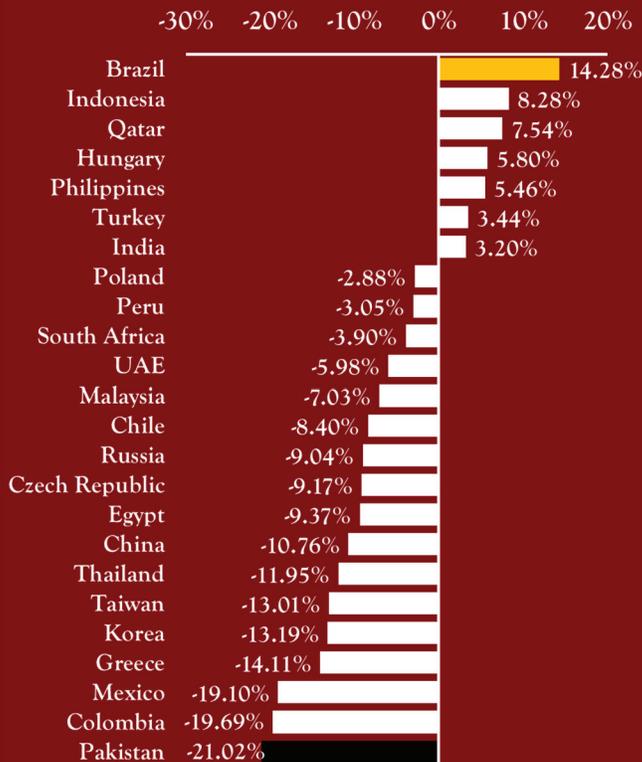


WORLD MARKET CAPITALIZATION



EMERGING MARKETS STOCKS

INTERNATIONAL DEVELOPED STOCKS



MEET THE TEAM



Lynsey Flores
Trust Specialist
Lubbock Office

Lynsey was raised in Lubbock with the principles and values that are the backbone of West Texas. These core beliefs of courtesy, respect, loyalty and service are her foundation.

Lynsey graduated from Texas Tech University in 2008 and has spent the last 10 years in the banking industry, becoming a part of the HAPPY STATE BANK team in 2015. Lynsey is excited about the opportunities that lay ahead and considers Happy her second home; the camaraderie and teamwork truly make this her ideal workplace.

Outside of work, Lynsey spends time with her family and friends and enjoys traveling the world. When she is not on an adventure, Lynsey can be found reading a

book with her two English bulldogs, Lola and Otis. She and her husband, Trey, are avid Red Raider fans who go to any, and all, Texas Tech sporting events.

Lynsey is an active member in the community and is currently serving as a member of the Lubbock Junior League and a part of Kids' Bank, an educational savings program sponsored by HAPPY STATE BANK. Lynsey is a true adventurer and is impassioned about what work and life have in store for her next.



Jason Carter
Vice President
Trust Officer
Fort Worth Office

Jason joined HAPPY STATE BANK & TRUST COMPANY in 2016 as a member of the Fort Worth office.

He graduated from the University of Texas in 2005 with a Bachelor of Arts in Economics, followed by a Master of Science in Personal Financial Planning from Texas Tech University Graduate School and Juris Doctorate from Texas Tech University School of Law in 2012.

After receiving his law license, he practiced law briefly before switching industries to focus on wealth management. Prior to joining the bank, he worked as a securities licensed advisor and portfolio manager for a boutique wealth management firm in Fort Worth.

Jason and his wife, Natalie, have been married for 6 years. They have a one-year-old daughter, Mackenzie, and two dogs, Baxter and Rambo. Jason spends most of his free time with his family, but also enjoys watching the Dallas Mavericks and Texas Longhorns.

He is actively involved in multiple young professional and Tarrant County lawyers groups, and also serves on the Board of Directors for the Fort Worth Chapter of the Society of Financial Service Professionals.



YOU'VE BUILT YOUR WEALTH...



Joby Mills, J.D.

Joby Mills has 18 years of experience in the trust industry as an in-house attorney, trust administrator, and department manager. Joby's primary responsibility is the overall management of HAPPY STATE BANK's Trust Department. He earned his B.A. in Finance from the University of Northern Iowa and his Juris Doctor from Baylor University School of Law. He serves as the Vice Chairman of the Administrative Council of the Texas Bankers Association Wealth Management & Trust Division, President-Elect of the Amarillo Area Bar Association, Vice President of Endowments for the Golden Spread Council of the Boy Scouts of America, and Immediate Past President of the Amarillo Area Estate Planning Council.

One of my father's favorite sayings was, "You get what you pay for." While not always true, it is more than likely true when it comes to developing an estate plan, seeking sound investment advice, investment planning for your children's education, and protecting your assets both during periods of disability and after death.

I have heard so many folks say they do not want to pay for an estate planning attorney because it'll cost too much. Instead, many folks look for a "cheaper" alternative to hiring an attorney in order to develop an estate plan. Some resort to buying "do it yourself" planning kits on the internet because they oversimplify the importance of an estate plan. In my experience, the use of prepackaged estate planning kits leads to substantially increased costs at the time of incapacity or death.

An experienced and skilled estate planning attorney knows what questions to ask the client, including the tough questions relating to familial issues or problems. As a father, I naturally am biased towards my kids and have a tendency not to be completely honest with myself as to each of my kid's strengths and weaknesses. A qualified attorney is able to ask the tough questions and give you unbiased advice about your estate planning wants and needs, plus identify potential issues between family members (i.e. sibling rivalries, family discord, a spendthrift child, etc.). The value of a good attorney identifying and addressing potential issues when drafting the appropriate estate plan for you is invaluable.

If you have not hired a qualified estate planning attorney to develop your estate plan, please make it a priority in 2019. When thinking about your estate plan and what your needs are, you should consider the following:

Disability and Life Insurance: Consider obtaining disability insurance in the event that you suffer a short or long-term disability, especially if your family is dependent on your employment

income. If you have not accumulated sufficient wealth to take care of your family in the event that you die prematurely, then consider obtaining adequate life insurance coverage and make sure

“One of my father's favorite sayings was, 'You get what you pay for.'”

you properly name the beneficiaries of your life insurance proceeds.

Medical Power of Attorney and Advance Directive to Physicians: Ask your estate planning attorney about whether you need to execute a medical power of attorney instrument in the event you are incapacitated and cannot make health care decisions for yourself. At a minimum, you may want to execute an Advance Directive to Physicians and Family or Surrogates expressing your written wishes as to what life sustaining treatment measures you want, or do not want, provided in the event you become terminally ill and are unable to knowingly express your wishes to the medical provider.

Durable Power of Attorney: Ask your attorney if you should execute a durable power of attorney and, if yes, be careful who you appoint to stand in your place to make financial decisions for you. You must have 100% trust in that person before you nominate him/her to serve as your agent. If you have doubts or reservations, you shouldn't nominate that person to handle your finances. Also, do you want your agent to have unlimited authority to make financial decisions on your behalf or should you limit the agent's powers? You may also want to consider a bank trust department or trust company to act as your power of attorney for financial decisions. This may be a possible solution, plus you have the peace of mind in knowing a bank trust department or trust company is heavily regulated and is also required to carry liability insurance.

SO WHY NOT PROTECT IT AND YOUR FAMILY?

Do you need a Trust? A trust is often a very good disability planning tool, as well as a financial tool for carrying-out your legacy plan. Often times, I see a husband and wife create a “living trust” nominating one or both of them to serve as the trustees and, in the event of disability, they appoint HAPPY STATE BANK or another trust department to serve as their trustee. Consider the following questions when developing a Trust plan:

a) If you’re appointing yourself or another individual as trustee, who will be the first alternate trustee after death or disability?;

b) Do you want your trustee to be insured?

“The value of a good attorney identifying and addressing potential issues when drafting the appropriate estate plan for you is invaluable.”

(Almost all individual trustees serve without insurance.); **c)** Is your trustee accessible, and does the trustee have the necessary knowledge and experience of administering trusts?; **d)** Does your trustee have investment experience?; **e)** Does your trustee understand how to manage and invest specialty assets such as farms, ranches, minerals (if applicable)?; **f)** Does your trustee have the ability to provide professional accounting and record keeping services? (Keep detailed reports of all trust transactions.); and **g)** Does your trustee have independent audits of its administration of the Trust? You have worked hard to build

your wealth and protect your family, so you may want to consider a professional trustee such as HAPPY STATE BANK to help carry-out your trust plan.

Do you need a Will? Many folks have different types of assets such as real estate, investments, bank deposit accounts, individual retirement accounts, vehicles, and the list goes on. An estate planning attorney will help you have a clear picture of your assets, how those assets will be distributed upon death, and what you need to do to make sure assets pass correctly to loved ones and possibly your favorite charities. A Last Will is important and should be signed by you to direct how certain assets pass upon your death. Sometimes, the Will is used as a safeguard to make sure certain assets that didn’t get placed in your trust, now are gathered and poured over into your trust (if you have set-up a trust as part of your estate plan). For folks that die without a Will, these assets pass according to applicable state laws. Do not let the government decide who gets your probate assets!

What if you and/or a minor child of yours need a legal guardianship? Most of the time, folks can avoid costly court supervised guardianship situation by having a well thought out estate plan. There is a directive form that may be executed by you, before an incapacitating event occurs, that informs the court as to who you desire to be appointed as your guardian if a legal guardianship is necessary. Also, you can list who you do not want to serve as your guardian. A court is not legally bound to

follow your written directions; however, a judge normally gives strong deference to your written directions barring any evidence to the contrary. Similarly, you can execute an appropriate legal document requesting who you want to serve as the guardian of any minor child of yours, plus who you do not want to be appointed as guardian. When

“Do not let the government decide who gets your probate assets!”

recommending a guardian for a minor child in the event the need arises, parents often want to consider nominating a person who shares the same set of values as them. At the present time under Texas law, a court may appoint a minor’s filed written selection for guardian with the court if the minor is at least 12-years-old and the court finds the minor’s selection to be in the minor’s best interest.

In short, do not expect successful results without proper planning. Surround yourself with good advisors such as an estate planning attorney, accountant, trust/investment advisor, life insurance advisor, etc. If you have questions about where and how to start developing a proper and sound estate plan, please do not hesitate to call me or any of our Trust professionals.

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to serve you!





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CREATING, MANAGING & PRESERVING WEALTH

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