



# INVESTMENT & WEALTH MANAGEMENT UPDATE

APRIL 25, 2019

FIRST QUARTER - 2019

## GETTING BACK TO OUR ROOTS AT THE TRUST COMPANY

### Mark Knackendoffel, CEO

Equity-oriented portfolios suffered a devastating decline in the 4th Qtr of 2018. While the stock market was down, we were down even more. As a result, beginning in January, we made a number of changes, all of which brought us back to principles & processes that I have described as "Getting Back to Our Roots."

We shared a number of the following changes during our Wealth Management

Summits in Lawrence, Columbia and Manhattan on January 28th & 29th.

### Investment Committee

We have enhanced the role and collaboration of our Investment Committee. This important policy and strategy committee is now chaired by Michael Carlisle of our Lawrence office. Michael has prudently managed client portfolios throughout his 40-year career.

### Investment Committee Members

**Michael Carlisle, CTFA** - VP & Trust Officer (TO) – Committee Chair

**Katie Seay, CFP®, CTFA** - VP & TO, Director of Financial Planning

**Mark Knackendoffel** - CEO

**Eli Sallman, MBA, CFP®, CIMA®** - VP & Investment Officer

**Toby Marks** - VP & Investment Officer

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## CONTACT US

800 Poyntz Ave., P.O. Box 1806  
**Manhattan, KS 66505**  
785.537.7200

4210 Philips Farm Road, Suite 109  
**Columbia, MO 65201**  
573.876.7000

333 West 9th Street, Suite A  
**Lawrence, KS 66044**  
785.371.9555

908 Broadway, Suite B  
**Marysville, KS 66508**  
785.562.2344

THETRUSTCO.COM  
800.285.7878

*Mark Knackendoffel, President & CEO and  
Donna Rose, Executive Assistant & Account  
Administrator*





*Eli Sallman, MBA, CFP®, CIMA®, Vice President & Investment Officer - Portfolio Manager*

## Chief Investment Officer Change

We removed our CIO, and we have no plans to replace that position.

## Refined Investment Objectives

We've historically had seven Investment Objectives ranging from "Capital Preservation to "Ultra-Aggressive Growth." We have increased this to 11 targeted portfolios, which will be identified by their general Equity:Fixed Income allocation percentages.



*Katie Seay, CFP®, CTFA, Vice President & Trust Officer - Director of Financial Planning*



*Toby Marks, Vice President & Portfolio Manager*

For example, our Balanced Growth Model will be identified as "60% Equity : 40% Fixed."

We have all asset classes targeted in 10% increments across the asset allocation/risk spectrum, going from:

0% : 100% - Capital Preservation  
to  
100% : 0% - Ultra-Aggressive Growth

This will allow us to more clearly refine the investment objective and asset allocation decisions in consultation with our clients.

## Enhanced Passive Allocations

We added a "passive" component to all our portfolios. This means we are investing a portion of each asset class in a low-cost index fund or ETF, whether that's stocks or bonds.

We will also continue investing in actively-managed mutual funds in our Core: Satellite portfolios, which has worked well for our clients, even in 2018. But, the combination of Passive & Active funds offers another level of diversification.

We will also continue to invest client portfolios exclusively in passive index funds if that is their preference.

## Separate Accounts

We've restructured our "Separate Accounts," which are invested in individual stocks and bonds for some clients.

- The Core Equity stock portion, which is invested in large U.S. companies, is becoming more dividend-focused, and is being structured to match market sector percentages. So, for example, if Technology makes up 7% of the Russell 1000 Index, we'll invest 7% of your large-cap equity portfolio in the Technology sector.
- A portion of each sector allocation will also include a Sector ETF, which will make up the "passive" portion of the portfolio. The benefit of this strategy is to avoid the risk of over or under-weighting market sectors.
- These stock selections are being shifted to companies we consider "best-of-breed." They have strong balance sheets, steady earnings, and are industry leaders.

## Current Top Ten Core Equity Stocks:

- **Berkshire Hathaway\***
- **Boeing**
- **Amazon.com\***
- **Lockheed Martin**
- **Microsoft**
- **Apple**
- **American Tower Corp**
- **Alphabet (Google)\***
- **Visa, Inc.**

*\*Company has not paid dividends.*

## Reduced Cash Allocations

We have targeted our portfolios to hold no more than 2% in our Money Market Fund (which currently yields 2.58%). But clients have varying needs or preferences for cash, so each Trust Officer has the discretion to customize each account's cash % allocation in consultation with the client. This will avoid the occasional large cash allocations we generated in 2018.



# First Quarter Market Outlook

The overall stock market enjoyed a robust 1st Quarter. Each of the benchmark indexes generated gains of more than 10% (except for the Global Dow). Despite signs of a weakening global economy and low inflation, news that the Fed is backing off its plan to increase interest rates softened investors' concerns. Both the technology and energy sectors enjoyed a strong first quarter.

Positive feedback from ongoing negotiations between the United States and China, coupled with strong job growth, low inflation, and stable interest rates, helped fuel investor confidence.

Bond rates jumped around during the quarter. The 10-Year Treasury Rate started the year at 2.68%, rose to 2.78% in January, and then dropped to 2.41% at the end of the Quarter.

## Latest Economic Reports

### Employment:

Employment rose by only 20,000 in February after adding 311,000 new jobs in January. The average monthly job gain in 2018 was 223,000. The unemployment rate declined to 3.8% in February, and the number of unemployed persons decreased 300,000 to 6.2M. Average hourly earnings rose 3.4%. On balance, all these stats are positive.

### Interest Rates:

The Fed did not increase its short-term target rate. The FOMC's report noted that economic growth has been slowing and no rate increases are projected in 2019.

### GDP:

The 4th Quarter GDP showed the economy grew at an annualized rate of 2.2%, 3.4% in the 3rd Quarter, and 2.9%

for all of 2018. Again, fairly positive numbers!

### Inflation/Consumer Spending:

Over the previous 12 months, the CPI rose only 1.5%.

### Manufacturing:

This sector remains somewhat stagnant as manufacturing output is only 1% above its level in 2018.

### Imports & Exports:

Compared to January 2018, the U.S. goods and services deficit has decreased \$1.9 billion, or 3.7%.

### International Markets:

In Great Britain, the Brexit decision has again been delayed, this time to October 31, 2019. The Eurozone's 4th Qtr GDP rose at a sluggish annual rate of only 0.2%. Negotiations between the U.S. and China continue to drag on with the difficult issues yet to be resolved.

### Consumer confidence:

The Consumer Confidence Index® dropped from 131 in February to 124 in March. Consumers expressed growing doubt over the labor market. Consumers' outlook for income, business, and labor market conditions over the short term also fell.

Market/Index	12/31/2018 Market Close	As of 3/29/2019	1st Qtr 2019 Change
S&P 500	\$2,507	\$2,834	13.07%
DJIA	\$23,327	\$25,929	11.15%
NASDAQ	\$6,635	\$7,729	16.49%
Russell 2000	\$1,349	\$1,540	14.18%
Global Dow	\$2,737	\$3,001	9.65%
Fed Funds Rate	2.25%-2.50%	2.25%-2.50%	0 bps
10-Year Treasury Rate	2.68%	2.40%	-28 bps

## Rebalancing

We've enhanced our commitment to tactically rebalancing portfolios, which has been demonstrated as a proven method of enhancing returns & reducing risk.

## Reduced Trading

There will be far less trading of portfolios, both stocks & bonds. One of our long-held principles is that buying & holding is a solid method of building and preserving wealth . . . and I believe we had drifted away from that philosophy the past eight years or so.

Overall, we believe these changes will produce more consistent, diversified portfolios, which reduces the risk of missing benchmarks. They will also enhance our ability to be nimble and timely in our rebalancing and provide more customized client asset allocations.

Please feel free to call or sit down with us if you have any questions or comments regarding these portfolio management changes. Or, if you have any questions or comments about our other Wealth Management Services . . . or the quality of our Client Service itself.



Michal Carlisle, Vice President & Trust Officer; Investment Committee Chair

## COMPANY NEWS

### Client Portal Upgrade Coming May 1, 2019

We have partnered with our software provider, Infovisa®, to implement exciting improvements on The Trust Company's Client Portal. Using the newest available technology, this upgrade will provide an intuitive user experience, enhanced functionality, and a responsive design that optimizes the layout to the screen size of your device.

- The new Client Portal is available now at: <https://icp.infovisa.com/0214>.
- Your existing User Name, Password and security questions do not change.
- If you have the old website bookmarked or saved as a favorite, please update it with this new website address.
- If you access your account via The Trust Company website, we will automatically redirect you to the new website effective May 1, 2019.
- As of May 1, 2019, only the new Client Portal will be available.

If you have questions regarding these upcoming changes, please call us at (785) 537-7200 or (800) 285-7878.



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## Spotted in Zurich, Switzerland!

Friend of TTC, Fred Olsen, captured this moment when it began raining in Zurich, but he did not ascertain the identity of the mystery traveler. Do you know who it is?



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