THE TRUST COMPANY

INVESTMENT & WEALTH MANAGEMENT UPDATE

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PREDICTING BEYOND COVID-19

Michael Carlisle, Vice President & Investment Committee Chair

Clients and Friends:
You've no doubt been inundated with information regarding COVID-19 and the resulting historic moves in the financial markets. It is broadly understood that deploying capital to benefit from future developments is the essence of investing. If so, then determining what those future developments might be is something of the "holy grail" for investors.

All sorts of methods are employed to forecast the future to gain an edge on capital deployment. However, that presents a rather large problem in that it's almost impossible to know the future with any degree of certainty. Investors attempt to extrapolate from the past as a way to foretell the future. Again, a problem. How relevant and informed is the extrapolation? How reliable is extrapolation under our current situation?

We are facing a worldwide pandemic on a scale not seen since 1918; likely the largest, and certainly the quickest, economic contraction since the early 1930's; a historic collapse in the price of oil, and the largest central bank and government intervention in our history. In the face of such historic events, it seems almost impossible to know what the future will be. However, not knowing the future should not keep us from trying to reach some rational conclusions.

Recessions historically have been triggered by untimely central bank action. Interest rates were either kept higher than necessary or raised in an untimely manner.

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PREDICTING BEYOND COVID-19, CONTINUED FROM P. 1

This time the government (state & federal) deliberately shut down the economy to fight a pandemic. Therefore, economic recovery is highly correlated to the progress in containing and eventually stopping the virus spread. Thus, the trade-off between containing the virus and restarting the economy is the critical question facing policy makers.

Here, again: the uncertainty of the future. How will that trade-off be made? There is little historical precedent to rely on and certainly no algorithm to provide a path forward.

As of this writing, debates are in progress on just when, where and how lockdowns should be lifted. Widespread testing will certainly be a key element. It will also be a gradual process, subject to periods of progress and retreat, until a vaccine is developed and herd immunity is established.

Capital markets are discounters of future events. There's that "future" word again. Since the low point on March 23rd, markets have begun to pass judgment on the future.

Virus deaths in the U.S. have begun to level off, while unemployment claims are at historic highs. Current quarter GDP decline will be one of the worst in our history. Investors, encouraged by the prospects of vaccine development and other therapies, have recently bid up asset prices. Does it make sense to be that optimistic? Again, we will have to wait and see.

However, we at The Trust Company have lived through multiple economic and market upheavals. Sticking to our disciplines of risk-based asset allocations, sound manager/fund selections, and periodic portfolio rebalancing have proven to be a rational methodology for maintaining and growing family wealth. While this future is fraught with unprecedented challenges, so were the others at the time we confronted them.

Market/Index	12/31/2019 Market Close	As of 3/31/2020	1st Qtr 2020 Change
S&P 500	$3,231	$2,585	-20.00%
DJIA	$28,538	$21,917	-23.20%
NASDAQ	$8,973	$7,700	-14.18%
Russell 2000	$1,668	$1,153	-30.89%
Global Dow	$3,251	$2,470	-24.04%
Fed Funds Rate	1.50% - 1.75%	0% - .25%	-150 bps
10-Year Treasury Rate	1.91%	0.69%	-122bps

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BACK TO THE FUTURE?

On a recent trip through the archives we discovered this article from April 2006. We found it to be just as relevant today as it was 14 years ago.

We are continually on the hunt for insights to help enhance our investment process. We read professional journals, research reports, popular media, economic forecasts, industry reviews and marketing propaganda. On occasion, we come across a commentator with a refreshing perspective or one who is just able to more clearly explain his or her perspective.

Well, I recently came across such a commentary. Note that these are not new ideas. After all, there really aren't any new investment ideas, only managers who are better at applying them. These principles were offered by David Ellison, CEO of FBR Mutual Funds, in a recent issue of the Rukeyser Newsletter. They constitute his "top ten investment rules."

1. **Simple is better than complicated.**
2. **Facts are for investors. Maybes are for traders and brokers.**
3. **Bad-to-good is better than good-to-great.** It's not only more profitable, but it also reduces risk.
4. **Valuation is crucial.** Price-to-Earnings & Price-to-Book Value are the most valuable investment tools.
5. **The Balance Sheet is more important than the Income Statement.** A company increasing its book value while decreasing its debt is earning real money. Strong balance sheets also allow these companies to weather tough times and exploit weaker competitors.
6. **Protect the downside**. Losing less is more important than making more for long-term, total returns. Holding cash in your portfolio is also better than investing with your fingers crossed.
7. **Don't over-bet the macro trends.** It's impossible to consistently forecast the economy, interest rates, currencies or the stock market, although the media is filled with such forecasts. Investing is best done at ground-level, researching one company at a time.
8. **Be patient.** The market isn't going anywhere. (But I should also add that investing earlier and using the benefits of compounding is a powerful force.)
9. **Invest and live with balance.** Diversification is important, both in your portfolio and in your life. Also, don't let the market run your life.
10. **Be an optimist!** No one succeeded by continually worrying about a bear market or the economy.

Louis Rukeyser's Wall Street, March, 2006.

MEET LAUREN GORALCZYK

Please help us welcome the newest member of our team, Lauren Goralczyk!

Lauren joined the Operations Department in Manhattan in April. She's helping out with general accounting and back-end client support for all The Trust Company branches.

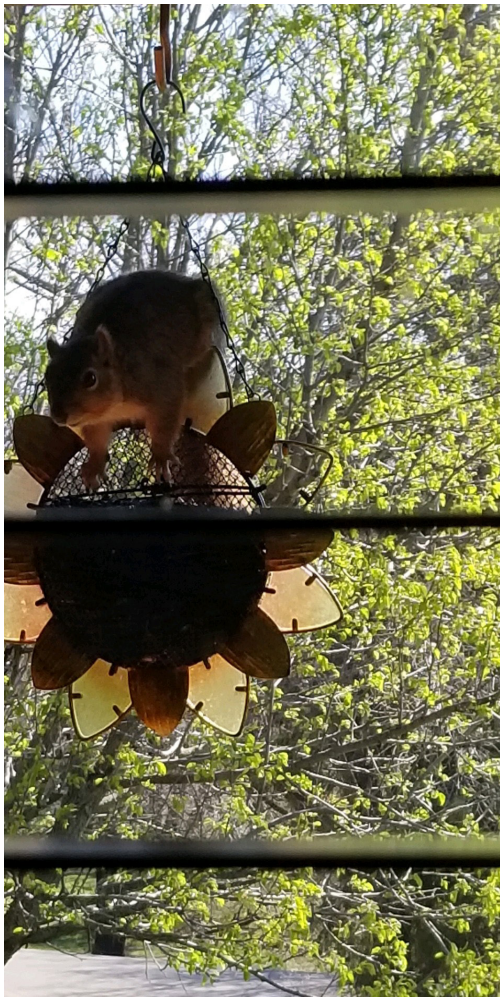
Lauren grew up in Manhattan and is a K-State graduate with a B.S. in Business Administration and a major in Accounting. She previously served as Accounting Assistant—Payables at McCullough Development, Inc. in Manhattan.

When she's not working, Lauren likes to attend K-State football games, hang out with family and hike the Konza Prairie. Welcome, Lauren!

THERE'S NO PLACE LIKE HOME (OFFICE)

Many of our employees working from home are finding they must adapt to new surroundings and new "coworkers." Have a peek at some of the photos they have shared!

Katie Seay's new boss, Bo, encourages her to enjoy the sunshine and fresh air.



Cheryl Haskett is joined by furry consultants at her office window.

Lucy Williams is pleased to finally occupy a corner office with a view!

Todd Chyba has added two ergonomics experts to the Compliance department.

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