

# A MATTER OF TRUST

THIRD 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





# THIRD 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.

**H**appy fall! As long time readers know, fall is one of my favorite seasons. I absolutely love the changing weather that marks the end of summer, the onset of the baseball playoffs, football season and so much more. Fall is the time we also start to look forward to the upcoming holiday season. A few of my friends and colleagues are already counting how many shopping days until Christmas!

However, even in this season of change, some things seem to never change. Economically we are still embroiled in a trade war with China (we could be close to deal) and the markets continue to be focused on the Federal Reserve's next move. Third quarter global equity market performance was mixed. The economy continues to add jobs with the unemployment rate falling to 3.5% in September. Also in September, the Federal Reserve cut interest rates for the second time this year. Declining interest rates were the main contributor to the brightest spots in markets this quarter, specifically bonds and real estate. The U.S. stock market continues to hover near all-time highs and by many metrics, both stocks and bonds look somewhat expensive. Nonetheless, with a relatively calm quarter in the markets, we thought this would be a good time to discuss a topic that has been covered in the financial news a lot lately: the underperformance of value stocks versus growth stocks.

## What is a value stock?

First, we must define the term, value stock. A value stock is a stock that is trading at a lower price, or a discount, to others in the same industry. This can be the result of a variety of reasons, such as negative publicity or that the company is experiencing slower growth. Value

stocks are often seen as bargain priced stocks that are misjudged or ignored by the market. They often pay a dividend that provides income to their shareholders. The success of a value investment strategy often requires that the fortunes of a company change, causing the market's perception of the company and its stock price to ultimately improve. However, this improvement is far from certain and can take time, thus value stocks are largely viewed to be riskier than growth stocks, but also have a higher expected return.

Growth stocks are stocks of companies that are expected to grow faster than the overall market. Investors are willing to pay a higher price for that growth rate, so consequently these stocks tend to trade at higher valuations. Examples of this are innovative, high growth technology stocks that investors expect to dominate the industry for years to come. Growth stocks rarely pay a dividend as they are focused on reinvesting their earnings into the business to continue their growth. The risk of a growth stock is that the company does not achieve the earnings or market domination that investors expect, therefore the stock is sold, driving the price downward.

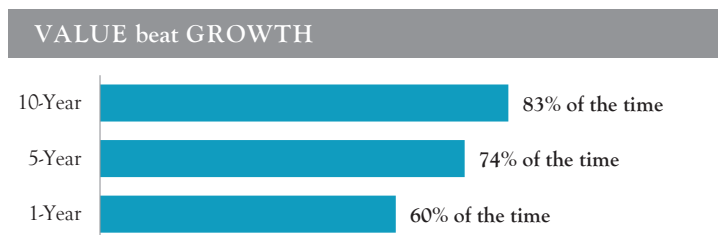
## Objective Comparison

How do we objectively compare or quantify value and growth stocks? The answer can be rather complicated, but for this discussion we will keep it simple.

The most common ratios used to calculate the value or the appropriate price of a stock are the Price-to-Earnings (P/E) and Price-to-Book (P/B) ratios. To calculate the P/E ratio, investors simply divide the current price of a stock by its earnings per share. The higher the resulting number, the higher the stock is priced per a given amount of earnings. The historical average of the P/E ratio for the S&P 500 Index is approximately 16. Currently, the P/E ratio for the S&P 500 is closer to 22, while during the late 90's internet stock boom the ratio got as high as the mid-30s.

The price-to-book (P/B) ratio is calculated similarly. We divide the price per share by the book value per

Exhibit 1.  
Overlapping Periods: July 1926–December 2018



Value is Fama/French US Value Research Index. Growth is Fama/French US Growth Research Index. There are 991 overlapping 10-year periods, 1,051 overlapping 5-year periods, and 1,099 overlapping 1-year periods.

## INDEX RETURNS

	U.S. Stock Market	International Developed	Emerging Markets	Global Real Estate		U.S. Bond Market	Global Bond ex U.S.
Q3 2019	STOCKS					BONDS	
	1.16% ↑	-0.93% ↓	-4.25% ↓	5.72% ↑		2.27% ↑	2.83% ↑
1 YEAR	STOCKS					BONDS	
	2.92% ↑	-0.95% ↓	-2.02% ↓	15.08% ↑		10.30% ↑	10.84% ↑

share. Book value per share can be a complicated calculation, but investors can find this number for individual companies on most financial websites. Book value can be summarized as the net assets of the company divided by the company's number of shares outstanding. These calculations allow investors to make comparisons between different stocks, and also between a single stock's value today versus its value at some point in the past. Stocks with a high P/E or P/B ratio are typically referred to as growth stocks, while stocks with a low P/E or P/B ratio are known as value stocks.

### The Value Premium

Significant academic research has shown that value stocks tend to outperform growth stocks, particularly over longer periods of time (see Exhibit 1). This outperformance is known as the value premium. Historically speaking, on a one-year basis, value stocks tend to outperform growth stocks 60% of the time. On a 10 year basis, that number grows to 83% of the time. Since 1928, U.S. value stocks have outperformed by 3.30% (12.41% vs 9.11%) on an annualized basis (see Exhibit 2).

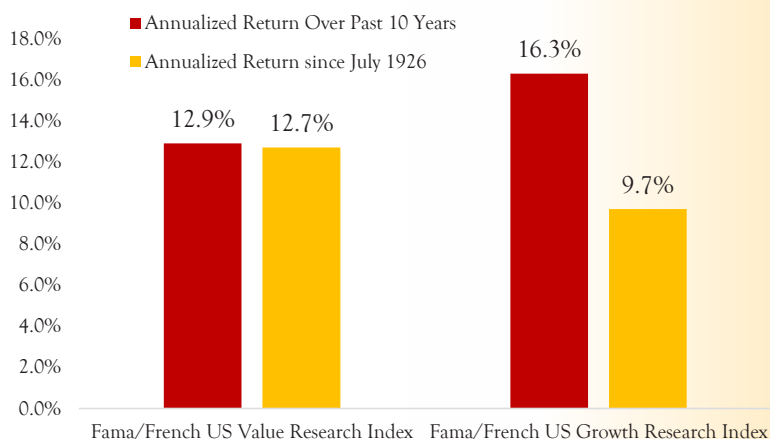
Unfortunately for value investors, we are currently in the midst of an extended stretch of value underperformance. In fact, in the past 10 years, value has only outperformed three times (2012, 2013 and 2016). This 10 year stretch of underperformance for value stocks is the second worst on record since 1928 (1930-1939 being the worst). However, 1941-1950 is the best period on record for value stocks. We often see a significant period of underperformance followed by a significant period of outperformance.

The good news – all is not lost. In reality, value stocks have performed quite well and in line with expectations established by the historical average. The difference maker has been the performance of growth stocks significantly outpacing their long-term average (see Exhibit 3), which we don't expect to continue forever.

### Persistence Wins the Day

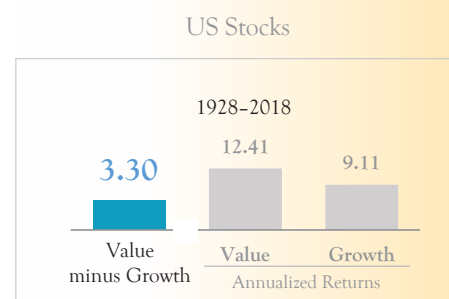
Many of the models we use for our clients contain an exposure to value stocks. Taking into consideration the historical performance of the value premium and how quickly the underperformance trend can reverse course, we do not believe that now is the time to give up on value stocks. Constantly changing your strategy by chasing the “hot hand” or newest trend often leads to higher turnover and increased costs, with you rarely getting the timing right. No investment strategy will win in all types of markets. One of the hallmarks to successful investing is to develop a strategy that you can stick with even in trying times. History has shown us that if you do so, you will be rewarded.

Exhibit 3.



Source: Dimensional Fund Advisors LP. As of June 30, 2019.

Exhibit 2.  
Relative performance of  
Value stocks vs. Growth stocks (%)



Source: Dimensional Fund Advisors LP. Value minus Growth: Fama/French US Value Research Index minus the Fama/French US Growth Research Index.

### HAPPY Investing.

Indices are not available for direct investment. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Past performance is no guarantee of future results. Actual returns may be lower.



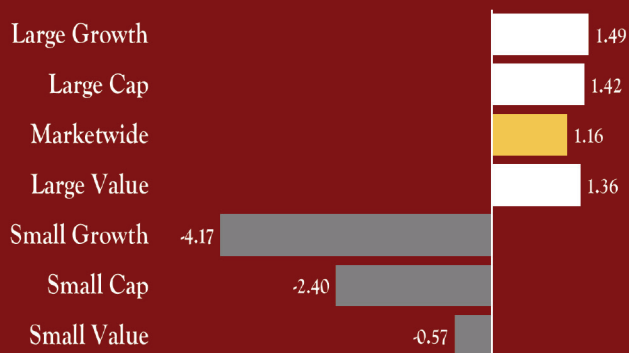


# MARKET SUMMARY

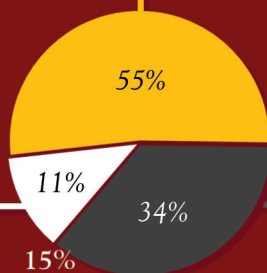
Equity market results in the third quarter were mixed. Large cap stocks outperformed in the U.S. and Emerging Markets while underperforming in the International Developed markets. Value stocks fared better than growth in the US while underperforming in the International Developed and Emerging markets. Bond markets and real estate were positive for the quarter, while commodities were mostly negative. For a more detailed quarterly report, please see the publications tab at [www.happytrust.com](http://www.happytrust.com).

## US STOCKS

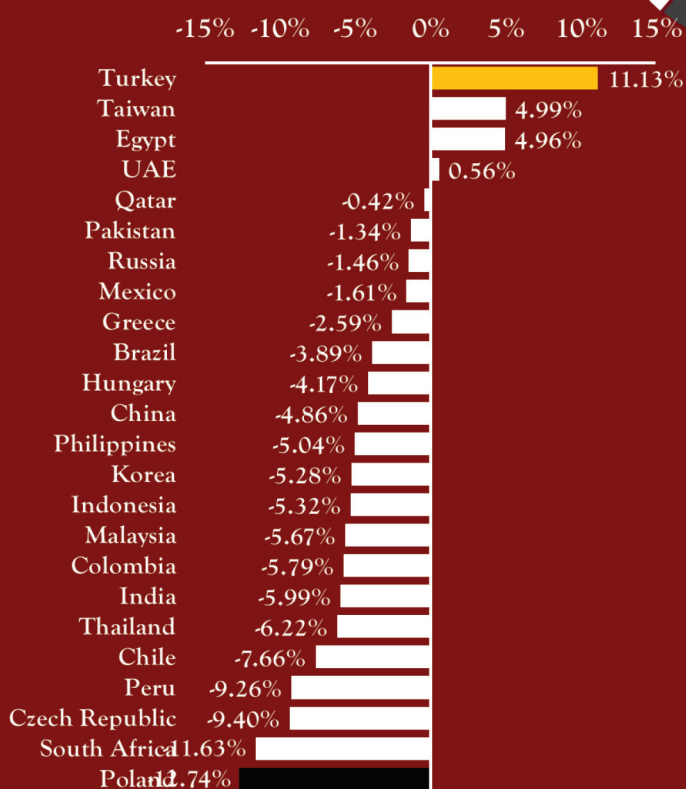
### RANKED RETURNS FOR THE QUARTER (%)



## WORLD MARKET CAPITALIZATION



## EMERGING MARKETS STOCKS



## INTERNATIONAL DEVELOPED STOCKS



## MEET THE TEAM

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**Joe Crowley**

Operations Trust Specialist  
Amarillo Office

Joe grew up in Amarillo and graduated from Amarillo High School. He attended West Texas State University earning a BBA in Finance. While attending WT, he began his banking career at American National Bank.

Upon graduation from WT, Joe served two years in the army with a six month deployment to Vietnam. After the army, Joe worked for Pantex in the accounting department for ten years. Joe then joined First National Bank working in various departments - bookkeeping, installment loans, credit cards, and finally the trust department. Following several mergers and acquisitions, Joe retired from Bank of America. During those nine years of retirement, he worked at Amarillo College overseeing a grant program for

the engineering department. Coming to work at HAPPY STATE BANK in 2018 was like coming back home to a field that he has always enjoyed, where he was able to reunite with many people he had worked with over the years.

Joe served as a chaplain at Baptist Saint Anthony's Hospital for six years. He also served on the Bravo Board as a volunteer and later as Treasurer on the Amarillo Opera board. He is active at First Baptist Church serving in the choir, as a Sunday school teacher, deacon, and in the prison ministry. Joe has two adult children and one grandchild. Always the avid learner, Joe is currently pursuing a master's in Arts of Leadership from Denver Seminary.



**Buffy Haden**

Vice President and  
Trust Operations Manager  
Amarillo Office

Buffy has been in the banking industry for over 28 years, with over 24 of those in trust services. She has a Master's of Business Administration from West Texas A&M University. Buffy has experience as both a Trust Administrator and Trust Investment Assistant. As the Trust Operations Manager, she oversees all operational functions, including settlements, balancing, and cash management.

A Texas Panhandle native, Buffy grew up in Perryton where she started her banking career at First National Bank of Perryton. When Buffy moved to Canyon to attend West Texas A&M University, she continued her banking

career at NationsBank and Bank of America. Longing to once again work for a community bank, Buffy joined HAPPY STATE BANK in March 2009. Buffy and her husband Chris have two children, Zachary and Brinley. Buffy spends her free time with family and enjoys watching football or playing games. She also likes to serve her community by helping local organizations, such as the High Plains Food Bank and the Eveline Rivers Christmas Project. Buffy is also a member of the Amarillo Estate Planning Council.



# THE GOLDEN RULE OF ESTATE PLANNING



**Hunter Vagrosky**  
Trust Officer

Hunter has worked for HAPPY TRUST COMPANY since 2016. He graduated with his Bachelor's in Business Administration from West Texas A&M with a degree in both finance and economics, and has continued his education through the Texas Banker's Association Trust School. In his role at HAPPY TRUST COMPANY, Hunter serves as an account administrator on various types of trusts, investment agencies, and IRA's. He currently serves on the board of the Amarillo Area Estate Planning Council, as well as One Chair At A Time.

**T**he unofficial golden rule in the world of estate planning is to ensure you have a Last Will and Testament in place prior to passing away. Otherwise known as dying intestate, passing away without a legal will in place can cause an extensive amount of complications, depending on the assets in the Estate. Once deceased, an individual's estate is transferred to their heirs. A will's purpose is to give instructions as to how the estate will be distributed. Without these instructions, one is leaving their assets in the hands of the probate process, and letting the Court decide who receives each asset.

The reasoning for the absence of a Last Will and Testament could range from not possessing adequate legal resources to not believing that an individual is wealthy or old enough to require a will be drafted. Some people have both wealth and legal resources, and still fail to have a will in place prior to passing away. Regardless of the reasoning behind not having a will in place, this situation has caused considerable problems for "ordinary people" as well as multi-million dollar celebrities.

***“A will's purpose is to give instructions as to how the estate will be distributed.”***

Consider the "Queen of Soul," Aretha Franklin, who passed away at the age of 76. Most well known for her song, "Respect," Ms. Franklin was an influential singer and songwriter, who won 28 major music awards, including 18 Grammys. She left behind 4 children, one of whom has special needs, along with an estate that was valued at approximately \$80 million at the time of her death. Most people would assume that an individual at this age, and who has attained much success, would have a legal team dedicated to making sure she had an

estate plan in place. Unfortunately, there were only invalid, handwritten wills in her home, and these did not hold up in court. Over one

***“This ended up being another situation in which a very wealthy individual, with almost unlimited legal guidance and financial resources, failed to have a legal will in place, causing a conundrum for all involved.”***

year has passed since Ms. Franklin's death and an ongoing battle continues to determine how her assets will be distributed.

Obviously, this situation can be burdensome for all four of Aretha Franklin's children, but the one son with special needs is likely most adversely affected. A family would ideally have certain provisions in their will when they have a child with special needs, or perhaps have a special needs trust set up prior to their death to ensure medical needs are provided. In this case, a will could also contain language providing the name of a legal guardian for the son if needed. Unfortunately, Aretha's son is stuck in limbo waiting to collect any assets from her estate. This could hinder how he pays for costly medical expenses and the care that he might require for his specific condition.

The estate of another royal musician, Prince Rodgers Nelson (Prince), has a similar and potentially more complex situation. Prince was also a Grammy award winning singer and songwriter that collected 32 major music awards throughout his career. There are conflicting reports as to Prince's net worth at the time of his death, but experts believe he left behind nearly \$200 million in assets, which could increase depending on the amount of

funds generated by any unreleased songs. Similar to Aretha Franklin, Prince did not have a Last Will and Testament in place at the time of his passing. When Prince died at the age of 57, multiple claimants stepped forth claiming to be his ex-wife, unknown children, siblings, and other distant relatives entitled to his assets.

This ended up being another situation in which a very wealthy individual, with almost unlimited legal guidance and financial resources, failed to have a legal will in place, causing a conundrum for all involved. According to multiple sources, after over one year of waiting, Prince's six siblings were ruled the official heirs

**“Establishing an estate plan is an important step in preserving your legacy upon your passing.”**

to his estate. This process would have been substantially reduced had Prince consulted an estate planning attorney to draft an estate plan.

In a survey performed by Caring.com, it estimates approximately six out of every ten adults do not have an estate plan in place. This may be obvious, but the same survey determined that as people got older, they were more likely to have

a will drafted. While age should not be a rationale for not having an estate plan in place, this seems to be the most common deciding factor.

We would suggest contacting your legal professional to help draft your Last Will and Testament. There are a few topics you might need to consider prior to meeting with an attorney. First, determine which assets you might need to include in your will (home, cars, investments, etc.). Next, you need to decide who will inherit your assets upon your passing. The third step is to determine who should serve as the executor of your estate. If you have children, you may also need to choose a guardian for them, or create a trust for their care. After making these decisions, your estate planning attorney can draft a will, and possibly other estate planning documents. The most important thing to do after executing your plan is to store it safely. If you're comfortable doing so, discussing your plan with your loved ones in advance can be very beneficial.

Establishing an estate plan is an important step in preserving your legacy upon your passing. If you have any questions regarding this article or need help finding an estate planning attorney, please feel free to reach out to our trust department. We are Happy to help you achieve your estate planning goals.

## *Facts about wills:*

- Handwritten wills, also known as holographic wills, are accepted in Texas, as well as a number of other states.
- If one dies without a will in Texas, their estate will be distributed in accordance with the Texas statutes.
- For a will to be accepted, the will must have the signature of the testator and two creditable witnesses.
- You must be at least 18 years of age, married, or in the armed forces to make a will in the state of Texas.

**HAPPY**   
to serve you!



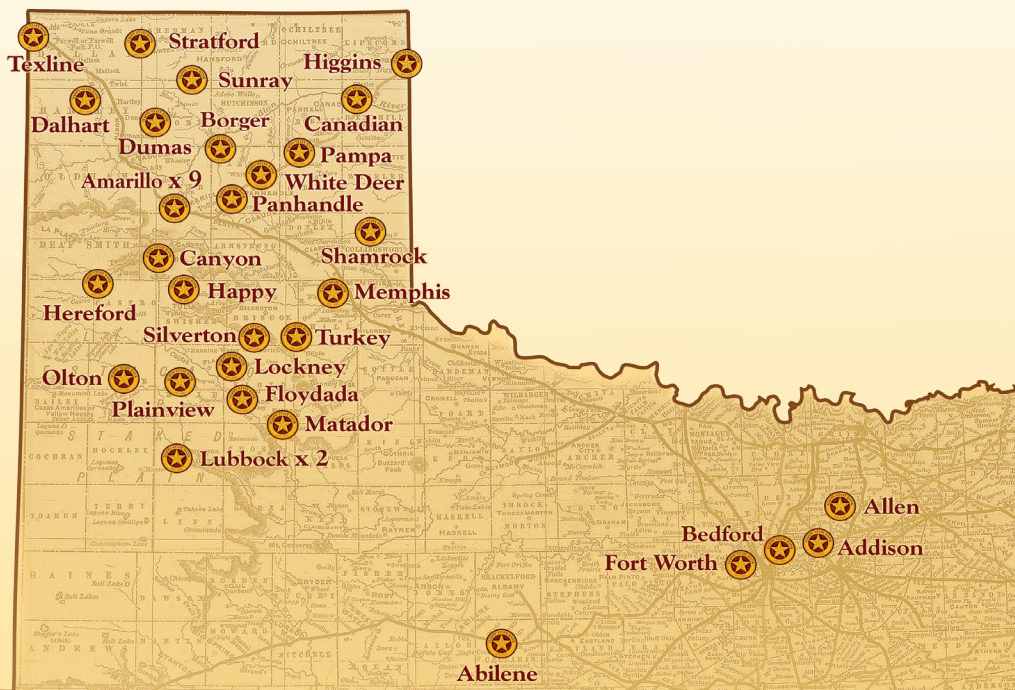




# HAPPY TRUST COMPANY

CREATING, MANAGING & PRESERVING WEALTH

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[happytrust.com](http://happytrust.com) AND [dimensional.com](http://dimensional.com).



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