



# Trust Company of Vermont Quarterly Update

October 2014

Brattleboro ♦ Burlington ♦ Rutland ♦ Manchester ♦ St. Albans

Employee-owned & Vermont-based

[www.tcvermont.com](http://www.tcvermont.com)

## Reconnecting with



## Brooks Brothers

Jack Davidson

Recently I came across a reference to the Trust Company of Vermont in a posting on a website maintained by Bogleheads, an organization inspired by the ideas of Jack Bogle, the founder of Vanguard. The issue being discussed focused on trustee fees, and our fees were referenced after a poster found our website. We were on the receiving end of a compliment. That is until someone else posted “you will find that most reputable trust institutions don’t publish their fees on the Internet or anywhere else”. The word “reputable” rocked my soul.



My parents wanted me to be reputable but did they do a good enough job? The definition of “reputable” can be complex. They focused on the no-brainers of my early years. No bad language. No tattoos. Grammar!! Very important, and I don’t fault them when they decided that controlling bad language was the best they could do for me. Thus I still end sentences in prepositions.

My father, who was voted best-dressed in college, became a high school teacher with 5 children. One of his goals for us was to dress well. If I had an Ex-

cel spreadsheet in those early years, I would have projected the economic impact of dressing well. But he found ways. Buy right but not often. Learn how to iron shirts and avoid laundries.

There were periods when I may have become “disreputable.” The ‘70s were destructive. I came home one day in a 3 piece double knit suit with bell bottoms. Fortunately, most pictures of me in those days are in old albums stored in the basement. Thank goodness we did not have digital cameras or iPhones.

Dad focused on the sons and Mom focused on the daughters. So I can only speak for myself and my brothers. We were encouraged to wear herringbone suits, tab collars, and collar bars. And our mainstay was the button down oxford shirt, preferably blue.



Although my father had reservations about the fit of the off-the-rack suits, we were introduced to the Brooks Brothers favored by the Wall Street establishment. Brooks Brothers was reputable and affordable.

Brooks Brothers is the country's oldest clothing retailer, going on 200 years, and they have much to be proud of: their traditions, community support and values. Many of their customers consider them to be far more than a store.

And I will bet any of our readers 500 shillings (or lira if I lose) that the poster who questioned our reputation wore Brooks Brothers suits. My hope is that the Trust Company of Vermont, still in its infancy (15 years), will become the next Brooks Brothers of trust and investment management.



Here is an extract of Brooks Brothers' social purpose: *"Our mission is to enhance the lives both within and beyond the communities we serve. We do this by partnering with select local, national and international non-profit organizations related to men's, women's and children's health issues as well as education and the arts."*

Brooks Brothers were innovators and their goal was to manufacture high quality suits at affordable prices since the early 1800s. They introduced the ready-made suit to save the costs and delays of the tailored suit, the button down shirt, the madras shirt and the repp tie for the "everyman". During the Depression they were one of the few retailers that allowed credit.



And they continue to follow the same marketing plan of both affordability and innovation. In 2001 they finally addressed my Father's concern. They introduced a concept known as digital tailoring

which uses body scanning technology to create custom tailored suits.

In short, affordability and quality may be a very effective business model. That said, we at the Trust Company of Vermont will never discriminate against people who do not wear Brooks Brothers suits. We like to be part of our neighborhoods and suits of all types are rapidly disappearing. It is their business model that is our focus, and I suspect that Vanguard has the same focus as well: affordability and quality.

If Brooks Brothers ran a trust company, I have no doubt that they would post their fees. We post our fees and Vanguard does as well. Transparency is important to us, but the impact of publishing our fees may have an unintended consequence. Some equate fees to the quality of service. If our fees are too low, they may assume poor quality. Others may be uncomfortable with our prices that seem too high for the services that they may find elsewhere. If we hide our fees, we may have more opportunities to sell our services before we discuss the fee.

Our fee schedule embraces an old model: a declining percentage on assets, as the account grows. This fits us well. We are not designed for charging by the hour. Ordinarily, we only have to talk about fees when we open an account. Once settled, we can focus on doing the job without the conflict inherent in hourly billing. Some relationships cost us too much, some break even, and most provide for our future, the staff and our clients. Our objective is sustainability long term for our investors, the employee-owners, and our clients. The employee-owners like the relationships with their clients to such a degree that profitability beyond sustainability is not our goal. That said, our fee schedule is imperfect. We

charge the same fee for investment accounts, IRA accounts, and trust accounts. Regarding fees, we may outshine Vanguard in pricing for handling irrevocable trusts. When a management account migrates to a trust, the administrators, skilled in tax and fiduciary law, become an important part of the team. Often, the administrators have the responsibility of making significant decisions affecting family members as well. Yet the fee remains the same.

Comparing fee schedules for trusts services tends to be apples-to-apples comparison. The trustee ordinarily has full investment authority, and the responsibilities are clear when the trustee operates as a fiduciary. Investment accounts, on the other hand, may be apples to oranges. In this area, we focus not only on the

investment choices, but seasoned advice regarding asset allocation, sailing through good and bad weather, and tailoring a portfolio to the existing assets and the client's risk tolerance.

Our staff is also available for basic financial planning, estate planning, and the miscellaneous topics often encountered in the long term focus of financial sustainability.

In a nutshell, we price based on a long term relationship that often involves the migration to trusts for family members. It is an old-fashioned model tempered by the need for innovation. Our goal is high quality service at an affordable price. Knowing my colleagues, I think our parents taught us the true nature of being reputable.



## Our Burlington Staff - What Might Have Been Before Brooks Brothers



## ..... and After Brooks Brothers



Download our mobile app anytime  
on iTunes or Google Play



Dear Mr. Buffett,

First off, I'd just like to say that I am a big fan of yours. As a portfolio manager I own your company's stock for many of my clients. I even find myself wondering "What would Warren do?" as I am selecting new securities to buy. Your annual letter to shareholders is always a must-read for me as I enjoy the stories that you tell and the investment lessons provided through them.

So it is with great difficulty that I have to tell you that I strongly disagree with a piece of advice that you provided in your most recent letter. You said that you were putting your money where your mouth is in stating: "What I advise here is essentially identical to certain instructions I've laid out in my will. One bequest provides that cash will be delivered to a trustee for my wife's benefit.... My advice to the trustee could not be more simple: Put 10% of the cash in short-term government bonds and 90% in a very low-cost S&P 500 index fund. (I suggest Vanguard's.) I believe the trust's long-term results from this policy will be superior to those attained by most investors..."

In a CNBC interview, you further explained that the 10% short-term position was there so that if we had a terrible period in the market and your wife was withdrawing 3% or 4% a year, she could take the money from there instead of selling stocks at the wrong time. This could be difficult for the average, non-informed investor. What if someone who had just \$500,000 invested as you suggest at the beginning of 2000 and was withdrawing 3.5% per year. By the end of the 10 years that follow, they would have just \$283,500 left and would see their withdrawals go from \$16,000 to just over \$10,000. This is a significant decrease in how much they can withdraw. Now I have no idea how big the bequest to your wife is, but even given a large equity decline, I would imagine she would not have much risk to her standard of living. After all, your net worth was estimated at \$70 billion earlier this year.

I do not disagree that, for the uninformed small investor, using a low-cost index fund is the best option for them to gain exposure to stocks. It is your suggestion that people should invest 90% of their portfolio's assets in stocks that I have an issue with. This same uninformed investor is less likely to be able to follow your long-time advice of "being fearful when others are greedy and greedy when others are fearful." In other words, they are unwilling to tolerate risk in the way that this strategy demands. They also may not have the capacity to take on this level of risk. If a substantial decline in the market is going to jeopardize their financial goals, then they should probably consider a less risky portfolio. Lastly, they may not have a need to take on this level of risk. If they can meet all of their financial needs through pensions, social security, etc. then why take such a risky approach when a more conservative one will get them to where they need to be?

At the end of the day, investors need to know their tolerance for risk and what their financial goals are. They can then select a portfolio that matches the two together.

Yours Truly,

*David DeBellis, CFA*