



Quarterly Update July 2006

Brattleboro ♦ Burlington ♦ Rutland ♦ St. Albans ♦ Stowe

Reversion to the Mean

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At the time of this writing, nearly halfway into the 2006 Major League baseball season, Minnesota Twins catcher Joe Mauer, a career .297 hitter coming into the season, leads the American League in batting with a .377 average. Conversely, Los Angeles Angels outfielder Vladimir Guerrero, a career .322 hitter, has a .286 batting average. The 162 game major league season provides ballplayers with the opportunity to endure many streaks and slumps but at the end of the season batting averages tend to reflect a player's inherent level of skill and approximate a player's career average.

As long term investors our season is generally three to five years which coincides with a full economic cycle. Rather than streaks and slumps, stocks tend to go through periods of being cheap and rich but over time tend to revert to their mean or normal valuation levels. Over the three and five year periods ended May 31, 2006, the following market indices total returns were:

| | 3 Year | 5 Year |
|----------------------|--------|--------|
| S&P 500 Index | 11.62% | 1.96% |
| S&P 500/Barra Value | 15.17% | 3.38% |
| S&P 500/Barra Growth | 8.03% | 0.38% |
| S&P 100 Index | 8.51% | -0.26% |
| S&P 400 Index | 18.59% | 9.20% |
| S&P 600 Index | 21.45% | 11.86% |
| MSCI EAFE Index | 22.09% | 6.76% |
| MSCI Emerging Mkt | 33.53% | 17.84% |

This three and five year period has been characterized by easy global monetary conditions, strong economic growth from many emerging nations with China a driving force, record U.S. corpo-

rate profits, surging commodity prices and generally low inflation. Equity investors have gravitated to those areas of the market with the greatest earnings increases and, as a result, emerging market equities along with U.S. small and midcap equities have outperformed. Valuation levels for these groups have begun to exceed their normal levels. Conversely, U.S. high quality big cap growth stocks valuations are at relatively low levels.

The investment climate going forward will experience tighter monetary conditions, potentially higher inflation and a lower U.S. dollar, as well as a slowing in U.S. corporate profit growth. This scenario would benefit the high quality big cap growth companies as well as big cap international.

Our clients have benefited from our investment committee's commitment to diversification and decision to include U.S. small and mid cap exposure as well as developed and emerging international exposure in their portfolios. We will continue to be mindful of where the relative value in the market is and maintain appropriate exposure levels to each sector. As always, we welcome the opportunity to review our outlook with you further and discuss how it may apply to your individual circumstances.

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www.tevermont.com

One, two, three, one, two, three.....

This past winter the Trust Company agreed to sponsor Waltz Night, a fundraiser for the Vermont Symphony Orchestra, and to send a fairly large contingent. Most of us needed basic training and, on the whole, we were appalling. There were one or two exceptions, most notably George and Pat von Trapp. To be sure, subtle elements of George's hockey skills lurked just below the surface, but for the most part he seemed right at home in contrast to the rest of us. Alas, he comes by it honestly.



Waltz Night

George von Trapp joined the Trust Company as a director when we incorporated in 1999. In 2005, he also became an employee/owner when he agreed to manage our Stowe facility. Just this month, he became our chief financial officer as well. So, the time is ripe to introduce George.



George was born in Hartford, Connecticut and grew up in Adamsville, Rhode Island. His father, Rupert, a physician, was the oldest child of Baron Georg von Trapp of "Sound of Music" fame. George tells the story of his father's response when asked which child was his counterpart in the movie.

His stock answer was "Liesl", the daughter who, under Hollywood artistic license, became the oldest child in the film production.

One of six children, his parents enrolled him in Collège Jean-de-Brébeuf, a French-speaking-only secondary Jesuit boarding school in Montreal, where he spent six years

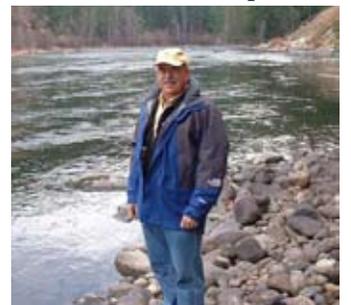


before attending Boston College. While at BC, George met his future wife Pat. After graduation in 1971, as an economics major, he chose Utah State for its Masters of Accounting program, which was designed for non-accounting graduates.



George was drawn to accounting because he liked mathematics. It was precise and orderly, requiring the bottom-line balance in which the debits match the credits. He also liked the dynamics of the accounting needs of small businesses. Paradoxically, as his skill level as a CPA increased, he was sought after by larger firms with more complex needs.

In 1980, George found the right balance when he moved to Stowe to work at the Trapp Family Lodge. An athletic family, the von Trapps with their three children found their niche in Stowe - "the Ski Capital of the East" and the noted destination of the Trapp family because it reminded them of their native Austria.



In 1994, George became the chief financial officer for Springer-Miller Systems, Inc., a Stowe-based company specializing in hospitality management systems, where he remained until 2001, when he and Pat purchased the Hunger Mountain Inn down the road in Waterbury Center.

In 2005, when we opened our Stowe office, we asked George to join us as a trust administrator and estate planner. We felt that he could integrate trust administration, inn management, and consulting.

He has the right stuff to tackle several disparate problems at once and make it look easy. Not unlike the elegant movements of the Waltz - one two three, one two three.....

