



Quarterly Update October 2006

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Colleague Profile

Lori Miller



“Character is the impulse reined down into steady continuance.”

- Charles Henry Parkhurst

Lori Miller craves quiet. Yet, she resides in the precise center of the busiest room in our company, the first floor platform in Brattleboro.

If you have had the opportunity to truly experience Vermont’s Indian summer, you may have noticed how quiet it is. Perhaps fading light and falling leaves create a pace that slows chatter. Nonetheless, chatter knows no season on our first floor, except in the epicenter where Lori and calmness reside year round.

aptly, Lori Miller was born in Brattleboro on a beautiful fall day. So, as we celebrate her birthday on the 13th of October, we celebrate her achievements as the individual responsible for many aspects of our operations.



After graduating from Brattleboro Union High School, Lori attended Wilson College in Pennsylvania majoring in Communications. She returned to Brattleboro knowing that she liked news writing and editing but not the public spotlight. Upon her return, jobs were not plentiful and she was only able to find a decent wage working at the Erving

Paper Company packing paper towels. The work was tediously mind-numbing, and she eagerly moved on to a local pharmacy when a position became available.

After she met her soon-to-be husband, who worked with children at Kurn Hat-tin Homes, she left the pharmacy to become a house mother on campus. Then in October of 1986, she went to work for the Installment Loan Department of the Vermont National Bank, and, shortly thereafter, moved to the Trust Department. In 1999, after the merger with the Chittenden Bank, she joined our company.

Lori’s primary responsibility is to make sure we send and receive securities. Accuracy and timeliness are the zero tolerance demands of the position. The job requires steadiness, patience, a tolerance for regularity and a steadfastness when the routine turns irregular. This is the type of environment that suits her well: a balance between the predictable and the stimulating.



Lori lives in a remote section of Guilford with her husband and two sons. Her favorite vacation spot is Acadia National Park in Maine and one of her favorite activities is serving on the Board of Windham County Reads. Lori loves to read and to promote reading for children.

The common thread that stays constant in her life is quietness. Quietness of her work and of her mind. We appreciate our calm center.

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Musings on the Oracle of Omaha

Chris Cassidy
Portfolio Research Analyst

As many of you have probably heard, Warren Buffett, who is widely considered to be the greatest investor of all time, will donate roughly eighty-five percent of his fortune to five foundations. The majority of Buffett's fortune will go to The Bill & Melinda Gates Foundation, which specializes in finding cures for diseases currently plaguing impoverished countries.



The donation will be in the form of Buffett's shares of stock in Berkshire Hathaway, which boasts one of the best growth records of any company, compounding book value per share at twenty-two percent annually since 1965. Had you put \$10,000 into Berkshire Hathaway when Buffett bought control of it in 1965, you'd have more than \$50 million today, compared to the just under \$500,000 you'd have if you'd invested in the Standard & Poor's 500 stock index.

Berkshire Hathaway is best described as a diversified holding company that owns and operates more than sixty-five businesses and invests widely in equities and bonds. The businesses owned by Berkshire Hathaway span multiple industries and include insurance companies, a candy company, an encyclopedia publisher, a vacuum cleaner business and a furniture store.

Buffett's hands-on experience with so many businesses makes his investment success difficult to emulate. For example, Buffett's experience running the *Buffalo News*, equipped him with valuable industry knowledge that he used to successfully invest in the undervalued *Washington Post*. While

most of us will never have the hands-on experience of Buffett, or the ability to sit on the boards of the companies that we invest in, there are many ways that we, as investors, can manage money like Warren Buffett. In his book *The Warren Buffett Way*, Robert Hagstrom describes four steps investors can take to invest like Buffett:

Step 1: Turn off the stock market.

As Hagstrom describes in his book, Buffett does not have a stock quotation machine in his office. Buffett believes in holding shares in businesses for a number of years, and he is not concerned with daily, weekly or even monthly movements in the stock market. Rather than monitoring the daily movements of the market, Buffett spends time reading annual reports and financial statements to learn more about companies in which he may want to invest.

Step 2: Don't worry about the economy.

Many investors make assumptions about future economic events, and then build a portfolio of stocks accordingly. Buffett would not approve of such an approach, since he does not feel that anyone can consistently predict economic movements anymore than they can consistently predict stock market movements. Furthermore, selecting stocks that benefit from a specific economic environment leads to frequent turnover and speculation. Buffett prefers to own stocks that have potential to be profitable over the long-run, regardless of the economy.

Step 3: Buy a business, not a stock.

According to Buffett, there is no fundamental difference between purchasing a business outright and purchasing shares in a business. Whether he is buying a controlling interest or non-controlling interest in a business, Buffett approaches an investment as a business analyst, not as a market analyst or a macroeconomic analyst. He takes a holistic approach to evaluating

a business by looking for companies that he understands, with positive long-term prospects that are run by quality management teams, and are available at attractive prices.

Step 4: Manage a portfolio of businesses.

According to Buffett, the goal of a business owner should be to create a portfolio that will produce the highest level of look-through earnings in ten years. (*"Look-through earnings" = operating earnings (including dividends) + retained earnings - an allowance for tax that would have been paid if the retained earnings had actually been distributed to shareholders.*) Thus Buffett does not measure his yearly investment success solely by comparing annual price change to a benchmark. As a result, he will not sell what he considers to be his best businesses simply because he has a profit (although he would sell a business that experienced a negative fundamental change or a business that was grossly overvalued). Similarly, he will not sell one of his best businesses simply because it has decreased in price, or because it is looked upon unfavorably by market analysts. He is more concerned with the long-term quality of each business, not its yearly price change.

At the Trust Company of Vermont, many of our core tenets are similar to those of Warren Buffett. We do not worry about short term market fluctuations, we invest in companies that we feel have favorable long-term prospects, and we do not measure investment success solely by comparing annual price changes to a benchmark. We also divide our principal holdings among 8 managers to give each manager the opportunity to focus on a small number of companies. Realistically, we cannot expect to emulate the achievements of this remarkable man, but we feel that our clients can only benefit by our attempts to include his principles in managing their assets.
