Trust Company of Vermont

Quarterly Update

October 2009

Brattleboro ◆ Burlington ◆ Rutland ◆ Manchester ◆ St. Albans ◆ Stowe

Retirement Planning 101 - Downsizing

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In June we completed the move of our Brattleboro Office from Main Street to Linden Street. Shortly thereafter, my wife and I moved from our home in Dummerston, where we have lived since 1977, to a house on North Street in Brattleboro. I can now simply walk across the Common to get to work.

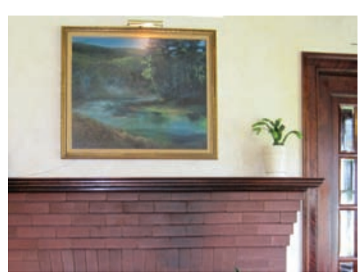
Moves are stressful and you need to prepare well in advance. If you have a partner, in all probability one of you likes to shed and one likes to hoard. So be prepared for a higher energy level in your relationship. I know of only one couple where both like to "collect", even the daily newspapers. Every few years a dumpster would show up in their driveway and that seemed to be their way of accommodating their storage needs. Not this year. Now that they are retired and the nest is empty, they have added an addition to their otherwise spacious home.

Although I don't plan on retiring for a number of years, both my wife and I wanted a less complicated life with less commuting, gardening and lawn mowing. Hence the move. In the process I have discovered a big hole in the retirement planning that I do. I do not focus on downsizing. Based on my experience, it is a multi-year process and we should incorporate it in our Retirement Planning. When Wake Robin calls and says you now have two weeks to decide whether to move to their assisted living facility, you need to prepare months, if not years, in advance.

Some of the things you need to do are very uncomplicated but perhaps stressful nonetheless. Decision-making is stressful. First, you start with the garage. All that scrap wood, well, the pieces are too short for Renew, a local non-profit that recycles building material. The scrap metal....what were you thinking? The skis? You don't ski with bear trap bindings any more.

You don't need to save every birthday card, except perhaps to prove to the Court in the post-move divorce proceedings that your spouse at one point actually liked you. Consider having your personal property appraised. Even take pictures and start the process of identifying who gets what. Johnny gets the lowboy. Susan gets the pewter. And consult with them. You may find out that Johnny wants the pewter and Susan hates her brother. It can be a difficult process.

Visualize what your next home will look like and decide which furniture will probably stay, what goes to the children, and what you can donate. Even go so far as contacting the local non-profit to make sure the property is suitable.



Be prepared for revelations. At our new headquarters on Linden Street there is an oil painting over the fireplace. It was a wedding present from a close friend that was prominently displayed wherever my wife and I lived since our marriage in 1968. It's been banished from our new home. I had no idea that my wife hated it.

Downsizing and the Future

The Baby Boomers are coming. And they are talking about downsizing. Downsizing will only pick up speed and its impact will affect us in both predictable and unpredictable ways. Certainly our investment managers will need to increase their focus on its effect on the securities we select. It has and will continue to influence the housing market. Lower square footage and better design will be the key factors in home selection. There will also be economic and social considerations that will show up in different ways. As others have pointed out, the generation that watched "Friends", rather than "Leave it to Beaver" is much less inclined to live in the suburbs. They will also factor in the environmental impact of their home selection. "Going Green" will not only mean environmentally friendly building material and energy saving designs, it will mean condos, duplexes, half-plexes, and high rises. Witold Rybczynski, in his article titled "*Forget the Solar Panels and the Rain Barrels - If You Want to go Green, Leave the Suburbs for the City*", (The Atlantic, October 2009) poses that green or sustainable architecture for a detached house is less "sustainable" than a reasonably well built multi-family dwelling, and that a redesigned older building on an urban site is greener than any new building on a newly-developed site.

Downsizing and Downtowns

It will be interesting to observe the impact of downsizing on our downtowns. Will they experience revitalization or will they lose out to "gated communities"? I suspect that some will and some won't and much will depend on our willingness to address the problems facing our downtowns. It is interesting to observe Brattleboro. Changes are evident that perhaps reflect a positive trend: a Victorian converted to three condos, second and third floors on Main Street buildings that are now private residences. Subtle changes. For example, Hospice has decided to open up a second retail space to sell donated furniture. For those of us that are familiar with "Experienced Goods", the thrift shop located at the Transportation Center, we eagerly await the opening of the furniture store on Elliot Street. Hospice understands that when we get ready for retirement, we may be inclined to earmark some of our furniture to help a local non-profit. The Hospice Furniture store offers low cost alternatives to rental centers offering questionable terms to those most in need.

Invest in the Co-op

The Brattleboro Food Co-op is at the center of a major redevelopment of the downtown. In 1987, the Co-op moved into a failed shopping center. The current location is in a section of town that can be politely described as vehicle unfriendly, not on the outskirts where you would expect.

Several years ago they were offered a sweetheart deal to move to a vehicle friendly shopping center near the current Hannafords. Shopping centers are the downtowns of suburbia. The Co-op shareholders said no. They are now rebuilding on their present lot, choosing the downtown of dense housing and patrons who walk to shop. This is a major project that includes 3,000 to 3,500 additional square feet of retail space and 19-23 apartments, the majority of which will be efficiency or 1-bedroom units. The Co-op is doing this in partnership with Windham Housing Trust and Housing Vermont.

The Co-op is looking for investors for this $8.7 million project. They are offering three to five year loans with interest rates as high as 4%. If you are interested, contact us, or contact Bruce Boardman, the Co-op's Financial Manager, at 254-2252, or Alex Gyori, General Manager, at 257-0236 (X101).

Witold Rybczynski concludes that being truly green means returning to the type of building that characterized the first half of the 20th century. I think of this as I walk the dog and delight in my new home,chosen because I was attracted to old neighborhoods. The irony is that perhaps by returning to the past, I may have been going towards the future.

How successful we would be, as investment managers, if we could divine the answers to these two seemingly simple questions.

We ask these questions continually when making investment decisions, as today's investment world changes rapidly, due to the unfolding of economic, political, and even sociological events.

BONDS AND INTEREST RATES

Of the two questions I believe the first one is the more difficult to answer. It is also the more important one to get right, since interest rates can drive the direction of not only bond markets but stock markets as well. In this article I will deal only with the interest rate question.

BOND BASICS

1. The price of an individual bond is largely determined by its quality (rating), its stated interest rate (coupon) and its future maturity or call date.

2. Bonds of lower quality provide a higher return (yield) than bonds of higher quality. Quality is a risk factor.

3. Normally, but not always, bonds with longer maturities provide a higher return than similar bonds with shorter maturities. Time is a risk factor.

4. When interest rates decline, bond prices rise (not good for potential bond buyers, but good for bond holders); when interest rates rise, bond prices decline (good for potential bond buyers, but not good for bond holders).

WHAT DRIVES INTEREST RATES?

The overall level of interest rates at any given time and the direction in which rates are moving are generally determined by the federal government's fiscal policies, the Federal Reserve Bank's monetary policies, and the relative attractiveness of bonds to competing investments. Real and anticipated rate of inflation can also be a factor.

Very simply, fiscal policy at the federal level is how much the government budgets to spend or actually spends. Major components of Federal Reserve monetary policy are the authority to set the level of certain short term interest rates and to lend to or borrow monies from the banking system. Fiscal and monetary polices can have a major affect on future inflation.

WHAT IS HAPPENING NOW?

Fiscal and monetary policies for most of the past year have been designed to stabilize a rapidly deteriorating banking system, slow down unprecedented rising unemployment, and to halt a scary economic recession. For example, the Federal Reserve dropped the Federal Funds rate to historic lows, guaranteed certain borrowings and implemented several other measures to restore confidence in our credit markets. Coincidentally, Congress enacted a number of stimulus packages again aimed at helping our banks and other lending institutions, provided capital for the failing automobile industry, and provided monies to state and local governments with the primary intent of creating jobs for the unemployed. We appear to be coming out of the recession. Some will argue these programs helped, while others may believe they were not a great benefit and may result in an over-stimulated economy.

WHAT DOES THE FUTURE FOR BONDS LOOK LIKE?

No one can say for sure. As already mentioned, there is some concern that, if the policies designed to stimulate our economy are not modified once that task is considered accomplished, we may be facing a period of increasing inflation and rising interest rates. In theory this happens when the economy is over-stimulated and demand for goods and services exceed supply, causing costs and prices to rise. Interest rates rise and bond prices decline during periods of high inflation, as fixed rate returns become less attractive due to their reduced purchasing power. To prevent this from happening, current fiscal and monetary policies should be changed. In the not too distant future the Federal Reserve should deliberately raise short term rates and take other measures to slow down economic growth. Congress should let existing stimulus programs phase out and not initiate new ones. The huge projected deficits need to be addressed and reduced.

WHAT IS A REASONABLE PREDICTION OF FUTURE INTEREST RATES?

Although they may not change much in the short term we believe the longer term trend will be toward higher levels. Why? First of all, as already stated, interest rates have been purposely held down by Federal Reserve policies. These policies will have to change at some time in the future. Secondly, it appears impractical to believe Congress will make the hard choices necessary to reduce government spending or raise taxes enough to cut the deficit and head off what could be an historic inflation-driven economy.

WHAT IS TRUST COMPANY OF VERMONT'S CURRENT BOND POLICY?

To maintain low volatility in our bond portfolios we choose to err on the side of higher bond quality and shorter maturities. In addition, we purchase bonds with staggered maturities and avoid concentration in any single issuer or type of issue. Regardless of what lies ahead for bonds, events of the past twelve months have reinforced our belief that this is not just a good bond policy; it is the best bond policy for the clients we serve.