Trust Company of Vermont

Quarterly Update

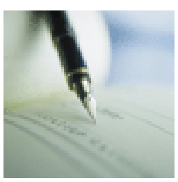
October 2003

Brattleboro ◆ Burlington ◆ Rutland ◆ St. Albans ◆ 877-753-4401

TCV Introduces Investments in Non-Profits

The Trust Company is pleased to introduce a new service to clients who wish to use a portion of their investment portfolios to support effective charitable enterprises.

From years of experience with socially responsible investing, we know that many non-profit organizations are very creditworthy. Loans to such organizations can make possible important work that would not happen if they depended entirely on grants. But commercial loans may be unavailable, too expensive or too slow. So an increasing number of organizations now look to generous private lenders to provide some of the funds their work requires.



We have identified a number of reputable, established organizations, which range from local to international in their scope and which welcome investment.

There are two ways in which they use investors' funds:

- several organizations borrow funds to lend, in turn, to other organizations in a geographic or program area - Latin America, for example, or housing or child care.
- Other organizations borrow capital with which to carry on or expand their own work.

Charitable lenders usually do not expect a market-rate return. The return is usually set by the lender capped by the rate that the non-profit is willing to pay (some lenders choose to charge no interest). In today's interest rate environment, as bank's try to maintain a 4% + 'spread' between the rates set for loans and deposits, it is possible for the investor to achieve market rates while still saving interest costs for the non-profit. In fact, it may be an opportune time to split the spread and benefit both the non-profit and the lender.

Because we believe in this kind of investment and understand that the returns are modest, the Trust Company will waive its usual management fee on these investments so long as they do not exceed 10 % of the portfolio value.

The Trust Company's new service is prepared to:

- **Provide information about organizations with which we are familiar and direct clients to additional information.**
- **Assist clients to make the investments. This is usually a simple process.**
- **Carry the investment (minimum $5,000) as part of clients' investment portfolios.**
- **Receive and account for interest payments, but not pursue collection.**
- **Include these activities in year-end client tax information.**

We would be happy to discuss this service further. Simply call your account administrator or portfolio manager if you are interested.

BRATTLEBORO AREA COMMUNITY LAND TRUST

Local

The **Brattleboro Area Community Land Trust** rehabilitates and builds affordable rental housing in Brattleboro and surrounding towns. It also helps people buy modest homes. The Land Trust may occasionally need a low-interest loan to help with one of its projects. If you might be willing to consider such a loan, let us know and we will be in touch when the need arises.

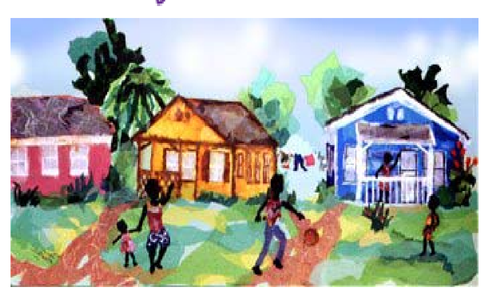
Statewide

VERMONT COMMUNITY LOAN FUND

Since 1987, the **Vermont Community Loan Fund** has been putting investors' money to work at other non-profits, developing affordable housing, child care and other community facilities, and helping family agriculture and socially responsible small business. Losses on loans to organizations have been less than 2 percent, and on loans from investors 0 percent.

National

McAuley Institute



The **McAuley Institute** invests loans from individuals, foundations and religious organizations in grass-roots affordable housing projects, especially projects led by women. Since 1983, it has supported projects in many states, not only with loans but strong technical assistance to local organizations as well.

International

ACCION International uses loans from investors in the U.S. to guarantee loans by local financial institutions to 'micro-businesses' in poor urban communities in Latin America. Through its affiliates, it has helped more than a million people in the past twenty years throughout Central and South America.

Similar work is done by **Shared Interest**, which focuses on South Africa. Loans by affiliated South African banks support collective economic development efforts in low-income communities. Nelson Mandela has said of Shared Interest that it "creates the means for U.S. social investors to invest in community-based . . . projects that will create not only jobs but alternative models of control and ownership."

Additional Information:

www.sharedinterest.org
www.accion.org
www.baclt.org
www.vclf.org
www.mcauley.org

Colleague Profile

This is a picture of **John Abel** taken during his formative years. It was during this period that he started to develop his strong love of the stock market and his desire to work on Wall Street. Unwavering, he majored in Finance at Adelphi College, and headed to New York City in 1966 upon graduation. He succeeded in finding a job on Wall Street at Tri-Continental Corp. in an office adjacent to a large empty space slated to become the World Trade Center.

John, who grew up in Oceanside on Long Island, started the daily commute and became, in the local parlance, a "Dashing Dan", that is, a commuter. He married his wife, Karen, in 1966. By 1971, John and Karen were well on their way, with two children, to becoming suburbanites. Then one day they took stock. John, in is own words: "I looked at the Dashing Dans…the 40 year olds looked like they were 60". They decided that New York was not the place to bring up the children or John.

After John and Karen visited an old friend in Rutland, Vermont, they decided they wanted the Green Mountains. John methodically began the search for a job and by January of 1972, he was sitting behind a desk in the Trust Department of Vermont National Bank. He then began a career of managing clients' assets in a department that grew from $22 million to over $1billion when he left in 1999 to co-found the Trust Company of Vermont.

John has never wavered in his love of the stock market. But he gave up his dream of working on Wall Street and willingly moved to a very different culture. There were many things different about Vermont in the early seventies. For one thing: rust! Rust seemed to dominate our lives back then. We battled with trying to save our newly purchased vehicles, and, in spite of annual oil undercoats, we were losing.

John Abel arrived in a brand new BMW. Beemers in those days weren't called Beemers. They were relatively inexpensive ($1,800), and had yet to be associated with any socio-economic group. John loved his model 1600, and we watched as he desperately tried to save her. Bondo and then duct tape marked her steady decline. The day finally arrived when even his libertarian garage owner wouldn't inspect her, and John began the painful transition to used station wagons.

John is generous of spirit and thrifty in nature. It's in his nature to protect and preserve, and that is why he is ideally suited as our portfolio manager for those clients who are inclined toward long-term prudent growth strategies. And long term it is. He is still managing assets for clients who established relationships with John 30 years ago.

One more child, and two grandchildren, constant renovating of an old cape they bought in 1975, all that time enduring stock market fluctuations, and all of a sudden it is 31 years later. But something's wrong with the picture. John and Karen haven't changed; they look exactly the same as when they arrived. We think that sometime prior to leaving Long Island, John and Karen made a bargain. It couldn't have been a Faustian bargain of the "Dorian Gray" variety. There's no deal with the devil here, simply because family, commitment and community are the focal points of their lives. We simply cannot account for why the two have not aged.

Rumor has it that in an effort to find out, someone searched his attic and , despite reservations, even looked for the Dorian Gray "painting". Allegedly, there it was…the painting.. a rusted…decrepit BMW model 1600. They gave up the Beemer for a life of eternal youth and beauty.

Trust Company of Vermont ~ Fourth Quarter Market Commentary

David DeBellis, CFA, Portfolio Manager

Economy

The economy's improvement continues! Fueled by double-barrel stimulus – historically low short-term interest rates and a simultaneous increase in Federal expenditures and tax cuts – the economy is on track to turn in real growth rates approaching 4 percent for the remainder of the year. Many of the impediments we faced earlier this year have vanished.

It's encouraging, too, that we are seeing evidence of strength on a global basis. A promising acceleration in economic activity in Japan, China and Europe is evidenced by the incoming domestic data in those countries, and the global rise in industrial materials prices.

Domestically, retail sales are surging, boosted by tax cuts and refinancings. Sales rose 1.4 percent in July, doubling analysts' expectations, and May and June sales gains were revised upward as well. Even the business side of the economy is picking up. Business spending is growing – although from a small base – in industrials, capital goods and technology. The manufacturing sector expanded for the second consecutive month in August, providing further evidence that our economy's hardest hit sector is recovering. Productivity gains last quarter were impressive for corporate profits, but disappointing for those hoping that manufacturing labor conditions would improve.

Employment on the service side, however, is on the rise. U.S. jobless claims have begun to show some improvement. The four-week moving average of initial unemployment claims fell to its lowest point since mid-February. Once real GDP growth exceeds 3.5 percent, we expect the labor market to improve, especially when one considers the unsustainable level of productivity that currently exists.

Bond Market

The yield curve has steepened in recent weeks, confirming the market's suspicion that bond investors are becoming bullish about our economic prospects. With a recovering economy, a weaker U.S. dollar, and higher inflation, investors should still be cautious on bonds as yields on longer-term bonds are likely heading higher.

A rise in money market rates would make us more cautious on the stock market. Given the Fed's stance against deflation, we see little chance of an increase in short-term rates anytime soon. From a strategy standpoint, we believe that bond investments should be constrained to shorter term debt.

Stock Market

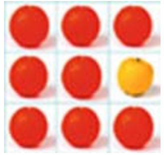
Stocks are holding on to year-to-date gains. The Dow Jones Industrial Average is up 14% year-to-date. The broader S&P 500 Index, which is weighted more heavily with tech stocks, is up a stronger 16%. The Nasdaq Composite, which is highly leveraged to tech names, is now up 40%. Year-to-date, the smallest 100 S&P companies have outperformed the largest 100 names by almost 3-to-1. More significant than the actual returns of the market is the breadth of the market advance. An impressive 484 issues in the S&P 500 posted gains since this recent rally began on March 12, 2003. This is important because a broad-based rally is more powerful than one supported by a few large capitalization stocks.

As the market continues to anticipate economic recovery, government data supports that view. The profit picture is improving – although admittedly off a low base – while spectacular gains in productivity are helping to support the bottom line. The last holdout, business investment, is beginning to take hold. Orders to U.S. factories rose for the third straight month in July – further substantiating recent economic reports that have pointed to continued firming in the manufacturing sector.

Second quarter earnings were strong and positive guidance for the remainder of the year is spreading. The ratio of negative surprises to positive surprises for the upcoming 3Q earnings period has fallen to a low 1.6 to 1, according to the First Call consensus. In a Sarbanes-Oxley investing environment, where CEOs can be held personally responsible for too rosy a forecast, improved guidance is particularly encouraging. This suggests that corporate risk taking, the lifeblood of an expanding equity market, will revive.

We continue to believe that equities will outperform all other asset classes over the next several quarters. There is still a lot of liquidity in the market, and with profit margins returning to historical norms, the earnings picture should continue to improve.

Contrarian Investing



Steve Singiser, Portfolio Manager

There is an approach to investing referred to as 'contrarian investing' that some managers have used successfully. Basically the manager considers what logic or reasoning suggests is the proper action to take, and then does the opposite. Here are a few simple examples of contrarian investing and why it can often result in a profitable outcome.

> "Buy on bad news; sell on good news."

As soon as any news, good or bad, regarding a stock becomes public, investors react instantly to push the stock price up on good news or down on bad news. So by the time you are ready to act the news is already reflected in the price of the stock. The contrarian investor then takes advantage of the run up in price to sell it or buys into a stock that has declined in price because of bad news. Usually this is a short term trading tool, as you don't know whether succeeding news will be good or bad and moves the stock in a direction not favorable to your established position.

> "Sell part of your successful investments to add to your less successful investments."

Sooner or later all stocks get overvalued or overly depressed. But taking profits in stocks that have moved up in price and buying more of a stock that has moved down in price, assuming you still like the stock, can be a valuable investment technique. Stock markets, industry sectors of stocks, and individual stocks all move in cycles of upward and downward price changes. In other words, there is a continuous rotation of good and bad outcomes among stocks or groups of stocks. In contrarian theory an astute investor can take advantage of this rotation as favorable situations become overvalued and vice versa.

> "It is always darkest before the dawn."

When things can't get any worse, they start to get better. This is most helpful when trying to determine whether the stock market as a whole or an individual stock is about to turn upward. The opposite holds true as well. When investors are extremely optimistic about the future and stock prices reach excessive heights, some kind of downward correction will always follow. Most recently this occurred in the spring of 2000. Like many approaches to successful investing, contrarian investing doesn't always work. Since none of us can predict the future with any consistency, we work with imperfect tools. To be a successful contrarian you must also rely on knowledge, thoughtfulness and common sense.

Will the "Jobs and Growth Tax Relief Reconciliation Act of 2003" create a paperwork nightmare?

For you, probably not. For us, yes. We are working behind the scenes so that when you receive your tax letter from us, most of the hard work will have been done. Although the recent tax law changes provide a significant tax benefit for investors with taxable accounts, like most tax changes the complexities will require a more burdensome return.

The maximum tax rate on dividends paid by corporations to individuals and on individuals' capital gains is reduced to 15% in 2003 through 2008. For taxpayers in the 10% and 15% ordinary income tax rate brackets, the rate on dividends and capital gains is reduced to 5% in 2003 through 2007, and to zero in 2008.

The new draft of the 2003 tax return is particularly long because the tax rate on capital gains changed on May 6, 2003 and the extra lines help taxpayers calculate their capital gains at the old 20 % until May 5, and at the new 15% that began May 6th. It will be our job to tell you the pre and post May 6th gains so that you will be able to easily complete the return. Regarding dividends, fortunately the new law applies for the entire year. However, to qualify for the special treatment, the shareholder must hold the qualifying stock for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date.

We are now inputting the "ex-dividend date" so we can tell you which of your dividends qualify for preferential rate. Again, you won't have to worry. Our accounting system is very tax sensitive. It's why, unlike many mutual funds and brokers, we maintain all the dates and cost basis for each security.