Trust Company *of* Vermont
Quarterly Update

October 2015

Brattleboro ◆ Burlington ◆ Rutland ◆ Manchester ◆ St. Albans

Employee-owned & Vermont-based

www.tcvermont.com

Down Memory Lane with Portfolio Manager Steve Singiser

This article concludes Steve's history of the stock market as experienced over his working career: 1962 to the present. We pick up the narrative in the new millennium.

The New Millennium

The closing paragraph of my July article stated: "In any case, the 20th century ended well. Our primary concern seemed to be whether our PCs would work in the new millennium because of its built-in calendar. Not a problem. Most of us were fairly optimistic about the future. Fortunately, we could not imagine what lay ahead."

Eight trust officers who had formerly worked together at Vermont National Bank, were so optimistic that in September 1999 they formed the first independent trust company in the state of Vermont, as employee/owners. Some believed we were crazy, foolish, or at best, very brave. I don't recall we were any of these. We counted heavily on the loyalties of our many client/friends to follow and they did not disappoint us.

What we did not see coming was the end of the dot-com bull market on January 14, 2000, when the DJIA peaked at 11,723, nor the terrorist attacks of September 11, 2001. Six years later we would experience the start of a second bear market, much worse than the first. Our company was just eight years old.

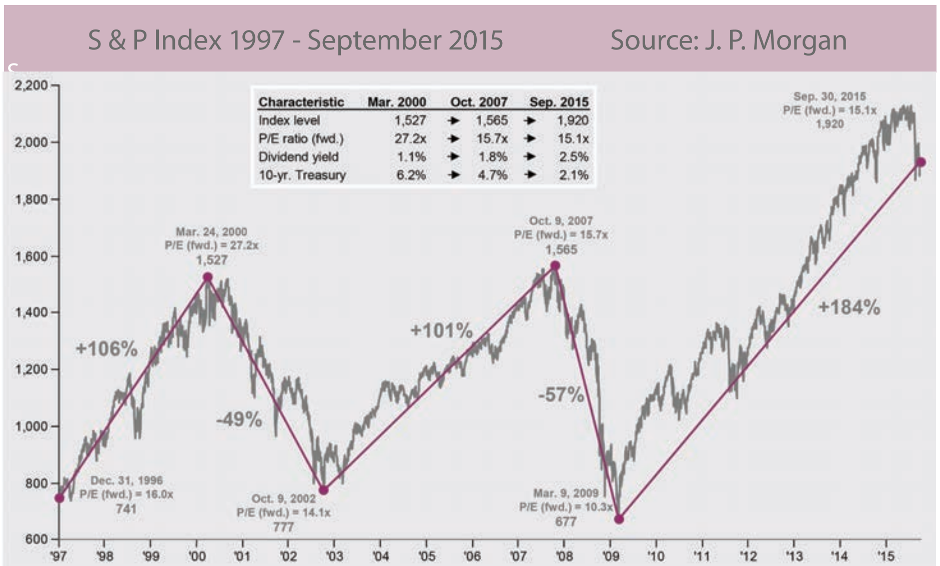
This September we completed our sixteenth year. Trust Company of Vermont is the oldest, largest, and finest independent trust company in the entire state of Vermont. We employ twenty-nine experienced and hardworking individuals - all part owners. We own office buildings in Burlington and Brattleboro and lease offices in Rutland, Manchester, and St. Albans. We manage over a billion dollars of investments. Impressive? I think so. Too much hyperbole? Possibly.

The New Millennium Bear Markets

There is just too much subject matter to review in this article; most of it has previously been covered in finite detail. The most interesting periods of the past fifteen years are the two major bear markets, which occurred during the first eight years. The subsequent seven years of recovery have been rewarding but otherwise not terribly interesting.

Bear markets are always painful (no one likes to lose money) but can be very beneficial by correcting excesses in stock valuations and exposing scoundrels, schemers, and scammers who need to be exposed and punished. You remember that Ponzi fund schemer Bernard Madoff and the corporate executives at Enron named Skilling and Lay? Bear markets are often shorter and more severe than their counterpart bull markets.

The 2000 to 2002 bear market is aptly called the dot-com bear market. From March 2000 to October 2002 the S&P 500 declined (only) 49%, while the NASDAQ, burdened with many technology companies, crashed nearly 80%. Leading examples include: Microsoft declined 67%; Applied Materials 82%; Intel 83%; and Cisco 90%. Although high quality technology stocks such as these were widely owned, the pain of this bear market was felt particularly by the more aggressive managers and investors, who had achieved great returns during the previous decade. Characteristically, these stocks paid little or no dividends and were attractive to high net worth individuals for whom current income was not important. None of the four stocks cited above have recovered to their 2000 highs. By October 9, 2007, however, the S&P 500 doubled from its 2002 low returning to its previous March 2000 high. Coincidentally October 9, 2007 was the day of the worst bear market since the great depression began. More hyperbole? I think not.



In less than a year and a half the S&P 500 declined 57%. Bank stock indices and mutual funds on average declined 80%. It was somewhat reminiscent of what happened to the tech stocks discussed above, except by most measurements the bank stocks were not overpriced. Typically, they were priced at about 12 times current earnings and yielding 4 to 5%. They represented the rock solid, conservative, safe core of almost every portfolio. Sadly, while investment analysts were not paying attention, banks were making a whole bunch of bad mortgage loans. Bad because, after a short period of time, the loans defaulted pushing bank earnings over a steep cliff. For a period of time defaults and subsequent foreclosures were so prevalent the survival of the international and the U.S. banking systems were of grave concern. We could only imagine where that might lead. For example, Lehman Bros. went bankrupt and that "fine old Wall Street firm", Merrill, Lynch, Pierce, Fenner, & Smith had to be rescued by a bank already in trouble themselves. The price of Citigroup's stock fell from 55 to 1 (that's right 1); Bank of America from 55 to 2; and General Electric, also a major finance company, fell from 42 to 6. To preserve liquidity, cash dividends of these companies and others were reduced drastically or eliminated: Citigroup's dividend went from $2.16 to $0.00; BAC from $2.40 to $0.04; and GE from $1.24 to $0.46. Many individual investors counted on bank dividends to augment their income.

There was a huge real estate bubble deflating at an out of control rate and it was a very scary time. What ultimately turned everything around in March 2009 remains a mystery. Perhaps it is simply that, when things can't get any worse, they get better. The heartache of this bear market and bubble was that thousands of individuals lost not only their dividend income, or the market value of their investments, or even their jobs, but they lost the very homes they were living in while raising their family or enjoying retirement. There are no meaningful benchmarks for that kind of loss. After seven years of sub-

sequent recovery, many of us recall this period only as a very bad memory; many others are still trying to piece their lives together.

Inflation

In the April article of this series I listed examples of what a few things cost in 1962. Shown below is what they cost today. Shown in brackets is the multiple the price has increased over the past 50+ years.

Item	1962 Cost	2015 Cost
Pack of cigarettes	20 cents	$10.00 (50x)*
NYC City Subway	15 cents	$2.75 (18x)
VW Beetle	$2,000	$20,000 (10x)
Four years at a private university	$10,000	$200,000 (20x)

**Time to quit smoking!*

Successful Stock Market Investing

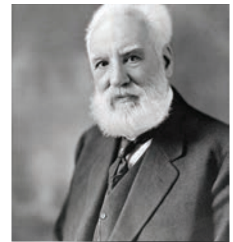
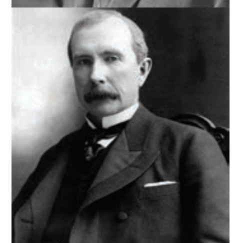
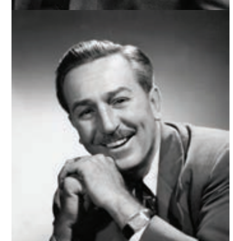
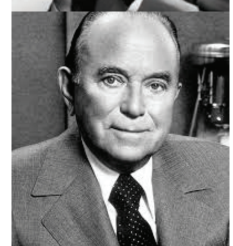
You may want to pay attention to this As hard as they may try, stock market pundits and prognosticators, myself included, are not able to predict the future and that makes our job a challenge. Certain time tested sayings provide strategies that help. They may sound silly or ambiguous, but ignore them at your peril.

My favorites are:

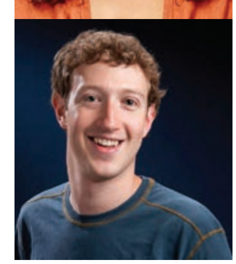
- *Cut your losses, but let your profits run.*
- *Your last double is your next double.*
- *Stocks climb a wall of worry.*
- *Sell on good news; buy on bad.*
- *Don't fight the tape.*
- *Love your spouse, not your stocks. Your stocks will not always love you back.*

Persons of Vision

Whenever possible, hitch your star to men and women of vision by investing with them in the companies they founded. Who are these people?





About 100 years ago their names were J.P. Morgan, John D. Rockefeller, Henry Ford, Thomas Edison, Alexander G. Bell, George Eastman, and others. Fifty years ago they were Tom Watson, Sam Walton, John Cash Penney, Ray Kroc, Colonel Sanders, Walt Disney, and Edwin Land to name a few. During the final quarter of the century new and mostly younger individuals appeared: Bill Gates, Larry Ellison, Michael Dell, Martha Stewart, Gordon Moore, Andrew Grove, Oprah Winfrey, Peter Lynch, Steve Jobs and Jeff Bezos come to mind. Finally, we must not forget the relative newcomers: Larry Page (Google); Mark Zuckerberg (Facebook); Jeff Weiner (LinkedIn); Jack Dorsey (Twitter); Elon Musk (Tesla). Others will follow.

If you are lucky, someone named Kroc will ask you to buy a franchise in your hometown to operate a drive-up restaurant selling skinny hamburgers at 10 cents apiece; or your neighbor's college dropout son will ask you for money to trademark an apple shaped logo with a bite taken out. Longshots? Yes, but it sure beats buying lottery tickets. Opportunities always involve risks. When opportunity knocks, be there to answer the door. After 50 years of investing, I believe the stock market knocks every day with exciting opportunities.

Two Men of Vision

Edwin Land DOB May 7, 1909

Steve Jobs DOB February 24, 1955

Despite their age difference they had much in common. Both were college dropouts but were brilliant inventors who invented consumer products creating vast wealth for themselves and others. Both were unconventional in their personal habits and could be unpleasant to be with. Finally, both were fired from the companies they had founded: Land in 1980 at age 71 and Jobs in 1985 at age 30. Edwin Land never returned to Polaroid and died eleven years later. He was 82 years old when he died. Steve Jobs returned to Apple in 1995 and invigorated his company through its period of greatest growth until his untimely death in 2011. He was only 55 years old.

Edwin Land's signature invention was introduced fifty years ago this summer. It was the Swinger instant camera. The Swinger was attractively designed, had a black strap that made it easy to carry and provided a catchy name. Priced under $20.00, the Swinger generated huge sales but little or no profits. Pricey film packs, however, were very profitable. It was simply a camera and it only took black and white still photos. It could, however, capture images that you could share right away and that was a really big deal in 1965. Steve Jobs was 10 years old and could not yet offer a competing product.

Ironically, the Swinger foreshadowed technology that led to hand-held devices, such as Apple's iPhone. This incredible device fits in your pocket, takes excellent stills and videos in color or black and white, is your portable telephone, and can connect you to the infinite wonders of the internet. With an appropriate communications plan it can be priced very inexpensively.

During the 1980s, lonely years for Edwin Land, Steve Jobs sought him out on several occasions. He called him "a national treasure" and his role model. There is a reported exchange between the two: Edwin Land: "I could see what the Polaroid camera should be. It was just as real to me as if it was sitting in front of me, before I had ever built one." Jobs replied, "Yeah, that's exactly the way I saw the Macintosh."

Being present at their meetings would have been an unforgettable experience.

Polaroid cameras did not survive the move to digital, technology having pursued alternative technologies. In 2001 the company went bankrupt. In January 2010 a successor company to Polaroid hired the talented Stephani Joanne Angelina Germanotta as a Creative Director.

Can you complete the Jeopardy question "Who is____ ____?" Haven't a clue? Google her, or ask your children.

A Conclusion (finally)

In closing there is another person of vision I would like to acknowledge. I have known him for over thirty years. Were it not for him I would not be writing, nor would you be reading, this article. Trust Company of Vermont would never have been founded nor grown to become the finest independent trust company in the state of Vermont. His byline often appears in this newsletter atop entertaining and provocative articles. He leads us to believe he is not comfortable with his title, President. He does not want us to call him our boss. Most of the time he is simply called "Jack".

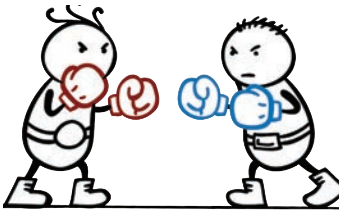
From all of us fortunate to be part of the TCV story:

"Thank you, Jack. You are our good friend and mentor, but NEVER our boss."

(Roll the credits. Don't fade to black. Not Yet.....)

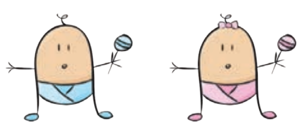
No Contest
Will a clause solve a problem?

A good estate plan should address the impact of favoring one child over another if the children are not treated equitably. Sometimes, I have encountered an estate plan that has descended into perdition when



siblings went to war after their parents died. Thus I ponder the plusses and minuses of a clause designed to curb litigation, a "no-contest" clause, in the safety of abstractions until, suddenly, the veil is pierced. Did my mother prefer my twin sister over me?

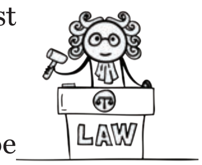
Mom, at least once a year...and every year...would say *"Your sister was scheduled to arrive first and you pushed her out of the way".*



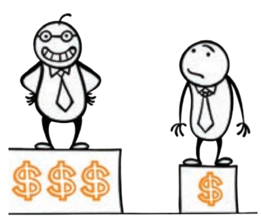
How could my Mother not show preference for my twin sister when I behaved so poorly on the day I arrived? Fortunately, she treated her children equally. The lawyer saw no need to introduce the no-contest clause unless my Mother favored Jill over Jack. A no-contest clause simply says that if I challenge my mother's estate plan, I will get nothing from her estate.

In estate planning, your lawyer may broach the subject of sibling rivalry and they may encourage consideration of a no-contest clause if, for example, you don't favor the children equally. If they don't suggest a no-contest clause, it may not be an item on their checklist, perhaps because they did not experience the impact: the negativity, the unnecessary costs and the "net". The net may include innocent bystanders, such as trustees and lawyers, as defendants.

Or your lawyer may default to a core principal that they learned in law school: *"Equity abhors a forfeiture."* A court of equity will refuse to permit an unreasonable forfeiture if it is unfair. They may feel that disgruntled heirs should have their day in court, reflecting a view incorporated in some statutes: some states ban no-contest clauses in wills as against public policy.



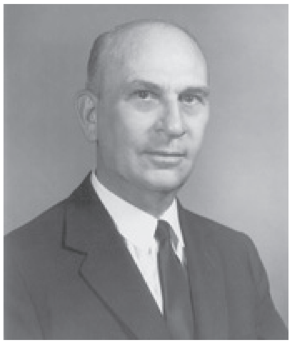
Or your lawyer may sense you might be competent but may be subject to undue influence. It is harder for lawyers to "try the case" with their client if they deny heirs their future day in court. Also, they may not introduce the concept when a second spouse becomes a beneficiary for the same reasons.



If a no-contest clause is introduced in your plan, lawyers may suggest that you leave a small bequest to the party that may challenge your plan, so they have more to lose, other than lawyer fees, were they to challenge your plan: *"I leave $15,000 to Jack and the balance of my estate to Jill" would be an example.*

Is there a corollary between the size of the estate and estate conflict? Probably. That said, sibling rivalry can include self-destructive behavior. Cost of conflict may not be a factor.

Smaller estates don't make the news. Larger estates may go public. The stories are often similar.



Judge Donald Stuart Russell, a former governor of South Carolina, died at age 92 leaving a $33 million estate, three sons, a daughter, and grandchildren. A son and a daughter challenged his plan. Fifteen months before he died, Judge Russell had inserted a no-contest clause. One of the lawyers representing the daughter publicly stated that the South Carolina high court had never upheld a no-contest clause.

Unfortunately for the two children, they received nothing. For the son, he only lost an interest in a $750,000 trust. The daughter, on the other hand, lost an interest in a $10.7 million trust created for her and her children and the court sanctioned an earlier decision instructing her to pay the legal fees of those drawn into the net: trustees and heirs, to the tune of half a million. Their father was a sitting federal judge and his brethren on the court listened. In their decision, the South Carolina Supreme Court stated why a no-contest clause has merit: *"to protect estates from costly and time-consuming litigation and minimize the bickering over the competence and capacity of testators."*

At the time Judge Russell inserted the no-contest clause, he was still hearing cases and driving his car. He also anticipated litigation regarding his competency and was examined by a psychiatrist to create a record of his testamentary capacity.

A no-contest clause deals with conflict. It may only be a simple paragraph but it may have a profound impact on your legacy. Fortunately, my family did not face family conflict. The children shared equally. But then again, I was the family lawyer.

For me, my parent's legacy includes an issue that is

unresolved. What were they thinking when they named us Jack and Jill? I experienced adoration thanks in part because of my cute sister. Then one day, I was pre-teen gangly and the adoration stopped. Where did it go? Now I deal with deflation and cannot resolve it in court. At least once a year, when I disclose to someone that I have a twin sister, I get this: *"Are you fraternal or identical?"* Most male/female twins encounter this….but the Jack and Jills of this world may also encounter *"Did you break your crown?"* or *"Were you able to make it up the hill this year?"*

- Jack Davidson