



# Trust Company of Vermont

## Quarterly Update

April 2018

Brattleboro ♦ Burlington ♦ Rutland ♦ Manchester ♦ St. Albans

Employee-owned & Vermont-based

[www.tcvermont.com](http://www.tcvermont.com)

## WHAT? STOCK PRICES CAN BE VOLATILE?

TRUST INVESTMENT COMMITTEE

As the historically calm 2017 fades into memory, stock market volatility has emerged suddenly as the fear of rising inflation gripped investors. A stronger-than-expected increase in U.S. hourly wages reported in early February sparked a sell-off in equities. As stocks sank, the CBOE Volatility Index (VIX), a measure of market volatility, experienced its largest one-day increase in the index's history. Adding fuel to the selling fire was the unwinding of exchange-traded products that bet against such a move in the index. The volatility kept investors on edge for most of February, and by month's end the S&P 500 recorded its first monthly decline in more than a year. The selling was not confined to the U.S. equity markets either, as both developed and emerging international markets were down more than 5% for the month.

As equity investors, it has become very easy to forget that this kind of market volatility is actually very normal. What was abnormal was a year in which every month the stock market had positive returns and volatility in stock prices actually dropped below that of

bond prices for a period of time. Neither of these events had ever occurred before in the markets' history. It is always easy to be risk averse when stocks are going up, but can be difficult to do when they go down.

As this return of volatility to the markets might make some investors nervous, we thought it would be a



great time to review some basic principles of stock investing. One principle is that investing in stocks requires a fairly long time horizon. We typically tell clients that they should look at stock investments in three to five-year spans, as there are too many unpredictable short-term factors

that can affect stock prices that have nothing to do with a company's fundamentals. A stock portfolio should not be looked at to fund near-term cash needs, such as repairs to your house, car or college expenses. Instead, money for these types of expenses should come out of cash equivalents or from short-term bonds in the fixed income portion of the account. It is for this reason that a portfolio's asset allocation is so crucial, especially for individuals relying on their portfolio for everyday living expenses.

The next principle can make adhering to the first principle very difficult. To be a successful investor, you need to be able to remain



calm when everyone around you is freaking out. This can be very difficult in our current age of “instant news.” Warren Buffett has a great saying that he invests

by: “Be greedy when others are fearful and fearful when others are greedy.” History has shown that investing fortunes have been made by purchasing great businesses and holding onto them for the long haul, and not by trying to time when to be in or out of the market. A great example of this was in 2008, when at the height of the financial crisis, Warren made a \$5 billion investment in Goldman Sachs, when most investors were selling financial companies. As a result, Warren enjoyed \$500 million in annual preferred share dividends, as well as the right to purchase Goldman shares below market value.

Another key investing principle is to have a diversified portfolio and to avoid single



stock and single economic sector over-concentrations. Having too large a concentration in any one stock

can expose an investor to unnecessary risk. Even perennial outperformers can fall on hard times for a multitude of reasons. Names such as Citigroup, Bank of America and AIG outperformed the index

for a number of years before the financial crisis. However, in 2008, these names experienced a significant decline in value, and ten years later have not come close to their pre-crash highs. Similarly, investors should limit their exposure to any one sector. From 2000-2002, the NASDAQ lost about 80% of its value, versus only 30% for the Dow Jones Industrial Average. Those investors with too heavy a weighting in technology stocks during this time period experienced much steeper losses than those investors with a diversified portfolio. More recently, from 2014-2015, the Energy Sector of the S&P 500 experienced losses of almost 30% at a time when a majority of sectors were experiencing gains. Diversifying a portfolio, and having exposure to many broad economic sectors, can significantly reduce investing risk.

Looking at the remainder of 2018, we expect this market volatility to continue. We are not saying that the market is going to be down on the year, as there are still a lot of factors that should affect the market in a positive manner. However, uncertainty about Fed actions, and the White House, are likely to persist, and history tells us that the markets hate uncertainty. The important thing to remember during these times of uncertainty is not to panic. And if there are any big expenses that you are planning for the next two to three years, let us know so that we can make sure those funds are set aside. You do not want to be in a position where you might have to sell stocks at an inopportune time. Finally, if you have concerns that your investment objective might not reflect your needs, please contact either your relationship manager or your investment manager to discuss it.

# DOES MOTHER NEED A GUARDIAN?

HON. SUSAN L. FOWLER, TRUST ADMINISTRATION



IF WE LIVE LONG ENOUGH, most of us will have personal experience with the loss of competence of a family member. These situations can be extremely stressful, and are often enough to push sane and happy families into a state of agitation and dysfunction.



For those fortunate enough to have good counsel and wise estate planning, the difficult topic of diminished capacity is broached and

discussed while family members are fully competent and can contribute in a meaningful way to the discussion and in the choice of a responsible agent. Sadly, those who take no action until a family member can no longer manage his or her affairs independently, often find themselves in court seeking the appointment of a legal guardian to assume management of a loved one's personal and/or financial affairs. Disagreements among family members regarding the need for a guardian and the most appropriate person to serve in that role are as common as a cloudy day in Vermont. As probate judge in Chittenden County for 21 plus years, I can attest to the stress and anxiety these cases can generate even in the most gentle and cooperative of groups.

THERE ARE TWO TYPES OF GUARDIANSHIPS IN VERMONT, VOLUNTARY AND INVOLUNTARY. In a voluntary guardianship, the principal files a petition with the court for appointment of someone she chooses to

serve as her legal guardian with the powers she wants them to have, including medical, legal, financial, or general supervision. She appears in court so the judge can be assured that she understands the proceeding and is making her choices voluntarily, and following completion of legally required background checks, a guardian is appointed. This approach is often selected



when a person (I use the female gender here for convenience) receives a medical diagnosis which she believes will lead to eventual incapacity and she proactively seeks to put her affairs in order before

that unfortunate future is upon her in earnest. The guardian may remain in the background for years while the principal continues to manage her own affairs, gradually assuming increased responsibility as the need arises.

A VOLUNTARY GUARDIANSHIP may be terminated at any time, and the guardian may be changed at discretion of the principal. Annual financial accountings are generally required by the court, but can be waived by the person under guardianship with the court's approval. Voluntary guardianships are the preferred way to go, if a guardianship is necessary, because the principal has recognized the need for assistance and is choosing her own guardian, thereby avoiding bitter arguments that frequently arise over who should be trusted with control of the assets and other important matters, such as place of residence and the level of care required.

IN AN INVOLUNTARY GUARDIANSHIP PROCEEDING, someone other than the principal petitions the court for appointment of a guardian, usually because the principal is no longer able to manage her own affairs and is unwilling or unable to petition the court



personally. The court will ultimately determine whether the subject of the petition requires the assistance of a guardian, but the process is

frequently complicated and can be costly, personally and financially. The court will appoint legal counsel for the subject of the petition and a full competence evaluation will be ordered by the court. Following completion of the report, a hearing will be scheduled in which the parties may present evidence in support of or in opposition to the guardianship and in support of or in opposition to the person designated as proposed guardian. Legal counsel and the evaluation can be expensive, and the expense is borne by the estate of the person who is the subject of the petition, even if she opposes the petition, unless the court finds good cause to make someone else responsible for those payments. Many a family has been brought to angry confrontation in hearings of this nature.



Guardianships are sometimes necessary, but can generally be avoided by having a Trust or a Durable Power of Attorney in place before incompetence becomes an issue.

IN A DURABLE POWER OF ATTORNEY, the principal designates a trustworthy person as her agent to manage her financial or other affairs in the event of her incapacity. Unless a specific court action is initiated, there is generally no court oversight of the actions of the agent (hence the need for a trustworthy person). Paperwork is prepared and signed outside of court, and powers given to the agent are those specifically set forth in the document. If a Trust is chosen, the well-guided principal designates a disinterested, professional trustee, who will preserve and protect her assets and can also handle other aspects of her life that will become difficult in the event of incapacity, including payment of bills and arranging for necessary services; such as setting up and overseeing a residential placement. A Trust has the added benefit of avoiding the expense and delay of probate when death eventually arrives, and it ensures the ultimate distribution of assets desired by the principal without involvement of the court or schools of attorneys.

DESPITE RECENT ADVANCEMENTS, death and taxes remain inescapable. Those seeking to shelter their loved ones from conflict and anxiety in the future might therefore consider taking a hard look down the road and begin taking steps to ensure the future they would like to see.



CARRY ON.



[www.tcvermont.com](http://www.tcvermont.com)

# A WILL MAY BE A DEAD GIVEAWAY OF YOUR INVESTMENT CHOICES

Jack Davidson

## THE COLLECTIBLES

### HANDLING COLLECTIBLES



As a youth, I bought stamps in bulk with the understanding that I might find a valuable stamp. Many hours and many stamps captured my days. Then one day, a valuable stamp appeared. I put it into a glassine envelope, ran down to my neighbors to show my success as an amateur collector, and in my haste, when I opened the envelope, I ripped the stamp in half. Handling collectibles may be a challenge.

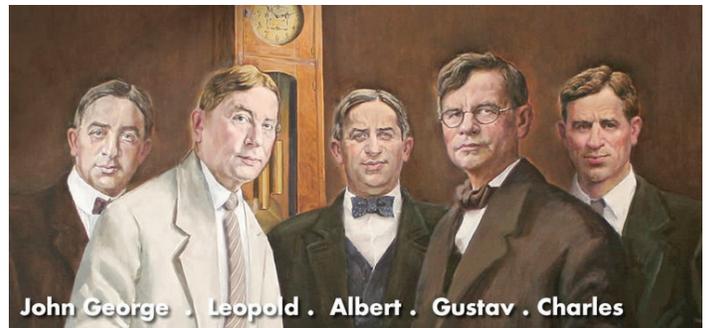
### STORING COLLECTIBLES

Whenever I went into my father's medicine cabinet, I encountered a blue colored glass which housed his razor. I suspect that this glass housed his razor for at least 50 years. One day, an antique dealer told my father that this glass was a valuable antique. The next day, when he opened the medicine cabinet, the glass fell from the cabinet to the floor and splintered into many pieces. Safekeeping collectibles may be a challenge.

### SELECTING COLLECTIBLES

My father also encouraged me and my four siblings to save and buy furniture that would grow in value. He

was a big fan of Stickley furniture, and populated our home with Stickley chairs and tables. In retirement, my father may have felt financially secure enough when a Stickley highboy finally arrived. I can only assume that it was on his bucket list for a very long time.



## THE STICKLEY BROTHERS

*“Stickley furniture was not for shutting up in formal parlors - it was to be used and loved by young and old”<sup>1</sup>*

The Stickley brothers became well-known in the early 20th century with their Mission Oak designs and cherry furniture. Their philosophy was to use solid construction and the highest quality woods, in contrast to the workmanship of many of the pieces created in the early days of the Industrial Revolution. They designed their furniture in the tradition of the early American craftsmen; exceedingly strong and long-lasting and perfect for the new ways American families wanted to live.

---

<sup>1</sup> <https://stickley.com/OurStickleyStory.cfm>

Alas, the “antique” market has collapsed. Our inheritance did not include valuable antiques. Evidently, the Industrial Revolution won over a generation or two that favor a different style. Our family “antiques” may now be simply out-of-fashion furniture.



George III style carved mahogany side chairs sold for \$8,000 in 2002



George III style carved mahogany side chairs sold for \$350 in 2016

At the turn of the twenty-first century, who would have guessed that the value of many antiques would drop so precipitously in value? The value of our personal property may simply follow the ebbs and flows of the stock market. Or did it? It appears that the “antique” market made the worst of times in the stock market look tame by comparison.<sup>1</sup>

<sup>1</sup> <https://www.nytimes.com/2018/03/03/style/how-low-will-market-for-antiques-actually-go.html>

## THE HIDDEN COLLECTIBLES

However, some collectibles may significantly increase your financial legacy. They may be hiding in your basement or even your closet, such as baseball cards, comic books, board and video games, toys, maps, vinyl records, postage stamps and yes, sneakers. Action Comics #1, published in 1938, recently sold for almost \$1.4 million. A 1985 original Nike Air Jordan may be worth as much as \$3,400 today.



My father’s estate consisted primarily of “antiques”, also known as tangible personal property in the estate planning lexicon. I should have saved my stamps and my comics to balance his portfolio.

Estate Planning is often very complex, and in most cases, involves two, if not three, generations. The value of assets is part of the process of planning, as well as the type of assets: real property, intangibles, such as stocks and bonds, and tangible personal property, such as cars, boats, clothes, jewelry, furniture, and the *hidden collectibles*.

Of the three types, tangible personal property may have the most impact on our overall legacy, and have the least, or perhaps an unpredictable impact on our financial legacy. One might even describe the tax laws regarding this category as quirky. If I have a five million dollar estate and reside in Vermont, with a second home in Florida, and I own Action Comic #1, I simply store the comic in Florida and may save approximately \$100,000 in Vermont Estate taxes.

The appraised value may have little to do with the value given to the next generation. In my case, I have my father's family photo album dating back to the



early 1900s. For me, it is priceless. The formal appraisal of the personal property did not include the album, based on its lack of market value.

You and/or your executor will need to identify that which is valuable and that which is priceless. One or the other, or a spouse may simply throw out valuable assets without realizing the value. Or they may throw out the priceless before distributing the property.

Distributing personal property may be a challenge without a list that designates who will receive individual items. Many plans simply leave the personal property to a group of individuals. As the Executor of my Father's estate, my responsibility was to distribute the furniture and paintings to the five children. So, I came up with the idea of drawing



numbers, and each sibling could pick an asset, until the total value of those items selected exceeded one-fifth of the appraisal of the personal property. Each sibling randomly drew a number. My younger sister drew number

5. The order was simple, and in retrospect, very unfair. "OK siblings, pick in order of your number: 1 to 5, and again, 1 to 5. It should have been a pattern of 1 to 5, and then 5 to 1. I hope my sister has forgiven me. She was always the last to pick in each round. If a family member is in charge of distributing personal property, they may encounter unintended consequences.



© 2008 The New Yorker Collection from cartoonbank.com. All Rights Reserved.

Discovering priceless gifts takes time, and your estate planner might give you a list of items that you need to save: birth certificates, tax returns, legal documents. I recently reviewed a lawyer's list which totaled 30 documents. He did not include a photo album, letters or diaries, which might be priceless. Priceless gifts often have no price, and they do not appear in the estate inventory.

Planning an estate cannot avoid visualizing the impact of death of a loved one. We can laugh. We can cry. I choose to laugh. A will is a dead giveaway. Planning my father's estate was, on the surface, a dead-end job. But, I have my jokes and the album. The value of the jokes has been called into question, but the album is clearly priceless.

If you do not attend to the details of planning on the ultimate disposition of the personal property, including priceless gifts, such as family stories found in a diary, others will have to take on this role.

There is an adage in the estate planning world that when a spouse dies, planners might suggest waiting a year before the surviving spouse makes significant decisions. On the surface, in many cases, this makes sense. But what about the cases in the basement? In



my basement there are many boxes of old letters, pictures and stories. What happens if I have not

addressed the issue of what will or will not survive: my third-grade report card, discovered by my son, which described me as a disturbing influence in class, or an ancestral letter written in the 20s that brought long ago history back to the vibrancy of the moment. My advice is box them up, store them, and wait a year.

Boxes of the priceless take up space and they don't share well. If I scan the priceless, such as letters and photos, they no longer take up space and they can be shared selectively. If I can't find the talent or the time to do this, there are others that will do this for me inexpensively. For some, if not many, our stories define our lives. I suspect that my grandfather would have wonderful stories to tell, but he was not inclined to write. Were he alive today, I would hand him a recorder.

The stories may be priceless, but the recorders are no longer pricey. In fact, the grandchildren may already have them. The devices are plentiful, such as mobile phones and iPads, as well as laptops. You can also buy inexpensive apps that facilitate storytelling, as well as sites that train you on how best to interview family members.



You can even buy an inexpensive recorder that is designed to record stories. In fact, I recently bought one for \$36 that is perfectly designed for this function. It will record 576 hours of story telling. One of my colleagues, who will

remain unnamed, commented that if I purchased this for my stories, I should buy at least two of them.

## CLAWBACKS



Lawyers are no different than the rest of us. Sometimes one word may trigger a reflex that has an impact on an estate plan much in the same way as "He likes the Eagles" may permanently affect a relationship with a Red Sox fan. "Clawback" may be one of those words.

Our new Federal Tax Bill doubled the federal exemption to \$11.2 million, as of 2018. Thanks to portability, the exemption for married couples is \$22.4 million. So for the very few who possess estates above \$2,750,000 and below the federal exemption, your lawyer may only have to worry about the Vermont estate tax at a much lower tax rate.

However, the Federal Tax Act will sunset in 2025 and revert back to the old exemption, indexed to inflation, unless legislators agree on a different bill. The exemption may simply go back, or it may even go lower. During times of uncertainty about the federal exemption, planners started to promote SLATS, also known as [Spousal Lifetime Access Trusts](#).

SLATS have many pluses, but they are irrevocable trusts that may trap assets. Some planners feel that it is too uncertain and that, if the law changes, the IRS will not "grandfather" the law and will clawback the tax savings. Although the Federal Tax Act addresses this issue, some, if not many, lawyers feel that clawback is still possible. They may be overlooking Vermont's certainty of clawback. Vermont has defined this as two years from the time the trust becomes irrevocable, and you might be surprised at how much in taxes can be saved. If you are a married Vermont resident with a taxable estate above \$5,500,000, simply ask your attorney about the pros and cons of SLATS, including the potential of saving the Vermont estate taxes.