

# Trust Company of Vermont

## Quarterly Update

July 2018

Brattleboro ♦ Burlington ♦ Rutland ♦ Manchester ♦ St. Albans

Employee-owned & Vermont-based

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



## YOGI BERRA AND INVESTMENT WISDOM

CHRISTOPHER G. CHAPMAN, TCV PRINCIPAL



MANY OF OUR CLIENTS remember when commentator Ted Koppel brought Kermit the Frog onto his otherwise serious TV show to explain the stock market's 1987 crash on the day it unfolded. We figure that if Mr. Koppel could do that, we could draw upon Yogi Berra's famous quotes to interpret investment management itself.

Yogi Berra was an outstanding baseball player, and he became a fine team manager and coach. However, we remember him most fondly for the mangled way he spoke of life. Let's take a few minutes to unpack Yogi's most famous sayings from an investment manager's perspective.

But first, a disclosure: Like Yogi Berra, I am no one's idea of an investment expert. However, after more than thirty years of working alongside skilled, disciplined, experienced and unflappable portfolio managers, I have picked up a few things worth sharing. After all, as the great catcher said, "You can observe a lot by just watching."

**"IT'S TOUGH TO MAKE PREDICTIONS, ESPECIALLY ABOUT THE FUTURE."**

This is the first thing one understands from listening to a manager who has analyzed the economy and the markets for decades. Knowing that there are a lot of knuckleballs flying unpredictably at the portfolio management team leads to the hard and fast, self-imposed policy of building well-diversified portfolios with high-quality, readily marketable securities that have long-term promise.

**"YOU'VE GOT TO BE VERY CAREFUL IF YOU DON'T KNOW WHERE YOU ARE GOING, BECAUSE YOU MIGHT NOT GET THERE."**

No two portfolios are alike, and that's because no two clients are alike. Each of our clients has a different objective and a need for ready cash, co-existing with a long-term goal. Sometimes the idea is to save for retirement. For others, the long game includes caring for children and grandchildren. In every case, the portfolio

is built on a plan. That plan follows accomplishing a good understanding of each client's particular needs and wants.

**“WHEN YOU COME TO A FORK IN THE ROAD, TAKE IT.”**

One of the big tests of a manager is the challenge of knowing when to hold and when to sell. It is tough enough to find the best buying opportunities, but the decision to sell can be much more difficult, especially when a company or industry has become famous for its spectacular competitive performance. But making no decision at all is unwise. It would be like taking one's hands off the steering wheel of a crowded bus moving at cruising speed. Every asset in our clients' portfolios sits in judgment. Having an excellent understanding of each one helps our managers make good decisions about holding or selling. As Yogi said about his own team, “We have deep depth.”

**“NO ONE GOES THERE NOWADAYS, IT'S TOO CROWDED.”**

When the stock of a company or the companies in an industry are so popular that their values go up for no good reason beyond their frothy fame, it pays to think like a contrarian. Are underlying rates of earnings growth matching the prices of stocks being chased by a crowd? Is competition moving in and threatening to dilute those companies' markets? Does the business model of a skyrocketing company still make good sense? We will never forget the lessons of history in this regard: Think of the tech froth of the late 1990's and the real estate bubble that threatened the banking system only ten years ago.

**“WHY BUY GOOD LUGGAGE? YOU ONLY USE IT WHEN YOU TRAVEL.”**

Good, reliable assets are fundamental to portfolio success. And that kind of asset is often pedestrian. It's the reliable ones with good dividends that help balance a portfolio that also includes stocks in industries that are growing rapidly. Long-term growth results from managements that pay attention to the basics in addition to adapting to change. Having good value on hand in the portfolio ensures there will be cash available when it's needed. It's just like having good luggage in the closet, ready for a trip.

**“HE HITS FROM BOTH SIDES OF THE PLATE. HE'S AMPHIBIOUS.”**

In addition to reliable, steady-Eddy stocks that declare dividends from established lines of business, there is a good case to be made for holding stocks of companies that are growing so rapidly that they need to reinvest earnings at the expense of declaring dividends. Stocks of well-managed tech companies are classic examples. Our portfolio managers understand that growth stocks and value-type stocks should both be included in well-diversified portfolios because they often alternate as performance leaders. Our managers bat left-handed, they bat right-handed – all in the name of accomplishing consistent returns.

**And finally, “I NEVER SAID MOST OF THE THINGS I SAID.”**

On the contrary, we stick by our long-held philosophy: Remember whose money it is we are investing. Hold a diverse portfolio of high-quality, readily marketable stocks and bonds. Stick to your discipline. But leave time to attend a baseball game. It helps keep things in perspective.



# WHO IS IN THE ROOM? WHERE IS THE ROOM? IS IT ON A BOAT?

Jack Davidson

Growing up on Long Island, my parents periodically packed five siblings in the station wagon and took us



to Jones Beach. Thus, I was introduced to hostile waves, jelly fish, horseshoe crabs and my friends yelling “watch out for the sharks”. To this day, whenever I swim in a lake I am still looking for jelly fish and, deeply buried within the cortex, sting rays. It is no surprise that I am not a fan of boats...although I am fond of houseboats with a large room to allow all on board to appreciate the company and the beautiful surroundings...as long as the boat is stable.

In spite of my early trauma, in the late eighties I started to train for triathlons. Not the long ones, except if I were part of a team, and would only do the bike portion. Rather, my goal was to finish all three parts of a shorter triathlon. One leg of most triathlons included a swim portion. I focused on the swim and took lessons for six months. The end result was two “achievements”. One was notable and the other not. When I finished the Spofford Lake Triathlon, it was announced over the loud speaker that I had the slowest swim time recorded for the event, including the 120 swimmers at the event. My only competitor withdrew from the race; a ten year old boy who was removed because he was drowning. My second achievement was the Elm City Triathlon. It was very foggy. Those manning the boats marking the course did not realize my achievement after they came ashore. When I arrived at the end point of the swim portion, everyone had left.



I sometimes think of our Company in the context of triathlons. Do we hire one person who can swim, and bike and run, or do we assemble teams? Teams do better overall, but the support team is critical for any triathlon, whether individual or team competition. The support team delivers water bottles with electrolytes at critical points in the race and some monitor our tire psi so we don't blow up during the race.

At the Trust Company of Vermont we assemble “triathlon “ teams:

Swimmers:	Investment Managers
Bikers:	Trust Administrators
Runners:	IRA Administrators
Support Team:	Operations, Compliance

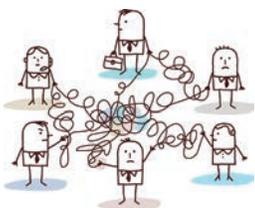
Alas, the swimmers in our Company prefer that I stay off their boat, and the support team would prefer that I stay away from their computers. (Note to my colleagues, it is a metaphor. Don't take it personally. There is no correlation whatsoever... at least one of our managers is a very good biker and another hates swimming).

## SHIFTING GEARS

As previously noted, the Trust Company of Vermont will rarely agree to manage an institutional account. Is it a poor business decision? Large institutional

accounts may generate significant revenue for our Company. As a short term business decision, it is probably a poor business decision. But as a long-term business decision, our consensus is that it is a good business decision. Why?

The components of our business decisions often involve 3 factors. The first is the ability to manage long term based on the risk profile of the owner of the account.



Board members change and periodically our client becomes someone we don't know. Flip flopping around the risk profile may materially affect the long term investment results.

The second factor is maintaining our balance sheet to weather storms. Our fees are based primarily on the stock market. When the market goes down, our income goes down. So our business plan is to avoid a sinking ship. It is not to build the best yacht that stays in the harbor. Thus, the third factor.

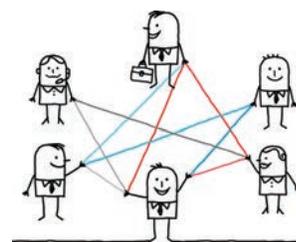
The third factor is how long will the Trust Company of Vermont stay as the Trust Company of Vermont, owned and operated by its employees within the confines of the communities in the state we inhabit? If it's five years, it may be a poor business decision not to take on institutional accounts. However, our Company is designed to stay as an employee-owned company in Vermont in perpetuity, and time is often a factor in making our business decisions. If the goal is to create and sell a company, the bottom line tends to be short term. If the goal is not to sell, then the bottom line becomes long-term and the third component becomes very important: our reputation.

## AVOIDING STORMS - THE EBBS AND FLOWS

When we take on an account, who is in the room? If

it's an institution, then the room may turn unpleasant. Often, charitable organizations justifiably need to have at least one board member who understand finances; often a person who manages money. On a few occasions in the past we've been asked to manage after a bad market and were instructed not to take risks. Board members, either because of bylaws, or other factors, change. A few years later the market flowed up and new board members associated with the financial industry were now given the opportunity to challenge our reputation. A few tried.

Often our reputation will ebb and flow depending on who is in the room. If it is an institution, well, we have addressed this risk. Our focus is managing assets for individuals and families, and those in the room often include: the parents, the family lawyer, the children, the grandchildren....and spouses. Many on the list will change. As we prepare the list of those who will inhabit the room, the unknowns are often the spouses of the children and the grandchildren. The spouses may not show up for many years. If the room is in a houseboat, we need to be prepared for bad weather, if bad weather shows up.



Maintaining a good reputation is a case-by-case challenge. There are times where either side of a relationship will not fit. Odd as it might sound, our sense is that the best relationship is one where both may leave a relationship without penalty. Hence, we don't have a termination fee, except in unusual circumstances. If a trust becomes irrevocable, we will promote a clause that allows us to be removed so the next generation does not feel trapped by a relationship. However, we recommend that we are replaced by a corporate trustee to preserve



the intent of the document if a beneficiary is not happy with the terms of the trust and finds a “willing trustee” to sidestep the language in the document.

Personalities may also be a factor. Having a “triathlon team” will allow a migration to the best personality that becomes the primary contact.

## EXPECTATIONS

Clarity of expectations is important for our clients and for our staff. So, the first step is the starting point but the next step may be years later when the next generation will influence the relationship. It is easier at the outset, and perhaps more difficult later when new people show up in the room: the children, and grandchildren and spouses. Our responsibility is, as they say, not to jump ship once we leave the port.

Regarding the management of institutional accounts, we will jump ship. A new board member wanted daily investment results. We jumped ship.

## STABILIZING THE SHIP WITH TECHNOLOGY MIGRATION AND TERRITORY

The Trust Company of Vermont does not migrate. But clients migrate, children migrate, and staff migrate.

The lines of communication are very important in maintaining relationships which start as face-to-face contacts with clients. Maintaining the relationship often depends on addressing migration. Our focus has been, and will probably continue to be, technology. The relationship starting point may be the least of our challenges. We started focusing on technology simply because we live in Vermont and the “triathlon” members may be spread throughout the state. Our territory is the State of Vermont,

with a population of approximately 624,000. Were we in Boston, which has approximately the same population as Vermont, the availability of triathlon members would not be an issue. They could simply take the subway.

When I lived and worked in New York City, it took me an hour on the subway. My eight hour day was actually a ten hour day. As challenging as it was, I did not have to worry about icy roads. Vermont has icy roads.

When clients migrate, Florida is still the favorite destination, although North Carolina is appearing more frequently, of late, as the new destination. We do not discourage staff members to migrate part-time to places like Florida. We want long-term relationships, and that applies to staff as well, who may find Vermont winters less attractive as part of the aging process. They can work in Florida and Life-Size in for meetings with the client or staff. Life-size is like Skype. It’s just fancier and more expensive. Four big screens in our respective four offices, and software that is easily sent to family members so they can use their computers or iPads to attend a meeting.

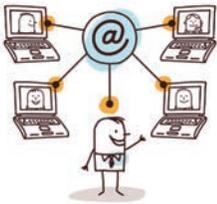


If it’s an icy day, staff can work at home. If it is a day that requires cerebral activity (swimmers like to spend hours studying the market without interruption) they can work at home. That said,

broadband (ease of internet access) sometimes is our challenge and our hope.

## MIGRATION OF TALENT

Vermont just passed a new law to encourage those that work remotely at home to come to Vermont. Vermont has pledged to pay up to \$10,000 if the individual is a full-time employee of an out-of-state employer, and will commit to becoming a Vermont resident. Vermont has in the past focused on access to broadband, which is critical to this attempt to attract out-of-staters. Hopefully, this will accelerate the process and perhaps we will benefit by the expansion of broadband.



Vermont will also benefit if someone works remotely in another state and is employed locally. We have seen talent, such as interns, leave the state. We can and will focus on bringing them back, either in person or remotely.

## ADDRESSING THE MIGRATION OF THE ELDERLY

Thanks to the U.S. Census, some of us have recently discovered that we are older than we thought. Vermont's population is the second oldest in the nation and we may have a new record waiting in the wings; one that is similar to my swimming "achievements". It is expected that we will soon claim the record of the Oldest State in the Nation. In the next decade, Vermont projects a 16 percent increase of 100,000 people to the 60-and-older age group, and one plan is to increase the state's current inventory of more than 100 senior living communities. On the other hand, changing the current estate tax to prevent migration appears to be, as they might say, "treading water".

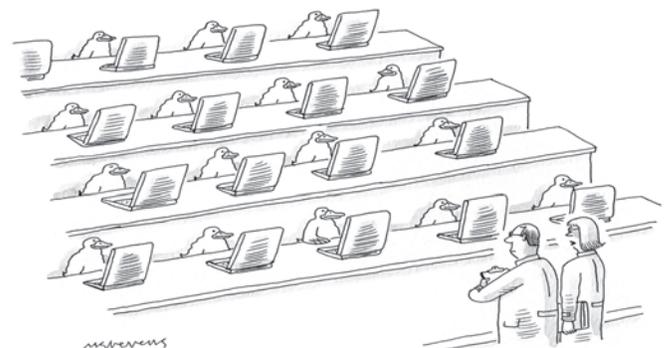
## THE ROOMS

The investment world is complex. The trust world is complex. Those in the investment world understand that research and logic does not on its own lead to success. In the trust world, research and logic often is the road to success. Periodically meeting in the room with the client may lead to a better understanding of those in the room.

I realized that one problem in swimming was buoyancy. When I was 5' 10" and weighed 125 lbs., I would immediately sink to the bottom of the pool unless I thrashed violently. I thought I was drowning. Perhaps I had developed aquaphobia. It reminds me of my stock market phobia. The best swimmers and the best managers perform well because they know how to swim. Now that I am 5' 8" and weigh 170 lbs., I don't even have to move and my head floats well above the water. Nonetheless, I will still avoid swimming, even in pools.



I don't think it is aquaphobia. I think my biggest fear was jelly fish.



*"I'm afraid this whole experiment is about to go south."*

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