

# 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

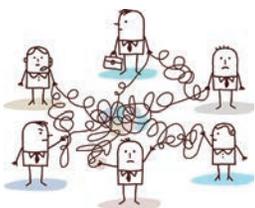
Alas, the swimmers in our Company prefer that I stay off their boat, and the support team would prefer that I stay away from their computers. (Note to my colleagues, it is a metaphor. Don't take it personally. There is no correlation whatsoever... at least one of our managers is a very good biker and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

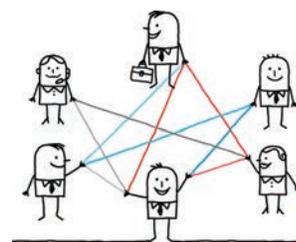
The third factor is how long will the Trust Company of Vermont stay as the Trust Company of Vermont, owned and operated by its employees within the confines of the communities in the state we inhabit? If it's five years, it may be a poor business decision not to take on institutional accounts. However, 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.

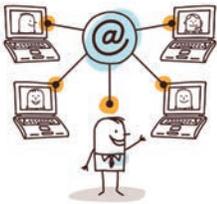


If it’s an icy day, staff can work at home. If it is a day that requires cerebral activity (swimmers like to spend hours studying the market without interruption) they can work at home. That said,

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".

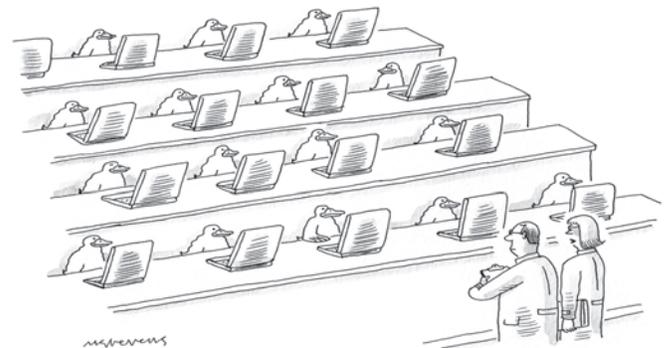
## THE ROOMS

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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