

The Future of the Trust Industry

Employee Ownership & the Trust Company of Vermont

Jack Davidson

The recent market turmoil seems to be focused on sub prime mortgages, bankers and Wall Street. But this is a “perfect storm” and there are other parts to this experience that reveal a fundamental change in a number of areas, not the least of which is the impact on us as a result of the Internet and the related technologies.

Change arrives in different ways. If it starts arithmetically (2-4-6-8-10) you can see it coming and usually have time to adapt. If it comes exponentially (2-4-16-256-65,536) it may start out looking like you have time to adapt and then you discover that you do not. Old line newspapers seem to be dying off daily. Is it the downturn in the economy? No. It's the Internet. Did the industry see it coming? Yes. They simply didn't have enough time and/or perhaps the creativity to make the necessary changes to survive.

I used to think that if our managers could spot exponential growth we would spot trends early enough to excel as stock pickers. I have since concluded that no matter how good a mathematical formula is, it will usually have very little to do with good long term investment performance.

There is currently some debate as to whether the current problems on Wall Street were caused less by greed and more by a failure of the investment community to comprehend the impact of the newly-created investment vehicles.

There is an old saying I am particularly fond of: “The light at the end of the tunnel is a train”. Using this as a metaphor for change, I think there are two appropriate responses. You figure out how to get out of the way. Or, better yet, if the train is going your direction, try to get on it. I think the most effective way of dealing with change is to first seek a level of understanding that will allow you to see the forest for the trees. It's hard to see trains when you are looking down at incomprehensible algorithms. Then the next step is to recognize that some things don't change. Review your core values on the theory that some values are immutable. It's easier

to see a train when you are looking up. Moreover, who wants to get on a train that takes them ultimately to a place they don't want to go?

In his book “Outliers” Malcom Gladwell suggests that it is not how much money we make that ultimately makes us happy. It's whether the work fulfills us. He cites the three elements to finding fulfillment as autonomy, complexity and a connection between effort and reward. As an employee-owned company, we tend to score higher than most on autonomy. There is no question that we score high on the complexity scale. It's in a connection between effort and reward that our employee ownership gives us a competitive advantage. We get to design our level of service and it is not influenced by outside shareholders. Most of us, if not all, wandered into this industry, and we stayed because we enjoyed the relationships, the problem solving, and the rewards of clients who appreciated our efforts.

We are fortunate. We are in a relationship business where core values are essential and unchanging. If we had to produce widgets at the lowest cost, we would probably not survive. We would be reluctant to outsource.

We think we use technology effectively (in our prior incarnation at Vermont National we were using E-mail in 1985), and we are thankful that we are not in the technology business. We are also aware that we need more people under age 27, the cutoff age for technology awareness, and that we better start twittering soon.

So as an employee-owned company we think we are better equipped than many of our counterparts in dealing with change simply because we will remain consistent in maintaining relationships with our clients. That said, we need to understand the impact of this “perfect storm” on our investment choices. Will we succeed? Yes. We have been trained to avoid trains coming at us. Will we find the better investment choices? I am optimistic. I simply think we need to focus on companies that have immutable values that resonate beyond change.

