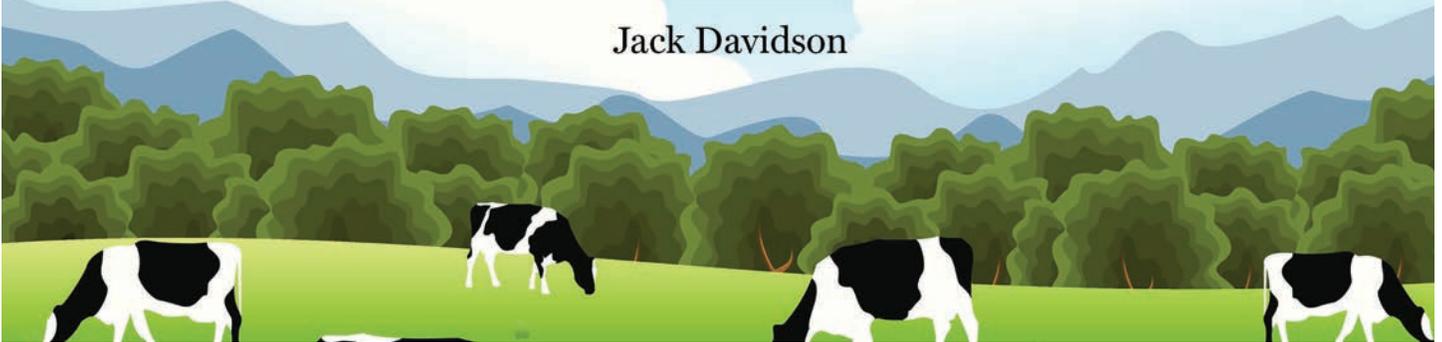


THE HOME TOWN VIEW OF INVESTMENTS IN THE PEAKS AND VALLEYS OF VERMONT

Jack Davidson



My tenure on Wall Street was very short, before moving to Vermont. For me, the change was significant. I went from flatland to a state with 67 mountains and peaks and lived in a small town. Knowing your neighbors had little, if any, effect on your investment choices on Wall Street. Working in an employee-owned trust company designed to stay in Vermont is different. At the Trust Company of Vermont, our goal is to find the right investments best suited for long-term performance for our clients: our home town neighbors, whether we know them personally or not. It is our primary focus.

Our income ebbs and flows with the market. Most of our clients' assets ebb and flow with the market as well. For our seasoned staff, looking long term remains the

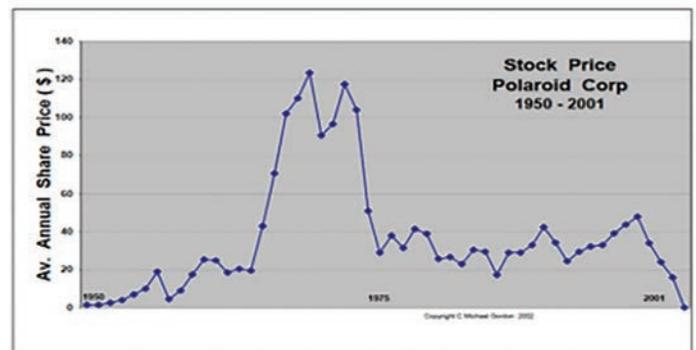


focus, but uncertain times will resonate at different levels for both our staff and clients. Having been through uncertain

times in the past, I have noticed the ebb and flow of my thoughts: my mantras, my stories and bad karma that emerges and might dovetail with the market. Some of these thoughts simply float to the surface, often accompanied by images. I try to suppress them, but it is not easy. They are emerging more frequently of late.

Long-Term Investing and the Mantra

Probably my most used mantra is “Don’t use your cost basis as the only reason for holding a stock that made sense 40 years ago, but not today”, often accompanied by an image; an image that reminds me of a mountain peak. Over the years I suspect that I have more than 67 mantra images. Here is one from the past.

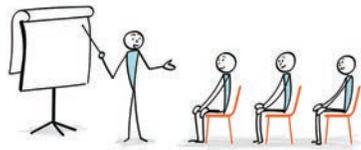


Polaroid was one of the most successful and creative companies. The chart above created a lasting impression of descending from the peak.

The peak is often our concern when we focus on investing long term. If we think the peak is near, reducing the number of shares may have a profound impact long term, regardless of the tax consequences.

Short-Term Investing and the Story

Balanced portfolios need creativity by buying shares in new companies. One of my many stories keeps showing up of late. It is an old story, rarely told. I believe it occurred sometime in the mid-eighties



when I was asked to attend a meeting of prospective investors to listen to a proposal from a representative

of an out-of-state company. He was encouraging our investment in an LLC designed to purchase undeveloped land in various parts of the country that would increase significantly in value at the end of ten years.

During the start of the ten-year period, the LLC would install pre-fabricated private storage units on the property, with access by credit card, and their strategy was to drive out “Mom and Pop” competitors by keeping the monthly rental below the market until all their competitors would fold. Then they would increase the rents on a monthly basis, allowing for a positive cash flow until the property was sold to developers who would remove the storage units for greater profitability in land development.



Sitting in the audience, I pondered. What about my neighbors who use their barns for storage and extra income? Are they in the audience? If I embraced the concept, I would not be a good neighbor. I am not sure whether I would have survived, perhaps for more than one reason. The President of the Vermont National Bank, where I was employed, rented storage in his barn adjacent to his homestead on Western Avenue in Brattleboro, Vermont.



Creativity in the securities market is important, but long-term home town values should be part of the process. Creative new ventures should be both understandable and add, rather than subtract, services or products for others. If the goal is simply to make profit at the expense of others, including our global neighbors, I suspect that the chart will flounder well before a peak. And, bad karma may also appear.

Bad Karma

An investor in another Vermont town installed the pre-fabricated private storage units. One day, a person rented two units and paid six months’ rent. After six months, the person who rented the units simply disappeared. The owner finally went into the units and discovered toxic waste.



Meeting Our Neighbors

Shortly after I arrived in town, I met the founders of Fitts and Olson, a prominent law firm in Brattleboro founded in the 1950s. Paul Olson was one of the foremost estate planning and tax attorneys in Vermont.

Over the years, their business seemed to stay the same. From my perspective, their motto was “do a good job understanding changing estate and tax laws and don’t leave town.” But times do change, and we are the beneficiary of one of their well-trained estate planning lawyers. We are pleased to announce that **Jennifer Rowe, Esq.** has joined us. She was previously employed by Fitts, Olson & Giddings, P.L.C., and has extensive estate planning and tax experience.

