



Trust Company of Vermont

Quarterly Update

January 2022

Brattleboro



Burlington



Rutland



Manchester

Employee-owned & Vermont-based

www.tcvermont.com

Chris Cassidy, CEO

Soon after I joined Trust Company of Vermont, I enrolled in a Master of Business Administration (MBA) Program at the University of Vermont. The program consisted of in-person night classes, so after work I would walk a few blocks up College Street to the campus.

One of the books that I read as part of an organizational behaviors class was *Good to Great* by former Stanford professor Jim Collins. The book highlights eleven companies that achieved incredible performance over a fifteen-year period, and compares them to similar sized companies in the same industries that did not perform nearly as well during the same period. Collins describes several characteristics that set the good to great companies apart from the comparison companies.

The eleven “good to great” companies that achieved remarkable performance had a lot in common when it came to hiring and managing employees. First, many of the “good to great” companies prioritized hiring great people over mapping out a great detailed strategy for the business. These companies understood that the business landscape is constantly changing, and the right employees can more easily adapt to these changes. Furthermore, if you have smart, self-motivated employees, the business can spend a lot less time trying to manage and motivate people and more time focusing on its clients.

Second, the “good to great” companies had very few layoffs versus comparison companies. In fact, six of the eleven “good to great” companies recorded zero layoffs over a ten-year period. Having such a low rate of turnover provides predictability and stability for both staff and clients.

Trust Company of Vermont has always prioritized hiring skilled employees that value our locally controlled, employee-owned principles. The company further seeks to create a work environment that fosters loyalty and long-term employment, which leads to continuity for our clients.

Recently, Trust Company of Vermont was fortunate to have the opportunity to hire four individuals from a local law firm: Jeanne Blackmore, Livia DeMarchis, Kate Murphy and Nancy Mongeon.

They will start with us in January and will be an excellent resource for our clients. Trust Company of Vermont, unlike a typical law firm, doesn't draft legal documents, but we do administer trusts. The company has always had estate planning attorneys on staff, dating back to one of the company's original founders, Jack Davidson. Jack remains a legal resource for our clients, and his article describes the role that attorneys play at Trust Company of Vermont.

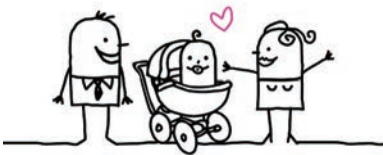
PRACTICING LAW

Jack Davidson



My first job after I graduated from law school was as a tax editor for Prentice Hall. My selection was dictated primarily by a steady but small income stream which helped me to survive financially. Just married, my spouse's income was very important. I now had the opportunity of finding out what I would like to do...but I had no plans to become a practicing lawyer. Admission to the New York Bar created opportunities in many economically sustainable areas in the corporate world. So, my first lesson was that writing tax articles in a cubicle lacked a certain amount of people contact, and the future income stream also required spousal income to live in New York City, even though we lived in a rent controlled apartment.

Shortly after I started employment in my semi-private cubicle, surrounded by other lawyers who seemed to welcome private cerebral activity, my

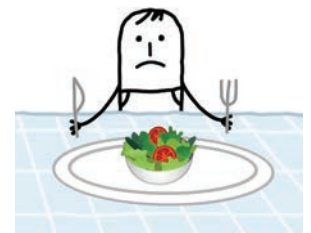


wife informed me that approximately 8 months into the future she would become, at least temporarily, a stay-at-home mother. I panicked. Her brother worked at Chase Manhattan Bank and my plea was *"David, can you get me a job there? Their pay may be a sustainable source of income for a one-earner household"*. He suggested that my background made me a desirable candidate for their trust department. So he arranged an interview, and at the last minute, he told me that

he had discovered that they no longer wanted to hire law school graduates simply because their tax and trust accounting expertise, taught in-house by Chase, made them attractive to law firms and their stay at Chase would often be too brief.

Enroute to the Chase Manhattan Plaza for my interview, I had little excess cash reserves, nor did I have a credit card. It is my recollection, perhaps influenced by an unexpected trauma, that I had approximately \$4.00 in my pocket. My interview was scheduled over lunch on the 60th floor. I was handed a menu. It caught me off guard. They did not use decimal points on the menu...I see a simple salad for 350, beef stew for 500, and the list and cost simply grew in number and attractive choices. I simply ordered a salad knowing that my salad

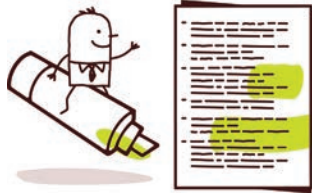
would cost \$3.50, and I was concerned about taxes and the need to tip. During the interview, it became evident that I was not designed to be a practicing lawyer and my selection, after a shy and



thoughtful examination of the menu, probably helped. I was hired. As I was leaving, I realized that Chase paid for the lunchthe decimal points were not needed. The menu simply enlightened me as to the impact of what I might consume: my calories.

In retrospect, I made the right decision. Working at a trust company involves both cerebral activities and long-term relationships. Those practicing attorneys who do estate planning have to struggle with the

best plan and billable hours. In the trust world, we do not charge by the hour. Our culture aligns well with our clients. When the market goes up or down, our fees go up or down. Often, tax planning aligns in the same way when we suggest to our client that they should see their lawyer to have more in trust for their next generation.



TRUST COMPANIES CANNOT PRACTICE LAW

State laws and rules of professional conduct may vary from state to state. Working at Trust Company of Vermont, we cannot practice law in any shape or form. The problem is the shape or form. Years ago, having been a member of the New York Bar, I was told that it was unethical for lawyers to act as executors or trustees. Then I discovered that in Massachusetts it was not deemed unethical. And in one case, I came across a law firm that appointed a lawyer in the firm with a clause that allowed other lawyers in the firm to replace the lawyer. Thus, the law firm became the equivalent of a trust company, but not subject to state or federal regulation and the significant impact of the reduction in their bottom line, if regulated.

Based in Vermont, our rules of conduct follow not only the local rules of practice but also the concept that our client is our neighbor and we both plan on staying in town. We now have five lawyers employed by the Trust Company. They cannot represent clients. They cannot draw up legal documents, such as trust and wills for clients. And we do not have a sales incentive program that might encourage a conflict of interest. Dealing with clients and prospects, our goal is to make general recommendations, when needed, to encourage the client to meet with their lawyer, and our specific recommendations may be tendered to the lawyer as suggestions.

Why do you hire a lawyer? So you can have a legal and enforceable plan best designed for you.

Why does the Trust Company have five lawyers, if they can't design specific estate plans for our clients? They contribute their well-honed skills, such as trust administration and tax administration, in the context of highly complex documents. Lawyers have a history of cases that deal with the ethical responsibility of the lawyer. They understand that the client comes first. We embrace this as well.

So why have four previously practicing lawyers with impressive skills joined us? I think CEO Cassidy has, as they say, "hit the nail on the head", because our principles are focused on long-term employment of our staff and long-term relationships with our clients. We watch out for both.

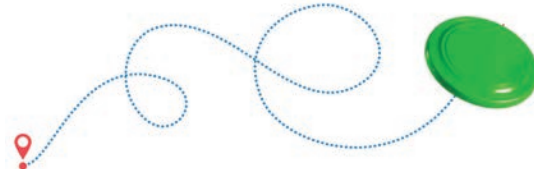


Going back in time to Chase Manhattan Bank, when law firms wanted Chase's well-trained trust staff, times may have changed. Or perhaps the Wall Street culture did not migrate to Vermont. That said, we don't go after lawyers. We may only selectively embrace them when they show up at our door.



Disc Golf Investing

Paul Copeland, CFA - Portfolio Manager



My friend Rob was part of a group who designed the Living Memorial Park Disc Golf Course in Brattleboro. Unlike traditional ball golf courses, many disc golf courses, including 3 in Brattleboro, are free to play. I'm happy to save significant money by playing disc rather than traditional golf, but I also appreciate another aspect of no greens fees: time. When I pay for 18 holes of golf, I must spend large blocks of time to "get my money's worth" by playing the full course. With disc golf I can play a few holes with Rob on my lunch break. Or I can take my sons out and quit whenever we feel like it, because I'm not conflicted by the sunk cost of greens fees.

While disc golf is cheaper, it's not free. Each disc generally costs between \$10 and \$20. I carry 3 discs while Rob often plays with 15 to 20. As people play more, they tend to buy more discs, not only because you occasionally lose them, but because they act differently. A variety



of discs gives the player more tools for reaching the goal (throwing a disc in a basket). A standard basket

is generally on a pole with a rim at the top, on which chains come down into the basket to help catch the discs. A player starts at a tee box about a hundred yards away. Each "hole" is different. A player tries to reach the goal with as few throws as possible. After picking up their disc from each throw, the player can choose any of their discs for the next throw.

I don't want to offend my golf loving colleagues at Trust Company of Vermont, so I'll hold my pen on all the benefits of disc over traditional golf. Still, perhaps I can justify my lunch breaks by sharing some aspects of disc golf that can relate to sound investing.

Distance matters

The 3 discs I carry are a driver, a mid-range, and a putter. Drivers have a wider rim, thinner profile, and narrower outer edge, designed to be thrown harder for more speed and distance. The putter is designed for stability and straight flight with softer throws. It doesn't need speed to glide straight toward the basket.



At TCV, we enjoy helping clients reach their financial goals, such as living in retirement, helping someone pay for college, leaving money for heirs and/or charity, etc. Some goals are a long way off and a driver is the best disc. Other goals are close and need a putter.

Stocks, bonds, and cash are the drivers, mid-ranges, and putters we use. For any distance over 5 years, stocks are almost always going to "out drive" bonds and cash. The longer the distance, the greater the advantage for stocks. Over the last 15 years, stocks have returned 312%, bonds 93% and cash 20%.** But as we saw in March of 2020, stocks can be very volatile over the short term. The stock disc is a dangerous choice when the basket is very close. Clients often have several goals that we can put in baskets. I spend a fair amount of time selecting the best combination of discs for different baskets.

The path matters ... sometimes

Rob's many discs have a wide variety of stability, from over-

stable (that go farther straight before fading to one side) to under-stable (that curve or “turn over” much quicker before eventually fading at the end of flight). Using different discs with different throws such as an S-curve (where the disc curves one way and then back the other way), a roller (disc rolls when it hits the ground), or an overhand (thrown over one’s head), Rob can get around, under and over obstacles such as trees.

To reach financial goals, obstacles such as taxes and legal regulations often need to be navigated.

I don’t have the specialized discs and skills to work around these, but thankfully I can rely on TCV colleagues including several tax specialists, 2 Certified IRA Service Professionals, and 5 lawyers. These experts can collaborate with clients, their attorneys, and accountants to navigate complex obstacles with a variety of techniques.

Sometimes people focus on the path to the detriment of



the goal. I was surprised when I first saw Rob throw an S-curve in an obstacle-free fairway. Rob explained that since discs fade to one

side when they slow, an S curve can give him more distance as it gets full flight, even though it may not be as accurate.

Don’t get distracted by the path. What’s important is getting to the goal. On a long hole, the distance gives us margin for curves. If you have a distance of many years until your goal (retirement or gifting, etc.), you want the stock disc that’s got the best chance of going the farthest. Too much focus on avoiding movements along the way can be a losing strategy for long term goals.

Overconfidence is risky

Sometimes in disc golf you throw a disc exactly where you wanted. “I knew I’d place the disc there”. In hindsight, I can review what I did, why it worked exactly as I had planned and why it will continue to work. This overconfidence can lead me to leave no margin for error on my next throw. I might try to thread the needle of obstacles and with no margin for error, I hit a tree or land in a swamp and am much worse off after my throw. I should have sacrificed the “perfect throw” for a good throw. (At this point a traditional golfer might throw her club in frustration. At least in disc golf, I can try to disguise this as “practice”).

The consequences of overconfidently taking too much risk on a throw in disc golf are minimal. For me it might mean wet shoes, a lost disc, or losing the hole to Rob by even more strokes than usual. Overconfident investing can have much more significant consequences. Some people’s goals are far out in the future, and they need a driver to cover the distance. The stock market is up 93% since it’s low on March 23, 2020, but they’ve been puttering around in cash, confident that a crash is coming. Their confidence in a drop has put them behind on their goal. Others have done so well in stocks, often a particular stock, that they don’t want to switch to bonds or cash as they get close to the goal.

At TCV, we encourage a periodic review of your current asset allocation considering how far out your goals are. We want to help make sure you are not using your putter too far away or your driver too close, leaving you far from your financial goal. If you are a golfer, I might also recommend switching from traditional to disc golf, investing the money you save on greens fees.

*** Cumulative performance through 9/30/2021 - Stocks measured by S&P 500, bonds measured by Bloomberg Barclays US Agg. Index, cash measured by Bloomberg Barclays 1-3m Treasury*



The recent bout of inflation in 2021 has spurred much discussion about the confluence of factors contributing to the broad rise in prices. In general, there are three factors at play: supply constraints, stimulus-induced demand, and easy monetary policy.

Supply chain bottlenecks have resulted from a shortage of workers in the US, a fleet of aging cargo ships that need to be fitted with cleaner propulsion systems, and COVID-19 control measures in Asia. The Delta variant has upended factory schedules abroad, where production capacity has been shuttered by 40-50% in Vietnam and nearly 25% in China.

Though the Delta variant has contributed to constraints on the supply side, strong consumer demand has also played a key role. US retail sales have increased 14% through the first nine months of 2021 over the same period in 2020. Consumers, many of whom sheltered in place last year, are now spending at an increased clip, largely due to built-up savings from an unprecedented amount of deficit spending by the federal government.

Over the past year, the federal government has run the biggest fiscal deficit since World War II, representing

close to 20% of GDP. When the federal government runs a deficit, by definition, households and/or corporations will run a surplus. As such, we have seen a record level of household savings and corporate profits. Income in the private sector now greatly exceeds the sum of consumption and net investment in real assets such as homes and capital equipment. But unless we maintain the deficit indefinitely, households and corporations are going to have to replace the fiscal spending on a go-forward basis. While it is true that an economic “recovery” is afoot, the increase in private spending is likely to simply replace federal support instead of adding real growth to the economy on a sustained basis.

The reason for the demand increase is somewhat irrelevant as it pertains to its impact on supply chains, however. Coming out of the depths of the pandemic, factories and supply chains couldn't keep up with demand after being largely shut down for months. In the face of strong demand and shortages of key components, manufacturers are being forced into bidding wars to secure space on vessels. The Baltic Dry Index, a measure of the price of moving raw materials globally, has increased nearly 10-fold from the beginning of 2020.



Source: Trading Economics

What's more, the ratio of inventory as a percentage of sales is at an all-time low. As a result, everything from lumber to new cars has been in short supply. For instance, Toyota, the largest vehicle manufacturer in the world, announced in September that it would cut production by 40% due to semiconductor shortages.

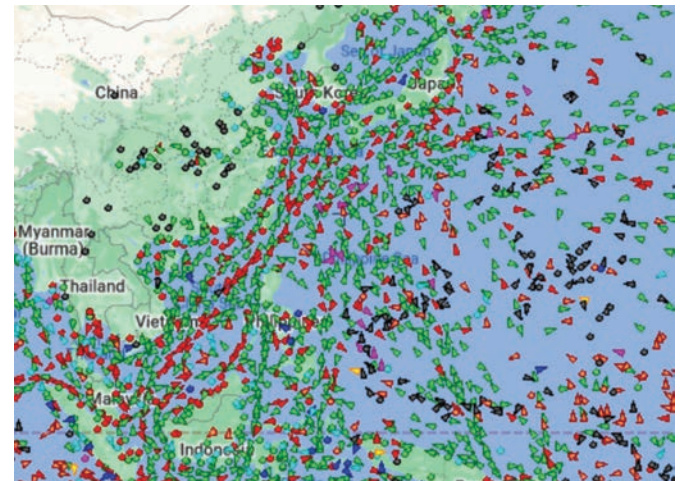
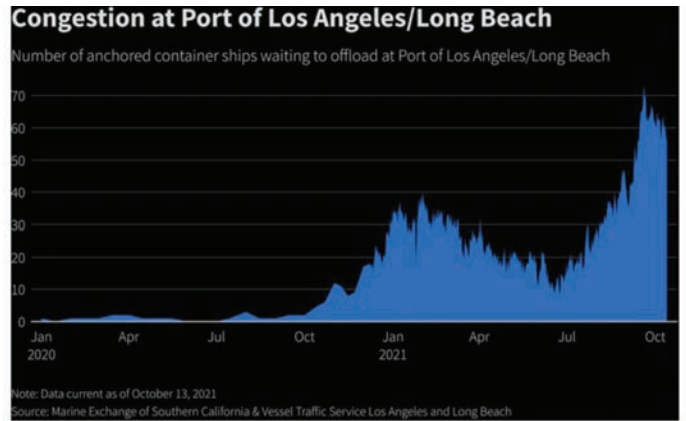
Tangentially, a falling labor participation rate and a shortage of truck-drivers has further caused problems getting imported goods from ports to downstream distributors. On a recent earnings call with investors,

Costco CFO, Rich Galanti noted that "port delays are continuing to have an impact... the



turnaround of a container hitting the US delivering its contents and being back at the US port to head back overseas has gone from approximately 25 days to 50 days."

The Port of Los Angeles has reported a 30% uptick in incoming cargo during the first nine months of the year, and the Port of Charleston, SC seems to be breaking records every day. The issue has become so extreme that the White House is urging trade unions and California port operators to work 24/7 to help alleviate the strains.



Maritime traffic off China coast, December 10. 2021

Due to the bottlenecks, companies are reporting an unprecedented level of inflation. Nearly half of all companies in the S&P 500 cited "inflation" on earnings calls in the second quarter, up from an average of just 25% from 2016-2020.

Companies from Fastenal to Pepsi are making moves to offset input cost pressure by raising prices for consumers. The topic of whether the current rise in inflation is merely transitory is hotly debated and no one knows when the supply constraints will be alleviated. But what is clear is that prices are higher and inventory of some goods are low for the time being, so if you were hoping to get your hands on a 2022 Toyota Tundra Limited with the 437hp hybrid i-Force Max powertrain, you might want to visit your local dealer now to put a deposit on one because there won't be many of them, especially if you had your eye on the one in Wind Chill Pearl!

A Happy & Healthy New Year!

*We wish all the best for you and yours in 2022.
Enjoy some of these favorite recipes from our staff.*



Jane Waysville, Founder & Administrator

My Grandmother's Pumpkin Pie

Katherine (Coucher) Barlow
1890 - 1973

Take a 9" deep pie plate and 2 cups of pumpkin
Cut up pumpkin, peel and boil about 20-25 minutes until soft,
puree in food processor (or buy a can of pumpkin).

In mixing bowl, beat 2 eggs until frothy.

Shake up the following ingredients in a gravy shaker or stir
together in a tiny bowl (so the cornstarch won't clump).

- 1 Tablespoon cornstarch
- 1 Tablespoon sugar
- 1 tsp cinnamon
- 1/2 tsp ginger
- 1/2 tsp nutmeg
- 1/2 tsp salt, if desired

Add this dry combination to the mixing bowl and mix with
eggs Add 2 cups pumpkin and mix.

Then add the following & mix:

- 1/4 cup molasses
- 1/2 cup dark VT maple syrup
- 2 cups milk (use 1 1/2 cups, if pie plate isn't a deep one)

*For a richer pie (and more calories) you can add 1 1/2
tablespoons of melted butter (not required). Recipe is
actually quite healthy - you can use skim milk, if desired.
You may also use less molasses and syrup to decrease calories
and sweetness.*

Pour into unbaked pie crust shell (I buy rolled pie crust, roll
out just a little bit to fit the deeper pie plate). Bake at 350
degrees for about 1 hour (until pie firms up in the center
when you wiggle it). If you warm up milk in advance in pan or
microwave, it takes less baking time.



Kathy Patenaude
Trust & Audit Clerk
Organizer Extraordinaire

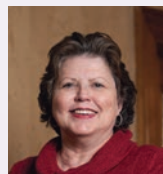
My Cheese Spinach Squares

- 1 cup flour
- 1 teaspoon baking powder
- 1/2 cup chopped onion
- 1/2 to 1 lb. sharp cheddar cheese, grated
- 8 oz. fresh spinach, OR 1 10 oz. pkg. frozen chopped
spinach, thawed
- 1 teaspoon salt
- 1 cup milk
- 2 eggs, beaten

Mix dry ingredients. Add eggs, milk, cheese, onion, and
spinach (if using frozen spinach, drain well). Mix well.

Grease a 9x13 pan and spread mixture into pan. Bake at 325
degrees for 30 to 35 minutes. Cool; cut into squares.

*Note: feel free to add salt, pepper, or other spices to taste.
I like to add a few drops of hot sauce! Great for breakfast,
snacks, or as an appetizer.*



Penny Cauble
Trust Administrator

My Family's Spice Tea

- 1 Family size tea bag - bring to a boil in 2 cups of water.
Remove from heat and let steep for 15 minutes.
- 1 cup sugar, 1 cinnamon stick, 5 or 6 whole cloves - heat in
2 cups of water until sugar melts.
- 2 cups orange juice
- 1 6-ounce can pineapple juice
- Juice of 1 lemon.
- Combine all liquids. Keep refrigerated.
- Shake well before heating. Jack Daniels optional addition!