Trust Company *of* Vermont Quarterly Update

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Brattleboro ◆ Burlington ◆ Rutland ◆ Manchester

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The Math Is in Your Favor!

Todd Gray, Portfolio Manager

Among several quotes of wisdom that I have taped on my desk is one that says:

Be Profound
Be Funny
or Be Quiet!

In recent years I have done my best to put the above quote into daily practice, although my colleagues and my wife may argue that I have been less than successful at this. I am not sure the topic of this communication can be classified as "profound", but I think the subject matter is important for all stock investors to remember, especially during periods of market volatility and political uncertainty. The subject matter that I wanted to reinforce with each of you is that over the long-term "the math" favors stock investors.

I admit that I am a bit of a numbers geek, starting as a child when I would study baseball statistics, and then in adulthood as I became interested in probability analysis. While I understand that numbers don't always tell the whole story, especially when it comes to the world of investments, a look at the numbers can help keep fear and emotions from driving investment decisions.

Historically, the U.S. stock market has, on a day-to-day basis, been up approximately 55% of the time, which is not much better odds than making a bet on a coin flip. However, when you look at longer periods of time, you will see that the probability of stocks going up increases significantly. Looking at the period of 1926 through 2019, the U.S. stock market, on a calendar year basis, has produced positive returns approximately 73% of the time. The odds of making money improves further when you look at five, ten and fifteen-year periods of time. The U.S stock market has produced positive annualized returns in 87%, 95% and 100% of these periods respectively. When I point this out to a client, often I hear "well, yes, but things are different this time because of (insert reason here)."

One of the most powerful arguments for long-term stock investing is to view a graph of the annual returns of the stock market since the early 1900s where major negative events have been entered along a timeline. While the market typically suffers declines following major negative events ranging from a few weeks to several years, the stock market has then recovered and moved on to new highs. This past year was a great example of the resiliency of the U.S. Stock market.

After closing at a new high on February 19th, the stock market, in response to the COVID-19 outbreak, declined 34% as of the close of trading on March 23rd. The stock market then turned around and started rising, making a new record high on August 21st.

I think my colleague Chris Chapman stated it best when, in a response to the concerns of a client about the drop in the stock market this past March, wrote:

> *"The stock market's long-term performance is an indicator of humanity's resilience and capabilities. We have been through many dire times, including economic downturns, amazingly destructive wars, earthquakes, floods, and fires, and have still sprung back after each one. The motives to provide for one's family and take advantage of opportunities have been prime drivers of recovery, adaptability, inventiveness, and growth."*

Now that does meet my criteria for being profound!

Could the market end up down this year? Yes, after all the stock market has on average been down approximately one out of every four calendar years. Over periods of less than one year the market experiences even more down periods, having averaged three to four declines of between 5 and 10 percent each year. To avoid having to sell stocks during a market downturn, we invest a portion of our clients' portfolios in low volatility short-term investments such as money market funds and short-term bonds to cover near-term withdrawal needs. However, when looking at investing for longer periods of time, it is important to remember that "the math favors stock investors".

Timepieces as Investments

Jack Davidson

As a youth, I would wind my mechanical watch, and forget to rewind it, and then reset it once again. Then the first battery quartz watch hit the shelves in 1969. Powering our clocks still required resetting the device on a regular basis. In 1990, the radio controlled wristwatch arrived, and resetting was no longer a problem. In 2000, the smartwatch arrived. A smartwatch is simply a battery driven laptop on your wrist. I own an Apple Watch and I simply put it on a charging pad once each night.

As a youth, and even today, I would encounter the value of a mechanical watch: a Rolex. The Rolex today costs approximately $5,000. There are many benefits to a Rolex watch. Vintage watch collectors may find your Rolex to be worth far more than what you paid for it.

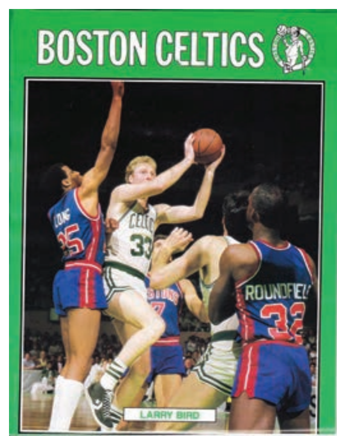
Personally, I chose the Apple smartwatch based on cost and the need to be smarter. Often I would time playing 18 holes of golf which would show the distance, the time and my pulse rate when I decide to carry the golf bag for 18 holes. Recently, playing golf just before the snow arrived, I added a new smartclock to my collection. The clock only shows the day of the week. Why? I called a friend and said "our tee time is 9 a.m. tomorrow". He showed up and I was not there. I had booked the tee time on Sunday thinking it was Saturday when I called him. I did not realize that I called him on Friday.

Age may not be a factor. Staying at home 7 days a week will, hopefully, go away and so will the smartclock. Hopefully, it's a temporary investment.

Larry Bird & Loss Aversion

Paul Copeland, CFA & Portfolio Manager

In the mid-80s my father was occasionally able to buy Celtics tickets from his employer. I thought $17 a ticket was quite expensive, but the seats were great, a few rows off the floor on a corner. And occasionally they came with a gift. One night the promotional give-away was a Celtics calendar. After the game, my cousin Tim and I went to get our calendars autographed in the Boston Garden parking lot. The players were gracious, but they were trying to get home, so you had to catch each of them before they got into their cars. Scott Wedman was a strong contributor to the team off the bench. He was about to sign Tim's calendar, when Tim yelled "hey, it's Larry Bird" and ran off leaving Scott with a pen in his hand.



We wouldn't have caught Larry Bird with the other players if we had waited in the parking lot before the game. He was famous for his work ethic, practicing long before his teammates arrived at the required time for games. He said *"I wasn't real quick, and I wasn't real strong. Some guys will just take off and it's like, whoa. So I beat them with my mind and my fundamentals."*

He out-prepared his opponents, but he also beat them with his drive, putting his whole heart into the game as he dove on the floor for loose balls. He said, *"Push yourself again and again. Don't give an inch until the final buzzer sounds."*

The self-proclaimed "Hick from French Lick" used wisdom he gained growing up in rural America not only to win Championships and MVP awards as a player, he was also named Coach of the Year and later NBA Executive of the Year.

Another quote that I've seen attributed to Larry Bird is *"I hate to lose more than I like to win."* I imagine this aversion to loss helped Larry Bird to win, but ironically, loss aversion leads many investors to lose.

Researchers estimate that the emotional pain of losses is twice as painful as the pleasure of gains. An example of this might be if someone gives me a bottle of wine, I get a positive feeling. If I drop that bottle of wine the bad feeling of my frustration is worse than the good feelings of getting the gift.

Our aversion to loss can lead us to take less risks, such as doing a cartwheel on a roof, speeding on 91, or putting all your money on Apple stock. While avoiding loss can increase our chance of survival, I see 3 ways that Loss Aversion can be harmful to people's financial health.

1 It can prevent investors from unloading unprofitable investments because they feel they must get even and avoid a loss. It can even cause them to take additional risks to get even, like doubling down on a losing investment. Do not fight to the final buzzer on your losers. It could be a long game that's detrimental to your financial health as you miss better opportunities. When looking at a loser, try to pretend you don't own it. Would you buy the stock today? If not, then today might be a good time to sell.

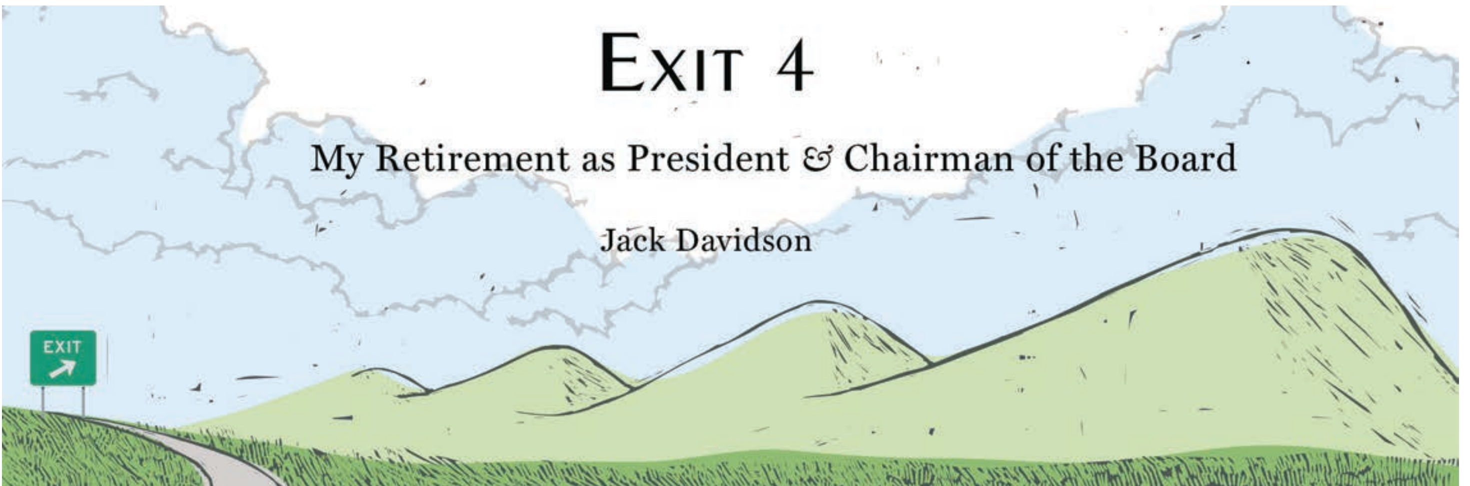
2 A form of loss aversion that self-storage companies love is the Endowment Effect. Once people own something they irrationally overvalue it. That's why my attic is filled with stuff that I refuse to sell in the garage sale my wife keeps suggesting. This happens with stocks – I see clients who are attached to a stock and won't sell, even though it would be much better to diversify. The Endowment Effect can be very difficult to overcome as there might be strong emotional attachments. Maybe they received the family's set of fine china or shares in the company their father worked at his whole life. Taking a picture of a favorite sweater or keeping just one of hundreds of army men are two techniques to help me lighten the load in our attic. Keeping at least a share of stock or selling it all but taking a picture of the certificate or your investment statement are two possible ways to deal with the Endowment Effect. Another idea might be to use a portion of the sale proceeds to help you remember the one who left you the stock. That could be done, for example, by making a gift to their favorite charity or taking a family trip to a place connected to them.

3 The third way I see Loss Aversion affecting people has become worse with greater access to information through cellphones, computers and 24-hour news channels. Elsewhere in this newsletter Todd Gray points out that the math of the stock market is in your favor, but stocks still do go down a little less than ½ of all trading days. Myopic Loss Aversion results when investors look at the market too often. The more often people watch the market, the more nervous they can become because they magnify the many little losses that they wouldn't see over longer time periods. The downturns, which affect people twice as much as an equal upturn, incline investors to sell out of the stock market that over time has continued to increase.

Overcoming loss aversion completely is very difficult. Watching your investments and the markets less often, while relying on your advisor more for the investment decisions is a great way to mitigate it. Plus it will give you more time to get out and play some basketball or catch a Celtics game on TV, or maybe just a few Larry Bird classic moments on YouTube.

All of us at TCV wish you and yours a happy and healthy New Year!

2021



Exit 4

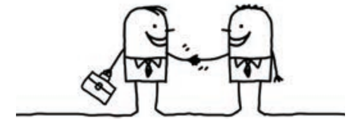
My Retirement as President & Chairman of the Board

Jack Davidson

In late August of 1970, I put our newborn son in the bassinet in the back seat of my newly purchased Fiat 850 and left my apartment on the upper west side of New York City. My wife's family lived in Newbury, New Hampshire and we made frequent trips to enjoy the benefits of Lake Sunapee and family gatherings. As I entered Vermont on Interstate 91, I would encounter 3 exits for Brattleboro, and then, 8 miles north, I would pass the Putney, Vermont Exit 4.

Often I would come up for just a weekend. Fortunately, one time when I had decided to take my one week vacation in Newbury, I was approaching Exit 4 when I blew the head gasket of my Fiat. As a result, we stayed overnight at the Putney Inn and I discovered, oddly enough, that there was a Fiat dealership in Brattleboro by Exit 3. So the next morning I drove a smoking car down Route 5, and dropped it off at the dealership. I then hitchhiked back to the Putney Inn, family members picked us up and we settled in for three days in Newbury, until I could pick up my car in Brattleboro. While enjoying Lake Sunapee, a friend sent a Wall Street Journal ad for a Trust Officer at the Vermont National Bank, in Brattleboro of all places.

I was stunned. I wanted to work in Vermont and my plan was Burlington. But I did not think that I had enough training to leave New York so early. Had this ad been sent to me when I was in the city, I would not have called. But being so close, family members pushed me to make the call and I decided that my wife, Judy, needed to be part of the interview process. So I called the head of the Trust Department. We met at the Holiday Inn at Exit 7. At the second interview, which again included Judy, I rarely talked and Judy asked all the questions, and I was hired. My new boss was supportive but after a few years I would hear him say "I didn't hire Jack. I hired Judy".



A few years later, my boss was promoted and I had a new boss brought in from out of town. I was a workaholic and he was not. Two years later, after working during the tax season 10 hours a day and all day on Saturday, my new boss, who would leave at 4:30 every day, called me into his office and asked me why I had not done the monthly five new business contacts for 3 months. My response was very strongly worded. I don't recall what I said but a colleague nearby said that it was violent and I was now about to lose my job. He quit instead, and I became the boss.

In the trust world, in my opinion, you have two distinct clans: those that manage money and those that do trust administration. I would often say that money management is an art and administration is a science... and members of both clans would let me know that I was in error. My first boss was an investment manager. My second boss was an investment manager. I was an administrator. Now that I became the boss I felt that I needed to embrace both clans to survive.

Shortly after my promotion, I was driving by Exit 4 and decided to buy 6 Budweisers. I was carded. At the time, the legal age was 18. Who would ever want a trust officer who looked 18? I also discovered that those who worked for me did not like to be bossed. I was simply too young to tell them what to do. So I decided to be an "agreeable colleague" instead. Then one day, a 58 year old man came in and asked for a job. A very talented person: Russell W. Ellis, who had been previously employed for 29 years as the Business Manager for the Experiment in International Living at Exit 4 in Putney. I hired him. Then I encountered colleagues who questioned my judgment. Why would I hire someone that old? That was back then. Fortunately, it is no longer the rule.

Now, I had two talented investment managers. John Abel, our first manager, was two years younger than me. And our second manager was 22 years older than me. We were blessed with their joint contributions. Russ retired early at age 72 in 1990 to spend more time with his first love, his family. John Abel has just retired for the same reasons.

As we expanded, I was told that a very skilled investment manager was looking for a job. I asked to meet with him. He was six years older. I asked him to join us. He said no. I asked once again and he said yes. Steve Singiser became a valuable addition to our group of young and older managers.

As an "18-year-old-looking" head of the trust department, I did not intentionally age myself for business purposes. It was my Irish ancestors. I turned white in less than four years. Just fours years after I was carded in Exit 4, Putney, I walked into a hotel with my wife and my young boys and the person at the counter thought that I was the grandfather. Who looks older in this picture?

Russ Ellis, Steve Singiser, John Abel, Jack Davidson

I discovered over the years that to keep the trust department moving forward, I would hire good people and get out of the way. The Vermont National Bank Trust Department, under my efforts to avoid being the boss, went from 22 million in client assets to approximately 2.5 billion. I am a strong proponent of groups populated by the vitality of the young and the wisdom of those older, in both clans.

As the "boss", I am responsible for the performance of the two clans and the bottom line. Managing clans and the bottom line takes focus and time. While still employed at Vermont National Bank, based in Brattleboro, I opened a trust branch in Burlington and started hiring staff. I often simply got into one of the company vans and drove to Burlington. Back and forth the same day was the norm at the time. Then Exit 4 showed up once again.

On the way back, I ignored the red light in the van. Heading south on Interstate 91, I ran out of gas just north of Exit 4. What do I do? A car pulls up and the occupant offered to help. He drove me to Exit 4, and the local gas station lent me a 5 gallon can, and my new friend then drove me 10 miles north to Exit 5 on the interstate and then south for 9 miles to my car. I was stunned by his generosity.

When Vermont National Bank was purchased by Chittenden in 1999, eight of us working together at Vermont National Bank started the Trust Company of Vermont. When I did the legal work, I informed the founders that I had voted myself in as President and Chairman. They did not object because I was their boss before and my title meant nothing to them.

After we started the Trust Company of Vermont, I set up a basement apartment in our building on College Street in Burlington so I did not have to drive up and down the same day.

Judy wants me to partially retire. She knows that my plan is that I will only consider the option to fully retire after age 90. So she negotiated a compromise. Were it not for my wife, I would not have been blessed with the position I am in now. So the plan is to focus on what I most like to do: estate planning and trust administration. There will be fewer distractions, and that is a good thing because distractions in estate planning can be a problem. I have seen too many people avoid their estate plans and sometimes procrastination, theirs or the lawyer's or perhaps mine, will hurt their legacy.

Our Executive Committee has taken on many of my presidential duties and they are doing a great job. I can now do what I most like to do: problem solving in administration and planning estates.

As I think back on my many years trying to balance what I like to do and what I should do, I think of the person who so generously donated his time driving me back and forth between Exit 4 and Exit 5. This occurred many years ago but it is periodically ever-present. As he was leaving, I asked for his name. I felt a sense of urgency to send him a thank you note. I wrote it down so I would not forget. But I did not need to write it down. Younger minds may handle short term memories better and older minds may have memories of what they have learned.

When I came into work the next day, one of the administrators handed me a file and said " Don't delay on this estate plan. You need to get back to this person soon, not later. He definitely needs an estate plan **now**!" I looked at the name. It was the individual who helped me the night before.

My semi-retirement is not an exit. It may be Exit 4, but Exit 4 simply means the other exits are still open and I will periodically loop back.

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