



Trust Company of Vermont Quarterly Update

July 2021

Brattleboro



Burlington



Rutland



Manchester

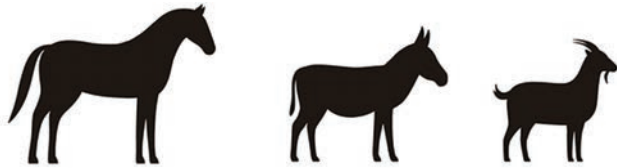
Employee-owned & Vermont-based

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Teamwork

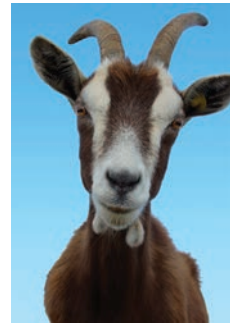
Susan Fowler, Esq., Vice President

What do a horse, a donkey, and a goat have to do with Trust Company of Vermont? Nothing really, but they



offer an interesting analogy. Years ago, I retired a show horse and brought her home from the barn where she had been stabled for training and access to an indoor ring during the long, cold Vermont winters. I found a raggedly donkey at an auction and bought him as a companion for the mare. Strange as the partnership may have been, Jazz and Marley lived comfortably together for fourteen years, the donkey's solid implacability a welcome counter to the mare's nervous energy. They were wildly different, yet a perfect pair. Three years ago, I accepted a goat into the fold. He had been living in a UVM fraternity and kept in a dark closet between parties. He could handle his beer with the best of them, but UVM did not present the ideal life for a goat, and he was a nervous wreck. I never intended to keep him because, well, who really needs a goat, but the day the fraternity boys dropped him off he ran frantically into the mare's stall and she immediately

accepted him as her own. His strengths included eating my garden, refusing to be corralled, butting the nice stall doors until they were bent and battered, and coming into the house through the dog door for daily visits. These are strengths in



only the most forgiving of terms. Yet, having him as part of the family strengthened the whole herd; donkey, goat, and show horse soon became a solid trio, each different and offering something of their own to the mix.

Working at Trust Company of Vermont has reinforced my belief in the power of differences.

The investment managers, with their quiet competence and knowledge of the financial world; the detail-oriented operations folks, who keep our systems in perfect order and update everything on what seems to be a daily basis; the relationship managers, who bring in clients and handle complex and delicate communications; trust administrators, who move funds and handle innumerable personal and financial requests graciously and expeditiously every day; technical support people,

who strive to keep us safe from cyber-attacks and scare us frequently with trainings and fake hackings to keep us alert; the tax experts, with their intimidating knowledge; our internal auditor, who keeps us following proper procedures and designs our newsletter; and the lawyers, like me, looking to be useful when needed. Our personalities and strengths could not be more different, yet together we make a strong team. It is precisely our differences that make us invaluable to one another. I feel fortunate to be here, learning every day and working to use my specific strengths for the good of the company. My beloved mare died three years ago, and we all grieved. The good news is that the donkey is not alone. He has his goat. The TCV team similarly shifts and adjusts to change, including Jack Davidson's recent retirement as CEO and shift to estate planning and internal training for the company. We adjust and move forward together, learning as we go and grateful for our differences.



A Note on COVID-19

The State of Vermont recently announced that 80% of eligible Vermonters have received at least one dose of a COVID-19 vaccine. Consequently, the Administration declared an end to the pandemic-related restrictions that had been in effect since March of 2020, and the state of emergency order was lifted. This means that mask wearing and social distancing are no longer required. The State is still encouraging any unvaccinated Vermonters to continue wearing masks and practice social distancing.


Due to the lifting of restrictions, many employee-owners of Trust Company of Vermont have been meeting with individuals face-to-face in our offices. If you would like to meet with us, please do not hesitate to contact us. In accordance with the guidelines, we no longer require mask wearing or social distancing. However, we are more than happy to wear a mask during a meeting if requested. **The comfort of our clients is a top priority.**

Although we are scheduling in-person meetings, we also continue to participate in virtual meetings. Virtual meetings are efficient, and technology has allowed us to meet with people located all across the state, country and world. We are happy to continue to arrange virtual meetings if it is preferred by an individual.

*We wish everyone a happy
and healthy summer!*



*Wishing you a happy,
healthy and
fun-filled summer.*



The Cost of a Malibu in California

Chris Cassidy, CEO

EVERY YEAR I TRAVEL TO CALIFORNIA for a family reunion that occurs the last week in July. It is one of my favorite weeks of the year because it's usually the only time that I get to see my mother's side of the family. Sunny weather, palm trees and beach sand are not too bad either!

Everyone in the world has been impacted by COVID-19 in many ways. One way that I was impacted was that last summer the family reunion was cancelled for the first time in twenty-five years due to coronavirus restrictions. When making travels plans for this year I was shocked at the price of rental cars. \$100 a day for a Chevy Malibu?!

I am not the only person impacted by price increases in certain areas of the economy. According to the Bureau of Labor Statistics, inflation, as measured by the Consumer Price Index (CPI), increased 5% over the past 12 months. This was the largest 12-month increase since a 5.4% increase for the 12-month period ending August 2008. Certain sectors of the economy, such as used cars and trucks, saw particularly sharp increases in May.



In addition to impacting travel planning, this recent data has resulted in several questions from investors. Why is inflation rising? How long will it last? How does it impact my investment portfolio? These are common questions that investment officers are asked when meeting with clients.

In simple terms, inflation is a general increase in the price of the goods and services that we consume. Prices are currently rising in our economy for three main reasons: an increase in consumer demand, supply chain disruptions and an increase in the supply of money.



I am a perfect example of the recent increase in consumer demand. I have not been on an airplane since before the pandemic, but have recently made plans to travel. Apparently, I am not alone. In June, daily U.S. air travelers exceeded two million for the first time since the pandemic began, according to the Transportation Security Administration. When demand increases sharply, and outstrips available supply, prices rise, a phenomena economists refer to as demand-pull inflation. There are too many dollars chasing too few goods and services.

In addition to an increase in consumer demand, there are also supply chain disruptions that further exacerbate inflationary pressures. The rental car industry is a perfect example. In March of 2020 travel came to a grinding halt. To survive, rental car companies sold a large portion of their inventory to reduce interest expenses and raise cash. In fact, the industry sold more than half a million cars, or roughly one third of their entire fleet. Unfortunately, rebuilding fleets this year has been difficult due to auto plant closures and a shortage of semiconductor chips. The average car contains 50 to

150 different chips. I could complain about \$100 a day for a Chevy Malibu, but travelers to Florida during spring break were paying \$300 a day for a Kia Rio.

Supply chain disruptions can lead to increases in the cost of materials. We have seen this occur with lumber, copper, plastics, and many other materials. When material costs increase, the price of finished goods often increase as businesses need to charge consumers more just to earn the same profit margin. This is referred to by economists as cost-push inflation. Currently, the global economy is dealing with both demand-pull and cost-push inflationary pressures at the same time.

Further adding to inflationary pressures, the Federal Reserve has been putting more money into the economy



in response to the economic slowdown caused by the pandemic. When the Federal Reserve prints money to stimulate the economy, the money in the economy loses some of its value and consumers need more of it to buy the same goods and services. The Fed is pumping about \$120 billion per month into the financial system through its purchase of Treasury Bonds and Mortgage-Backed Securities from financial institutions. This is what economists refer to as expansionary monetary policy, which stimulates the economy, but can lead to inflation.

The question of how long this increase in inflation will last cannot be known because nobody has a crystal ball. However, policy makers, and most analysts, believe that it will not last very long. Fed Chair Jerome Powell has characterized the current spike in inflation as “transitory” and has stated that the price increases should be temporary and not result in long-term accelerated inflation. The majority of Wall Street Analysts, such as Goldman Sachs and JP Morgan, agree with the Fed that inflationary pres-

ures will be short-lived. Those that hold this view note that supply disruptions and bottlenecks are not usually a long-term problem, and that the reopening of schools and the expiration of enhanced unemployment benefits will help to ease wage pressures. Automation and technology also keep inflationary pressures in check.

However, Deutsche Bank contends that there is a potential risk of 1970s style inflation. In the 1970s, inflation, as measured by the CPI, averaged over 7% per year. For the past ten years, inflation has been consistently running at about 1-2% per year. In fact, the United States has not experienced a single calendar year with annual inflation above 4% since 1991.

Given the uncertainties surrounding inflation, what should investors be doing with their portfolios? If the recent spike in inflation proves transitory, then no major adjustments are needed. Historically, over long periods of time, stocks have provided investors with protection from inflation because many businesses can raise prices on their goods and services. Over the 95-year period from 1926 to 2020, large cap stocks returned roughly 10% compared to inflation, which averaged roughly 3%. During the 1970s, the S&P 500 saw total annual returns of just under 6%. While this number is lower than the rate of inflation during that decade, it is not far off. On the fixed income side, Series I Bonds and Treasury Inflation Protected Securities (TIPS) contain a built-in inflation adjustment. These bonds are designed to provide investors protection from significant increases in inflation. Another option for investors is owning “hard assets” such as real estate or physical commodities. As far as real estate is concerned, home prices have seen the largest year over year gain since 2005.

I am looking forward to seeing family in California at the end of July. Hopefully, last year’s cancellation was transitory and will not happen again for many decades. Maybe next year when I make my travel plans a Chevy Malibu will cost less than \$100 a day.



BUBBLES

Jack Davidson



I grew up on Long Island. I have a problem with bubbles. Twice each summer my parents would take their five children to Jones Beach. We would all come back with



sunburns that suggested we had been retrieved from a burning house. I also personally encountered large waves and jellyfish.

My early experience designed my approach to water. I don't like to swim. If I go into a pool and open my eyes....and see bubbles...I spend very little time even in safe pools.

In the early forties, my father was a teacher in the Syracuse area. He decided to change schools and selected the school district that he thought, at the time, paid the best teacher's compensation at a public high school. So he moved to Long Island in the early forties, where he taught business at Hempstead High School. For reasons unknown, he was able to buy a small house next to Hofstra College.

As a five year old I came across an interesting modification to the house across from ours. There



was this unusual object...a wing that went from the top of the house to the basement. We lived next to Mitchel Air Force Base and I learned this was a wing of a plane that crashed nearby. Thus my parents decided to look for a new house. And we subsequently moved to the Roslyn Country Club.

As my parents planned for the future, Long Island was changing rapidly. In their early years they would drive by potato fields. Then the Leavitt brothers showed up. They created Levittown nearby and built 17,447 houses on 6 thousand square foot lots. Their Cape Cod and ranch-style homes cost \$7,990. During the construction, they were able to build a house in 16 minutes.

One of the Leavitt brothers decided to abandon the name Leavitt and go after those with more resources, creating the upscale Roslyn Country Club with large home lots that commanded a price more than twice that of Levittown. My parents, currently owning a home, had the resources and the foresight to buy upscale. Their financial advice, which stayed very consistent over many years, is that your home is the best asset in your portfolio.

There were only 600 houses in the Roslyn Country Club and there were two styles: a single floor ranch-style house all on one level, and another model that had a higher roof, with enough attic space to add rooms. My parents chose the more expensive one. With five children, a few of us lived in the attic.

As the neighborhoods expanded, so did the school districts. Our high school, newly created, was based in Old Westbury. After graduation from high school, my parents moved to Roslyn and selected an older home in a tree-lined street where they remained for many years. In the early eighties they moved to Southbury, Connecticut in a residential neighborhood designed for retirement. Evidently their advice never faulted... each home appreciated enough in value that our family experienced free living and an increase in liquid assets.

While in college, I worked summers at the Bohack's Grocery Store in Roslyn Heights, unaware that approximately a decade earlier, Ken Langone worked in the same store. He grew up in the working class neighborhood in Roslyn. Ken, at some point, also recognized the value of homes. He was the founder of Home Depot and his recent book is titled "Loving Capitalism".

THE FIRST CRASH - THE GREAT DEPRESSION

Clarence Mackay also recognized the value of homes. In my early years I would bike over to a heavily forested area overlooking Roslyn Harbor. I would come across an abandoned roadster from the 30s and find two statues, a two-foot deep swimming pool and an empty field. One day a bulldozer came and created a deep trench. I wandered around the trench and saw a small hole. I crawled in. I found gorilla cages, and ran home and told my friends. It turns out that it was Clarence Mackay's wine cellar. In 1899, Clarence retained Stanford White to design a 576-acre estate, which included two replicas of the famous Marly Horse 26-foot statues with pedestals.



As a result of the Depression, and Mackay's death in 1938, the value of his home became a liability and

the mansion was demolished in 1947. The property was sold in the late 1950s and became the Country Estates housing development, with many new upscale homes. One of the Marley horse statues was given to the Roslyn High School, where it resided in the school's parking lot.

Having left Roslyn many years ago, I did not meet Pamela Gluckin and her boss, Frank Tassone. Both passed the Marley horse sometimes daily, if not more often. They both understood the value of homes. Pamela owned three and Frank would often say that the best public schools would increase the value of homes.

Pamela was the assistant superintendent of the Roslyn School District (the North Shore Public-School System), and struggled with the costs of 3 houses on a salary of \$160,000. She hired her son to use the school's credit card to purchase the materials to renovate her beach house. The purchases were made at, no less, Home Depot, and these charges resulted in an initial investigation of her books, revealing a \$250,000 theft.

Frank was the superintendent of the Roslyn School District, which had managed to make, based on test scores, one of the ten best high schools in America. He was widely admired and would often promote the ever-increasing property values in the district, based on a diploma from Roslyn High School, that would significantly increase the probability of having children go to Harvard. Well, it turns out that he collaborated with Pamela and confiscated a total of



8 million, and they both went to jail. The 2019 Movie "Bad Education" starring Hugh Jackman as Frank Tassone is both entertaining and, perhaps enlightening.

I often encountered those in the Roslyn High District destined to premier schools. As a 13-year-old Boy Scout, I was 4 feet 6 inches tall, and I encountered a 13-year-old 6 foot 6 inch Boy Scout. I made comments that I should not have made regarding his height. He looked down at me and let me know that I was a low life human being in so many words, half of which I did not understand. He went to Harvard but changed his career and became a famous author. His name was Michael Creighton and one of his movies was Jurassic Park. The park sometimes reminds me of the housing market today.

THE SECOND CRASH - THE GREAT RECESSION

The Great Recession in the United States, officially lasting from December 2007 to June 2009, was considered the most significant downturn since the Great Depression. The U.S. housing market crashed as a result of the large amounts of mortgage-backed securities and derivatives that lost significant value. Before the crash, it was easy to buy a house and secure the loan, but the interest rate on the loan could not be controlled. This is what happened to home values:



My fear of bubbles when they first showed up on Jones Beach will not equate to the bubble I am working on now. Will we have another housing bubble? Hopefully the answer is no. The problem in Vermont is being faced over much of the country.

Evidently, more than half of homes in the US are selling above list price. It's now called playing a

lottery. Put your house on the market with a price, and you will get 20 offers and sell it for more than the asking price. Often, the bidders have not seen the property



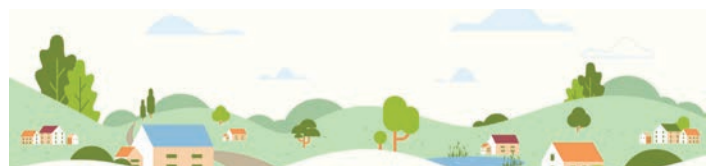
other than online, and often the contracts have no exceptions so the seller does not need to worry about the buyer reducing the price or backing away.

The pandemic is part of the equation. Some of the many able to work at home, and telecommute, have recently found Vermont to be an attractive place in which to resettle, and the liquid assets in their portfolios may mean no trip to the Bank to get a mortgage or, if they need to borrow money, the rates are low and frozen rather than the dramatic increases experienced in the Great Recession. The unfrozen rates created the bubble.

The problem in Vermont is the inventory of homes is drying up and the cost of building or refinishing homes has gone up somewhat dramatically. This feels more like selling and buying the same stock, and the market will tone down in the near future. The trends so far do not seem to make Vermont an outlier.

Our investment managers are mindful of our portfolios and the risk of the second bubble. They are also mindful of our neighbors as well.

Hopefully, we can find more homes for those in Vermont which will dovetail with the needs of others and the beauty of the place. Rules and regulations may need modification. That said, I am not promoting 17,447 new Levittown style houses at this time. We need to go fast, but perhaps not that fast.





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