Trust Company *of* Vermont
Quarterly Update

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Brattleboro ◆ Burlington ◆ Rutland ◆ Manchester ◆ St. Albans

Employee-owned & Vermont-based www.tcvermont.com

"The Certainty of Expenses vs. the Uncertainty of Returns"

Chris Cassidy, Portfolio Manager

I coach high school basketball as a hobby and enjoy hearing lectures from other coaches. Last summer I was privileged to hear an excellent high school coach give a lecture on team defense. Being an Investment Officer, I was very intrigued when he said, "Offense is like the stock market: it's erratic and you never know what you're going to get; defense is like a savings account: it's easier to predict and can keep you in games when your team doesn't shoot the ball well."

I was reminded of this quote recently when I was doing some retirement planning for a client. While most of us at Trust Company of Vermont consider ourselves Investment Officers or Trust Administrators, we also do a lot of retirement planning and Social Security planning for our clients. Retirement planning and financial planning calculations are based on assumptions for variables such as expenditures, investment returns and levels of inflation.

Investment returns are the most difficult variable to predict and the variable over which we have the least control. While we can control how much we allocate to equities and fixed income, we cannot control how the underlying stock and bond markets will perform. In the 1990s equity investors in the S&P 500 experienced an annual total return of roughly 18% per year. For the ten year period beginning in 2000 those same S&P 500 equity investors experienced a loss of roughly 1% per year.

Similarly, inflation, which erodes purchasing power, can vary widely from time period to time period. In the 1970s inflation averaged over 7% annually. In the 2000s inflation has averaged just above 2% annually.

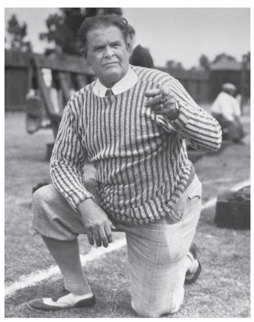
The easiest variable for investors to control and predict is their annual expenditures. Although we all have unforeseen expenses, such as replacing a boiler in the middle of winter, our choices concerning how much we spend on housing, automobiles, vacations, food and clothing are very much within our control. A $5 latte consumed each day for a full year costs $1,825. That same latte consumed every day for forty years costs $73,000.

In deciding what to spend money on, investors need to consider the opportunity cost of compounded growth when making spending decisions. The opportunity cost of spending $10,000 on a vacation is a considerable sum assuming that same $10,000 was instead invested. $10,000 earning a 6% annual return grows to over $100,000 in 40 years. At an 8% annual return, the same initial investment grows to over $200,000 in 40 years. With the Dow Jones Industrial Averages and the S&P 500 reaching all-time highs, it is easy for investors to feel relatively wealthier and want to increase their spending significantly. The Dow has rallied for roughly 280 weeks without a major correction, so it is easy to feel a sense of euphoria. However, it is important for investors to remember that just like a good defense in basketball can save you when your shots aren't going in on the offensive end, prudent expenditure controls can keep your investment portfolio relatively healthy even when markets are not performing well.

Estate Planning in Vermont in 2014

Jack Davidson

I agree with Chris that basketball coaches can be insightful. That said, football coaches can be as well. A case in point, Pop Warner introduced to football trick plays and deception. Over the years, he drew up end runs, reverses, flea flickers and even elasticized bands sewn into jerseys to hide the ball so that his smaller players could compete against players that were 30 to 40 pounds heavier.



Some of us think that Pop Warner may have had an impact on our legislators. As the legislators addressed the Estate Tax law this year, many played for their teams: those that wanted an increase in the Estate Tax and those that wanted a decrease in the tax. At the end of the season, the common observation was a draw. Or was it? Did we check the jersey?

Act 174, signed on June 5, 2014, includes the following amendment: "*The laws of the United States relating to federal estate and gift taxes as in effect on December 31, ~~2012~~ 2013, are hereby adopted for the purpose of computing the tax liability.*"

Was this just a technical correction? Was this a flea flicker?

Where's the ball? It's in the end zone. Our top Vermont estate tax rate just increased from 35% to 40%.

Now that we can see the football, our job is to enlighten our clients. For those of us that are blessed with estates over $2,750,000, simply making gifts can save significant taxes. A single person with a $3,000,000 estate can save $100,000 in taxes by making gifts that reduce their estate to $2,750,000, the Vermont threshold for taxation. That said, they may need a coach. The smaller players (estates under approximately $3,342,000) may need Pop Warner's style of play, absent the jersey. They need to keep the annual gifts equal to, or under, the federal annual exclusion of $14,000 per recipient per year. Many receivers: children and grandchildren, and perhaps spouses, will speed up the process.

The larger estates (above approximately $3,342,000) may save taxes with larger one-time gifts based on the intricate rules of play in Vermont.

Tax laws can be confusing and every client's situation is different. Our Trust administrators are equipped and willing to discuss the general rules of play and strategies. That said, the key player at some point often needs to be in the room: your lawyer.

Pop, I loved your creativity with the exception of the jersey. In estate planning, you are not allowed to hide anything under a jersey.