Trust Company *of* Vermont Quarterly Update

October 2017

Brattleboro ◆ Burlington ◆ Rutland ◆ Manchester ◆ St. Albans

Employee-owned & Vermont-based

www.tcvermont.com

So, Maybe Some Cash Isn't So Bad After All

Trust Investment Committee

Of the three major asset classes; stocks, bonds and cash, much of the time cash is the asset class that is least favored by investors. And rightly so! (For purposes of this article, we'll define cash as literally cash, as well as bank deposits, money market funds, and short-term, highly liquid and high-quality instruments like Treasury Bills).

History has proven that over the long term, a portfolio made up solely of cash won't provide total returns that come anywhere close to a portfolio dedicated either exclusively, or concurrently, to either stocks or bonds. In fact, a cash portfolio will be lucky, over time, to keep up with inflation, and in fact, after income taxes are paid on the earnings (as meager as they may be in today's world), an all-cash portfolio will almost certainly decline over time relative to inflation. To compound that disgrace, at certain times, like the last few years, central bankers may manipulate the interest rate returns on cash and cash-type instruments to the point where the returns will be much below the rate of inflation. That will almost force you to invest your cash, and hopefully help stimulate the economy, which has been the wish of the central bankers around the world.

Yet despite all those indignities, we believe there are several positive attributes to a portfolio holding, and from time-to-time changing the level of holdings, in cash reserves, even despite their current meager returns. In fact, we believe that the benefits of having cash reserves are far greater than simply the interest income earned from those reserves.

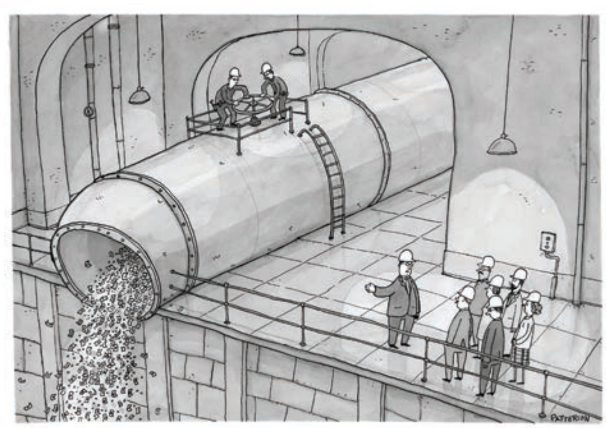
First, from an overall portfolio performance perspective, cash has one very attractive attribute: Cash doesn't go down in price. This can be very important, because by helping to temper the price volatility of portfolios, especially in declining markets, cash can help investors overcome their natural emotional response to want to sell into those declines, and a meaningful cash holding in a portfolio can hopefully prevent investors from doing the wrong thing at the wrong time. This may prove to be especially important in today's market environment, with historically low interest rates on all fixed-income investments, and stock prices at above average valuations.

Many times in the past, stock market declines have been buffered by bonds actually rising in price, or at least staying stable; hence a balanced portfolio not suffering the entirety of a stock market decline on its overall value. However, if the next stock market decline occurs during a period of rising interest rates, (a not unlikely prospect, we think) we could see a fairly substantial decline in bond prices as well, because of the low level of absolute interest rates on all fixed income investments. Not a pleasant picture to contemplate. However, when a noticeable cash component is added to the portfolio, not only do declining portfolio returns get tempered, but the return on the cash portion of the portfolio actually goes up; remember, interest rates are rising. Again, it doesn't prevent overall portfolio values from declining, but rising incomes on a portfolio can make those times a little more palatable.

The second, and we believe even more valuable attribute of cash in a portfolio, is its role as both an opportunity asset and as a portfolio risk reducer. First, having cash in the portfolio allows withdrawals from the portfolio, for either anticipated or unanticipated needs, without disturbing the longer-term, more permanent stock or bond holdings. Most importantly, having this cash available prevents the portfolio from having to sell these holdings AT THE WRONG TIME! We have found, in portfolio management, that it is most important to sell because you want to sell, not because you have to sell. A "forced" sale, to meet portfolio cash withdrawal needs, almost never happens at the opportune sale time, and more often than not, forced sales can happen at a very inopportune time. Cash reserves help either reduce, or hopefully eliminate, this often forgotten portfolio risk. Secondly, cash reserves in the portfolio serve as the almost perfect "opportunity asset" resource for the portfolio manager, for the opportune time to buy any particular investment almost never coincides with the opportune time to sell a different investment.

Cash reserves help to mitigate this problem, helping to allow us, as portfolio managers, to more strategically time our buys and sells. In other words, if we have reasonable cash reserves, we don't have to sell something else when a good opportunity comes along. And of course, who is to say that only the best opportunities exist today? Perhaps a better opportunity may come along tomorrow, and having some cash reserves allows the portfolio manager to consider taking advantage of tomorrow's opportunities as well.

In closing, it's only in the most unique circumstances where we would recommend a client have a portfolio dedicated only to cash. Yet, just because cash is the least attractive of the three major asset classes doesn't mean that cash lacks qualities that make it appealing. Cash reserves help temper portfolio volatility; those reserves may help investors sleep better at night during difficult times, and having cash can help meet the cash flow needs of both the portfolio's owner and the portfolio's manager without disturbing the portfolio's longer-term commitments. It's all these attributes that cause us to want to continue to commit, and to manage, a portion of almost all client portfolios to cash and cash-related assets, and to decide that maybe some cash in a portfolio isn't so bad after all.



"And this is where we adjust the interest rate."

Phishing, Hacking, Spoofing

How can we protect our computers, email and devices?

The simple answer - disconnect and not use them - is not the practical answer. As hackers and thieves get more sophisticated in their abilities, we need to be more diligent in our security. This goes beyond smart passwords and making sure you only go to known websites.

At Trust Company of Vermont we maintain ongoing training to help make sure that we stay aware of current hacker tactics. Our IT security provider even sends us periodic spoof emails, that are very convincing, to see if we click on them or not. We hope to be able to share some of what we have learned to help you stay protected as well.

There are so many options out there when it comes to computer protection. Between anti-virus, malware software and spam filtering, the options are endless. But the best and first line of defense is you. One of the main ways hackers are getting our personal information is because of the user. Most of the time, it only takes a simple click on a link, or opening an attachment that is imbedded with a virus. Once the link is clicked, the hacker on the other end can see your key strokes, steal passwords and other information, and even hijack your computer. There are a number of ways to protect yourself against this type of attack.

First, before clicking on links or opening any attachments, you should ask yourself, Am I expecting this? Does it make sense? Second, you should hover over the link to see if the web address is correct. Many times it will look like you are receiving an email from a bank or news source, but if you hover over the link, you can see it


Shipping Tracking Information
****
Tracking #: 1Z9Y424V039787851X
Tracking Information: http://www.fedex.com/tracking/1Z9Y424V039787851X
Ship Date: 12/10/2013

Thank you,
Package Delivery Specialist

http://www.evilhacker.ru/exploit.php

is actually being routed someplace else. If you still aren't 100% sure, call the person sending the email and check with them to be sure that it is safe to open.

We have also implemented a new security feature when we send out any emails that contain sensitive information, such as investment or estate planning documents. We now use ShareFile® to email our clients anything that needs extra protection. This may mean one extra step for you, but in doing so we are protecting your information even further. Many people don't realize how many paths it takes for a simple email to get from Point A to Point B. Our goal is to make sure that no other eyes see anything we are sending. The first time you receive an encrypted email from us it might look a little different, and if you are unsure, call us before clicking on the link. Once you choose a onetime password for ShareFile® you will not only be able to receive encrypted emails from us, but also send them.

You can never be too safe when it comes to your personal information. Remember to:

- use complex passwords and change them often
- go to known websites directly by inputting the web address and
- think before you click!

Angela Bowman, TCV Technology Committee

The Equifax Security Breach

Chris Chapman, Trust Administrator

This summer's security breach of Equifax has given thieves access to the data of more than 143 million people. This astonishing development is a very serious issue, which has the potential to expose those people – about one-half of the U.S. adult population – to online thievery for years to come.

We want you to have helpful information on how best to protect yourself – now and for years to come. Our own systems-security provider has followed the issue closely and has provided us with advice and information. We pass their information on here so you can make informed choices about what you can do. The following is a shortened version of a more detailed article available on our website. We recommend accessing that article. To do so, go to our website, **www.tcvermont.com**, and click the Equifax link on the home page.

Equifax had not finished ramping up its ability to respond to inquiries effectively as of this writing. However, there are several other things you can do to protect yourself now and in a comprehensive way:

1. Check your credit card accounts for suspicious activity

The first, and most important thing you can do is to check the transactions on all your financial accounts and credit history. Notify your bank or credit agency immediately if you notice strange transactions.

2. Consider a Credit "Freeze"

Blocking access to your credit information with a "freeze" at each of the credit reporting companies (Equifax, Experian, and TransUnion) will prevent any party from accessing your credit data and using it, although doing so might greatly inconvenience you and cost you some money.

About Fraud Alerts in lieu of freezes – If you decide against a credit freeze, you may wish to place a "fraud alert" on your files at each company instead. However, an Initial Fraud Alert lasts only 90 days and costs money going forward from there.

3. File your income tax returns promptly, and do not open e-mails purporting to be from the IRS

Your exposure to online theft may not be limited to credit card fraud. Thieves may use stolen information to create fraudulent bank accounts, and they may also use it to file fraudulent tax returns, which has already been a growing problem. A freeze on your accounts at the credit reporting companies does not protect you from fraud perpetrated through the IRS. Respond only to letters sent to you by the IRS. Note that the IRS will never communicate with you via email.

4. Improve your login security

With all the information that is now available to thieves, they may try to combine it with attacks on other online accounts and services. It's always a good idea to make sure you have strong, unique passwords for each account you use.

5. Beware of scams

Criminals are aware that people will be feeling especially anxious about their security and privacy as a result of this incident. This could lead to other scams and has already inspired at least one phishing site passing itself off as an Equifax resource.

Going forward, our system security provider advises keeping an eye on the news and be as careful with your personal information as you are with your possessions.