Trust Company *of* Vermont Quarterly Update

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Brattleboro ■ Burlington ■ Rutland ■ Manchester ■ Keene, NH
Employee-owned & Vermont-based tcvermont.com

Chris Cassidy
CEO

AS A PORTFOLIO MANAGER, I get a lot of calls and emails when financial markets are doing poorly. Market performance in 2008, 2020, 2022, and most recently in April of this year, led to a lot of client conversations. I'm generally asked some version of the following question: "What changes should I make to my investment portfolio in these uncertain times?"

The answer I have responded with in all these cases is, "Probably none." This answer is often not well received. When markets are plummeting and the world seems chaotic, it's human nature to want to seek shelter and safety. We are programmed to avoid discomfort.

Successful investing is a lot like other aspects of life. You need to endure short-term discomfort and temporary pain to achieve a desired outcome. You endure the pain of reading books, writing term papers and taking final exams because it is worth getting the degree and the opportunities it affords. You endure the short-term pain of eating better because it is worth the health and longevity benefits that it can provide.

I have a three-year-old daughter. My main goal in life is to be there for her important milestones, be it graduations, a wedding, etc. To try and increase my chances of achieving this goal, I get up every morning around 5am and go for a long run. It's painful and the older I get the more painful it is. Some mornings I'm sore. Some mornings I'm sleep-deprived (a three-year-old doesn't always sleep through the night!). However, regardless of how I'm feeling I go for the run because I believe the short-term pain and discomfort will pay off handsomely in the future.

In times of uncertainty and market volatility, it feels much better to hold cash than to be invested in equities. It's painful to see the value of our accounts drop five, ten or even twenty percent in a short period of time. It makes us uncomfortable, even angry, to lose money.

Historically, there has been a big cost to avoiding short-term pain and discomfort. Over the past one hundred years, cash has returned around 3% annually. Over that same period, equities have returned more than 9% annually. One million dollars invested at 3% grows to $1.75 million after twenty years. One million dollars invested at 9% grows to $5.14 million after twenty years. That's a huge reward for enduring some pain and discomfort.

Although I preach to clients the importance of staying invested in turbulent times, and not making big changes to their portfolios, there are ways to take advantage of volatility. Jeanne Blackmore has outlined a number of these in her article *Planning Through Uncertainty and Volatility.* I would suggest referring to these strategies any time financial markets are dropping and chaos seems to be commonplace. You may find a great way of taking action without having to change your investment portfolio. ■

Lisa Counsell

Planning for memory loss

THE STATISTICS ARE SOBERING. Studies show that as many as two out of three Americans experience some level of cognitive impairment, on average, by age 70. The CDC reports 10% of the U.S. population aged 65 and older has dementia, and nearly 7 million Americans are living with Alzheimer's disease.

Age-related cognitive decline is described as a gradual loss of ability characterized by subtle changes in memory, attention, processing, and problem-solving skills. While age-related cognitive decline is common and does not typically disrupt daily life, dementia is the loss of functioning that interferes with daily life and activities. Alzheimer's disease, the most common cause of dementia, is a progressively worsening neurodegenerative disease that destroys memory and thinking skills.

Estate and financial planning serve many purposes, one of which is to build a support system that will carry you through both the expected and unexpected trials of life, including memory loss. The good news is that the work you already have done or intend to do to establish an estate and financial plan will function as a safety net should you be faced with memory loss. To your planning, you can add a few additional considerations to assure the best possible transition and quality of life possible in the event of memory loss.

Organize

The first step is to organize information. It can be helpful to create a file or binder with the following information kept updated:

- Inventory of assets
- Sources of income, including contact information (pension, annuity, Social Security, etc.)
- Recurring expenses, including contact information for payments
- Documents related to outstanding debts, including contact information for the lender (mortgage, credit cards, college loans, etc.)
  - Professional and personal service contacts
  - Attorney, accountant, financial manager, trustee, primary care provider, hospital of choice
- Property maintenance provider, house cleaner, emergency technicians (plumber, electrician)
- Location of important documents

While it is also helpful to keep a list of specific account information and passwords, it is critical that such information be stored securely. There are many options for secure electronic storage and you are encouraged to do careful research before choosing a provider. You may elect to keep account information and passwords in a home safe. Whatever you choose, it is important to identify a trusted agent (spouse, attorney-in-fact, trustee) who knows where you keep your file or binder and how to access the necessary account information and passwords.

Identify Your Care Team

If you are not able to act for yourself, whom will you trust to carry out your wishes and act in your best interests? There are several important roles to fill:

- Your Agent under a General Durable Power of Attorney will be granted extensive power to act as you would in any matter related to your personal finances. Further, your Agent may be your nominee as Guardian should one be necessary.
- Your Successor Trustee will have the power to manage any and all assets owned in Trust.
- Your Healthcare Agent, under a Healthcare Power of Attorney or Advance Directive, will make decisions about your medical care when you cannot.

As you know, Trust Company of Vermont can accept an appointment as Successor Trustee. We can also, in certain circumstances, accept an appointment as Agent under Limited Power of Attorney when there is no other qualified family member or close friend who can fill that role.

Make Sure to Lean on your Team

Begin to involve your care team now in your life and decision-making. Familiarity with your affairs will make it easier for them to fulfill their roles if needed. Just as important is the assistance they can offer you before the time, if it arrives, when you are not able to act for yourself. Close connections with others and timely help and advice can keep you independent and safe for longer. For instance, bad actors know that ordinary age-related cognitive decline may make seniors more vulnerable to internet, mail, and phone scams, and so seniors are specially targeted for these fraudulent schemes. Take some extra time and lean on your team to ensure you're not urged into falling for one.

Plan for the Cost

Common costs related to memory care are treatment, equipment, home modifications, safety services, prescriptions, adult day care, in-home care, and full-time residential care. Familiarize yourself with the coverage offered by your Medicare plan and any long-term care insurance policies you may own.

Full-time residential care can cost $120,000 a year or more. 24-hour in-home care can exceed $300,000 annually. Financial planning is a good way to consider the "what-ifs" of long-term care. We would be happy to work with you to create and consider scenarios in eMoney, our robust financial planning software.

Think About Where You Will be Most Comfortable

When the time comes, you may not be able to be involved in deciding where you will receive care. Regardless of whether you think you will need the assistance, take some time to research in-home care providers as well as full-time residential care facilities. There may be waiting lists to consider, and some residential facilities offer a tiered approach to care that begins with independent living. You may wish to plan ahead for downsizing and simplifying your life at some point, regardless of health.

Ultimately, you will feel better knowing that you have personally considered your options and prioritized your choices. Communicate your wishes and your research to your support network whether it be spouse, family, close friends, professionals, or any combination thereof. These are difficult and emotional conversations, but you will be giving your loved ones a gift in knowing your wishes so that, when the time comes, they can focus their attention on being with you.

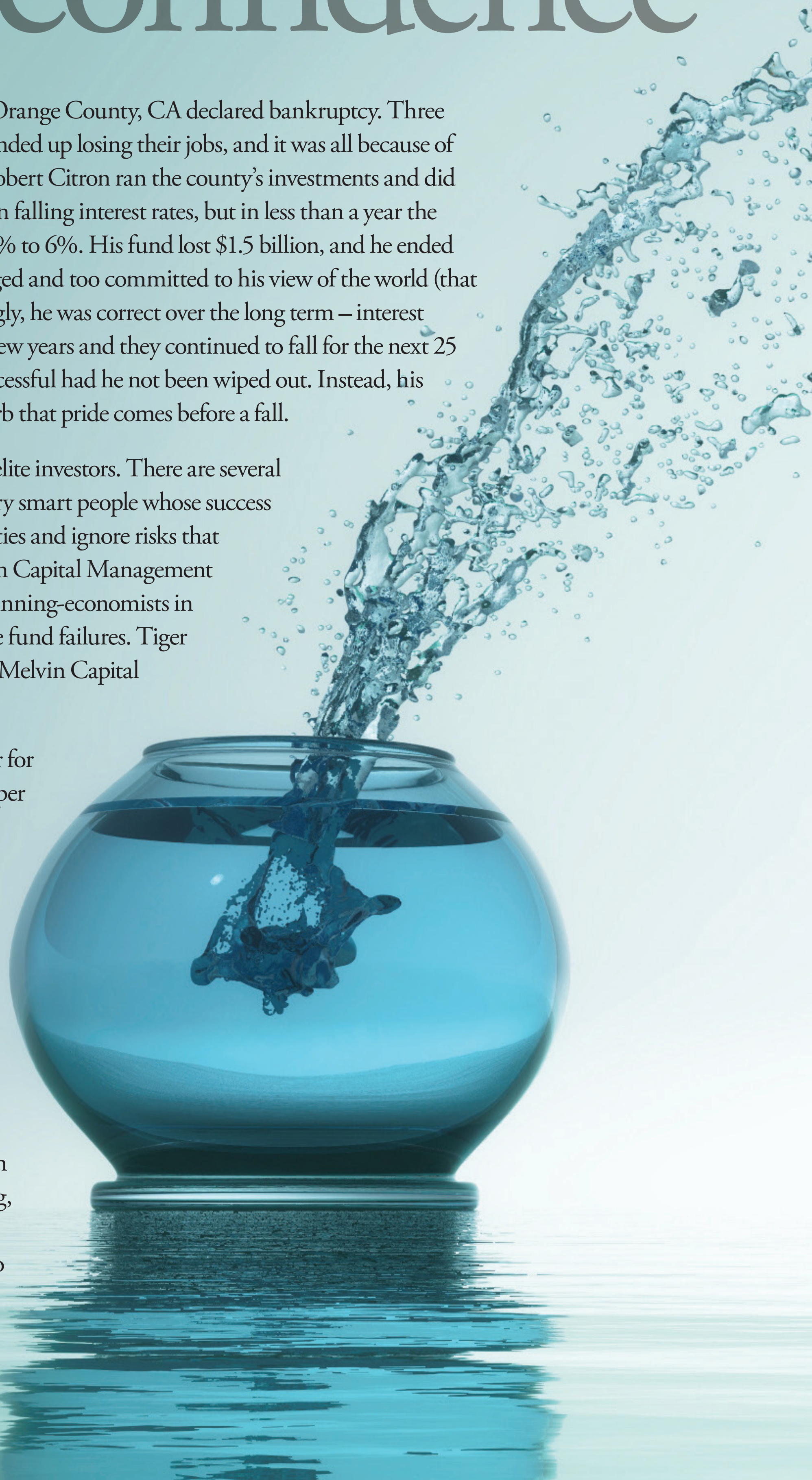
Finally, take some time to research and understand the resources available in your community for support. For Vermonters, the Vermont Council on Aging can be a great place to start: **cvcoa.org; svoca.org; nekcouncil.org.** Senior Solutions is another very helpful Vermont organization, with a focus on southern Vermont: **seniorsolutionsvt.org.** More generally, the Alzheimer's Association offers a wealth of information and resources: **alz.org.**

No time is as good as the present to begin planning or to revisit a current plan in the context of potential memory loss. Remember that a well-crafted estate plan works for you during life, not just after death. Never hesitate to reach out to your TCV team. We have a wealth of experience working with clients at all stages of life and health. We are honored to be part of your team and can offer support to you and to your family in talking through your concerns, considering a plan, and putting a plan in motion when the time comes. ■

Overconfidence

JUST OVER 30 YEARS AGO, Orange County, CA declared bankruptcy. Three thousand government employees ended up losing their jobs, and it was all because of one individual's overconfidence. Robert Citron ran the county's investments and did very well in the early 90s, betting on falling interest rates, but in less than a year the Federal Reserve raised rates from 3% to 6%. His fund lost $1.5 billion, and he ended up going to jail. He was overleveraged and too committed to his view of the world (that interest rates would fall). Interestingly, he was correct over the long term – interest rates fell back to 3% over the next few years and they continued to fall for the next 25 years. He could have been very successful had he not been wiped out. Instead, his story is a sad reminder of the proverb that pride comes before a fall.

Robert Citron is not alone among elite investors. There are several examples of hedge funds run by very smart people whose success led them to overestimate their abilities and ignore risks that eventually busted them. Long-Term Capital Management (LTCM), with two Nobel-Prize-winning-economists in charge, was one of the largest hedge fund failures. Tiger Management, Atticus Capital and Melvin Capital Management are a few others.



Overconfidence is not just a danger for the gifted and talented. It can hamper the rest of us too. It's documented in areas as diverse as gambling, driving and IQ. A Wall Street Journal article after this past Superbowl discussed the optimism of sports bettors in beating the odds that are clearly disclosed (and not in their favor). The average sportsbook customer loses 7.5 cents on every dollar wagered. With the proliferation of online gambling, I've had to turn down young folks wanting to show me a "sure" way to make quick money.

People think they can beat the odds not only in the casino, but also on the roads. According to a survey by AAA, 73% of Americans believe they are better than the average driver. Several studies also show that people think they are smarter than they actually are, and if you're male, be extra careful. An article in Psychology Today pointed out that overconfidence can be more common in men, referencing a study where 72% of the men vs 60% of the women surveyed believed they were more intelligent than the average person.

People also think they are better than the average investor. One survey found 21% of Americans believe they are very likely to become millionaires in the next 10 years. Another survey of 300 mutual fund managers showed 74% believed they were above average with almost all the remaining 26% believing they were average.

Investing overconfidence is boosted by several types of behavioral biases. Hindsight bias, confirmation bias, and illusion of control are all biases that can inflate confidence.

1. Hindsight bias is the common tendency for people to believe past events were more predictable than they actually were. After the stock market crash in 2008, not a few investors said they knew it would happen (housing prices couldn't go up forever, there was too much leverage, etc). But these same people were fully invested in stocks, indicating they weren't so sure before the crash as they later believed.

2. Confirmation bias is the tendency to look for information to support our existing view. Republicans watching Fox News and Democrats watching CNN is an easy example. I remember looking at both sites after Gross Domestic Product numbers were released. CNN's headline was "US Economy is slowing"; Fox's headline was "US fights off manufacturing woes, posts win on GDP." Each site spun the same number to confirm the views of its audience.

3. The illusion of control is a superstitious belief that we have greater control over events than we actually do. It explains my son's shaking the dice harder and longer for the number he wants in our Risk board game, or me leaning this way and that to keep my bowling ball out of the gutter as it rolls down the lane. It's the reason that my friend's lucky Celtics hat must be worn anytime he's watching a game.

There's no shortage of predictions about what's going to happen in the next few years and many folks seem quite confident in their predictions. As I've pointed out, our brains are wired for that confidence. We need to recognize this and allow for the fact that things could work out differently than we expect.

Paul Copeland

I believe Federal Reserve chairman Jerome Powell is an example to aspire to in this regard. His response earlier this year to a question on how the President's policies will affect the economy was, "The range of possibilities is very, very long. I don't want to speculate, as tempting as it is, because we really don't know."

Very well educated, highly accomplished, with years of experience, access to all the data, and power to influence interest rates – you'd think if someone could tell us what's going to happen it would be Chairman Powell. But he's smart enough to realize that the economy is both incredibly complex and shaped by unpredictable events.

It's good to make predictions but hedge your bets, like Powell, rather than going all in like Citron. Keep in mind that putting all your eggs in one basket is risky, even if that basket is cash. Think about what can happen if inflation, interest rates, foreign relations, regulations, currency exchanges and stock markets don't all go just as you expect.

At Trust Company of Vermont, most client objectives require diversification among stocks of quality wide-moat companies in different industries, as well as bonds with various maturities and cash. We're confident that this time-tested approach allows flexibility in getting through the future unknowns. ■

Jack Davidson
Founder & Retired CEO

Nooks and crannies and estate planning

WHEN I MOVED FROM NEW YORK CITY to Vermont in 1970, the moving van housed a few albums and books. Many more books and albums migrated to where I live now as my ancestors migrated to—we hope—heaven. During my time in Vermont, I have lived in three houses that were built before the twentieth century and each house had bookcases and many of those books are now housed in my third house.

The end result is that I have many stuffed bookcases and many family pictures as well. So, what happens when—if—I end up in a nursing home? My next generation is not inclined to accept the migration of my books, plus many old movies that are housed on video tapes and DVD's, not to mention most of the photo albums.

My Nook and Cranny

So, I have a solution, but when planning one's estate we need to focus on probabilities. WHAT happens if I lose my iPad?

I started to store my albums in "the cloud" (defined as "a network of remote servers accessed over the internet"). I simply go to my album on my iPad and look back in time.

My books are now easily available online as well. I can read them or listen to them from my iPad. And my old movies are available online too.

I lived in this house for 32 years and built all the book cases, including the green ones and installed all of the stoves. My grave stone is in the back of this house. I hope it won't be for awhile that you will come to visit.

My Den

I now have a device that holds my iPad. In this picture, I have flipped over the iPad holder so you can see what my iPad would look like. When I sit in this chair, I can simply flip over the iPad and see or hear whatever I want. I can also project to a large TV screen nearby.

I have three concerns:

1. What happens if I lose or drop my iPad?
2. Do I trust cloud storage?
3. How much of my executor's time and my estate's money will it cost when the books need to travel elsewhere?

Planning through uncertainty and volatility

A consequence of the policy changes being implemented by the current federal administration is uncertainty and volatility in the economy and the stock market. It may seem impossible to do mindful estate or retirement planning in this unsettled environment. However, every environment presents planning considerations and opportunities, and this environment is no different. Indeed, it is possible that the planning strategies we routinely recommend may in this environment be more effective in the long term. To help reframe your thinking, let us revisit those planning strategies.

Roth Conversion and Roth Retirement Account Planning

Roth conversions of tax-deferred retirement accounts continue to make sense in most instances because we remain in a historically low income-tax rate environment. Accordingly, for clients who have assets in a regular IRA, 401(k), 403(b) or other type of tax-deferred retirement account, it remains a powerful long term planning tool to convert that tax-deferred account (either partially or fully) to a tax-free Roth retirement account by prepaying the income tax. For clients with tax-deferred retirement accounts at Trust Company of Vermont, we often spread Roth conversions over the course of a calendar year and, when possible, take advantage of dips in the market. A Roth conversion made at lower stock prices results in lower income taxes, thus maximizing the long-term benefit of the conversion.

When considering Roth planning, don't forget to grab low hanging fruit. For example, if your child or grandchild works, consider annually funding a Roth IRA on his or her behalf. The benefit of tax-free growth of a Roth account over that child or grandchild's lifetime is tremendous. It is often possible to fund a Roth for a child or grandchild even if he or she also contributes to a retirement account at work. Similarly, consider funding other tax-free accounts for yourself or family members, such as an HSA (health savings account) or a 529 plan account. An HSA is a tax-efficient tool to save for your end-of-life care in lieu of paying for long-term care insurance. A 529 plan account that is not exhausted by a child's education expenses can continue to grow tax-free for the benefit of grandchildren and even great-grandchildren.

Gift Planning

With federal estate tax and generation skipping transfer tax exemptions at almost $14 million per person, we also remain in a historically low estate tax environment. As such, gifting to SLATs (spousal limited access trusts) and other types of irrevocable trusts remains a valuable planning tool for protecting assets from estate tax and preserving wealth over multiple generations. As with Roth planning, gifting financial (and other) assets at low values minimizes estate tax exemption utilization (you can remove more assets from your estate when the value is lower) and maximizes the sheltering of post-gift appreciation (post-gift appreciation is removed from your estate and thus protected from estate taxes). In most instances, gift planning can be structured to preserve your ability to access the gifted assets should the need arise. In addition, for those who reside in a state with an estate tax, such as Vermont, New York or Massachusetts, gift planning can often eliminate state estate tax exposure.

Jeanne Blackmore

Cash Flow Planning

Retirement planning requires you to determine whether and when you will have adequate financial assets to support your lifestyle once you stop working. Once retired, you should periodically confirm that you have sufficient cash/cash equivalents set aside to cover anticipated spending needs over an extended period of time. This planning protects from the need to sell equities at an inopportune time to raise cash to cover spending needs. During periods of market volatility, it is important to pay special attention to these retirement planning issues, especially if you are considering Roth conversions and/or gift planning.

Loss Harvesting and Rebalancing Portfolios

It is not uncommon for clients to hold assets with significant built-in gains, either outright or in an irrevocable trust. In this circumstance, it can be difficult to maintain a balanced portfolio because capital gains taxes due on the sale of appreciated stocks can be significant, even at currently low capital gains tax rates. During periods of market volatility, however, it is possible to take advantage of dips in the market to rebalance portfolios when stocks temporarily have smaller built-in gains or even built-in losses.

As noted above, estate and retirement planning remains as valuable as ever in the current environment, and we encourage you not to forgo planning opportunities that would benefit you and/or your heirs. Please be in touch if you would like to discuss any or all of the above planning strategies in view of your long term goals and objectives. ■

Best cyber safety practices

FROM OUR TEAM

Did you know?

Over the years we have written various articles about cybersecurity and best practices when it comes keeping your information safe. You have heard the simple things many times... Don't click on links or open attachments on emails that you are not expecting, don't provide anyone with your personal information and be sure to shred anything with your information on it.

These items are more important than ever to remember, especially as technology changes. Although email continues to be a way criminals try to gain access to your information, text messages are being used more and more. Take one extra minute to think before you click or tap to help protect yourself. As a company, we continue to train our employee-owners and have learned various tips that we would like to share. Below are a list of ways our employees protect themselves every day and especially while traveling.

Using Apple pay is more secure than using your credit or debit card because your account number does not actually get shared with the merchant.

Pay

Kathy Patenaude: My favorite tip I have learned is to carefully check the email address when you receive an email you are not expecting – sometimes it is obvious that it is a scam, but sometimes not! It is better to delete than to click if you are not sure!

Katie Gardner: I always use a credit card with a modest credit limit when traveling abroad and never use my bank/debit card–I don't even carry it while abroad. Reasons why credit cards are better for travel:

- They have enhanced security/fraud protection.
- They are more widely accepted outside the US.
- They have much better exchange rates than banks.
- You get cash back/rewards/points, etc., for things you're going to need anyway, such as hotels, cars, etc., internationally.

Andrea Reynolds:

- If I get a phone call I am not expecting, I ask for a call-back number. (Usually they hang up.)
- When traveling, I try to use cash whenever possible.
- I check credit card activity monthly and reconcile my bank accounts.
- If I receive an email about any of my accounts, I call back using numbers I have, or log in to the account and look to see what is happening.
- I have a subscription to Experian. They have a feature that allows me to lock my credit data, and they send me alerts when an attempt is made to access it.

Angela Bowman

Andrew Cross:

- Don't access sensitive accounts while using public wifi. If you need to be connected to wifi, use your phone's hotspot.
- Don't use public charging stations.
- Turn off auto-connect features on your phone.
- Monitor your accounts closely once you return from traveling.

Kate Murphy: Definitely be careful where you plug in, especially public/shared USB ports!

I've noticed an uptick in spam texts. Some are quite convincing, saying you'll face penalties if you don't click the link to pay a missed toll, etc. I've also gotten job recruitment texts: "We have a great job for you, click here." Another standard is the "there was an issue with your delivery"text.

Sarah Ennis: When traveling, I carry multiple cards. Even with travel alerts in place, your bank or credit card company might still flag a transaction as suspicious and freeze your card. Having a backup ensures you can continue to access your funds if this happens.

Jenny Rowe: If you need to provide sensitive personal information to a trusted contact, think about how you are sending it! Don't ever send a Social Security number or an account number in an email, either in the body of the email or as an attachment. Use a secure upload link instead, such as the one included in every email you'll receive from your contacts at Trust Company of Vermont, or pick up the phone in a private location so you can share the information verbally without being overheard.

As it is in so many areas of life, artificial intelligence is already creating changes in fraud techniques. Don't be overconfident! Assume scammers can do more than you think they can, including replicating the voices and writing styles of people you know. Pay attention, and if anything seems unusual, confirm using another known contact method. ■

DID YOU KNOW that Individual Retirement Account (IRA) owners and Inherited IRA beneficiaries over age 70 ½ are eligible to make donations to qualifying charitable organizations of their choice, as well as potentially satisfy their applicable Required Minimum Distribution (RMD) for the current tax year? Well, according to the Internal Revenue Service (IRS), they can!

IRA QCDs

A way to gift your favorite charity

Here is an example of how this works: Jane turns 75 years old in 2025. She has a Traditional IRA account with a large balance and, just as she has in prior years, will be required to take $75,000 out of this IRA before 12/31/25. This is Jane's 2025 Required Minimum Distribution (RMD). Jane does not want or need $75,000 in income and she really does not want to have to pay the taxes on such a large distribution amount. Jane absolutely loves her local community theater group and wants to donate funds towards their next production. She contacts her TCV Administrator to make a direct gift to the theater. The Admin has a check for $75,000 made payable in the name of the theater group, which is a qualified charitable 501(c)(3) organization.

Jane mails the check to the theater group business manager, who receives and deposits the check. Jane has not only accomplished a Qualified Charitable Distribution (QCD) from her IRA, but she has also satisfied her RMD for the year and she will have little to no income tax consequences. Both Jane and the theater group benefit greatly from this type of transaction.

If you are interested in making a QCD from your IRA, here is the "rule book" to follow:

- Eligibility: To make a QCD, you must be 70 1/2 years old or older.
- IRA Types: QCDs can be made from Traditional, Rollover or Inherited IRAs.
- Distribution Amount: An individual may donate up to $108,000 in 2025, from your IRA to a qualified charity.
- Tax Implications: The amount of the QCD is excluded from your taxable income.
- Required Minimum Distributions (RMDs): In 2025, for those age 73 or older, QCDs can count towards your Required Minimum Distribution (RMD) for the year.
- How to Make a QCD: Contact your IRA financial advisor (IRA Custodian or Trustee) and request a QCD, ensuring the funds are transferred directly from your IRA to the charity.
- Charity Requirements: The charity must be a 501(c)(3) organization.
- No Deduction Required: You do not need to itemize deductions to take advantage of a QCD.
- Reporting: your IRA Custodian or Trustee will report the QCD on Form 1099-R.

If you are interested in making this type of gift or other available donation options, please contact your Trust Administrator for further information. ■

Kasey Franzoni
CISP