



Quarterly Update April 2005

Brattleboro ♦ Burlington ♦ Rutland ♦ St. Albans ♦ Stowe

Quarterly Financial Summary & Outlook

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The consumer continues to carry the burden of keeping this economic expansion going. The public's willingness to spend is evidenced by a moderate increase in retail spending in February and by the continued strength in housing starts and building permits. Perhaps the strong job growth and the high current level of tax refunds have kept the consumer going. Counter to this data, consumer sentiment slipped in February as higher prices at the pump may be beginning to impact consumer attitudes. At some point, the price of oil has to affect consumer spending. On a temporary basis, SUV owners can stand \$2.50 for gasoline, and will not curb their normal spending habits. But on a sustained basis, the consumer driving that gas-guzzler will find gasoline prices beginning to bite.

In their most recent announcement, Fed policy makers signaled that their concerns lie on the side of strong growth and higher inflation. It had appeared to us that perhaps the Fed would not have to boost rates much longer in order to slow economic growth. We felt that the rising energy prices would work to accomplish this feat for them. Now, given their statement, we would not be surprised to see the Fed raise rates more aggressively in May should the data warrant it. Oil prices have moved up steadily, hitting a 22-year high, while the broad commodity index set a 24-year high. A weaker dollar has raised the cost of imports; and with growing production and diminishing capacity,



job growth has been strong, raising the prospect that wages might accelerate. Vigilance against inflation is the message that the Fed is sending, and they will do whatever is necessary to make sure that it does not get away from them.

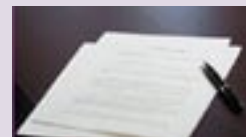
We expect profit growth for the S&P 500 to continue in 2005, but at a slower rate than 2004. Currently, we expect earnings to grow close to 10% in 2005, a far cry from the 20% growth that we had last year. Perhaps the biggest reason for the deceleration in earnings growth this year comes from the fact that yearly comparisons continue to get more difficult. In other words, two years of above-average earnings growth is a tough act to follow. Despite this deceleration, we continue to favor stocks over bonds and cash, but our stance on stocks has become more defensive in the face of higher interest rates. We favor those stocks exhibiting value characteristics and believe that the current environment of rising interest rates, a weak U.S. dollar and a strong economy, should be favorable for these types of stocks. We are overweight in the Energy and Materials sectors, as they both continue to benefit from oil and commodity price uptrends that reflect the longstanding theme of emerging market-driven commodity demand.

With the US economy gaining its footing, a weak US dollar, and higher inflation, a cautious stance on long bonds appears warranted. Over

the last month, we have witnessed a 23 basis point increase in the yield on the long bond, and a 35 basis point increase in the 10 year Treasury. Over the intermediate to longer term, the yields on bonds are likely to continue heading higher. We continue to recommend that clients "don't fight the Fed", and look to short maturity investments for any new bond purchases.

There are clear risks that could throw off our expectations for the economy and the markets. The threat of terrorist attacks has not diminished. The situation in Iraq remains grim and the increased government spending on this and the war on terrorism has increased worries about the growing U.S. budget deficit. Demand from China, which has been a key driver of earnings growth for many companies, could slow faster than expected. We currently maintain a cautious outlook toward the U.S. economy.

Advance Directives.....



are a means of designating who will be authorized

to speak for you when you are no longer able to make or participate in your own health care decisions.

For more information, see the link to the Vermont Ethics Network found in the health care forum on our web page, www.tcvermont.com, or contact them at 64 Main Street, Room 25, Montpelier, VT 05602, Tel: (802) 828-2909 www.vtethicsnetwork.org.

Colleague Profile

Angie Freeman

Those of us who spend any time in the lobby of our Brattleboro office, where our operations department is located, cannot help but feel that we are in the middle of a very well written sitcom. The one-liners fly fast and furious. We even have some regulars who seem to stop in just to keep the repartee going. In most sitcoms, there is a central character, and we have ours. So this profile could be subtitled "Everybody Loves Angie".

Andrea Freeman, known to her family as Annie, and to her colleagues as Angie, is the kid of the company. As the youngest of the Founders, she is the head of our operations department. This is her story.



Sometimes a simple talent determines your destiny. Angie entered high school eager to participate in the process of developing her skills in primarily one area, socialization. An extrovert, she found no need to focus on a career when "being in the moment" was more than satisfactory. She had hints, though, that she had a talent, other than a natural ease with people, that probably needed nurturing. She liked accounting.

So, when it came time for college, she selected Champlain College in Burlington to study business and accounting.



After a year, she returned home. Born and raised in Brattleboro with deep family roots, she made the decision to stay, get married to Jim Freeman, her boyfriend from high school, and find a job locally. In 1984, she applied for a job at the Vermont National Bank and was hired to work in the trust operations department. Although she had little formal training in accounting, which should have been a prerequisite for the job, she brought with her a simple talent that she excelled at: she liked to balance. If the inbox were six inches high in the morning, she wanted the outbox to be six inches high at the end of the day. If the ledgers were out of balance, she didn't leave until they were in balance. It was this simple talent that developed into a skill that developed into specialized knowledge that few possess, that led her to becoming one of the founders of our company.

In January of 1986, she left the Bank and resettled in Texas after her husband entered the service. When he was sent to Panama, military rules prevented her

from following him.

Angie can be very tenacious. This was most evident when she took on the U.S. Military. She returned to Brattleboro and started a letter writing campaign to get him stationed in the States. Only intending to get him relocated nearby, she was surprised when his commanding officer offered Jim early release, citing letters from a Vermont Senator and Representative. Upon his return, she resumed work at the Trust Department and eventually became head of trust operations at the age of 26 in 1991.



In 1996, before mergers changed the landscape, Angie was managing a department with \$800 million with half the staff found in departments of similar size.

Angie was balancing at an even higher level. With three young children, she was trying to balance the increasing demands of work with the increase in responsibilities at home. Were it not for a supportive husband, and the extended family, this might have become an insurmountable task.

In 1999, Angie started the trust operations for our Trust Company. She is a specialist in multitasking. So she continues to do her magic. She balances home and work, books and ledgers, and more recently, her kids. And she balances us. Her humor radiates from the lobby to the branches, to all of us who might take ourselves a little too seriously.
