



Quarterly Update

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Brattleboro ♦ Burlington ♦ Rutland ♦ St. Albans ♦ 877-753-4401

Financial Markets Commentary

The Year Ahead

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Much of the economic data coming out confirms an accelerating economy heading into 2004, boosted by stimulative fiscal and monetary policy. The 8.2% third-quarter growth spurt was the jump-start, awakening the U.S. economic engine from 18 months in the cold. While we don't expect the 8.2% growth to be repeated, we feel that another couple of quarters in the 4% to 5% range are well within reach. Especially when considering that tax refund checks reflecting the tax cut should create another push of consumer spending.



Later in the year this stimulus will wear off, and economic growth should slow to a more sustainable rate in the 3% to 3.5% range. Despite this growth, we feel that the risk of a quick rise in short-term rates is minimal. There is still very little inflation to speak of, and employment growth is anemic at best. Guessing when the Fed will increase rates is tricky. With 2004 being an election year, it is quite possible that the Fed will keep rates where they are until year-end.

As always, there is plenty to worry about: terrorism, inflation risk, a run on the U.S. dollar, the corporate earnings outlook, and a wary U.S. consumer. There are also concerns about the negative, long-term effects the widening federal budget deficit will have on both the U.S. economy and financial markets. We will have to wait to see if an expanding economy can produce a big enough increase in government revenue to reduce the deficit.

We are likely to see interest rates continue to rise as they have over the last several months. Reasons for this exist on both the demand and supply side of the equation. On the supply side, stronger growth increases corporate demand for funds, and with a mounting federal deficit, the government will require about \$440 billion in new funds this year.

Demand is likely to decrease as a falling dollar makes U.S. securities less attractive to foreign buyers. Any rise in interest rates is likely to be moderate, with mortgage demand falling and low inflation.

In this present investing environment of low inflation and historically low interest rates, the promise of growth in the future is awarded a high present value. This helps to explain why many of 2003's winners on Wall Street were smaller companies without current earnings, but offering a promise of tremendous earnings growth potential for the future. Their valuations rose substantially, in comparison to the low duration, "pay me now" investment alternatives offering unattractive returns.


But with the ensuing increase in rates, valuations should decline and those investments promising big returns sometime in the future will lose some of their luster. Low duration investments, such as companies with strong near-term earnings and high dividends to offset declining valuations, become much more attractive.

As 2003 came to a close, it appeared that the market, as represented by the S&P 500 stock index, was on track to post a 20+% rise in price and a near 20% increase in earnings. We feel that this earnings advance will continue into 2004, projecting an earnings increase near 14%.

A factor supporting our view of continued corporate profitability is the falling U.S. dollar, which acts to boost domestic manufacturing and improve pricing for U.S. corporations. If only due to the relative unattractiveness of bonds and cash, we expect favorable returns from stocks over the next 12 months.

Happy New Year!

We begin the new year with a new look. Our statement format has changed. We have added:

- ◆ a column showing the change in market value since your last statement;
- ◆ a pie chart showing the asset allocation of your account, and 
- ◆ we now show transactions chronologically, rather than by category.

We hope you will like the change. If not, just contact us and we will restore your old style statement.

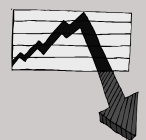
www.tcvermont.com

Please take note..... that the federal estate tax exemption is now \$1,500,000.



This means that married couples can shelter up to \$3,000,000 from estate taxes using a traditional Bypass Trust.

This exemption will continue to rise, in stages, until the year 2011, when it is scheduled to go back to \$1,000,000.



Colleague Profile

Rich Pearce

Rich Pearce's passion is biking and competitive bicycle racing. Growing up in Ohio, he rose to the challenges of the sport on American Youth Hostel bicycle trips. He raced competitively in high school and twice won the Ohio road race.



Last year, Rich and members of his bike club went to France to race in one of the difficult mountain stages of the Tour de France. Along with 7,000 other riders, he endured 86 miles of steep mountain terrain two days before the official stage began. We asked Rich to tell us about the Tour and the sport.



Rich (center) at Cormet du Roselend, France, 2002

The Tour consists of 20 stages designed to test riders on various terrains. The success of premier riders, such as Lance Armstrong, is significantly influenced by the strength of their

team, consisting of 8 members selected based on their diverse strengths. Some team members are better hill climbers, others are better on the flats, but all must be committed to sharing the lead of the pack to allow the other members of the team to draft behind them. If a rider stays within close proximity to the rider in front of him, he is 25 percent more efficient.

Rich came of age in the early seventies. His goal was to become a teacher. He attended Colorado State College and upon graduation discovered he and many others faced the same problem: too many teachers and too few jobs. Rich then found employment as a ski rep in Denver thanks to the connections formed when he skied competitively. That's where he met his future wife, Debba.

In order to win the Tour, you need to have a disciplined strategy. The winner of the Tour has the overall best time but theoretically may not have won very many stages. A Yellow Jersey is given to the current overall leader at the end of each leg of the race. Pursuit of the Yellow Jersey early in the Tour may distract a rider from the ultimate goal of winning the Tour.

After marrying, Rich and Debba, who grew up in Marblehead, Massachusetts, headed home to Boston. Rich resumed competitive sailing and found a job at Paine Webber. He later joined Kidder Peabody as an institutional broker and, after two years, found his niche at Hambrecht and Quist, a small investment bank - or so he thought.

It was the late 80's. Pursuit of money seemed to be the driving force in the investment world, and keeping up with the Joneses became more like keeping up with the Trumps. Work became more stressful as profit margins shrank, and there was no time for a balanced life. Rich and Debba concluded their lifestyle was not healthy for the family. So they got out a map and started looking for places where they felt they could achieve some balance in their lives and enjoy a healthy lifestyle: Portland, Maine, a few towns in the Midwest, and Burlington, Vermont.

Rich found a position in the Trust Department at the former Bank of Vermont in 1989 and became a portfolio manager. He loved the environment and the work. Then in 1991, the department was sold to the Vermont National Bank. In 1999, Rich left Vermont National to co-found the Trust Company of Vermont. In helping to create this new company, he became a principal architect of the Trust Investment Committee. Rich liked the team approach and helped to instill it.

Bike racers tend to be cerebral, introspective, self-motivated and independent. They also understand and appreciate the benefits of operating in a team.

The Trust Investment Committee consists of 8 members with diverse strengths and the willingness to share the workload and the leadership. Each member has been assigned several industries to study.



L'Etape 2002, racers at the bottom of Cormet du Roselend

They collaborate on the buy list of securities. Individual creativity is encouraged, but certain disciplines need to be maintained, such as a restriction on concentrations in any one industry. The average portfolio is designed to achieve its objective over the long term. This discipline may result in periods when the portfolio might trail an indicator in a year when an industry might be favored, such as technology. But the goal is clear:

Wearing the Yellow Jersey at the end of the Tour.

Rich and Debba live in Underhill Center. Their daughter Alex is a junior at Kimball Union Academy, and Hadley is in her second year at St. Lawrence. When the clouds break, Mount Mansfield highlights the beauty of their surroundings. The mountain seems more dramatic, steep and formidable from their vantage point. Rich plans on returning to France this year to pre-race a difficult, 148-mile mountain stage.

Take heart, oh readers; our next profile will feature a golfer.