

Quarterly Update

APRIL 2003

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What Does the Future Hold ?

By the time you receive this newsletter the stock market may be higher or lower, interest rates will also have changed, and we continue to contend with a shooting war with Iraq. There are always uncertainties and unexpected events, and this is perhaps more true now than in any of our collective memories. In spite of this we make decisions, both personal and financial, that will affect our individual futures.

No one wants to see his or her assets diminish in value. For anyone invested in stocks over the past three years this has been inescapable. It is small comfort that those of us that have been invested in stocks for more than the past six years are probably still profitable. For those invested in stocks during the past ten years or more, the profits are still quite substantial.

We formed Trust Company of Vermont in September of 1999 and the stock market peaked just six months later. Many of you transferred your assets to us after the market top. Together we have not yet shared the usual benefits of rising stock prices. So what have you received as benefits from Trust Company of Vermont during this time and how will you benefit from this relationship in the future?

First of all, we try to get to know all our customers, as individuals with individual needs for income and safety, tolerance for risk, and investment objectives. We use this knowledge of you to invest your account to meet your particular needs.

Secondly, we invest only in high quality stocks as represented by companies that are leaders in their industries. This doesn't mean our selections have been immune from the bear market in stocks, but by degree your exposure has been considerably less. Part of our selection process is to buy mostly dividend paying stocks with an historic record of regular dividend increases. In

bonds we select only high quality corporate and government issues. For most of our accounts the bond portion has provided a safe harbor of high current income and rising values. Finally, we invest our accounts to realize the benefits of reasonable diversification. Diversification of individual stock holdings limits the risk of any one stock or industry group having a major negative impact on the total account. Allocation of assets between stocks and bonds, another form of diversification, also reduces the impact of a declining stock market.

We would like to believe we are at or close to the bottom of the current stock market, but that is still anyone's guess. That kind of prescience has not been given to us. However, to end on a somewhat positive note, we think it is fair to observe that the same euphoric 'nothing is wrong' feeling that most of us held at the top of the market three years ago is mirrored currently by our feeling that 'nothing is going right'. When things can't get worse, they start to get better.

~ Steve Singiser, Portfolio Manager

Do you have a capital loss carryover we should know about?

If you have sustained a capital loss on assets outside of your account relationship with us, you may be able to offset gains with it and save on income taxes.

Please let us know about any capital losses you have experienced in prior years. That kind of information can help us manage capital gains effectively for you and minimize income taxes as a result.

Simply notify your Account Manager. Please call if you have any questions.

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various investment information websites and financial calculators. Or check out our **Health Forum**, for information relating to elder care and asset preservation, advance planning issues or prescription drug costs. If you have not already tried our secure 24-hour access to your detailed account information, including transaction history and asset holdings, just contact your Administrator to obtain a password.

Financial Markets Commentary

David DeBellis, CFA, Portfolio Manager

As the first quarter of 2003 comes to a close, the U.S. is about two weeks into its military conflict with Iraq. As such, very little on the business front, whether it is earnings news or economic data, is getting much attention - even on the financial news channels.

Oil and stock prices have rallied and slumped with the latest news from the battlefield. The implicit assumption is that the U.S. will achieve a swift and relatively clean victory, oil supplies will not be disrupted and U.S. citizens will not be attacked at home or abroad. In the near-term, we have seen that any deviation from these best-case scenarios rock the market and traders are tuned in around the clock for the latest developments. After a long period of complacency leading up to the war,



trading volumes and volatility are again on the rise. Conventional wisdom suggests that the war with Iraq is standing in the way of a growing economy and a rising stock market. Pundits advise that once the uncertainty surrounding the conflict is lifted, the way will be paved for renewed corporate hiring and capital spending.

Unfortunately, "conventional wisdom" may be overly optimistic. There is no doubt that global instability and the war have cast a shadow on economic activity; however, geopolitical uncertainty is only one of the challenges facing the global economy at the moment.

Looking at the economic conditions, and refraining from the influences of media reports on the war with Iraq, our forecast for economic growth is cloudy at best. Employment has rapidly eroded, energy prices are soaring and business investment isn't likely to register any meaningful gain given the lackluster projection for corporate profits. We maintain that consumer confidence is slumping not only from fears about the war, but because of the frailty of the labor market. Employment has always been, and will always be, the single most important determinant in consumer attitudes and spending.

While the Fed is likely to keep the fed funds rate at 1.25 percent for the remainder of the year, it is also likely that yields of intermediate maturity Treasuries will begin to rise. Although Treasuries have served as an important insurance policy for investors during these uncertain times, once the direction of the Iraq conflict is known, interest rates should rise as bond market vigilantes turn their attention to the budget deficit, the weaker dollar and mounting inflation.

It is likely that the stock market will experience a sensational "relief rally" when the war with Iraq comes to its inevitable conclusion. Once the relief elation wears off, we should still be faced with a lackluster economy, reduced expectations, and a stock market that is plodding along at a high single digit rate of growth. Nevertheless, we believe that the stock market's "plodding" will offer the investor a return that exceeds inflation, and that is something Treasuries won't be able to deliver.

← Colleague Profile →

Steve Singiser has had a checkered history of toggling back and forth to Vermont. Although born on Long Island, his parents moved to Vermont when he was ten. His father, a radio commentator in the metropolitan area, embarked on a new career running a restaurant, riding stable, and a small ski area in Sudbury while Steve attended a one room school house (or so he says).

In 1949, he moved briefly to Massachusetts but came back to Vermont in 1950. When his father returned to New York City radio in 1951, Steve was sent away to private school at Exeter and then on to Brown University.

After graduation in 1958, and a brief stint in the military, he went to work in the Trust Department of Chemical Bank where he became Vice President and Senior Trust Officer of the Personal Trust Department.

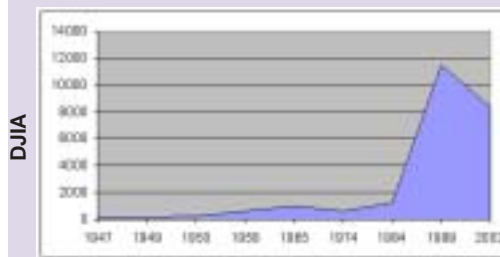
In 1965 he married Ann Fulton. They lived for the next 9 years in a New York City apartment. Steve resurfaced in Vermont in 1974 with Ann and three daughters, Debbie, Dana, and Cynthia.



He describes their decision to settle permanently in Vermont as a watershed event when the family chose a dramatically different lifestyle. He left the Big Apple to pick apples with little thought as to what else he would do to make a living when he settled in Mendon. For the next ten years he made wooden lamps, managed real estate, worked odd jobs in construction,and he picked apples. In 1984, facing college costs and a fallout in demand for his oddly shaped wooden lamps, he returned to the trust and investment world when he became a Vice President and Trust Officer for the Vermont National Bank in the Rutland Office. Steve worked for Vermont National until August of 1999, when he joined the Trust Company of Vermont as one of the co-founders.

Steve still lives in Mendon with Ann, who currently serves as the Town Clerk. Oldest daughter, Debbie, is married and expecting a daughter in May (Steve notes there are no males in the Singiser/Fulton gene pool); daughter Dana is an attorney in Washington DC and baby daughter, Cynthia, works in New York City at HBO.

Steve is the author of our article ***"What Does the Future Hold?"***. Steve never wavers in his belief that the long term investor will do well in the stock market. So we decided to chart the major events in his life to the DJIA Index. What this chart illustrates is Steve's experience of the stock market over the long term: a \$10,000.00 investment in this index when Steve began his career would be worth approximately \$143,000 at the end of 2002.



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