



Quarterly Update

JULY 2003

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

Market Commentary

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Shell-shocked by the market over the last three years? With the market returning -10%, -13% and -23% from 2000-2002, you were not alone. You were also in good company if you abandoned hope when the outlook for equities was darkest just before the war started in mid-March.

But if you had the courage to stay invested, you benefited from a powerful rally that has lifted the broad market averages more than 10% in three months. The question going forward, of course, is whether it is too late to hop on the bandwagon.

Our answer: we are optimistic that stocks can end the year in the black, but caution is warranted. The market has come a long way in a relatively short period of time. Perhaps too short a period of time.

Valuations are not as attractive as they were in the beginning of March. And unless one believes that interest rates are going meaningfully lower or earnings expectations will rise materially, the contention that the market represents good investment opportunity from current levels is a stretch. New equity purchases should be spread out to protect against sudden corrections in the market.

There are still many reasons to like stocks over the intermediate to long term. The first is historical precedence. The last time the market posted a fourth consecutive year of negative returns was 1932. Also, since the end of WWII, there has never been a market decline in the third year of a presidency. Also, the stock market is a **leading** indicator of economic growth, and we would expect to see the market recover ahead of the economy.

The jury is still out regarding the economic recovery. Growth is being constrained by the industrial sector, specifically capital spending and the outlook for employment. Nevertheless, consumers are holding their own. Record-low mortgage rates continue to fuel the refinancing boom, and consumers' pockets are flush with cash. This keeps housing prices firm and consumers confident. The bottom line is that the economic picture does not look substantially better than it did three months ago.

There are some recent trends that suggest that GDP growth may accelerate later this year or early next year. For example, consumer confidence is rising, and while job losses are still underway, the levels are beginning to diminish. Also, if the 12 rate cuts since the beginning of 2001 haven't been enough, President Bush has added more fuel to the country's economic fire with the Jobs and Growth Tax Relief Reconciliation Act of 2003. The centerpiece of this act is dividend and capital gains tax relief for investors. As of the



writing of this newsletter, the Federal Reserve cut short-term interest rates one quarter of one percent, setting the target fed funds rate at 1%. This is the lowest level since the Eisenhower administration. Policy makers also commented that they would keep interest rates low even though they expect the economy to gain steam in coming months.

With a stabilizing economy, a weaker US dollar, and some potential reflation later on, we are cautious on bonds. Although rates may stay at relatively low levels in the short term, it is our belief that over the intermediate to longer term, the yield on the long bond is likely to be heading higher. In view of this outlook, investments on shorter term debt.



New Rutland Office

As of June first, Steve Singiser and Jeanne Gilbert have moved to our new office at 86 Center Street, Rutland. Located directly across from the Rutland Free Library, the new location is easy to find and has ample free parking.

Built in 1858, the federal style red brick and marble structure originally housed the Bank of Rutland and served as the State of Vermont's Treasurer's office during the Civil War. Circa 1867, under the guidance of Rutland architect J.J.R. Randal, it was remodeled in the French Second Empire style. The building was acquired by the J.B. Reynolds family in the late 1860's and converted to residential use. The interior retains much of the layout and features of the last quarter of the nineteenth century, including ornate woodwork, high ceilings and a wonderful staircase.

Steve and Jeanne welcome you to stop by and see the new office.

Online Account Statements

Would you like timely statement access even if you're away from home? With this free service you can view or print your statement in the same format as the statement you now receive in the mail. If you sign up for this free service, you will continue to receive one hard copy statement at year-end. Just contact your Administrator.

← Colleague Profile →

When we decided to publish this newsletter, we agreed to run profiles of our staff. Fortunately, we knew that **Ellen Lowery**, our auditor, would be able to produce the newsletter on schedule in spite of the last minute chaos of trying to coordinate the volunteer “authors”.

We are a group that likes consensus. On the issue of invading staff member’s privacy, when they are due to be profiled, there was consensus that we would allow our colleagues to write about us.

I say this to remind Ellen, who will design and edit this newsletter, that she is honor bound to reproduce her profile in its entirety. We may have cause to issue this



reminder. In this context, the picture of Ellen appearing above is her submission to our request for a photo. Some of us suspect that it constitutes an “act of ambiguity”.

As most of you know, we all worked in a Bank environment before starting our Trust Company. Ellen, however, is the only one of us who did not work in the trust department. We first became familiar with Ellen when she “readily” showed up to audit us many years ago. It seems that most of the bank auditors were not eager to examine the trust department, with its unfamiliar esoteric rules governing its fiduciary behavior, and the department’s head willingness to engage in long run-on sentences when responding to inquiries.

So, who was this person who seemed to have an immediate grasp of what we did? We were suspicious. For one thing, her office didn’t look like an auditor’s office, or, for that matter a banker’s office. It looked like the den of a Victorian scholar.

What we discovered was a renaissance woman. If you look at Ellen’s professional and personal interests, they only support our discovery. An incomplete list follows: the piano, stitching petit point oriental carpets, cooking, designing websites and our print ads, discussing Nero Wolfe mysteries on line, all things Irish, and reporting audit results.

Ellen grew up on Long Island, where her father was a school district superintendent and her mother a kindergarten teacher. She came

to Vermont in the early 70’s to attend Windham College in Putney, Vermont. After graduation, she decided to settle in the area. Finding a job in southern Vermont in the recessionary period of the early 70’s, armed with a BA in Classical Music, required a certain amount of expedient occupational agility. In short, she practiced the piano during

the day and managed a fast food restaurant at night.

She continued her education by sampling a variety of career paths: nursing, computer science, psychology and personality theory. In 1982, she started with the former Vermont National Bank as a

Staff Auditor and subsequently graduated to the more complex world of examining the trust and data processing areas. That’s when we first became acquainted with Ellen.

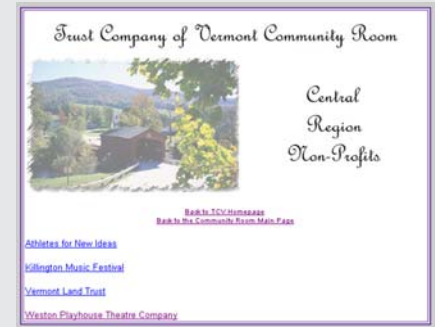
Ellen joined us in 1999 when we started the trust company. Her primary role is that of our Internal Auditor. Ellen is a certified member of the Fiduciary and Investment Risk Management Association and also holds the Certified Information Systems Auditor (CISA) designation.

Her secondary role is marketing. Our website and newsletters are examples of Ellen’s handiwork. Ellen holds an MS in Internet Strategy Management from the Persons School at Marlboro College, where she was awarded the LeBlanc Prize for Website Design & Strategy. She also provides pro bono assistance to various non profits in regard to web site issues and promotion.

As you can see, Ellen possesses an interesting combination of skills. It is very odd to find someone talented in art and numbers, and it is serendipitous that these are precisely the skills we need.

Although rare, it has happened before. One only needs to be reminded that Alan Greenspan started his career as a tenor sax player with the Henry Jerome Band. But unlike Mr. Greenspan, who was once quoted as saying “If I seem unduly clear to you, you must have misunderstood what I said.”, Ellen is a born communicator in the complex world of fiduciary administration.

Do you know.....of a non-profit that could benefit from exposure on our website?



TCV maintains links to various non-profits in the Community Room section of our website, and spotlights a different non-profit every month on our home page.

If you know of a non-profit that would like to be included, please contact Ellen at 802 254-9400, Ext. 241, or by e-mail at ellen@tcvermont.com



Annuities?

The three warning signs of when to call

Some annuities can provide an attractive fixed rate yield and tax deferral advantages. Many annuities being offered today, however, would not be purchased - if truly understood by the buyer.

How do you know whether an annuity is appropriate for you? There are at least three warning signs that a broker may be too eager to sell and neglect to give you the complete picture.

- ◆ **If the broker says there are no commissions, that's ingenuous. There are; and it affects your yield.**
- ◆ **Broker encourages you to use IRA funds - a bad recommendation.**
- ◆ **Broker discourages you from calling us for a second opinion.**