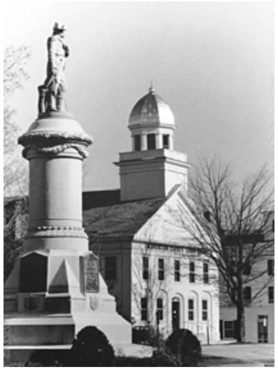

MANCHESTER CAPITAL MANAGEMENT LLC

September 12, 2005

Market Outlook

By Ted Cronin, CIO

The human suffering and property damage wrought by Hurricane Katrina is so horrific as to be almost unimaginable. We have always known that hurricanes could cause such devastation – in the same way that we know the potentially destructive force of major earthquakes – but the scale of the loss comes as a terrible shock that promises to impact public policy and perspectives.

Despite our personal heartache and sadness, our responsibility as fiduciaries forces us to calculate the economic impact of Katrina. I believe that the immediate effects on the financial markets are limited, and perhaps even positive. No changes are warranted in portfolio design or security selection at this time. The longer-term effects on markets could be more profound and deserve careful attention.

Our responsibility as fiduciaries forces us to calculate the economic impact of Katrina.

Stock and bond markets held stable or advanced in the first week after Katrina. Stock market investors saw the enormous spending necessary for rebuilding the Gulf Coast as a net positive. Ninety percent of the personal residences on the coast were destroyed, with corresponding losses of furnishings, possessions, automobiles, etc. Electrical, water, sewer, and transportation infrastructure will require significant reinvestments in an unprecedented outlay.

Bond markets, with the exception of local municipal bonds, were buoyed by the hope that the Federal Reserve might halt its plans to increase interest rates and the expectation of a modest reduction in the growth rate of the economy. The ten-year Treasury bond increased in value as its yield declined to 4.06%. The Gross Domestic Product (GDP) has been expanding at a rate of about 3.5% per year, but over the next two quarters will probably slow to 2.5% as a result of lost jobs and production in the affected areas.

One of the most negative short-term financial impacts of Katrina was on selected commodity prices as the supply chains were interrupted. Gasoline and oil prices spiked upward in response to the

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sudden loss of refining and delivery capacity along the Gulf. Financial markets are predicting that these might be temporary price increases, though, because they represent a problem of delivery rather than a loss of the resource itself.

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The physical recovery process from Katrina will stretch over several years. The social and political ramifications will be longer-term. The enormous cost of hurricane repair will certainly cause politicians to reexamine tax policy. Current debates about estate taxes, extended marginal rates, capital gains taxes, etc., will be reframed in light of a slowed economy and increased expenditures. We can expect a review of issues regarding the equity of tax policy. Members of Congress are outspending each other in a political race authorizing money before rebuilding solutions are even identified.

While almost everyone in the Gulf Coast area was hurt by the storm, the greatest suffering was borne by the tens of thousands of people who live below the poverty line. Their welfare will create a new agenda in American politics that could shift the balance between the public and private sectors. The changing politics could alter economic prospects in ways that are hard to predict at this time. The wisest course is to watch and wait for hard evidence of the final, and perhaps most far-reaching, effects of Katrina.

Educating the Next Generation

Good stewardship of wealth is often more challenging than the original creation of wealth. One of the most important components in managing family wealth is educating the younger generation.

At some point, children also need to have help in understanding the psychological and social impacts of family wealth.

Depending on their age and development, children need to learn the basics of financial management, such as the difference between stocks and bonds or how credit card debt works. At some point, children also need to have help in understanding the psychological and social impacts of family wealth. As they become adults and prepared to accept a stewardship role, they can learn the details of the family estate and trust structures.

Thoughtful family discussion about finances, budgeting, philanthropy and investments are important. Coordination may be the best way to preserve wealth and pass along family values.

Family dynamics vary and each family may have a different strategy for relaying wealth. In our experience, children can be aware of family

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resources all along, as developmentally appropriate, and coached in how to manage the responsibility. Charles Collier, a respected voice on the topic, recommends four essential planning steps in his book, Wealth In Families:

Families should be alert to the effects of inheritance upon their children.

Set A Good Example – The first step toward instilling a sense of financial responsibility regarding family wealth is your own example and the messages you send to your children by your behavior with money.

Provide Consistent Guidance – A deliberate plan of financial education is just as important as your example in ensuring that your children learn to handle their inheritance properly. Handling money well is a life skill that is best learned gradually over time.

Allow Them to Make Mistakes – It is often a mistake for parents to bail their children out when they make bad decisions. Children need to learn early and often that they are responsible for their decisions - and must live with the consequences.

Consider the Use of Mentors – Businesses have had formal mentoring programs for years and have found that this kind of executive "coaching" can be very successful. Applying the same strategy to financial education in families with wealth can also be effective.

Families can influence how their children perceive their family's wealth. While it is not uncommon for young people to view their inheritance as an entitlement, thoughtful discussion can shift this toward an attitude of stewardship and responsibility. Active communication can help families establish common goals and values and ensure that their legacy is passed on to future generations.

Keeping a family's wealth intact through subsequent generations is a worthwhile goal.

Keeping a family's wealth intact through subsequent generations is a worthwhile goal. Family wealth is most often destroyed in one of three ways – neglect, poor tax planning, or bad divorces – all of which can be avoided with careful planning. Manchester Capital stands ready to assist your family and your attorney to make sure you are addressing this very important topic.

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Investment Committee Highlights

The MCM Investment Committee meets every week to discuss the markets, managers, and clients' portfolios. Some of the recent discussions have included:

Equity Correlations — The Committee has been concerned about the converging correlations between the U.S. and the European markets, which seem to be trading in increasing unison. This degree of correlation has risen significantly over the last 10 years, which reduces the diversification benefit our clients' portfolios once enjoyed from these different markets. The Committee is examining whether to redirect assets.

The Treasury Yield Curve — Interest rates on short-term bonds have risen because of the Federal Reserve's policy while interest rates on longer-term bonds have not increased. When short and long rates are about the same, it often precedes a recession. However, long-term rates appear to be too low given the increased inflationary pressure (energy prices, medical cost, home prices, etc.) and the economy is obviously very strong. The Committee has also discussed the current junk bond spread, or the difference between Treasury yields and junk bond yields. This has prompted a reduction in our high yield allocations.

Emerging Markets — The Committee has been pleased with its large allocations to the emerging markets and the performance of the managers operating in that arena. The emerging markets have outperformed the U.S. equity markets, as measured by the Standard & Poors 500 Index, by more than 50 percent over the last 3 years.

Energy Prices — The continued strength in crude oil, natural gas, and energy stocks has been a frequent topic on the agenda. The Committee is concerned that elevated energy prices, if sustained, will have an adverse affect on the economy and the markets. The Committee has been diligently reviewing spot price movements and the energy allocations of its managers.

Manchester Capital Named to Bloomberg's Multifamily Office List

As reported in Bloomberg's *Wealth Manager* magazine, Manchester Capital Management has been recognized as among the elite list of Multifamily offices nationwide. In their September 2005 cover story, "Varsity Crew", a special report about Multifamily Offices, Bloomberg named just 69 firms nationwide that "made the cut", including Manchester Capital Management.

In the press release, which can be seen in newspapers and trade journals across Vermont and California, President and CIO Ted Cronin stated, "We are honored to be named to this most prestigious list by Bloomberg, and pleased by our top performance position in the industry. Our success is directly related to our excellent and supportive clients who extend their trust and confidence."