The Investment Letter

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Investment Success: The Two Step Process

Achieving investment success is much like losing weight. The formula for slimming down, as any personal trainer can tell you, can be broken down into two important components; 1) eating less and 2) exercising more. Similarly, to achieve investment success one needs to 1) maximize returns and 2) control costs. Whether it's dieting or managing your investment portfolio, doing only one of the two steps, no matter how aggressively, is unlikely to produce the kind of results you desire.

Many advisors focus on only one side of the equation - trying to maximize returns. While that, in and of itself is no easy task, without equal focus on cost controls their client is likely missing out on potential returns. Just like a good diet and no exercise is unlikely to produce a stellar marathon time, focusing on only one aspect of investing will not maximize portfolio success.

At Investment Counsel we attempt to maximize returns by following an investment process, which has successfully served our clients since before the Great Depression. We construct our portfolios by:

- Analyzing financial statements
- Understanding each company's business model
- Considering growth prospects
- Understanding risks and opportunities
- Evaluating the quality of management
- Considering the regulatory environment
- Building the appropriate asset allocation for each client

Our process results in high-quality names that are 'best-in-class' relative to their peers. It's a process that has not only worked for our clients, but has been researched by independent third parties and proven to work effectively across various market environments.

The best investment process alone, however, cannot achieve the results most investors desire. At Investment Counsel we also work hard to control the second component in successful investing, costs. This is a much less popular approach among investment advisory firms because it's much more behind the scenes, but by no means is it any less important.

Investment Counsel minimizes the costs associated with investing by:

- Trading infrequently which limits trading costs and taxes
- Recommending custodians that have low per-trade commissions
- Never charging account maintenance fees
- Using individual securities rather than mutual funds
- Charging less than the industry average

Investment Counsel Inc.

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With all else being equal a lower fee is always preferred to a higher one, particularly in the world of investing where higher costs erode future earnings. Just as a well-defined, consistent and proven investment process is preferable to the alternative.

Investment Counsel limits its fees to 0.75% per year, which according to a recent study by InvestmentNews magazine could be a third to a quarter of what many large advisory firms charge* for a similar service.

Triple or quadruple the cost, even if it is in conjunction with a well-defined investment process, is counterproductive to the ultimate goal of growing the investment account. If we consider that total returns to the client equal gross returns less expenses, it's easy to see how higher costs can be a drag on account performance.

Investing has inherent costs and risks associated with it. As an advisor, part of our job is to manage them. A well-defined research process helps with security selection and replacement but doesn't begin to control all the variables. That's why when an advisor has the ability to control something, namely fees, it is incumbent on them to do so. After all, a penny saved is a penny earned.

**InvestmentNews magazine, May 26, 2014 and Q1 financial statements from industry 'Big Four'*

Outlook for Stocks

Investment Counsel continues to be cautiously optimistic on stocks. Even though many stocks have been hitting new highs we feel that the valuations are not only justified but have the potential for further growth. Many indicators like consumer confidence and spending point towards further gains in equity markets.

Outlook for Bonds

Our outlook for bonds is much more cautious, particularly because of interest rates. Current interest rates are at, or near, all time lows. Rates have stayed at these depressed levels since the last recession, where the Federal Reserve cut rates to spur growth in the economy. The actions taken by the Federal Reserve have still not been undone, but as the economy continues to strengthen it will warrant interest rate increases, which cause bonds to decrease in value. Given our expectation of eventual rate increases we are adjusting our bond positions to limit the impact that rising rates would have on your portfolio.

Investment Counsel News

Inside the Office

We're pleased to announce that Matthew Chema is joining Investment Counsel as a summer intern for the second year in a row. Matt is currently attending Hope College, studying Accounting and Finance and graduates next spring.

Dorothy recently attended a conference in Omaha, Nebraska that was sponsored by Orion, a software provider that we utilize. What she learned is helping us further streamline our portfolio management process and improve our client services.

Outside the Office

Last month Mike attended the MidWest Willys Jeep rally in Ohio, an event for enthusiasts of the Willys automobile company, inventors of the Jeep. Mike has a 1952 Willys pickup that he is painstakingly restoring to original condition, piece by rusty piece.