The Investment Letter

Volume 86, No. 8 August 2015

Unintended Consequences

Over the years, we've seen investment bubbles and fads come and go - from dot coms to housing most recently, all the way to Dutch tulip mania in the 17th century.

Some of these toxic investment environments were created by investors themselves, while others were simply a response to market stimuli often created by the government through inefficient reward systems.

During the most recent economic downturn, housing was the big culprit. Politicians touted the benefits of homeownership and speech after speech suggested every American should be able to own a home regardless of their ability to afford and maintain the property. Legislation to make home ownership more accessible followed suit.

Americans, being an enterprising people, took these various incentives to heart. No down payment, no proof of income – no problem! With these new mortgage products you didn't need any of that. Low interest rates and creative financing could turn anyone with a pulse into a homeowner. With some predatory lenders, sometimes even the pulse was optional.

Effectively, government intervention created a speculative bubble where prices skyrocketed to levels that were irrational. Suddenly, everyone was a home rehabber, investor or flipper, which only further fueled unsustainable price increases.

Meanwhile, the financial services industry, keen to take advantage of this new 'growth' opportunity, started churning out real estate funds, mortgage backed securities funds and other related investment vehicles to take advantage of the perceived opportunities. In hindsight we know how most investors fared in these speculative vehicles.

Sadly, many investors have not learned their lesson. With short-term interest rates now remaining at essentially 0% for an extended time, demand for greater current income has led Wall Street to create 'new and improved' investment vehicles. Now instead of touting real estate, these investments seek to fill the need where money market funds and short-term bonds have fallen short – generating current income.

Stretching for yield, particularly in some of the new and untested strategies that have been recently developed, can be as risky as investing in housing during the boom. Government intervention and Wall Street innovation can both be good things, however, they often can, and do, have unintended and unforeseen consequences.

What then is an investor to do? The answer really is quite simple: own high quality, relatively conservative investments that are risk suitable for your needs. In other words, quality works! A portfolio of high quality securities, bought at reasonable to attractive valuations and held for the long-term to minimize trading costs and taxes has been proven effective. Our 85+ year history supports this claim as do numerous research studies and articles, the most recent of which was published in Money magazine's August 2015 issue (see chart below).

Specifically, this research studied high and low-quality stocks along with the market as a whole, represented by the S&P500 index, in two separate challenging market conditions. The research concluded that during the 2008 bear market and the subsequent 2011 downturn, high-quality stocks outperformed both the market and low-quality names.

Investment Counsel Inc.

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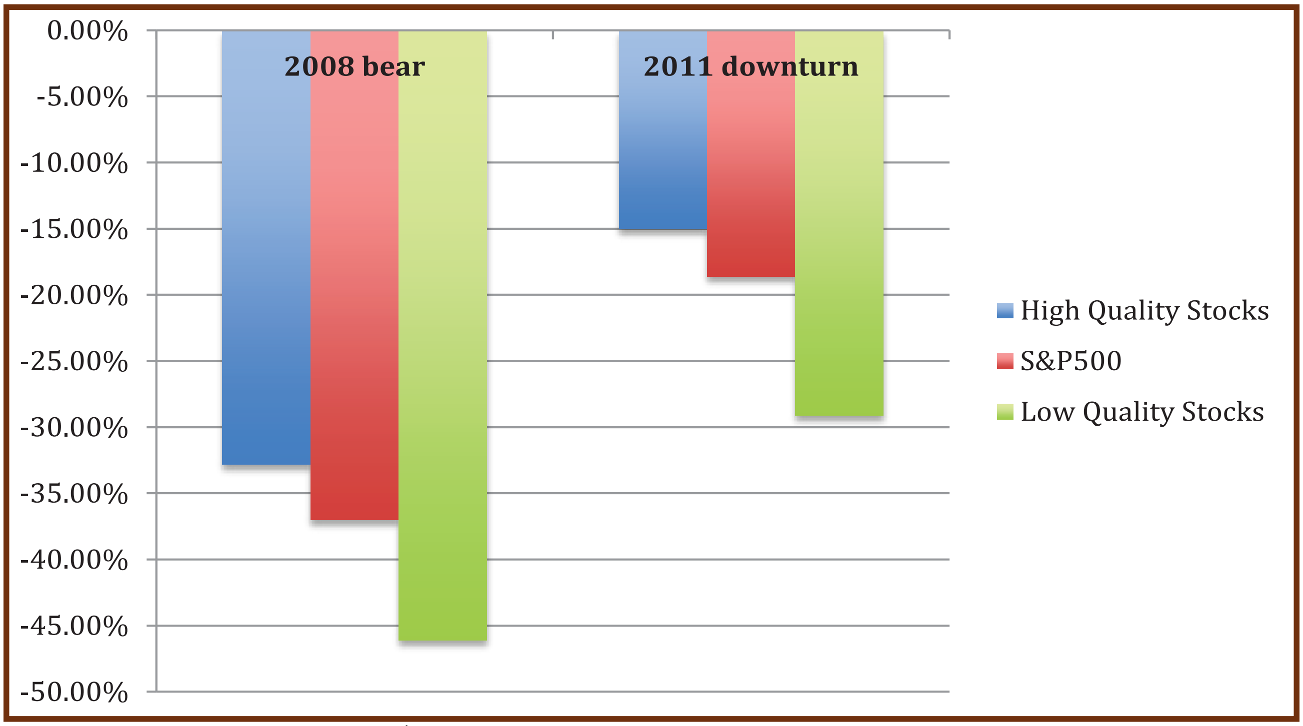
5225 East Cook Rd • Grand Blanc, MI 48439 • (800) 689-7897 • www.Invest-Counsel.com

Total Returns: The Case for Quality



Source: Money Magazine, August 2015 and S&P Dow Jones Indices

At Investment Counsel, we've been using a long-term, buy and hold, research driven process to screen out only the highest quality securities. It has worked for generations of our clients in real world cases, not just back-tests. It has been proven to work time and again in research study after research study and no recent Wall Street innovation or political promise can boast our 85+ year track record of success.

While we are not forecasting a downturn, peaks and valleys naturally occur in investing. When the next downturn occurs, it's reassuring to know that high quality stocks will be more insulated than the broad market.

At Investment Counsel, we recognized long ago what works and we've stuck with it; using technology and new innovations to bolster our research and improve our process but never straying far from our time-tested roots. Perhaps some hot strategies have a place in a speculative portfolio, but when dealing with real money, promises and innovation, no matter how well packaged, are no match for having been there and done that. ■

Investment Counsel News

Inside the Office

We are excited about our new marketing campaign, kicking off this month.

Outside the Office

Golf season is in full swing and Chris is enjoying the warm weather on the golf course whenever he can.