The INVESTMENT LETTER

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Buy … and Hold!

> **To everything – turn, turn, turn. There is a season – turn, turn, turn. And a time to every purpose under heaven.** – *The Byrds*

Sometimes it seems like stocks go in and out of favor as quickly as popular music. One day a song (or stock) is the toast of the town, only to be replaced by something more novel tomorrow. Often times the only reason is a change in taste.

At Investment Counsel we've always both practiced and preached the buy-and-hold investment approach. Our reason for doing so is simple: it works! In addition to buy-and-hold being a research supported and effective investment approach, there are other additional benefits. These benefits include tax efficiency, decreased trading costs and elimination of timing risk.

Ideally, we'd like to buy a stock and hold it forever, though realistically that's unlikely. In most cases, investors will consider selling a security at some point and at these times they must differentiate between good and bad reasons to sell. Unfortunately, many investors are driven by immediate fear and greed, leading them to make choices that are ultimately sub-optimal and in some cases down right harmful.

When thinking about selling a stock, we hope you'll first consider our list of when you should probably hold instead. Because, unlike changing tastes in popular music, changing tastes too frequently in your trading approach is not without consequences.

Buy

Many investors have similar criteria for buying a security – there is little disagreement here. Everyone looks for value and growth, although how they define those terms can differ somewhat. At Investment Counsel, we like stocks that are leaders in their industry, pay dividends, are attractively priced and have good prospects for continued growth over the long-term.

These are the same criteria we've considered to be important over the entire course of our over 85-year history. While other firms change their strategies (particularly when and how frequently to sell) in response to short-term tastes, we've continued to believe the same tried and true strategy: Holding for the long-term is the purest and most effective form of investment. Strategies that trade frequently drift ever closer to speculation.

… and Hold

Occasionally, selling a stock makes sense. For example, if you require cash and must sell securities to raise that cash, then the decision is obvious.

Many investors, however, sell securities for all the wrong reasons. Our primitive instincts make us want to buy securities that are heading up and sell those on the way down – in direct contrast to the buy low/sell high mantra we all know.

Sometimes we have to ask ourselves if selling really is the best financial decision or if our instincts of greed and fear are driving our actions.

If you are truly seeking to build long-term wealth, you may want to consider holding, instead of selling, in most situations.

Consider holding if: Selling could generate a significant capital gain. If the stock is sold for more than it was purchased for, the difference is taxable and could eat away a portion of the gains. In such cases it is best to consider the impact of taxes and entertain other potential alternatives that could be less impactful. Your tax professional is a great resource to estimate taxes owed, if any.

Consider holding if: Selling would incur substantial trading costs. Trading generates commissions, and depending on the broker you use those fees could be material, particularly if you trade large positions relatively frequently. Another alternative is to consider a discount broker if this is the case.

Consider holding if: You are considering selling a stock just because it went up. While buy low and sell high is a popular mantra in investing, it cannot be your only criteria. Consider the stock's future prospects before doing anything.

Consider holding if: You are thinking of selling a stock that has decreased in value. Selling low is a classic violation of the first rule of investing. Unless something has changed fundamentally at the firm or you are selling for tax-loss harvesting reasons selling low is usually driven by fear not solid reasoning.

Consider holding if: You're thinking of acting on the recommendation of a talking head. Television and online experts don't know your situation, cash needs, time horizon or cost basis and therefore any recommendation they offer is immediately invalidated due to insufficient information. These same 'experts' often have ulterior motives for taking the positions they take, and, as such cannot be trusted to know your interests or to have them at heart.

Fear and greed are never good reasons to sell, and provided your portfolio is appropriately matched to your true risk tolerance, staying pat in a well-diversified portfolio is almost always the smarter bet. Conversely, selling requires good timing - as does buying back in – a task that is nearly impossible to do well consistently.

Frequent trading is typically more in line with speculation than it is investing. At Investment Counsel we never trade for short-term gain. We only buy and hold securities for the long-term and unless opportunities to limit taxes or improve returns or diversification present themselves, we steer clear of trading frequently so as to minimize brokerage commissions.

While there is a time to buy, a time to hold, a time to sell, taking any actions for the right reasons is critical. Have a written plan ahead of time for when it is and isn't acceptable to trade securities. This will help guide you through difficult market cycles where our natural instincts of fear and may greed cause us to take drastic actions that often prove financially fatal.

> **"Darlin' you got to let me know.**
> **Should I stay or should I go?"**
> *– The Clash*

Investment Counsel News

Inside the Office

Please let us know if your tax professional would like a quarterly reporting of gains/losses for purposes of advanced tax planning. We're happy to accommodate any special requests.

Outside the Office

Mike and his girlfriend, Julie, are planning a trip to Australia and New Zealand later this year.