

# The INVESTMENT LETTER

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## “The Only Thing That Is Constant Is Change”

- Heraclitus

Until the late 1970s, Detroit Edison customers could pay \$2 a year and get new light bulbs whenever their old ones burnt out. The program, instituted in the late 19th century, was designed to encourage people to switch from kerosene and gas to electricity for the lighting of their homes. It was wildly popular – until a Detroit druggist wanted to sell light bulbs in his own store and discovered no one wanted to pay for them. He hired some lawyers and charged Detroit Edison with violations of antitrust laws. In the end, his lawyers earned hundreds of thousands of dollars in fees; the lawsuit killed the free light bulb program; and the druggist got to sell light bulbs in his store, for 67 cents each. For some time, he was a very unpopular druggist in the Detroit area.

### **Markets change. What was free yesterday won't always be free today or tomorrow.**

In our lifetimes, many goods or services that were once free, or close to it, now cost money. Consider:

- **Food on Airline Flights** – Consumers once viewed airline travel as a luxury experience, with all-in pricing that included almost everything, e.g., bag carriage, meals, and even liquor. Today, amidst internet-enabled price comparisons, self-service ticket purchase, and competition-driven

ticket pricing, airlines now compete on price. Today, you can buy airline tickets for a fraction of what they once cost in real terms, and you may even still come out ahead, after you add back incremental fees for services such as checked luggage, in-flight meals, or even headphones.

- **Directory Assistance for a Phone Number** – In the days before area codes and exchange names, callers needed operators to connect their calls. Shortly after, directory assistance to get a phone number was just a 411 call away. These days, if you don't have the number pre-programmed in your phone, or look it up yourself on the internet, you may have to pay \$1-\$2 to get a real-live person to look it up for you.
- **Air** – Okay, in most circumstances, the air we breathe is still free – but not the air we put in our tires. Inflate your tires at the gas station and expect to pay for that air, with a quarter or set of quarters, or even with a credit card.

Like every rule, there are exceptions – technology, market forces, and consumer preferences have actually driven down costs in some cases:



INVESTMENT COUNSEL INC.

Established 1929

- **Long Distance Telephone Service**

– Long a bane on the existence of long distance relationships, the cost to call someone outside your local calling area was once considerable. Today, that cost is negligible, buried in our all-inclusive monthly cell phone and internet service fees. Even international calls, once prohibitively expensive, today can flow virtually cost-free over internet services like Skype, FaceTime, and Zoom. The cost of communication today no longer reflects time and distance, but rather fixed, periodic costs.

- **Package Deliveries**

– A generation ago, you could barely escape a TV show without seeing at least one commercial touting a must-have product that could be had for some multiple of \$19.95 PLUS those ominous shipping and handling fees. Today, most retailers offer free shipping in return for an annual membership, or if your order total exceeds some preset amount.

- **Classified Ads**

– Classified ads were once a mainstay in selling just about anything—from used cars to household appliances to open jobs. Today, internet-enabled communication allows sellers of goods and services virtually free access to larger and more targeted groups of potential buyers, using services like Facebook and Craigslist.

We must change with our changing world. Our parents, or even we ourselves, might have once scoffed at paying for airline meals or the right to talk to a human for assistance. But, we surely would have appreciated free

two-day shipping and the ability to reach large amounts of people for free when we sell goods and services.

### **Change Continues Today**

Like our marketing preferences as a society, the focus of our economy is shifting too, from manufacturing to service. In 1971, manufacturing accounted for one-quarter of all US jobs. Today, that number is 10%. Also, where mid-century manufacturing jobs promised a middle-class lifestyle for a high school education, today, manufacturing jobs are mainly low-pay, entry-level jobs requiring little skill and no formal education. Instead, the higher paying jobs, promising a better quality of life, are found in the service industry.

What does this mean for investing in today's complex financial markets?

### **Past Performance Never Guarantees Future Results**

Turn-of-the-century equity darlings like AOL, Radio Shack, Blockbuster, and Yahoo were key components of the S&P 500. Today, these securities are not even publicly traded. And, in 1987, the largest of the S&P 500 large market caps included such corporate behemoths as Philip Morris, Merck, IBM, Exxon, and GE. Today, just Exxon remains in the S&P's Top 10 list.

Financial markets reflect the changes in our society's tastes and preferences. In the 21st century, Google, Apple, and Amazon have largely replaced the energy and industrial companies that once held those esteemed positions in the S&P 500. While it is difficult to predict what trend will eventually knock today's top S&P 500 components from their pedestals, what is important to investors is the realization that what worked yesterday will not necessarily work today, or tomorrow.

## Conclusion

Our world is vastly different than the one we inhabited just a decade or two ago. We no longer have free light bulbs, human-assisted transactions, or airplane food, but our technology has brought us lower prices to communicate with each other, and to buy and sell goods and services over larger distances and within larger groups of people. It seems like a fair trade.

While our economy shifts its focus from manufacturing to service, we shift our skills and educations to focus more on supporting the machines that make goods, rather than making the goods ourselves. These changes carry over to the investments that drive our economy. Sound investment strategies adopt changes over time. US Steel and General Motors were the titans of their day, but they have been replaced by some of ICI's current holdings: Apple, Google and Microsoft.

We cannot fight change. We must understand it, analyze its drivers, and determine what it means to us. The best approach in investments involves buying in for the long-haul, but not sleeping through the short-term. When we diversify our portfolios, we invest in a basket of companies that needs to be monitored, analyzed and adjusted as changes in technology, markets, and politics occur. As with everything, we find that skill, patience, and technology help us find our way through today's investment climate. ■

**If you aren't willing to own a stock for ten years, don't even think about owning it for ten minutes.**

— Warren Buffett

## INVESTMENT COUNSEL NEWS

### *Inside the Office*



*Over the past few months we have noticed that our telephone system was experiencing issues with quality and reliability. We apologize for the inconvenience you may have experienced. This month we replaced all our phones and upgraded the connections.*

### *Outside the Office*



*Last month John Welchli, a retired Portfolio Manager and former shareholder of Investment Counsel, Inc. passed away. By any measure, John had a full and exciting life.*

*John was a graduate of Brown University and earned an MBA from University of Michigan. Not only was he a Chartered Financial Analyst (CFA) and helped lead Investment Counsel for over twenty-five years, he also was very involved with training and field-testing Golden Retrievers, an avid outdoorsman, and an Olympic medalist in rowing in the 1956 games in Melbourne Australia. John will be missed by all that knew him.*