

# INVESTMENT STRATEGY

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At Loring, Wolcott & Coolidge, we seek to preserve and grow our clients' wealth over the long-term. To achieve this goal, we primarily invest in the common stock of high-quality, global growth companies, employing bottom-up stock selection based on fundamental factors. We believe that this investment strategy provides our clients with the highest probability of preserving and growing wealth while enhancing the purchasing power over time.

## Emphasis on Quality

We assess quality through qualitative and quantitative means. Qualitatively, we look for companies with strong management teams, high barriers to entry, and the ability to maintain or build upon leadership positions over time. We also emphasize companies with long runways of future growth and strong track records of allocating capital efficiently.

Quantitatively, we prefer companies with stable, recurring profits and earnings, consistent dividend growth, and responsible levels of debt. Dividend paying companies in the S&P 500 have outperformed non-dividend payers by over 11% per year since 1972.<sup>1</sup> Our portfolios often own a small number of non-dividend paying stock with outstanding potential for capital appreciation which may produce a dividend in the future. We generally avoid deeply cyclical companies whose earnings and dividends are at risk during economic downturns.

## Long Time Horizon

We invest in stocks that we can buy and hold as long as the fundamentals of the underlying companies continue to be strong and the valuations reasonable. We have owned some companies in client portfolios for decades. Although turnover is inevitable, our long-term time horizon is particularly important when considering the effect that capital gains taxes have on our clients' returns.

We prefer to keep low turnover, but when the fundamentals change, we will alter our stance on a company. The need for a dynamic, active approach to investing is illustrated by the fact that the S&P 500 has undergone over 1,100 component replacements during the period 1/1/1963 to 12/31/2014, averaging 23 annual replacements during that period.<sup>2</sup>

The idea that investors can buy shares in a company and leave their investment unchecked for years is a dangerous notion in the modern world where the pace of change is accelerating. A look back over the past half-century reveals that the average lifespan of a component within the S&P 500 has compressed from nearly 60 years to approximately 18 years during recent times.<sup>3</sup> Consequently, we monitor our portfolio to ensure that investment changes are made to reflect evolving fundamentals.

<sup>1</sup>SunAmerica, *Ned Davis Research 1/31/1972–12/31/2015*. Returns based on monthly equal-weighted geometric average of total returns of the S&P 500 component stocks, with components reconstituted monthly.

<sup>2</sup>Siblis Research, *S&P 500 Index Components*, [SIBLISRESEARCH.COM](http://siblisresearch.com/data/historical-components-sp-500/), <http://siblisresearch.com/data/historical-components-sp-500/>.

<sup>3</sup>Eric Knight, *The Art of Corporate Endurance*, *HARVARD BUSINESS REVIEW*, April 2, 2014.

## INVESTMENT STRATEGY (CONTINUED)

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### Global Outlook

We believe in the importance of a geographically diverse portfolio of investments. However, rather than focusing on the domicile of a company, we “look through” domicile to understand where the company is actually selling its products and services. Many U.S.-based companies earn the majority of their profits abroad, while many foreign companies earn the majority of their profits in the U.S. Thus, our portfolios are well diversified across the U.S., other developed markets, and emerging markets.

Further, while we look for exposure to emerging markets that are growing rapidly, we have very few investments in firms domiciled in the emerging world. Research has shown that there is virtually no statistical correlation between a country’s economic growth rate as measured by real GDP and its stock market return.<sup>4</sup> Therefore, we prefer to gain exposure to these faster-growing regions through companies that are based in countries with more stringent systems of corporate governance.

### Focus on Individual Stocks

We are “bottom-up stock pickers” with a focus on developing a deep understanding of the company, its industry, and the opportunities and risks it faces. Some investments are made to take advantage of a particular theme, such as the rising middle class in Asia or the growth of mobile communications.

A typical client portfolio holds the common stock of 30-40 companies. Combining our own experience with research supporting risk reduction through diversification (upwards of 50 to 100 securities, dependent on relative periods of market health or distress), we believe our portfolio size helps to optimize the benefits of diversification while balancing the challenges of actively managing an equity portfolio.<sup>5</sup> There is a high level of overlap across our portfolios, but accounts can be customized depending on client preferences. Our investments tend to be concentrated in mid- and large-cap stocks.

We prefer not to invest in mutual funds. Not only are additional fees incurred, but we also have no control over when capital gains are realized. Most importantly, as fiduciaries, we think it is imperative to know what we own. Nonetheless, mutual funds can be useful for diversifying smaller accounts or addressing investment themes in a more diversified manner.

<sup>4</sup> Baijnath Ramraika, , *Stock Market Returns – The GDP Growth Rate Myth*, ADVISOR PERSPECTIVES.COM (April 14, 2015), <http://www.advisorperspectives.com/articles/2015/04/14/stock-market-returns-the-gdp-growth-rate-myth>.

<sup>5</sup> Larry Swedroe Portfolio Diversification: HOW MANY STOCKS ARE ENOUGH?, MUTUALFUNDS.COM (February 17, 2015), <http://mutualfunds.com/expert-analysis/portfolio-diversification-how-many-stocks-are-enough/>.