

The INVESTMENT LETTER

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Studies in Growth

At Investment Counsel, we pride ourselves on providing superior service and smart investment choices for our clients. Each of our client's portfolios is customized based on the client's goals and risk tolerance. We only invest in high-quality stocks and bonds with a focus on absolute returns to help grow wealth long-term. Our investment strategy is two-fold: to (1) preserve purchasing power of principal and income; and (2) focus on long-term growth.

To illustrate our approach, we find it helpful to periodically highlight a particular company that fits our firm's investment philosophy. By doing so, we hope to help inform our clients on some important characteristics of investment vehicles in a simplified manner. In this newsletter, we will examine Procter & Gamble.



About Procter & Gamble

Procter & Gamble is a United States based consumer-goods company founded in the 1800s. Today, Procter & Gamble

owns several well-known brands including, but not limited to, Bounty (paper towels), Gillette (hygiene products), Febreze (odor eliminator), and Crest (toothpaste). Procter & Gamble sells its products globally and reported \$65.4 billion in net sales for 2016.

Most of us use a Procter & Gamble product on a daily basis and are familiar with its associated brands.

Strong Financials

Our firm examines a company's balance sheet and cash flow statements to assess the financial strength of the company. This analysis focuses on whether a company's financial health can "weather a storm" and survive long-term.

Large Market Capitalization

What exactly does large market capitalization mean? As most investors know, companies can issue common stock to help raise capital for their business. When investors purchase stock (called "shares"), the investor then acquires a portion of that company. Market capitalization is simply the number of outstanding shares issued by a company multiplied by the current market price of one share.

In order to be classified as large-capitalization company, that firm's market capitalization must exceed \$10 billion. Large-cap companies also tend to be larger companies and have less volatility, and therefore risk, as compared to small or mid-cap companies.

Procter & Gamble is a great example of a large-cap company – its market capitalization is around \$227 billion. Like most large-cap stocks, it is unlikely that Procter & Gamble will double investor's money in a year.



INVESTMENT COUNSEL INC.

Established 1929

Instead, large-cap companies tend to produce consistent gains that promote long-term growth. In addition to these gains, investors enjoy mitigated risk that comes with investing in well-established companies.

Solid Dividends

Stocks can also generate income for investors through dividends, which can be an important way to increase cash flow and gains. The dividend yield, which measures the ratio of the dividend payout to the share price, is another important characteristic when deciding which company to invest in.

In 2016, Procter & Gamble issued quarterly dividends with an estimated current dividend yield of 3.15%. In other words, if the share price remained the same throughout the year (no market depreciation or appreciation), the investor would still receive a 3.15% return through the dividend. The average dividend yield in the consumer good industry was around 2.05% in 2016.

Procter & Gamble also has a long-track record of increasing dividends to shareholders. When it announced its dividend increase in April 2016, Procter & Gamble reached the milestone of increasing dividends in 60 consecutive years. The company has demonstrated a commitment to increasing income to investors in this way, providing another reason to be optimistic about Procter & Gamble long-term.

Competitive Advantage

When a company possesses a competitive advantage in a particular industry, it is more likely to survive and prosper long-term. This can be difficult to assess, but the rate of innovation, company culture, and reach of the company can be telling indicators.

Procter & Gamble is a leader in the consumer

good industry with a global reach and billions of dollars in sales. Procter & Gamble is also known for having a strong foundation of products that have been around for decades (for example, Tide), but also places an emphasis on innovation. A great example is developing Febreze – which originally had its genesis in Tide. The company also has a strong culture and places an emphasis on diversity and inclusion. Given its size, emphasis on innovation, and culture, Procter & Gamble possesses a competitive advantage in the consumer good industry.

Tested Management

Procter & Gamble has a respected leadership team headed by David S. Taylor (President & CEO), who has worked at Procter & Gamble for several decades. Procter & Gamble has received recognition for its leadership and reputation by independent sources and has built a solid reputation in the business community since its inception over 100 years ago.¹

Attractive Valuation

There are several ways to analyze financial information and different philosophies on how to value stocks. Without diving too deep into the exact metrics we examine, the goal of investing is to identify companies whose share price will increase over time. We look at financial information from the company's income statement, cash flow statement, and balance sheet. From there, we can then look at different ratios that help illustrate the company's financial health and whether the shares are under or over-valued.

After applying this analysis to Procter & Gamble, we believe the shares are under-valued and will grow consistently over time. We also believe the company will consistently be a "major player" in the consumer good industry based on its history and reputation.

Performance

Performance has been excellent for Procter & Gamble. Over the past 52-weeks, Procter & Gamble's share price grew approximately 13%, which is excellent performance. Over the past 5-years, Procter & Gamble's share price grew approximately 33%. Investors should not count on this level of returns each year/period, but the figures are indicative of the strong performance we expect from Procter & Gamble over time.

Conclusion

Procter & Gamble fits our investment strategy because it is a large-cap company that is fairly valued, produces income through dividends for investors, and has a strong leadership team and reputation in the business world. We believe that Procter & Gamble will remain a strong competitor in the consumer goods industry for the long-term. We also believe that the stock price will consistently grow over time, producing excellent returns for investors.

At Investment Counsel, we also seek to properly diversify portfolios while making sure to not over-diversify portfolios. So, while Procter & Gamble fits our investment strategy, it is essential to create a properly diversified portfolio to complement Procter & Gamble's strengths. Of course, we are always happy to discuss specific holdings with our clients and the reasoning behind the investment decision. Please contact us directly if you would like to know more about Procter & Gamble or have any other questions! ■

¹<http://www.haygroup.com/bestcompaniesforleadership/>

**“ Make your history a good history.
Your reputation is everything.
Keep this in mind every day. ”**

– Melanie Healey, Retiring Group President,
P&G / Verizon Board of Directors

INVESTMENT COUNSEL NEWS

Inside the Office



We are keeping a close eye on the market after Donald Trump's election victory. As we have written, we are confident in the US economy long-term and, to the surprise of some, the market actually increased the day following the election.

Outside the Office



Scott's former employer, the Chicago Cubs, recently won the organization's first World Series Championship in 108 years.