Perspectives

CRAWFORD
INVESTMENT COUNSEL
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BENEFIT OF WORKING WITH CIC: TOTAL INVESTMENT RETURN

It is important to distinguish among income, yield, and total investment return. Portfolio income is simply the dollar amount of stock dividends and bond interest payments expected to be received over the next 12 months. When this income figure is expressed as a percentage of the portfolio market value, it provides the yield (% rate). The income is what can be spent before invading principal, and it is a component of total investment return. The total investment return combines portfolio income plus or minus any capital appreciation or depreciation. The income is the stable component of this equation, so we want to emphasize it to the extent possible, but we report our results on the basis of total investment return.

In good times, the income component will be a smaller percentage of total investment return. In bad times, it may be all the investor receives. So while income is a critical component, short-term moves in share prices will typically dwarf the income component of return. We have a dual focus on both components of return, and we seek to earn attractive results through a combination of income and capital appreciation. It is the compounding of market value that enables our clients to enjoy the long-term benefits of our investment portfolios.

> *"One of the fundamental tenets of our investment approach is our long-held belief that a rising stream of income from dividends will be reflected in a rising share price over time."*

We believe one of the best and most predictable ways of producing an attractive total investment return is to focus on the dividend. One of the fundamental tenets of our investment approach is our long-held belief that a rising stream of income from dividends will be reflected in a rising share price over time. Income is one factor that gives value to stocks, so we focus on companies that can consistently pay and increase their dividends. See in the following chart how consistently the price of Johnson & Johnson stock follows the increase in the dividend line. The relationship between dividend income and price appreciation is not always as precise as in this example, but over the longer term the two are almost always positively correlated.

While compounding total investment return at an attractive rate is the end goal, we also seek to smooth the pattern of returns in the interim. This is important because it does not subject clients to excess volatility, helps avoid the asymmetry of capital appreciation or

depreciation, provides a better chance of maintaining spending rates, and provides an overall higher comfort level for our clients. The best way to smooth out returns is to own high-quality bonds. The consistency of the companies in which we invest also helps mitigate risk and reduces volatility but still exposes the portfolio to the long-run benefits of equity ownership.

Crawford Investment Counsel is proud of the total investment returns we have been able to generate for our clients over four decades, and the fact that we have achieved these returns with much less volatility provides important benefits for our clients. The byproduct of more predictability is slightly less return when the market goes up, but downside protection when the market declines. This is a trade-off we are very willing to make, and depending on where we are in the economic/market cycle, our total investment returns may be above or below market indices that have varying investment characteristics that typically don't align well with the needs of our clients.

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