Patterns of Returns Matters

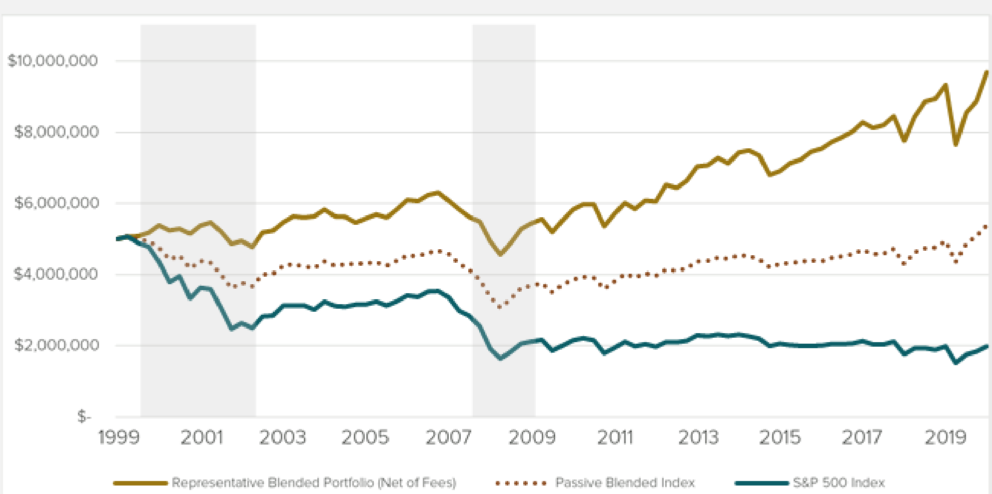
It's Not Just What You Earn, But How You Earn It

CRAWFORD
INVESTMENT COUNSEL
Est. 1980

At Crawford Investment Counsel ("Crawford"), our overall investment philosophy starts with our belief of quality in the interest of narrowing the range of potential outcomes for our clients. Through narrowing the range of outcomes, we believe we can improve our chances of success, tend to mitigate the likelihood of adverse returns, and enhance our investors' return patterns. In short, a sequence of returns can be critical to portfolio success, while the experience of large drawdowns can be detrimental to the terminal value of that very portfolio. At Crawford, we believe that, at the forefront of any investor's mind should be both the significance of the pattern of their investment returns and the threat of principal erosion or permanent loss of capital. To the extent withdrawals are taking place, lower but more stable returns can actually result in higher terminal portfolio values. At Crawford, we have witnessed the asymmetrical quality that numbers have to them, and we seek to protect against this.

To put it simply, we believe that the pattern of returns earned can be more important than absolute returns. As previously stated, the figure below represents that a more consistent pattern of returns can actually lead to higher terminal values in a portfolio, especially when clients have spending needs to be met. The chart represents the 20-year performance of various investments with an initial value of $5 million coupled with an annual withdrawal of $200,000 (4% initial spending rate) adjusted for inflation each year. Throughout this 20-year period, the S&P 500 Index generated a total return of 6.6%. While this return is higher than the required initial withdrawal rate of 4%, a client invested in the S&P 500 Index would have experienced principal erosion. In other words, even though S&P 500 Index generated an annualized return above the required distribution rates, our analysis shows the investor would have ended up with absolute market

Effect of a $200,000 annual distribution, taken on a quarterly basis, adjusted for inflation, on an initial portfolio of $5 million



Source: Crawford, eVestment, Federal Reserve Bank of St. Louis; Time Period: 12/31/1999 – 12/31/2020

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value that is lower after 20 years. This is a direct product of the pattern of returns.
Investors are forced to make trade-offs. In many cases, we feel high returns are not worth the risks. We believe excessive volatility in pursuit of long-term return generation is not an acceptable option for many investors, particularly those who need to meet spending needs. Taking the unacceptable outcome of invading principal over a multi-year period into consideration, and respecting the strain that withdrawals can put on a portfolio in a low-return environment, we believe that the more consistent, stable returns that Crawford offers its clients over the long-term are a trade-off worth making.

How do we earn these consistent and stable returns? At Crawford, we have found that quality is a factor that favorably influences both risk and return. We believe the dividend and predictability are silent factors that help enable our investors to obtain income and growth of income, benefit from the fundamental progress of the businesses they're invested in, and experience valuation improvements, all of which work together to contribute to total investment return over the long-term. With our focus on quality and value, we feel Crawford is able to both sustain strong participation in rising markets and offer superior protection during down markets. Through our strategies, we believe our clients are subjected to less volatility, providing a higher likelihood of earning a positive return each year, and mitigating the risk of abandonment, something that we believe is an underestimated risk associated with investing.

The potential to change investment strategy at the wrong time is a significant risk factor that threatens the ability to compound results at an attractive rate and can shift a temporary loss of capital to permanent status. Because of the consistency we seek to provide our clients with, we believe our investors have a higher likelihood of staying with their investment programs. Ours is a common-sense approach, rooted in what we believe is quality, and starting with the dividend. Through this approach, our clients can sleep well at night and maintain the confidence to invest and stay invested for the long-term. The emphasis on quality at Crawford, coupled with a value-based approach to total investment return leads to successful outcomes for our clients.