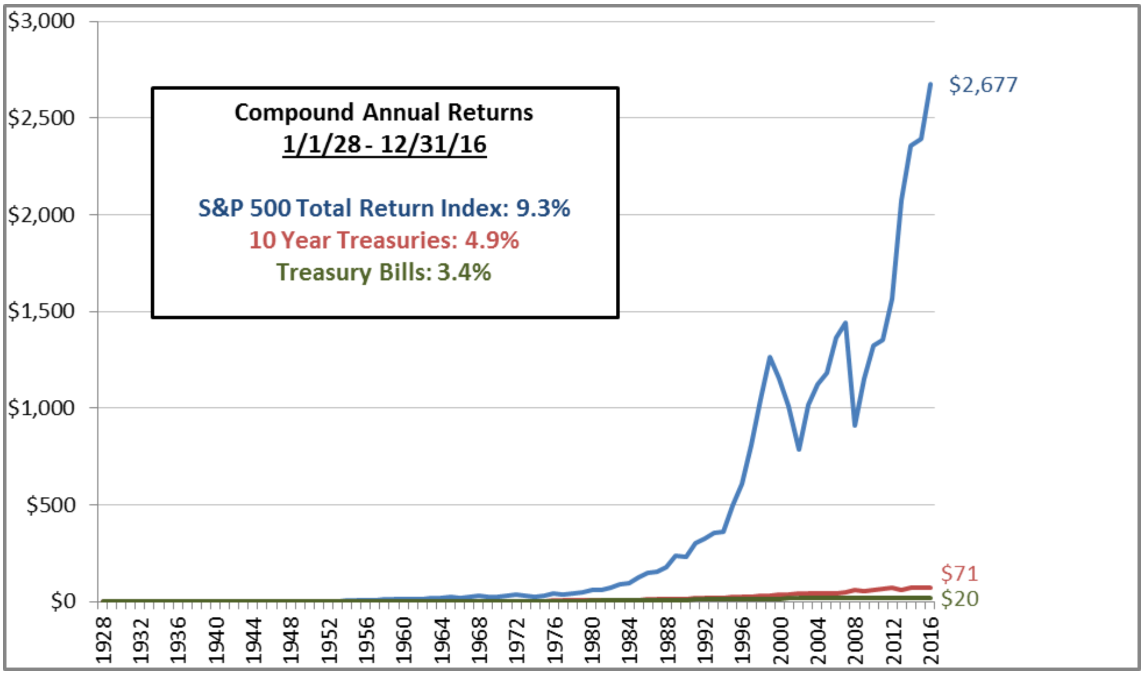
WHY WE INVEST IN EQUITIES

At Loring, Wolcott & Coolidge, our goal is to preserve our clients' wealth for them and for future generations. As such, we are long-term investors with a strong bias toward publicly traded equities. Equities are a central tool in helping our clients pursue long-term objectives while combating the corrosive effects of inflation. This leads us to a higher equity allocation than many other investors.



Source: Factset and Aswath Damodaran, Annual Returns on Stock, T. Bonds and T. Bills: 1928-Current, N.Y.U. Stern School of Business, 2016. Past performance is no guarantee of future results. Hypothetical value of $1 invested at the beginning of 1928. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

Historically, equities have provided the highest after-tax, long-term returns among major asset classes, and we believe this will continue into the future. Equities represent an investment in human ingenuity—a share of equity represents an ownership interest in the underlying company and gives the investor a stake in that company's future earnings.

Publicly traded companies provide goods and services that solve problems, and an investment in the equity of a company allows an investor to capture the value created by solving those problems. There are myriad examples of companies that create wealth for their shareholders by introducing or improving upon products that we use in our daily lives, such as soap or medical equipment. As human needs evolve, companies will find solutions for needs of which we are not aware today. We believe our clients will be well served by owning such businesses.

WHY WE INVEST IN EQUITIES (CONTINUED)

When we invest in a company, we generally hold the stock of that company for a long period of time. During the period of our stock ownership, we are entrusting the management team of that company to determine how its cash flow should be allocated. While it is easy to assume that holding a stock presumes a lack of activity on our part, we are continuously monitoring and tracking the companies we own and the actions of their management teams to better understand company priorities and performance.

Ultimately, our objective is to preserve and enhance the purchasing power of our clients. Equities surpass other asset classes in their capacity to offset long-term inflation. Additionally, a large portion of equity returns come in the form of capital appreciation that is not taxable until gains are realized. This tax deferral— and the flexibility to realize gains when most advantageous—is an important factor contributing to the attractive after-tax returns of equities. Over the long run, equities have outperformed other asset classes, including fixed income, real estate, gold and other commodities.

Fixed Income

From 1928 to 2016, the S&P 500 Total Return Index returned 9.3% per year, whereas U.S. 10 Year Treasury bonds returned 4.9% and Treasury bills returned 3.4%.[6] This gap in return makes a large difference to long-term wealth accumulation: as noted in the earlier chart, $1 invested in the S&P 500 Total Return Index in 1928 would be worth $2,677 by the end of 2016. That same $1, however, would be worth just $71 if it had been invested in 10-year Treasuries, and $20 if it had been invested in short term Treasury bills (including interest).

Real Estate

According to extensive research by Robert J. Shiller, a respected economist and professor at Yale University, American real estate has appreciated almost exactly in line with inflation since the Civil War. Excess return tends to come from financial leverage, not from real appreciation.[7] In other words, returns above inflation tend to be generated by borrowing capital to purchase real estate and then hoping that the equity portion increases in value.

Gold

Gold has minimal intrinsic value; it has only limited use in jewelry and industry, and does not provide cash flow, a right to future earnings or a promise of repayment at a later date. Since the price of gold was allowed to float freely at the end of 1974, it has returned 4.5% annually (unadjusted for inflation) versus the S&P 500's return of 11.9%.[8]

[6] Factset and Aswath Damodaran, Annual Returns on Stock, T. Bonds and T. Bills: 1928-Current, N.Y.U Stern School of Business (Jan. 5, 2016), http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html.
[7] Shiller, Robert J. Irrational Exuberance (3rd ed 2015).
[8] Factset, data from 12/31/74 to 12/31/16.

Other Commodities

From 1991 to 2016, commodities, as measured by the Dow Jones-UBS Commodity Index, produced an annualized return of 2.4% relative to the S&P 500's 9.9% return (including dividends).[9] Low correlation to stocks is often cited as a reason for investing in commodities. However, during times of economic distress, commodities tend to correlate more highly with equities. For example, the correlation between the DJ-UBS and the S&P 500 Total Return Index from January 1, 1991 to June 30, 2008 was -0.21 (negative), but the correlation between the two indexes from June 30, 2008 to December 31, 2010 was 0.84 (very high).[10] In our view, commodities have provided neither strong, sustained returns nor a true diversification benefit.

Private Equity

The equity space is divided into publicly traded equity, which can be accessed by buying shares in companies trading on a stock exchange, and private equity, which can be accessed either by investing with private equity managers who buy and sell private companies, or by investing directly in private companies. We focus on public equities since they offer similar long-term returns to private equity, but without the leverage, illiquidity, and outsized manager fees typical of private equity.

While private equity funds, as broadly represented through the Cambridge Associates LLC U.S. Private Equity Index® (comprised of more than 1,200 private equity funds), have historically outperformed the S&P 500 by an average of nearly 4.4% (net of fees) annually when viewed on a 10, 15, 20 and 25-year basis, the gap between private equity and public equity performance has narrowed in the past decade. [11]

Venture Capital

Venture Capital is another form of private equity investing, where investors provide start-up capital to early stage companies that they believe have long term growth potential. According to the Cambridge Associates LLC U.S. Venture Capital Index® (comprised of over 1,500 venture capital funds), venture capital has generally outperformed public equity indices over multiple time horizons dating back 30 years.[12] However, we note that outsized returns in the early years of Cambridge Associates' index measurement period are the primary drivers of historic outperformance. Further, in the post-1999 period, the top 10 firms in a given year account for (on average) roughly half of the total gains generated from Venture Capital.[13] Given this background, we believe it is exceedingly difficult to identify and access the funds that will generate outsized returns in any given year. Additionally, like private equity, venture capital investing requires investors to tie up their money for years, and charges higher fees than investing in traditional public equities.

[9] Factset, data from 1/31/91 to 12/31/15.
[10] Factset, data from 1/31/91 to 12/31/15.
[11] Cambridge Associates, U.S. Private Equity Index® and Selected Benchmark Statistics (June 30, 2016).
[12] Cambridge Associates, U.S. Venture Capital Index® and Selected Benchmark Statistics (June 30, 2016).
[13] Cambridge Associates, Venture Capital Disrupts Itself: Breaking the Concentration Curse (November 2015).

Hedge Funds

A hedge fund is an investment vehicle that can use exotic tools and strategies, and usually charges a fee structure that involves both a management and incentive fee. There are thousands of hedge funds employing dozens of strategies around the world, and a successful investment requires betting on the right investment manager at the right time. This is a challenging task for most individuals. Further, given survivorship bias and the miscellany of hedge fund strategies, it can be difficult to prove that hedge funds offer investors more attractive returns and correlations than traditional equity investments over different time horizons. Finally, depending on the fund, hedge funds can have onerous redemption terms that make it difficult for investors to liquidate their holdings at a time of their choosing.[14]

[14] AlphaBetaWorks Insights, available at: http://abwinsights.com/2015/03/26/hedge-fund-survivor-bias/, March 26, 2015.