FIRST QUARTER 2015

NORTHWEST NEWS

NORTHWEST
INVESTMENT COUNSELORS LLC

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The Northwest Team

Mark Scarlett, CFA
Principal, Portfolio Manager

Matt Roehr, CFA
Principal, Portfolio Manager

Alex Dolle, CFA
Portfolio Manager

Christel Turkiewicz, CRPC
Principal, Wealth Manager

Michelle Castano Garcia
Principal, Wealth Manager

Cheyne Sorensen
Assiciate Portfolio Manager

Theresa O'Donnell
Client Services Manager

Northwest Investment Counselors, LLC
5885 Meadows Road, Suite 860
Lake Oswego, Oregon 97035
800.685.7884
503.906.9624
503.906.9630 (fax)

What's New At Northwest?

THANK YOU FOR YOUR BUSINESS AND REFERRALS!

We will celebrate our 17th year in business early in the coming quarter and want to thank all of you for making that happen.

Celebrating our **17th year** in business!

We appreciate your business and the referrals you have made over the years. We are always willing to meet with prospective clients who you think might benefit from our services and be a good match with us.

MATERIAL BENEFITS TO CONSUMERS FORSEEN FROM RECENT DROP IN OIL PRICES

For those who missed our most recent Private Wealth Management series on the economy and, more specifically, the recent drop in the price of oil, most of the video is replayed via a link on our blog (www.nwic.net/news/). Mark Scarlett, CFA and Matt Roehr, CFA led a presentation and good discussion covering the recent development in oil production and implications for the economy, your stocks, and bonds.

Mark Scarlett at our NWIC Private Wealth Management Series

While it's too much to cover here, we foresee a material benefit to consumers from lower gas prices and likely a prolonged period of oil below $100 barrel.

OUR ANNUAL UPDATED ADV HAS BEEN FILED WITH THE SEC

We filed our annual updated ADV with the Securities and Exchange Commission (SEC). As always, you can contact us for a free copy of our ADV Part 2A & 2B. The summary of material changes for the year is included in the Disclosures at the end of this letter.

FIND US ON LINKEDIN AND TWITTER

Follow us in Twitter (@NWInvestment) and on our LinkedIn company page where we post links to our blog as well as other informative articles. Finally, please know that we are here for you and are always just a phone call away.

Northwest Calendar

May 7 - WVDO Non-Profit Series
Presenting Sponsor
Featuring Sarah Panetta
7:30 AM – 9:30 AM
5885 Meadows Rd, Conference Center

May 19 - Private Wealth Management Series
"Retire. Ready" *De-Risking Retirement Cash Flow*
Presented by Matt Roehr and Christel Turkiewicz
9:00 AM – 10:00 AM
5885 Meadows Rd, Conference Center

May 25 - Memorial Day Holiday
Office Closed

June 11
Presenting Sponsor
Featuring Kay Sprinkle Grace
2:30 PM – 6:00 PM
5300 Meadows Rd, Conference Center

SAGE *Charitable Giving Workshop*
Featuring Michelle Garcia
8:00 AM to 10:30 AM
Beneficial State Bank

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Authors

Mark Scarlett, CFA
Principal, Portfolio Manager

Matt Roehr, CFA
Principal, Portfolio Manager

Q1 Still Volatile For Stocks

The S&P 500 index (a measure of large cap U.S. stock performance) notched its ninth straight quarter of gains, albeit barely, with a humdrum 0.95% return in Q1. According to those who monitor these things, this is the longest stretch since the late 1990's technology bubble and day trading fascination were gracing the business sections of local newspapers. International stocks posted a strong 4.88% return in Q1 after a difficult calendar 2014 due to the rising dollar. Small cap stocks, too, were strong with a 4.32% return in Q1. Commodities continued their losing way, falling over 5% in the quarter. The Dow Jones Industrials, now including Apple Inc., crossed the 18,000 mark for the first time, but ended the quarter down slightly (price return). Not to be outdone, the NASDAQ crossed the 5,000 hurdle for the first time since the tech bubble. Deal making continued in the quarter, supported by low borrowing rates, with AbbVie (an Equity Income holding) buying Pharmacyclics, Heinz buying Kraft (a long-time Equity Income holding), and Staples buying Office Depot. The current trailing twelve month (TTM) price-earnings (PE) ratio for the S&P 500, displayed in the chart above, is 19.51. Ignoring the Great Recession and the aforementioned tech bubble, stocks are trading at or near historical peak valuations based on S&P data going back to the late 1800's (red line). Don't immediately conclude that a lofty valuation means a drop in stock prices. Since the tech bubble peak in March 2000, the S&P 500 has returned a little over 4% per year through this March. In other words, the valuation in the chart above has dropped quite a bit since March 2000, but earnings have gone up even more. So, patience is and will be rewarded.

Commodity Indexes	1 Year	3 Years	5 Years
Bloomberg Commodity	-27.0%	-12.0%	-6.0%
Global Timber	7.5%	11.6%	7.4%

Model Benchmarks	1 Year	3 Years	5 Years
Conservative	1.0%	2.0%	3.0%
Moderate	2.0%	6.0%	7.0%
Target Income	2.0%	5.0%	7.0%
Growth & Income	4.0%	9.0%	9.0%
Growth	0.0%	9.0%	9.0%

As discussed in more detail in the Bonds section below, the Federal Reserve may raise interest rates later this year. Whether or not that comes to pass, rates are not likely to increase quickly as long as inflation remains subdued. On the topic of inflation, the table on the next page shows which categories have been increasing and which are falling in the popular Consumer Price Index through February. The total CPI was flat year over year. Excluding volatile food and energy, the so-called core CPI was up 1.7% year over year.

"The Federal Reserve may raise interest rates later this year."

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Stocks (cont.)

All three composites exceeded their primary benchmarks.

Low inflation and an accommodative Federal Reserve continue to cheer investors and provide the underpinnings of the current bull market in stocks. Indeed, the bull won't die from old age, but from some material change in the direction of inflation, interest rates, and/or corporate earnings.

Equity Indexes	1 Year	3 Years	5 Years
Large Stocks (S&P 500)	13.0%	16.0%	14.0%
Small Stocks (Russell 2000)	8.0%	16.0%	15.0%
International Stocks (EAFE)	-1.0%	9.0%	6.0%
Real Estate (NAREIT)	22.0%	14.0%	15.0%

Here at Northwest, our equity portfolios did well. In fact, all three composites exceeded their primary benchmarks. We discuss each in more detail in the coming pages, but you shouldn't get too excited when we outperform nor upset when we don't. Our goal is long-term, attractive risk-adjusted returns, not quarter-to-quarter performance. And, on that score, we are pleased.

Inflation Gainers and Losers by Category

	Year-Over-Year Price Change (%)
Biggest Gainers	
Medical care commodities	3.9
Electricity	3.2
Food	3.0
Shelter	3.0
All Items	0.0
Biggest Losers	
Gasoline	-32.8
Fuel oil	-31.2
Utility (piped) gas service	-6.5
Used cars and trucks	-2.9
Apparel	-0.8

Source: Bureau of Labor Statistics

Equity Portfolios

NW Equity Income

We made no additions to or deletions from the portfolio during the quarter. Near the end of the quarter, Kraft Foods (KRFT) agreed to merge with the H.J. Heinz Company to form the fifth largest food and beverage company in the world. You will receive one share of the new company, The Kraft Heinz Company, and $16.50 for each share you own. We like the merger, but will review the combined company's economics and valuation when the merger proxy is available.

Companies continue to return cash to investors through buybacks and dividends, a focus of this portfolio. Abbott increased its quarterly dividend to 24 cents per share from 22 cents, or 9%. 3M Co. (#1 on our holdings list) increased its quarterly dividend to $1.02 per share from 86 cents, or 19%. BlackRock increased its quarterly dividend to $2.18 per share from $1.93, or 13%. AbbVie increased its quarterly dividend to 49 cents per share from 42 cents, or 17%.

Top Ten Holdings	Percent
3M Company	4.9%
Stanley Black & Decker	4.8%
Clorox	4.8%
Wells Fargo	4.8%
Emerson Electric	4.7%
Johnson & Johnson	4.4%
Target	4.2%
Paychex	4.2%
Chevron Texaco	3.9%
Exxon Mobil	3.9%

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	NW Equity Income	Relative to S&P 500
Price to Next 12 Months' EPS	16.61x	90%
Price to Book Ratio	3.96x	151%
Return on Assets (ROA)	8.33%	102%
Return on Equity (ROE)	32.54%	156%
Projected EPS Growth (5 Yr)	6.85%	72%
Yield	2.80%	152%
Avg. Market Cap ($MM)	$67,659	92%

Source: Morningstar

NW BLUE CHIP GROWTH

We made no additions to or deletions from the portfolio during the quarter. As noted below, and really of little import at all, Apple (#3 on our holdings list) was added to the Dow Jones Industrials during the quarter and also became the first company to surpass a total market capitalization of $700 Billion during the quarter.

Top Ten Holdings	Percent
AutoZone Inc.	5.2%
Oracle Corp.	4.4%
Apple Inc.	4.1%
ADP	3.9%
Disney (Walt)	3.8%
Procter & Gamble	3.8%
PepsiCo Inc.	3.5%
Microsoft	3.4%
Accenture PLC	3.4%
NIKE Inc.	3.4%

As with Equity Income, our companies continue to up their purchases of their own stock and raise their dividends. Intel increased its quarterly dividend to 24 cents per share from 23 cents, or 4%.

"Our companies continue to up their purchases of their own stock and raise their dividends."

	NW Blue Chip	Relative to S&P 500
Price to Next 12 Months' EPS	16.86x	91%
Price to Book Ratio	3.46x	132%
Return on Assets (ROA)	8.90%	109%
Return on Equity (ROE)	24.62%	118%
Projected EPS Growth (5 Yr)	11.40%	120%
Yield	1.62%	88%
Avg. Market Cap ($MM)	$70,146	95%

Source: Morningstar

NW SMALLER COMPANIES

We made no additions to or deletions from the portfolio during the quarter. Insperity, Inc. shot to #1 of our top holdings in our Smaller Companies.

Top Ten Holdings	Percent
Insperity	5.2%
FICO	5.1%
Broadridge Financial	4.6%
Equifax	4.6%
AMN Healthcare	4.3%
World Fuel Services	4.1%
Factset Research	4.0%
Mettler - Toledo	3.9%
Waters	3.9%
SEI Investments	3.7%

During the quarter, an activist investment firm, Starboard Value, disclosed a large stake in Insperity and has made suggestions to management on how to improve performance.

	NW Smaller Companies	Relative to S&P 500
Price to Next 12 Months' EPS	18.62x	101%
Price to Book Ratio	3.35x	128%
Return on Assets (ROA)	10.60%	130%
Return on Equity (ROE)	19.43%	93%
Projected EPS Growth (5 Yr)	11.66%	123%
Yield	0.92%	50%
Avg. Market Cap ($MM)	$3,930	5%

Source: Morningstar

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NORTHWEST NEWS

NW NORTHWEST INVESTMENT COUNSELORS LLC

Author

Alex P. Dolle, CFA
Portfolio Manager

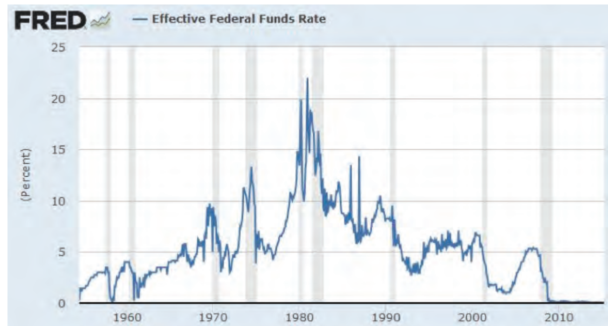
BONDS: Why Now?

Why extend duration now when interest rates have been so low for so long? Biggest reason: *Europe*

The last time the Federal Reserve began a campaign to raise interest rates was June 2004. The federal funds target rate had been at 1% for exactly one year, which was the lowest the fed funds rate had been since 1958. The interest rate cut one year before in June 2003, like the prior 12 cuts starting in 2001, was intended to stimulate a sub-par economy struggling to recover from the bursting of the 1990s boom and also to contend with a sharp decline in the inflation rate. According to much current day analysis, and of course hindsight is 20/20—or at least closer to 20/20 than in real time, Alan Greenspan's Fed fueled what would become our most recent burst bubble, the "housing bubble," from which we are still trying to fully recover. John Taylor, for whom the "Taylor rule," a monetary policy rule, is named, posited that Greenspan should have hiked rates beginning in 2002 according to the model inputs, as opposed to 2004 when tightening actually began. The two year lag between the Taylor rule's proposed tightening and actual tightening caused the boom according to Taylor. Why is this relevant now? It is relevant, because the Federal Reserve stands on the doorstep of the first rate increases in almost a decade. (The charts provided by the St. Louis Fed, shows the effective federal funds rate which has been near zero since the end of 2008):

Fixed Income Indexes	1 Year	3 Years	5 Years
T-Bills	0%	0%	0%
Barclays 1-3 Year G/C	1%	1%	1%
Barclays Intermediate G/C	4%	2%	4%

Market participants use a range of channels to forecast when the Fed will make its first move. Forecasters use the Fed's own "dot plot," a chart that maps its own member's expectations about future levels of the federal funds target rate; they use language that is seemingly hidden in plain view in the Fed's statements about monetary policy, such as "patient" and "accommodative"; and they use fed funds futures which trade like other commodities on the Chicago Board of Trade and offer a market-oriented view of policy actions. These forecasters tend to be bankers, economists, businessmen and



women, and participants like us, investors. Of course, the rates on the types of bonds we buy are not always fully susceptible to the Fed's influence on short rates. Even the shorter corporate bonds we buy tend to respond more to movements of longer interest rates which take their cue from economic growth and inflation expectations. However, inflation is also one of the Taylor rule's key inputs (actual inflation – target inflation) meaning Fed policy and long-term rates are not completely unrelated.

This raises two big questions: (1) will the Fed raise rates this year as they have promised? (remember the Fed must respond to current economic conditions, not just stick it out with its publicly prescribed policy) and (2) if the Fed raises rates, does that mean long-term rates will necessarily follow suit? It's important to note that the Fed derives at least some of its power by keeping the market off balance with the element of surprise. Too, the Fed is keenly aware that should economic growth in this long-lasting, yet tepid recovery, falter to the point of an economic pull-back or recession, it would be left largely without any bullets in the chamber with the effective rate already near zero. It follows that even in the face of a slowly growing economy, with as many reasons to keep rates low as to raise them, the Fed might act to tighten

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LIVE WELL. RETIRE BETTER.

BONDS: Why Now? (cont.)

anyways. The aforementioned Taylor rule has, with some room for debate, recommended tightening since the end of 2013…remember what happened last time there was a two year lag.

Although educational, what is the real use in the above discourse and how does it affect the bonds in your portfolio? In the end, the saying goes “don’t fight the Fed.” The federal funds target rate will certainly have an impact on bond prices, likely over the medium to long-term. In the near future however, it’s anyone’s guess when rates will rise. The market for fed futures currently suggests December 2015, but this changes frequently. Since we’ve thus far only discussed the Fed, it’s time now to bring out the big guns, namely Europe.

> “We stand by our long-running belief that rates will rise.”

Europe began its quantitative easing—or bond buying—program in the first quarter, offering some assurance to European investors that their assets would be protected by the region’s central bank, and reaffirming for others that it might be too little too late. For some time, European sovereign debt yields have been working their way steadily towards zero with Germany’s 10-year at 0.19%, the Netherlands, Sweden, and France at 0.36%, 0.40%, and 0.48%, respectively, and Switzerland taking the cake at -0.11% (yes that’s negative 0.11%!). The lack of growth, threat of deflation, QE, and corresponding plunging rates will all but assure that U.S. rates can’t move up too far, if at all, in the near-term. Between our own underwhelming growth, the precipitous drop in the price of oil, the strengthening dollar, non-existent inflation, and the attractive spread of U.S. Treasuries over global sovereigns for foreign investors, one has to wonder just how much rates can rise domestically.

We stand by our long-running belief that rates will rise…but we have revised that belief to factor in the current landscape and extend duration in our client portfolios ever so slightly. We have lengthened the overall duration of our intermediate fixed income composite by almost 10% and will continue to do so until we are within a closer range to our target benchmark. All bond purchases will still conform to our credit quality first philosophy and will include primarily high-grade corporate, agency, and municipal bonds. We utilize fundamental research, analyzing corporate financial statements to uncover justifiably enhanced yields and constantly assess the structure of the bonds we purchase to best navigate a universe of bonds with complex calls and options. Although we are moderately extending maturities we will continue to err on the shorter side relative to the industry as a whole, as it is our belief that even if interest rates persist at these low levels, the upside in price appreciation is not as great as the downside risk.

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503.906.9624 | www.nwic.net

5885 Meadows Road, Suite 860 Lake Oswego, Oregon 97035

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Disclosures

Please read this Disclosure section for a summary of changes made to our Form ADV Parts 2A & 2B, which we recently filed with the Securities and Exchange Commission (SEC). As a reminder, Registered Investment Advisers, like us, make at least annual filings with the SEC regarding changes in our business practices and how we manage money for our clients. It is the summary of these changes that you will find below in Disclosures. Should you want a complete copy of our Form ADV, please do not hesitate to contact anyone here at Northwest.

Item 4. Advisory Business

We removed a section on services for Emerging Wealth clients; we ceased providing this service.

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

We removed Preferred Stocks as a separate single asset strategy. For portfolios or Models which use preferred stocks, we have switched to using an exchange traded index fund.

Part 2b of Form ADV Item 4

- We added disclosures about the volunteer activities of Matthew J.N. Roehr which occur partially during the business hours of Northwest Investment Counselors, LLC.
- We updated the disclosures regarding Mark E. Scarlett's volunteer activities.
- We updated the disclosures regarding Michelle C. Garcia's volunteer activities.

Investment Objectives. Please remember to contact us if there are any changes in your financial situation or investment objectives or if you wish to impose, add or modify any reasonable restrictions to our investment management services.

Brochure Rule. Should you want a complete copy of our Form ADV Part II A & B, please contact us.

Performance. Complete composite performance data and disclosures are available upon request. Your account performance may differ from our composite performance or Model benchmarks due to specific holdings, weightings, cash, and any restrictions you placed upon us. Your performance, if included, is before management fees. Performance of indexes referenced does not include the deduction of management fees. Individual securities, if referenced above, do not represent all of the securities purchased, sold or recommended and you should not assume that any listed security was or will be profitable. Composite and individual security performance for the period above or your account(s) are available upon request. Your performance benchmark may differ from the Model benchmarks displayed above depending on your specific asset allocation.

Prices. Prices are normally obtained from independent pricing services and prices for certain securities, especially bonds or infrequently traded securities, may not represent the current price or market value.

Proxy Voting. Specific proxy votes and policies are available upon request. We may choose not to vote the proxies of the companies which are transferred in with your account(s).

Code of Ethics. We maintain a code of ethics. A copy of our code of ethics is available upon request.

No Guarantee. Investments are not guaranteed. Market values will fluctuate and you may lose money.

Client Benefit Agreement. In 2012 and 2013, we entered in to a Client Benefit Agreement with Charles Schwab in exchange for their waiver of the IMPACT 2012/2013 Conference fees for one attendee (valued up to $1,150). The Client Benefit Agreement requires us to maintain at least $10 million in client assets in custody with Charles Schwab. Please request a copy of our Form ADV Part II A for more information about our use of the Schwab Advisor Services platform.

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Northwest Investment Counselors, LLC
5885 Meadows Road, Suite 860
Lake Oswego, Oregon 97035
800.685.7884
503.906.9630 (fax)

www.nwic.net

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