NORTHWEST NEWS

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INVESTMENT COUNSELORS LLC

IN THIS ISSUE

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What's New at Northwest?

NWIC IN THE COMMUNITY

Congratulations to our very own Mark Scarlett for winning OSAA 3A Lewis & Clark League Coach of the Year for his excellent work with the Riverdale High School girls basketball team. The Riverdale Mavericks compiled a 22-2 record overall and a perfect 12-0 in conference play, the most improvement win-wise out of all the girls basketball teams in Oregon. Riverdale beat Oregon Episcopal in the Lewis and Clark League Tournament 51-39 to secure the league title. Five players earned All-League recognition as voted on by the coaches, including the league Player of the year. **NICE WORK, MARK!**

SHOW ME THE MONEY

Cash continually comes into portfolios via dividends, interest, maturing bonds, and stock sales. Our portfolios don't include a specific allocation to cash, but, as a similar saying goes, cash happens. Our desire to buy investments at the right price means that cash is not always immediately redeployed into new purchases. Sometimes it's necessary to hold cash for short periods of time. Recently, as short-term interest rates have increased, a commonly used cash equivalent known as a money market fund has begun offering high enough income to merit parking cash while we research more attractive long-term investments. At the writing of this piece, the money market fund we are using has a yield of more than 2.50%, though this is subject to change as rates fluctuate. Money market funds, such as the Schwab Value Advantage Money Fund Investor Shares (SWVXX), invest in very short-term, very liquid bonds and the funds' managers will attempt to keep the price of the shares at precisely $1 per share.

We are bringing this to your attention to allay any concerns that cash levels may be too low in your portfolio. We have simply moved money out of "cash," and into the money market fund. The primary difference between cash and the money market fund is that the fund needs to be sold before cash can be withdrawn, which requires a day's notice. Because of this delay, in accounts where we are aware of recurring distributions, an appropriate amount will be left as cash proper. If you have further questions, please reach out to discuss with a member of our investment team.

WOMEN'S SELF DEFENSE CLASS

This class is for women of all ages! Please join us for an afternoon of empowering yourself learning the basics of women's self-defense followed by a reception over beverages and hors d'oeuvres. **Please email mgarcia@nwic.net or call 503.906.9631 to RSVP.**

Northwest Calendar

April 19th – Good Friday
Office Closed

May 8th – Women's Self Defense Training
2:30 PM – 4:30 PM
Naga Community Martial Arts

May 27th – Memorial Day
Office Closed

July 3rd – Early Market Closure
Office Closed at 11:00 AM in honor of Independence Day

July 4th – Independence Day
Office closed

LIVE WELL. RETIRE BETTER.

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STOCKS

Stock markets started off 2019 with a bang. The S&P 500 Index rose 11.3% in the quarter as, among other things, fears of rising interest rates subsided, economic growth expectations continued to be steady, and the government shutdown ended with no major impact. Most major international markets were positive as well, ranging from a 23.9% return in China, 16.2% in Italy, down to one of the few markets posting a negative return – Malaysia, at a loss of 2.8%. Looking at other asset classes, oil, as measured by Nymex crude, rose 32.44% in the quarter to lead most assets, while the Argentine peso fell 13.21% at the other end of the spectrum.

Looking forward, stocks will probably continue to be at the mercy of anticipated interest rate actions by the Federal Reserve. Economic growth and corporate profitability should remain reasonably solid. Many traditional valuation measures remain a bit stretched, but we continue to hunt for new ideas to include in the portfolios and don't believe current market levels are in a danger zone. The trailing P/E ratio in the market is currently 21.24 and the forward P/E is 17.03, and the S&P has a dividend yield of 1.96% (source: WSJ). With inflationary pressures fairly benign and continued oil price gyrations, we did exit our fairly small position in commodities towards the end of the quarter.

Blue Chip Growth

There was generally a lack of momentous news in the first quarter for the Blue Chip holdings. We did receive stock in Wabtec as a result of our holding in General Electric. This company incorporates GE's transportation business. This small position will be a source of funds.

Smaller Companies

The buyout of Orbotech, a long-time holding in our Smaller Companies Portfolio, took place in February. Holders of ORBK will receive a mix of cash and stock in KLA-Tencor. We are analyzing KLA to determine what action we will take with the stock we receive in the combined companies.

Equity Income

Wells Fargo announced at the end of the quarter that President and CEO Tim Sloan is leaving the company. Sloan has officially said that he will be retiring from the company on June 30, 2019. However, he is already stepping down as its President, CEO and member of the Board of Directors. This follows a period of intense scrutiny by regulators and legislators around prior business practices at the bank. While these issues are a cloud hanging over the company, we believe as that dissipates that the company is well positioned to create shareholder value in the years to come.

Last quarter we asked the readers of our newsletter to caption the silly photo we took at a team building outing. After great deliberation, the winning caption comes from Sister Krista von Borstel, executive Director at CYO/Camp Howard, who nailed it with a short and sweet caption: "Please note new address…"

Thank you all for your many fine submissions!

Please note new address…

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SOME ESTATE PLANNING REMINDERS

We strive to help all our clients make sure their estate planning needs are up-to-date. We look over your beneficiary designations with you at portfolio reviews and often recommend adding a Designated Plan Beneficiary (also known as Transfer on Death) to any "taxable" account such as an individual account, joint account, etc. We are also pointing out to married clients who each have IRAs, or for those whose assets are primarily contained within one large IRA, that it may make sense to put each other on their accounts as Durable Power of Attorney (DPOA), so that we can take direction from the non-account holder as well as the account holder. Most financial institutions will no longer take a "blanket" DPOA and instead require one using their forms.

Along these lines here are some other actions that either individuals or married couples can take to avoid unnecessary work for others should one become incapacitated or die:

- Make sure you have indicated that you give your executor permission to manage your digital assets
  - Provide passwords to each online account, both social media and financial, and keep a copy with your will. Consider using a password aggregator for all online accounts where only one password is needed for all online accounts.
- Use an online service to keep track of all your financial accounts in one place (i.e. checking and savings accounts, credit cards, loans and/or mortgage(s), insurance, and investment accounts). Most banks provide an online tool for free or there are services such as Mint.com from Intuit.
- Keep a copy of your most recent tax return with your will (this will help locate social security numbers, investment accounts, etc.)

Please reach out to Northwest for any questions about what you should be doing to ensure your financial life is in order should something happen to you.

We put our clients' needs first rather than products or quotas. Our team has a wide breadth of experience, education, and credentials to develop a portfolio that fits each unique individual. We focus on the long-term so our clients can Live Well and Retire Better.

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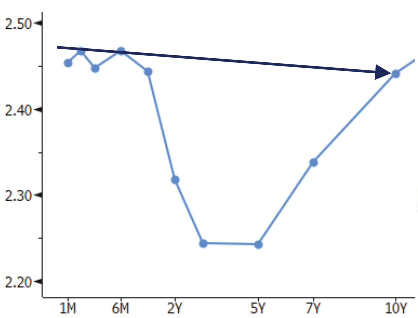
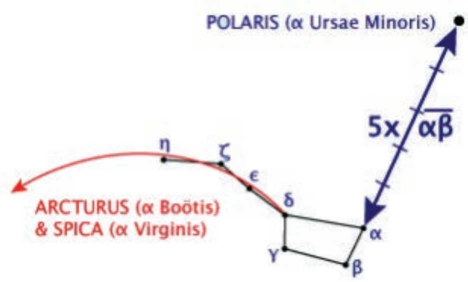
BONDS & THE BIG DIPPER

Macroeconomic Review

NWIC—or "new-ick" as we say internally—stands for Northwest Investment Counselors, not Northwest Interpretive Cosmologists, but nevertheless we'll be reading into the alignment of the stars in this newsletter for clues about the future. Before you conjure up images of tea leaves and crystal balls, both of which are ill advised for investing's sake, we're referring to the shape of the yield curve which, as one of our portfolio managers astutely pointed out, currently resembles the Big Dipper due to its recent inversion. On March 22, 2019, towards the close of the first quarter of 2019, and nearly 12 years since it last happened, the yield on a three-month Treasury Bill moved higher than the yield on its 10-year counterpart.

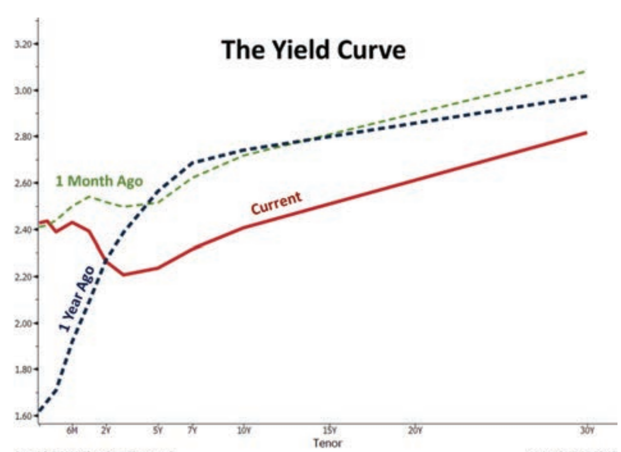




The Big Dipper, which is an asterism—or a popularly-known group of stars visible in the night sky—can serve as a navigational tool by following either the arc of its handle or two of the stars in the "cup" of the formation which point to Polaris, or the North Star. The Big Dipper is circumpolar in most of the Northern Hemisphere, meaning it doesn't sink below the horizon at night. Similarly, the yield curve is used as a navigational tool for market participants, one that remains highly visible through economic cycles and is used to predict declining economic conditions.

The navigational usefulness of the Big Dipper is the domain of astronomy, a natural science that applies mathematics and physics, given the known and unwavering positioning of its stars. The predictive abilities of the yield curve are more akin to the pseudoscience of astrology, with investors and economists attempting to divine information about the future by studying its movements and relative positions along its spectrum. Although the yield curve can't tell us with certainty what will happen, it shows us with certainty what the market expects to happen—though just how closely market expectations end up matching reality is a matter for crystal balls.

Let's back up quickly and discuss what a normal yield curve looks like, and why, before moving on to what its current shape is telling us. In a healthy economy, interest rates increase the further we go out in time. A 30-year mortgage is more expensive to a borrower than a 15-year mortgage because the bank is tying up its money for longer and needs to be compensated for that risk, and when you purchase a five-year bond, you expect to be compensated with a higher rate than on a one-year bond. This is because you're locking up your money for longer, thereby taking more risk—namely the potential for interest rates to rise or for inflation to eat into your return. A normal, upward sloping yield curve, such



as the one we had one year ago, is represented by the blue dotted line in the previous chart.

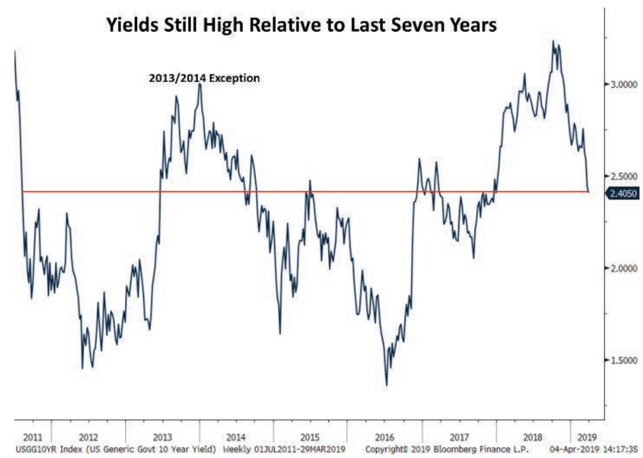
In addition to market forces, the Federal Reserve also plays a role in shaping the yield curve. The Fed influences short maturities—mainly two years and in—by setting the discount rate, or rate that banks use to lend short-term funds to one another. Market participants then influence actual rates on the yield curve based on expectations of where the Fed's rate policy is heading, along with economic and inflation expectations. Looking forward, The Fed has indicated it will likely keep rates unchanged in 2019 and the yield curve is corroborating that with rates basically flat from one month out to one year (red line in the chart). Once we get to two years on the yield curve it gets more interesting and the curve's predictive power becomes more apparent. Two-year Treasury yields are a good bit lower than one-year yields, signaling market expectations for one or two rate cuts by early 2021. Though the Fed has not explicitly said it intends to cut rates, the yield curve offers a preview of their future actions based on the collective wisdom of the market.

An inverted yield curve suggests that the Fed will lower rates. This is a pretty good hint that economic conditions may deteriorate, justifying more accommodative policy. Another reason the yield curve can indicate a slowdown is based on bank profitability. Banks extend loans, a vital part of economic expansion, only when it's profitable to do so. Banks "borrow short and lend long," a strategy of borrowing short, cheap funds and lending them out for longer periods. This strategy doesn't work unless the yield curve is upward sloping. When it inverts, lending can slow down dramatically. Since the current curve inversion is not excessive, and many economic trends are still quite positive, it could reverse quickly, preventing or limiting the severity of a recession.

Portfolio Review

The first quarter of 2019 brought a continuing decrease in bond yields, and though this was good for bond performance, it made our job of reinvesting 12/31/18 maturities in comparable rates more difficult. Despite the decrease, rates are still generally higher than they've been since 2011, except for a couple brief periods. The higher yields over the past year were a boon for investors who rely on their portfolios to generate safe, reliable investment income.

We continued to favor adding more high-quality positions to client accounts, such as Treasuries, government agencies, and higher rated corporate bonds, especially when purchasing longer dated bonds. We will still research and buy



bonds in the lower levels of the investment grade range, but those will generally be shorter maturities where we expect to get our principal back sooner.

One development over the quarter was the increase in bonds being "called" away. Having a bond called (i.e. prepaid by the issuer) is not necessarily a bad thing. It's a risk we're aware of when we purchase a callable bond, primarily those issued by government agencies such as the Federal Home Loan Banks (FHLB), Federal Farm Credit Bureau (FFCB), Fannie Mae (FNMA), and Freddie Mac (FHLMC). The risk is a calculated one, based on the "yield to call" (which means the yield if called) as opposed to the more common "yield to maturity." The primary risk of callable bonds, since government agencies are almost as safe as Treasuries, is not default; it's the uncertainty of when the bond will be called. This risk is offset by the compensation on a callable bond, which is higher than that of a non-callable bond. Take for instance a 10-year bond with a 3% coupon, purchased at par. If that bond is called in one year, you earned 3% (your yield to call) on a one-year investment. As of quarter-end, a comparable, one-year bond yielded less than 2.40%.

There's an additional rub. Calls are more common in decreasing interest rate environments, so it's hard to replace the level of income of the lost bond. For this reason, we don't allocate too much money to callable bonds, preferring to own some bonds that are callable, but more that are not. Other methods to either take advantage of a bond's call structure or to protect against the bond being called at all are: 1) buy callable bonds for which the yield to call is very compelling and where a call is possible or 2) buy a bond with a price so low that it effectively becomes a non-callable bond because the yield to call is so unrealistic (e.g. the bond described in the trade confirmation below).

Trade Confirmation

BOUGHT Farm Credit System 2.24% 10/03/2028 Callable

Price ($) 92.653

For this security:

- Execution details upon request
- Yield to Maturity 3.138%
- Redemption features exist for this security. Information provided upon request.
- Yield to Call 472.827% 03/28/2019 @ $100.00
- Current coupon rate is 2.240%
- Moody's Rating Aaa , S&P Rating AA+

Looking Ahead

Astronomy, astrology, tea leaves, and crystal balls aside, the plan for navigating the year ahead remains much the same as it's been all along, with, as always, some caveats specific to current market conditions. It's difficult, at best, to predict the direction of interest rates, so rather than get caught making too big a bet on what could end up being the wrong forecast, we build laddered portfolios. By continually reinvesting maturing bonds, some years we will have the benefit of higher rates, and in some years rates will be lower. It feels counterintuitive buying a three, four, or five-year bond with a lower yield than a one-year bond, as may be the case when laddering when the curve is inverted. The way to navigate this predicament is to look at various parts of the bond market where bargains may exist, such as in corporate bonds and brokered certificates of deposit (CDs), and by understanding that locking in a slightly lower rate for a longer period will still be advantageous if rates continue to decrease.

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The yield curve may currently be telling us that a recession is on the horizon, though it doesn't offer a precise ETA. Our belief is that when the next recession does hit, it won't be nearly as deep or as long a pullback as the last one due to the more well-capitalized position of most "systemically important" banks. However, yield curve analysis, and economics in general, is not a perfect science (thus the astrology comparison). In our last newsletter we marveled at the speed at which the market went from expecting as many as four rate hikes in 2019 to expecting zero. The U.S. economy is large and unwieldy, with a multitude of factors capable of shifting conditions rapidly. Even if it takes longer than we expect for the next recession to come along, and we can assure you one will eventually, remember, just as you can't find the brightest star in the night sky without starting at the lowest point in the big dipper, the path to recovery begins at the lowest point of a recession.

As an additional item this quarter, we realize our fixed income literature can be on the dry side. To liven it up, here's a shot of our Fixed Income PM, Alex Dolle, sliding into spring on Mt Hood with his daughter, Ella!

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NW BLUE CHIP GROWTH STOCKS

Top 10 Stocks	% of Total
Oracle Corp	5%
Cisco	5%
Apple Inc	4%
Microsoft	4%
PepsiCo Inc	4%
Automatic Data Processing Inc	4%
Intel Corp	4%
Accenture	4%
Procter and Gamble	3%
Laboratory Corp	3%

NW EQUITY INCOME STOCKS

Top 10 Stocks	% of Total
Johnson & Johnson	9%
Emerson Elec.	6%
Caterpillar Inc.	6%
Paychex	6%
Sysco Foods	6%
Clorox	5%
Stanley Black & Decker	5%
McDonalds	5%
Blackrock	4%
Wells Fargo	4%

NW SMALLER COMPANIES STOCKS

Top 10 Stocks	% of Total
Insperity	9%
Fair Isaac Co.	4%
AMN Healthcare	4%
Microchip Technology	4%
Broadridge Fin Sol	3%
Wynn Resorts	3%
Generac Holdings	3%
Orbotech Ltd	3%
Navigant Consulting	3%
Mettler Toledo	3%

NW INTERMEDIATE FIXED INCOME

Top 10 Bonds	Coupon/Maturity	% of Total
United States Treas NTS	2.000% Due 11-15-26	2%
United States Treas NTS	2.250% Due 11-15-24	2%
United States Treas NTS	2.250% Due 11-15-25	2%
Johnson & Johnson	2.950% Due 03-03-27	2%
United States Treas NTS	1.750% Due 09-30-22	1%
United States Treas NTS	2.250% Due 11-15-27	1%
Mead Johnson Nutrition Co	4.900% Due 11-01-19	1%
United States Treas NTS	2.125% Due 12-31-22	1%
United States Treas NTS	2.125% Due 12-31-21	1%
United States Treas NTS	1.375% Due 06-30-23	1%

MARKET INDEX DATA

Alternatives	1 Year	3 Years	5 Years
Timber	-17.0%	12.8%	6.1%
Energy Infrastructure	17.8%	10.1%	-0.6%
Commodities	-5.4%	2.9%	-8.9%
Real Estate	19.5%	5.1%	8.7%

Equity Indices	1 Year	3 Years	5 Years
Large Stocks (S&P 500)	9.4%	13.5%	10.9%
Small Stocks (Russell 2000)	2.1%	13.0%	7.1%
International Stocks (EAFE)	-4.0%	7.4%	2.3%

Fixed Income Indices	1 Year	3 Years	5 Years
Intermediate G/C (Barclays Int.)	4.1%	1.4%	1.9%

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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 Investment Counselors.

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- Applications or other forms.
- Discussions with non-affiliated third parties.
- Information about your transactions with us or others.
- Questionnaires.
- Tax Returns.
- Estate Planning Documents.

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- We do not sell your personal information to anyone.
- We limit employee and agent access to information only to those who have a business or professional reason for knowing, and only to non-affiliated parties as permitted by law. (For example, federal regulations permit us to share a limited amount of information about you with a brokerage firm in order to execute securities transactions on your behalf, or so that our firm can discuss your financial situation with your accountant or lawyer).
- We will provide notice of changes in our information sharing practices. If, at any time in the future, it is necessary to disclose any of your personal information in a way that is inconsistent with this policy, we will give you advance notice of the proposed change so you will have the opportunity to opt out of such disclosure.
- We maintain a secure office and computer environment to ensure that your information is not placed at unreasonable risk.
- For non-affiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors, we also require strict confidentiality in our agreements with them and expect them to keep this information private. Federal and state regulators also may review firm records as permitted under law.
- We do not provide your personally identifiable information to mailing list vendors or solicitors for any purpose.
- Personally identifiable information about you will be maintained during the time you are a client, and for the required time thereafter that such records are required to be maintained by federal and state securities laws. After this required period of record retention, all such information will be destroyed.

Disclaimer

The opinions and views expressed are those of Northwest Investment Counselors, LLC. They are current as of the date(s) indicated but are subject to change. Any estimates, targets, and projections are based on Northwest's research and analysis. No assurances can be made that any such estimate, target, or projection will be accurate; actual results may differ substantially.

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Specific securities mentioned may be used solely for example only and do not necessarily represent actual investments in any client portfolio.