

NORTHWEST NEWS

NORTHWEST
INVESTMENT COUNSELORS

IN THIS ISSUE

What's New	1
Stocks	2
Bonds	4 - 5
Top 10 Holdings	7
Disclosures	8

The Northwest Team

Mark Scarlett, CFA
Principal, Portfolio Manager

Matt Roehr, CFA
Principal, Portfolio Manager

Christel Turkiewicz, CRPC, CDFA
Principal, Wealth Manager

Michelle Castano Garcia
Principal, Wealth Manager

Alex Dolle, CFA
Portfolio Manager

Maria Elena Catala
Client Service Associate

**Northwest Investment
Counselors, LLC**
5885 Meadows Road, Suite 860
Lake Oswego, Oregon 97035
800.685.7884
503.906.9624
503.905.2995 (fax)

What's New at Northwest?

NWIC IN THE COMMUNITY

This year Michelle Garcia and her husband Michael have been named event chairs for the CYO / Camp Howard Champions of Faith Benefit Dinner being held on October 9th at the Oregon Convention Center. More youth are being served by CYO than any other time in the organization's 70-year history. Currently CYO / Camp Howard provides valuable sports and camp programs to over 11,000 youths annually. Volunteer coaches, like our very own Matt Roehr, along with athletic directors, event personnel, parents and parishioners together with staff and donors make these experiences possible. The spirit of CYO ensures that all kids participate, learn valuable life skills and most of all have fun! 100% of the funds raised at the benefit dinner contribute to sports and camp scholarships, programs and endowment. This year NWIC is proud to be a Horton Society Sponsor. We wish Michelle and Michael the best of luck with this wonderful philanthropic opportunity. To learn more about CYO / Camp Howard visit cyocamphoward.org.



NWIC DIVORCE GUIDE

If you, or someone you know, are in the midst of a divorce, our Divorce Guide will soon be available as a reference during this time of financial change.

CELEBRATING TWENTY YEARS

This year we celebrate 20 years in business. Thank you to our loyal clientele for making that happen.



SEC FILINGS

Please read the Disclosures section of our newsletter 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. Should you want a complete copy of our Form ADV, please contact our office.

Northwest Calendar

May 28th – Memorial Day
Office Closed

July 3rd – Independence Day
Early Market Closure - Closed at 11 am

July 4th – Independence Day
Office Closed

September 3rd – Labor Day
Office Closed

October 9th – CYO / Camp Howard
Champions of Faith Benefit Dinner
Horton Society Sponsor
6:00 PM - Oregon Convention Center

NORTHWEST NEWS

NORTHWEST
INVESTMENT COUNSELORS

Authors

Mark Scarlett, CFA
Portfolio ManagerMatt Roehr, CFA
Portfolio ManagerAlex Dolle, CFA
Portfolio Manager

STOCKS

The S&P 500 lost slightly over 1% in the first quarter of 2018, its first quarterly loss since 2015. There was a March retreat in the FAANG (Facebook, Amazon, Apple, Netflix, Google) stocks which cast a late pall over the NASDAQ index, however, it still finished up over 2% due to strong early Q1 gains. The Russell 2000 small-cap index was down just under 1%. Tesla has been prominently in the news as well, and its stock joined in the March retreat. Volatility returned in the quarter too. Some of the issues investors are grappling with include the specter of rising interest rates and the impact on perhaps already stretched valuations and a looming trade war with China and other nations. These uncertainties are offset by a healthy growth in corporate profits and generally favorable economic conditions throughout the world.

As a frame of reference, there were some outstanding, and some challenging asset returns in the first quarter, primarily in speculative areas. For instance, Cocoa increased 35.10% in the quarter and the Bovespa Index (Brazil's equivalent to our Dow Jones) rose 11.73%. On the downside, Bitcoin was cut in half, Lean Hog prices were down 20.24%, the Dow Jones REIT Index fell 8.35%, and apparently, many of us have cut back on our coffee consumption as Coffee fell 6.38%.

BLUE CHIP

Clients may see a new position in their portfolios following the first quarter – Discovery, Inc. It replaces Scripps Networks, which it purchased during the quarter. Owners of Scripps received both stock in Discovery and cash at the closing. Custodians who hold client securities are currently updating the new cost basis attributable to new holdings of Discovery. In addition to the brands from the acquisition, Discovery operates channels such as the Discovery Channel, Animal Planet, and TLC, to name a few.

Recall that we purchased General Electric in Q4 2017 – we rarely catch the absolute bottom of a stock, and we didn't here. However, despite the continued negative sentiment around the company, we feel like this restructuring company is worth a good bit more than where it is currently trading. We believe patience will be rewarded.

As a frame of reference, there were some outstanding, and some challenging asset returns in the first quarter, primarily in speculative areas.

SMALLER COMPANIES

Orbotech announced at the end of the quarter that it was being acquired by KLA-Tencor in a deal valued roughly at \$3.5 billion, which will include both stock and cash. When we first began investing in ORBK in 2011, its market capitalization was about \$750 million. The acquisition is expected to close before the end of the year.

There was some turbulence surrounding Wynn Resorts as its eponymous founder resigned following allegations of a long string of inappropriate behavior. We believe this will ultimately have no impact on the future operations of the company and continue to hold it.

EQUITY INCOME

There was no new activity in the Equity Income Portfolio during the first quarter. As an update, in March, CVS and Aetna shareholders approved their merger, which is expected to close in the second half of the year pending regulatory approval.

CELEBRATING 20 YEARS!



Alex Dolle, CFA Christel Turkiewicz Matthew Roehr, CFA Mark Scarlett, CFA Michelle Garcia Maria Elena Catala

**This year we celebrate 20 years in business!
Thank you to our loyal clientele for making that happen.**

Our financial guidance can be summed up by three key attributes that make Northwest's wealth management distinct and valuable. 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.



NORTHWEST
INVESTMENT COUNSELORS

503.906.9624 | www.nwic.net

LIVE WELL. RETIRE BETTER.

Authors

Mark Scarlett, CFA
Portfolio Manager

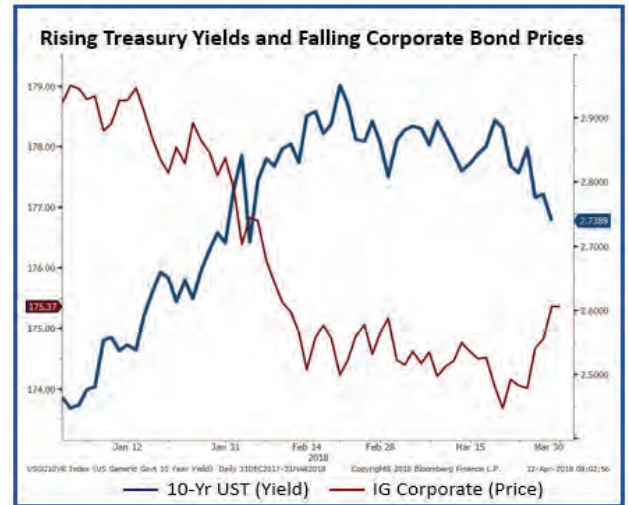
Matt Roehr, CFA
Portfolio Manager

Alex Dolle, CFA
Portfolio Manager

BONDS

Almost 10 years ago, stocks finished the year down 37%. Most of us remember that. Fewer remember the 13% positive return enjoyed by intermediate term government bonds. The return is likely less memorable due to the 1.26% yield on those bonds that same year. The following year, in 2009, stocks finished the year up 26.5% and bonds were down 2.40%, and (purely coincidentally) yielded 2.40%. For stock investors, the comfort received in looking back at these two years is that markets rebound, even after spectacular downturns. For bondholders, the comfort should be two-fold: 1) the realization that the spread between an especially good and especially bad year is not that great and 2) that when prices fall, maturing bonds can be replaced with higher yielding ones. For investors in both stocks and bonds the benefit of each as a complement to the other becomes apparent in years like 2008 and 2009.

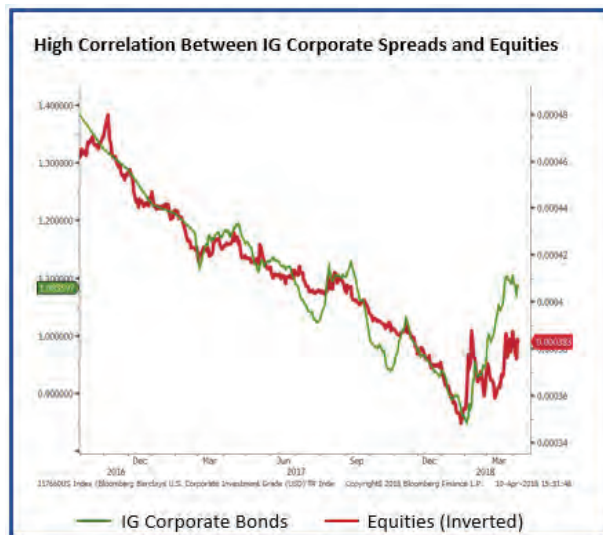
2.45% to almost 3%, in the middle of Q1, before ultimately finishing at 2.75%. Intermediate maturity Treasuries lost 1.2% in the quarter.



Over the past year, disappointment about paltry yields on bonds has given way to fear of falling bond prices and underwater fixed income portfolios, as the Fed continues increasing rates. Corporate bond prices, as measured by the Bloomberg Barclays U.S. Corporate Investment Grade Index, declined 2.25% in the first quarter of 2018 and 10-yr Treasury yields increased from

For our clients with laddered portfolios, bonds that matured at the end of 2017 and the beginning of 2018 were met with a return of principal and then reinvested in higher yielding bonds on an absolute and a relative basis (i.e. corporate bond yields increased more than Treasury bonds of similar maturity). The spread—or the extra yield earned by holding a riskier corporate bond instead of a very low risk Treasury—has increased (a good trend for buyers of bonds) but has seen a rising correlation—or tendency to move similarly—with equity prices (a less positive trend). Put differently, as stock prices fall, company bond spreads widen, suggesting the market views the shares and bonds as bearing additional risk. Although we expect this relationship to strengthen during economic pullbacks, the correlation has increased to a historical high recently, as seen in the chart below. This behavior is a bit unusual in good economic times.

Some pessimistic bondholders may choose to view the inverse relationship between bond prices and interest rates as akin to not being able to have



one's cake and eat it too, but for more glass half full—or buy and hold investors—the opportunity to invest at higher yields, even when prices are falling, is an advantage of bond arithmetic. Of course, this benefit comes solely to those fixed income investors holding laddered portfolios of individual bonds. Those who hold bond funds or portfolios that are poorly diversified maturity-wise may not see the upside to rising interest rates.

As an example, let's look at the bonds of single-A rated issuer Lowe's Home Improvement. In 2015, just before the Fed's first rate increase in more than 10 years, an 8-yr Lowe's bond could be purchased with a yield to maturity of 2.66%. Today, three years after purchase and six rate increases later by the Fed, that bond has lost 5% of its principal, but has a total annualized return of 1.57% thanks to coupon payments. If held to maturity in 2023 (as we expect it will be) its return will be the 2.66% yield to maturity. For comparison, an 8-year Lowe's bond that matures in 2026, has a yield to maturity today of 3.55%. Because client portfolios are laddered, meaning that bonds mature every year, we are not overly concerned with the prospect of rising rates. Sure, the Lowe's bond bought 3-years ago has an unrealized loss, but we will reinvest bonds that mature this year with the new higher yielding

Lowe's bond (or equivalent), and the original Lowe's bond will regain its lost value as it nears maturity.

Corporate bond yields are more attractive today than they have been in the recent past, but as we approach the latter stages of the credit cycle we feel it's prudent to overweight higher rated corporate bonds—especially when buying longer maturities—and to maintain an allocation to Treasuries. Treasuries, like corporate bonds, have experienced rising yields and falling prices, but their advantage in client portfolios, aside from liquidity, is the low correlation with movements in stock prices. Over the past 10 years the correlation between Treasury and equity prices is -0.59, which is the kind of relative movement we seek when building a diversified portfolio. The correlation suggests Treasuries will usually, but won't always, move opposite their equity counterparts. The lower risk profile of Treasuries also explains why their quarterly decline is almost half that of corporate bonds.

We will continue to watch developing macroeconomic themes when identifying bonds for purchase, including the Fed's ongoing rate increases, inflationary pressures, and the flattening of the yield curve. As these conditions change, our credit focus may shift, but our dedication to constructing laddered fixed income portfolios will remain steadfast, since we feel this best positions client portfolios.

Due to the nature of the bond market there is a wider variance of positions in client bond portfolios than there are for equities. We encourage clients to reach out to learn about individual bonds in their portfolios to better understand our investment process and rationale. Strategies are also available to create bond portfolios that meet specific cash flow or tax-efficiency needs.

BUCKET STRATEGY

We recognize that with the return of some volatility in the market you may wish to reassess your investment allocation. NWIC's "Bucket Strategy" may be just the allocation to put your mind at ease. Designed for clients requiring more precise and predictable cash flows, our "Bucket Strategy" is composed of a cash component, a growth component, and a personalized bond ladder. If you are concerned about having enough money in retirement or need predictable annual cash flow, it may make sense to consider a transition from a pure total-return approach to this hybrid total-return and liability matching approach to de-risk retirement cash flow.

Bucket 3 (Growth) Long Term

Holds stocks, higher risk bonds, and alternatives for growth, inflation protection, and to replenish Bucket 2.



Bucket 2 (Bond Ladder) 10-Years

Holds a 10-year ladder of high quality bonds matched to your inflation adjusted budget to replenish Bucket 1.



Bucket 1 (Cash) Today

Holds cash for upcoming annual expenses.



MEET OUR CFAs



Alex Dolle, CFA

Mark Scarlett, CFA

Matthew Roehr, CFA

Our Portfolio Managers have all earned the Chartered Financial Analyst (CFA) designation, an internationally recognized, graduate-level program that provides a strong foundation of practical investment and portfolio management expertise. We focus on the long-term so our clients can Live Well and Retire Better.

NORTHWEST NEWS


NORTHWEST
 INVESTMENT COUNSELORS

NW BLUE CHIP GROWTH STOCKS

Top Stocks	% of Total
Oracle Corp	4%
Apple Inc	4%
PepsiCo Inc	4%
Cisco	4%
Microsoft	4%
Accenture PLC	4%
Laboratory Corp	4%
Intel Corp	3%
Automatic Data Processing Inc	3%
Disney	3%

NW EQUITY INCOME STOCKS

Top Stocks	% of Total
Johnson & Johnson	8%
Caterpillar Inc.	6%
Emerson Elec.	5%
Stanley Black & Decker	5%
Sysco Foods	5%
BlackRock Inc.	4%
Paychex	4%
Wells Fargo	4%
Unilever	4%
3M	4%

NW SMALLER COMPANIES STOCKS

Top Stocks	% of Total
Insperity	6%
AMN Healthcare	5%
Broadridge Fin Sol	4%
Wynn Resorts	4%
Fair Isaac Co.	3%
Orbotech Ltd	3%
SEI Investments Co	3%
Price T Rowe	3%
Generac Holdings	3%
DST Systems	3%

NW INTERMEDIATE FIXED INCOME

Top Bonds	Coupon/Maturity	% of Total
Maxim Integrated Prods Inc	2.500% Due 11-15-18	3%
United States Treas NTS	2.250% Due 11-15-24	2%
United States Treas NTS	2.000% Due 11-15-26	2%
United States Treas NTS	2.250% Due 11-15-25	1%
Mead Johnson Nutrition Co	4.900% Due 11-01-19	1%
United States Treas NTS	1.750% Due 09-30-22	1%
Fiserv Inc	4.625% Due 10-01-20	1%
United States Treas NTS	2.125% Due 12-31-22	1%
Johnson & Johnson	2.950% Due 03-03-27	1%
United States Treas NTS	2.125% Due 12-31-21	1%

MARKET INDEX DATA

Alternatives

	1 Year	3 Years	5 Years
Timber	37.8%	14.7%	11.3%
Energy Infrastructure	-17.2%	-10.1%	--
Commodities	4.1%	-2.8%	-9.4%
Real Estate	-3.8%	0.5%	5.7%

Equity Indices

	1 Year	3 Years	5 Years
Large Stocks (S&P 500)	14.0%	10.8%	13.3%
Small Stocks (Russell 2000)	11.9%	8.4%	11.5%
International Stocks (EAFE)	14.9%	5.7%	6.4%

Fixed Income Indices

	1 Year	3 Years	5 Years
Intermediate G/C (Barclays Int.)	0.2%	0.7%	1.0%

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.

Item 2 Material Changes

The following are material changes made since our last annual filing in 2017:

Item 5 Fees and Compensation - We stopped billing on accrued interest. Your bill will be calculated on the market value of your account as determined by our service partner, Black Diamond, without accrued interest or accrued dividends.

Part 2b of Form ADV Item 2 - We updated Part 2b to reflect Cheyne Sorensen's leaving.

Part 2b of Form ADV Item 4 - We updated the disclosures regarding Michelle C. Garcia's volunteer activities.

Northwest Investment Counselors, LLC Privacy Policy

Northwest Investment Counselors, LLC, an investment advisory firm, is committed to safeguarding the confidential information of its clients. We do collect nonpublic personal information in order to open and administer your accounts with us and to provide you with accurate and pertinent advice. We hold all nonpublic personal information you provide to us in the strictest confidence. If we were to change our firm policy, we would be prohibited under the law from doing so without advising you first.

You may direct us to not make disclosures (other than disclosures required by law) regarding nonpublic personal information to non-affiliated third parties. If you wish to opt out of disclosures to non-affiliated third parties please contact us at (503) 906-9624.

Northwest Investment Counselors, LLC collects personal information about you from the following sources:

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

Northwest Investment Counselors, LLC uses your personal information in the following manner:

- 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.

Nothing contained herein should be construed or relied upon as financial, legal, or tax advice. All investments involve risks, including the loss of principal. Investors should consult with their financial professional before making any investment decisions.

Some information has been taken directly from unaffiliated third party sources. Northwest believes such information is reliable, but does not guarantee its accuracy or completeness.

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