

# WOODSTOCK

## QUARTERLY NEWSLETTER

Spring, 2012

As we discussed last quarter, we are introducing you to some of our new approaches to our traditional investment style. The description of our strategies accounts on page two by Adrian Davies is one new approach.

Generally and most importantly we remain focused on what we do well: picking good companies for our clients' portfolios. A "good company" is one whose value can be unlocked by management directed changes, with a solid balance sheet, a solid basic franchise and, in comparison to competitors, looks likely to succeed. We do look for companies more often in four S&P500 sectors than in others: consumer staples, energy, health care and information technology. However, our general diversification goal and our specific search for bond substitutes carries us to most of the other sectors for some portion of a client's portfolio.

We'd also like to briefly mention "benchmarking". As the above discussion would emphasize, the S&P500 stock index is the expected benchmark for our investment style. We use it. Some of our clients prefer other yard sticks. Risk adjusted return tries to take into account that a portfolio of higher quality stocks may not bounce as high when the market embraces risk. It also may not fall as low when the market decides that segment of the market really is risky. The financial sector is a good current example.

As part of our investment in the firm over the last five years "we've become GIPS compliant". Through December 31, 2010 our firm wide investment performance has been verified for the previous five years. This was a substantial investment for us and differentiates us from some of our competitors. Our "Growth Composite" which makes up between 75% and 85% of assets under management is available from your investment manager.

Another group of our clients watches the absolute value of their account(s) over time. The mark of success is to be taking distributions from an account while watching its purchasing power keep up with inflation overtime.

Many clients at Woodstock believe that if their account(s) contain a diversified basket of high quality stocks that they will do as well as anyone in the investment world and we agree with them. These companies have high quality managements that are trying to solve their business problems every day. They are an impressive crew to have working to benefit you.

We'd like to close with one more point. In 2007 a client wrote an article on the "Three types of Investment Management Organization". The first two are 1. A bank or other shareholder owned organization and 2. a firm owned by the investment professionals, who provide the services. He compared them in terms of service to clients, conflicts, and ability or willingness to invest in the business. The third type is investment management firms owned by its clients, which is us. He concludes by saying "on balance, of the three types of investment management organization, there is much to be said in favor of the third". We agree.

We know that you are the most valuable business development tool that we have. Your referral of a friend, colleague or family member to us is the most important way that we grow.

We thank you for your support and want you to know that we are dedicated to serving your best interest. ♦

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*Paul D. Simpson, President  
William H. Darling, Chairman*

### In This Issue:

- **Introducing Woodstock's Three New Portfolio Strategies**
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- **Spring Cleaning**

*Would you prefer to receive the Woodstock Quarterly Newsletter via Email? Please contact your Portfolio Administrator, or email [hperry@woodstockcorp.com](mailto:hperry@woodstockcorp.com), and we will send them to you electronically going forward. Thank You!*

## Introducing Woodstock's Three New Portfolio Strategies

Adrian G. Davies

As you may have noticed from reading our ADV2<sup>i</sup>, Woodstock has broadened its investment universe. We remain committed to investing in high quality growth stocks for our core, client portfolios. However, some clients would like to take a more aggressive posture towards stocks, and our new strategy portfolios accommodate these needs. For clients who are interested, we have three different, sector-focused strategies. The three strategies covered include healthcare, technology and energy. Clients may choose to participate in any, or all three, if they are interested. The strategies will be managed in separate accounts, and should, in total, amount to only a small component of your overall investment portfolio.

While we strive to uphold our standards of investing only in high quality companies, the strategy portfolios will invest in riskier stocks than Woodstock typically selects for its core portfolios. They tend to be smaller capitalization stocks, and many are niche industry players or single-product companies. Given their greater risk and return potential, we make them available to clients as components of a sector-diversified strategy portfolio. The strategy portfolios will be concentrated in, what we consider, our best aggressive stock ideas, typically holding 10-15 stocks each. It remains our intention to buy and hold stocks for the long term, although the strategy portfolios may entail greater portfolio

As of December 31, 2011:

| <b>Energy</b>          | <b>Healthcare &amp; Biosciences</b> | <b>Information Technology</b> |
|------------------------|-------------------------------------|-------------------------------|
| 18 Accounts            | 18 Accounts                         | 18 Accounts                   |
| \$7.05 Million         | \$5.16 Million                      | \$4.79 Million                |
| 13 Stocks              | 12 Stocks                           | 12 Stocks                     |
| Inception October 2009 | Inception October 2009              | Inception October 2009        |

<sup>i</sup> Our Form ADV2 is provided to each client before or at the time a client opens an account at Woodstock. An updated ADV2 may be mailed to you as required by the Securities & Exchange Commission (SEC) when we make changes in how we operate, for example. A current copy of Woodstock's ADV2 is available in paper or electronic form upon request or at the SEC website.

turnover than typical Woodstock accounts.

We believe that fundamental research is an essential component to generating consistently superior investment returns. These strategy portfolios further Woodstock's philosophy of investing in our research process. Our portfolio managers are stock analysts as well as client relationship managers. Our clients have the benefit of seeing our portfolio construction on a transparent basis. We enjoy discussing our investment themes and ideas with you. And, by investing directly in stocks as opposed to mutual funds, we eliminate one layer of investment management fees. That our analysts have expanded their investment coverage furthers their general knowledge about industry trends and opportunities. Therefore, we believe that all of Woodstock's clients benefit from our more expansive research effort.

If you are interested in investing in any of these portfolio strategies, additional information is available. Please call your portfolio manager to discuss whether any of the strategies are appropriate for you or for someone who may be considering opening an account at Woodstock. As always, we welcome your interest, questions, and feedback. ♦

*Adrian Davies is a Senior Vice President and Portfolio Manager at Woodstock Corporation. You may contact him at [adavies@woodstockcorp.com](mailto:adavies@woodstockcorp.com).*

## A Broken Business Model

Lawrence S. Foster

On March 14th of this year a Goldman Sachs Vice President, Greg Smith, resigned. His resignation was immediately followed by the release of a letter on the Op-Ed page of the New York Times that he authored regarding the culture at Goldman. The letter made front page news for its criticism of Goldman Sachs, long considered the gold standard of investment banks.

In his letter to the New York Times, Smith credited Goldman's culture as one of the reasons behind the firm's success over the past 143 years. The culture as he described it was one of teamwork, integrity and humility collectively harnessed to allow Goldman's clients achieve their goals.

He was proud of his affiliation with Goldman and he helped recruit and train at least one class of the summer intern program for sales and trading. Goldman Sachs was the best bank on Wall Street and you had to be special to make the grade. It wasn't about making money, though they were all very well paid, it was about "The Firm."

Somewhere along the line in Smith's tenure at Goldman, he noticed the culture beginning to change. The investment banking business model has long been one that is conflicted. Investment banks primary function is to serve as an intermediary in the capital markets- the link between corporations who need capital and investors who have

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capital to invest. The banks get paid fees by companies for helping them issue debt, raise equity in an IPO or secondary offering, or provide advice on potential mergers and acquisitions. Investment banks also get paid commissions by buyers and sellers of securities. This is nothing new. What has changed is that over the past twenty years nearly all Wall Street firms scrapped the private partnership structure in favor of being publicly traded entities.

As public companies, investment banks now have access to more capital enabling them to underwrite the larger debt and equity offerings which were becoming the norm. At least that was the logic and justification when these firms started to go public in the late 1970s and 1980s. In 1999, one or two years before Greg Smith joined the firm, Goldman went public- it was the last of the major private partnerships among Wall Street investment banks to do so.

Greg Smith's world changed gradually, but he noticed over time that the culture became more aggressive. Promotions were given to those who: 1) sold products or stocks that the firm was trying to clear from inventory; 2) hunted elephants with high margin products; and 3) "trade(d) any illiquid, opaque product with a three letter acronym." Of course, the latter category is largely made up of bundled mortgages – both commercial and residential, as well as derivative products. According to Smith, the change in culture was evident in how sales meetings were conducted where emphasis was more about selling profit-generating product and getting rid of poison assets, rather than on getting clients what they needed.

The selling function occupies an inherently conflicted space between sellers and buyers of securities. They make their money by conducting trades (both purchases and sales) on which a commission is paid. When a firm's proprietary trading is layered onto that model, life gets even more complicated. Can the bank trade for its own account ahead of its clients and based on its client's activity? On the institutional side of this business both the buyers and the sellers conduct independent research. When Woodstock buys stocks that might be recommended by one of the several brokers from whom we receive research, we do so with the conviction that our own analysis provides. However, the individual client of a broker will not have time or perhaps the expertise to conduct the research so the buy/sell decision may be based on something subjective or emotional rather than analytical. Furthermore, when a broker recommends something more exotic than shares of stock, is the broker motivated by higher fees?

As our clients know, Woodstock's business model is fee based and seeks to be extremely transparent. We believe our interests are well aligned with those of our clients. Every quarter our clients get a statement showing all the transactions: cash flows in and out, stocks we may have bought or sold, and income generated and fees taken. Of course, we urge and recommend that every client look over their statements and call us if they find something they don't understand. Our only objective is to provide our clients the results they are looking for.

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## Spring Cleaning

Mary L. Connelly

It's that time of year again! While you are gathering your income tax information, it might be a good time to review your other important documents: wills, trusts, and power of attorney for instance.

Many of us procrastinate about going to an attorney the first time to write a will, revocable trust, healthcare proxy and a power of attorney. When it is finally done, there is a sense of relief - but then they are filed away, perhaps to never be seen again-(your attorney should have the originals). Is it still clear to you what all of these instruments accomplish, and do they reflect what you want now, perhaps 10 or 20 years later?

In light of recent changes made to estate and gift tax law, it might be a good time to review your estate plan with all of its various components. In addition, certain life events, such as changes in employment, family situations, (marriage, divorce, births, illness or incapacity and death) or even the valuation of your estate can affect an estate plan.

The following are a few areas in which it may be time to review and/or update:

Will – Is it up to date? Do you want your property disposed of in the same manner with the same executor you originally chose? Is the executor still up to the task?

*We are growing and accepting new clients. The best clients are the ones that come from a referral. Please consider recommending us.*

## Spring Cleaning (cont.)

**Power of Attorney** – Be sure whichever type of power you have in effect is still the one best suited for your needs and the Agent you have chosen is still the person you want to have the power.

**Healthcare Power of Attorney (Proxy)** - Be sure the Agent you have chosen is still the person you want making important healthcare decisions for you.

**Living Will** – Have your attitudes changed since you first signed your Living Will? Are your current desires reflected in this document?

**Revocable Trust** – Review your trust document to see if your original intentions remain valid today. Are the trustees you chose when you created the trust still appropriate? Do the recent estate and gift tax law changes affect your intentions?

**Retirement and Pension Plans** – Are your beneficiary designations current and applicable? Are the distribution percentages still the proportions you would like? Remember, if you were recently married or divorced you should modify your beneficiaries accordingly.

**Life Insurance** – Have life events changed your beneficiary choices and will the proceeds be adequate to help cover expenses and care for those left behind?

**Homeowners Insurance** – Are you adequately insured to replace any damaged property, and are you aware of what your policy covers? Make sure all riders are current.

**Umbrella Policy** – Do you have one? Is your coverage adequate?

A question we are frequently asked is, "How long do I keep my documents?" We have provided suggested document retention periods. Please note that these timeframes are meant only as guidelines. You should address specific questions with your tax preparer, or view the publication at the IRS website: <http://www.irs.gov/pub/irs-pdf/p552.pdf>

| <b>Document</b>                         | <b>Retention Period</b> |
|---|-------------------------|
| Alimony, Custody, Prenuptial Agreements | Permanently             |
| Bank Statements                         | 3 years                 |
| Birth and Death Certificates            | Permanently             |
| Canceled Checks                         | 3 years                 |
| Certificates of Deposit Statements      | 7 years                 |
| Charitable Contributions                | Keep with tax return    |
| Employee Business Expense Reports       | Keep with tax return    |
| Forms 1099 Received                     | 7 years                 |
| Forms W2 received                       | Permanently             |
| House Records (mortgage and repairs)    | Permanently             |
| Income Tax Return Record                | Permanently             |
| Insurance Policies                      | Keep until expiration   |
| List of Financial Assets                | Permanently             |
| Major Purchase Receipts                 | 7 years                 |
| Medical Records                         | 7 years                 |
| Wills, Trusts                           | Permanently             |

Source: [Dynamiccontent.net](http://Dynamiccontent.net)

We hope you find this information helpful in keeping your financial matters in order. If you have questions or would like to discuss any of these topics in more detail, please feel free to contact us.

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