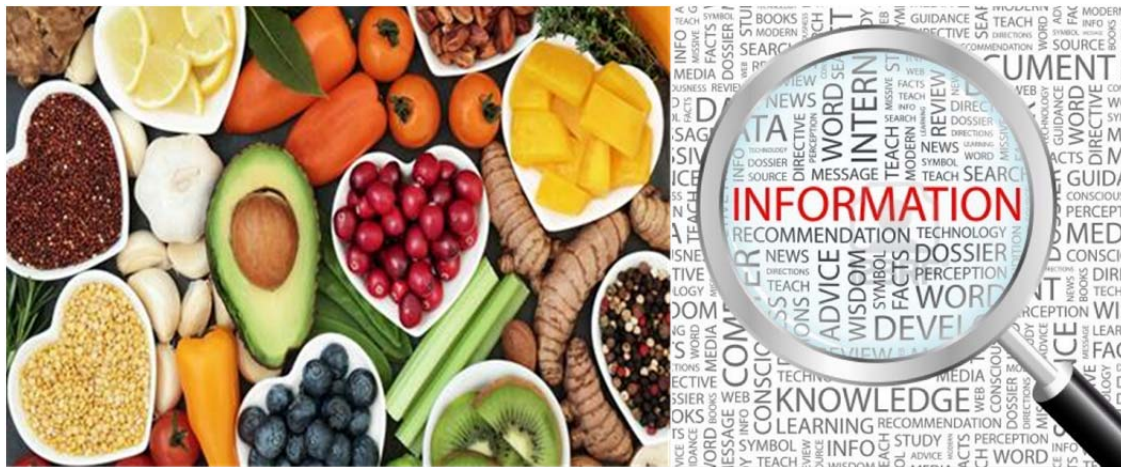




INVESTMENT THOUGHTS

JULY 2019

GUIDELINES FOR A HEALTHY DIET



We all know the importance of a healthy diet. Fruits, vegetables and whole grains keep us healthy and fit. We strive to reduce the amount of sugar and fat we eat. When investing, it is also important to watch what we consume. There is a tremendous amount of information available to investors today. While some of it can nourish our investment decisions, much of it is just empty calories or worse, junk food. It is fortuitous that we can improve the quality of the information we consume by following the guidelines of good nutrition. By doing so, we believe we make better investment decisions for you.

Be Disciplined:

The world is full of delicious food. The path of least resistance, of course, is to eat what is most appealing and convenient. Unfortunately, this approach can lead to a diet that is suboptimal or even unhealthy. There are similar challenges when doing investment research. For example, it is easy to access information about investments by surfing the Web. While convenient, this information can be misleading or inaccurate.

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At Ledyard Financial Advisors, we select our information sources carefully. We also have a process in place to review the quality of our information sources on a regular basis. These sources include firms that only work with professional investors and have significant resources devoted to providing high quality research. One of our providers is BCA Research. It is a leading provider of investment strategy advice. BCA has an experienced team of 65 research analysts located in seven offices. It has a strong record of providing prescient research dating back to the 1950s. Working with firms like BCA allows us to leverage our resources.

Know its Origin:

According to Trace One, over 90% of consumers believe it is important to know where their food comes from. This information is helpful because it provides clues about its quality. It is also important to know the origin of the information we rely on to make investment decisions. Many sources have objectives that differ from ours and may act out of self-interest making the information they provide less reliable. Short sellers, for example, profit when a stock declines in value. They often write stories emphasizing the negatives so that a stock will fall. Analysts at investment banks write detailed reports recommending investors buy certain stocks. At the same time, they may earn fees from the same companies for selling their stock to investors to raise capital. This is a conflict of interest. There are many examples of how conflicts like this hurt investors.

We always consider the sources of our information to make sure they are credible and we do not depend on recommendations from firms that have conflicts of interest. Instead, we rely on information from independent firms. They receive compensation based solely on the quality of their information and recommendations. Their interests are aligned with ours.

Avoid the Inner Aisles

Health experts say that we should avoid the inner aisles of the supermarket. This is where stores display processed foods that contain too much sugar, salt, fat and artificial ingredients. As investors, we should also be wary of over processed information. It can become distorted as people with different objectives interpret and pass it along to others. These distortions may be unintentional due to behavioral biases. People have a tendency to interpret new evidence as confirmation of their existing beliefs. Psychologists call this confirmation bias. This bias can cause them to ignore facts and only pass along information that supports their point of view.

When possible, we like to analyze information before others process it to reduce the chance of such distortions. We review financial statements and listen to company conference calls. This allows us to learn how a company is doing directly from its management team. We also review economic and market data that comes directly from their sources.

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Crunch the Numbers

There is an overwhelming amount of data to collect and analyze when trying to follow a healthy diet. Nutrition labels provide information on the amount of nutrients, calories, sugar, and fat in packaged goods. Unfortunately, it is a daunting task to keep track of all this information. As investors, we use technology to help us cull through massive amounts of data on thousands of companies. This screening technology helps us identify and focus on companies with characteristics we find most attractive.

We also work closely with a firm that specializes in quantitative investment research. They rank stocks weekly based on valuation, earnings quality, the effectiveness of management and various other market related factors. Their system has been very successful over nearly 20 years. We look for new investment ideas from their highest ranked stocks. We also review the rankings of our current holdings. If a ranking drops to a level that concerns us, we will review the stock to determine if we should sell it. Of course, we do not make investment decisions based on quantitative information alone. We also analyze a host of qualitative factors before determining whether to buy or sell a stock.

Erick McAdams, a Personal Trainer, says, "If you keep good food in the fridge, you will eat good food." The same principle applies to investment information. We put a lot of thought into our information and do our best to make sure our team has access to the highest quality inputs possible. By doing so, we believe we are able to make healthier investment decisions for you.



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