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The Intersection of Quality and Value

At Crawford Investment Counsel (Crawford), we seek to position our portfolios with a strong bias toward high-quality companies. This means that the businesses we own will demonstrate an above average level of business consistency and possess strong financial characteristics. However, with many high-quality companies, the underlying quality is already well-appreciated and recognized by the marketplace. This is most typically reflected in a high valuation of the company shares. Said another way, the market generally affords higher-quality companies a higher price. For this reason, Crawford seeks to emphasize quality AND sensitivity to the valuation of the shares. This dual emphasis provides a margin of safety and the potential for upside appreciation as the company is afforded a valuation that is more consistent with its underlying business strength and consistency.



In sum, Crawford seeks to be at the intersection of value and quality. Here is how we get there:

Begin heading straight up Dividend Street. If you begin down the road toward quality and value, you really should start and stay with dividend-paying companies. There may be shortcuts that quantitative strategies utilize, but these are not nearly as effective in our experience. Quality and dividends are inexorably linked. Deviating from companies with solid capital allocation policies is a detour that Crawford is not willing to take.

Take a hard left onto Cash Flow Freeway. Dividends are paid from cash generated by the business. To achieve true Dividend Integrity, companies must generate consistently rising free cash flow. Staying with businesses that have this characteristic leads to a number of attractive investment characteristics, among the most notable including solid balance sheets and lower capital intensity or fewer investment requirements. This leaves ample cash to pay dividends, buyback stock, and reinvest back into the business.

Merge onto Fundamentals Boulevard. Company fundamentals are the central focus as Crawford performs investment research and analysis. Both qualitative and quantitative methods are utilized to help

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identify opportunities where the stock market may be mispricing the true intrinsic value of the underlying business. Factors such as the stability and trajectory of revenues and earnings, profit margins, return on equity, and dividend history are all part of the fundamental research process.

Exit at Consistency Road and remain on this straight and narrow path. What we are seeking in our investments is predictability, because it helps improve our likelihood for success on any investment. We undergo an exhaustive due diligence process to help ensure we will own consistent companies that demonstrate fundamental improvement year in and year out. Rising fundamental trends will be reflected in share prices over time, but the stock market often misjudges underlying quality. This is the opportunity we seek to exploit at Crawford. Suffice it to say, we like to emphasize consistency because the future is unknown and the range of potential outcomes for any company is quite wide.

At the traffic circle take the 2nd right onto Valuation Access Road. Once we have reached our conclusion that a company is of sufficient quality, we then apply a valuation discipline to help make sure we do not pay too much for any particular stock. We know that the price you pay for any investment is a major factor in the eventual outcome, so we are highly price sensitive and seek out value within the higher-quality strata of companies. Lower multiples of earnings and cash flow and higher dividend yields can all be signs of attractive valuation, but there is more to it than that. We still have not reached our destination.

Find TSR Avenue and this will take you to your destination. A convention unique to Crawford is our TSR framework. This is our internally developed total return algorithm that is maintained on all portfolio holdings. Short for “Total Shareholder Return,” this includes the overall quality of the business, the valuation of the shares, and our individual investment thesis. It helps define our own internal expectations around both fundamentals and potential valuation changes as the thesis plays out.

This is a summary of how we get to the intersection of quality and value. In our profession, the market is always changing, share prices fluctuate daily, and our work is never really done. So, we continually evaluate portfolio holdings against other opportunities in the marketplace, applying the same fundamental investment techniques described above.

Success is a journey, not a destination. We embrace this philosophy at Crawford and never really expect to reach a final destination. The stock market is constantly changing, so ours is a dynamic process that is ever evolving but permanently grounded in quality and value.

There is no guarantee of the future performance of any Crawford portfolio.

This material is not financial advice or an offer to sell any product.

Crawford reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs.

The investment strategy or strategies discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances.

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