Gantzert Investment Co., LLC

Supplement to Firm Brochure

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BACKGROUND

Gantzert Investment Co., LLC was formed in 1996 because of Paul Gantzert's passion for investments and his sincere devotion to helping individuals achieve financial success. Gantzert Investment Co., LLC is a SEC-registered investment adviser. The Firm has a staff of four, which includes three partners, and one employee. Paul Gantzert is Managing Partner responsible for investments and client service. Rhonda Tordai is Partner and Chief Compliance Officer, who serves as business manager and is responsible for managing operations. Corey Carbery is a partner, who joined the firm in 2013, and provides client service support. Margaret Bauman has been with the firm since 2008 and provides administrative support. The decision was made that rather than grow the business for the sake of numbers, we would keep the business small enough to serve each client on a personal basis. As of December 31, 2018, we managed approximately $243 million in discretionary accounts for approximately 80 families. A key company goal is to have fun.

We assist clients in understanding their needs and objectives. After they have an understanding of their options and have developed realistic expectations, their objectives are put in writing. This is a key part of their "Investment Policy Statement". The Investment Policy Statement is the cornerstone of their investment plan. Investment decisions are based on the Investment Policy Statement. Some of the most often stated objectives include building an income they cannot outlive and financial security/ independence.

A common goal is building net worth. Clients are assisted in developing detailed Net Worth Statements, analyzing net worth, and tracking net worth. Long-term asset allocation guidelines are developed for each account. Key factors in establishing asset allocation (percent of assets allocated to stocks and percent of assets allocated to bonds) are time frame, cash flow, and client's comfort level. Emphasis is placed on making client aware of worst-case scenarios, so they have realistic knowledge of their own tolerance for market fluctuations. Properly developed long-term objectives should not change based on short-term market fluctuations. Human nature is that clients are more anxious to invest in stocks when the market is rising (buying at higher prices) and less likely to invest in stocks when the market is declining (buying at lower prices). This philosophy has a negative impact on long-term performance.

Gantzert Investment Co., LLC implements a disciplined Common Stock Strategy and Fixed Income Strategy based on the Investment Policy Statement for each account. The strategies used today were developed by Paul Gantzert in the late 70's. Development of these strategies was based on actual experiences in both bull markets and bear markets. Gantzert Investment Co., LLC's investment strategies are designed to benefit clients over the long term.

It is the belief of Gantzert Investment Co., LLC that investment policy, wisely formulated by realistic and well-informed clients with a long-term perspective and clearly defined objectives, is the foundation upon which portfolios should be constructed and managed over time through complete market cycles.

PHILOSOPHY AND GUIDELINES FOR NEW ACCOUNTS

- Clients who utilize our services should have greater net worth 10 years from now than they would have if they did not use our services. They should also have greater financial peace of mind.
- We serve high net worth individuals who share our philosophy.
- We have adopted the Investor's Business Daily "Secrets to Success" as part of our company philosophy (copy attached).
- We serve clients who have a high probability of growing their net worth, and agree to update net worth, at least annually.
- An Investment Policy Statement is developed for each client. It is the game plan for tailoring investments to client's long-term objectives. We work with each client to develop appropriate, realistic, tailored, financial goals.
- Client must have reasonable objectives and reasonable expectations.
- Client's peace of mind is very important to us. A client should not hire us until they have a high confidence level in our service, and they expect this to be an enjoyable relationship. Client should be willing to delegate and evaluate total portfolio and progress in achieving portfolio objectives, rather than individual securities. Satisfaction with Investment Policy Statement is critical.
- We only accept accounts where we have sole discretion. See our disclosure statement, Gantzert Investment Co., LLC Brochure, Form ADV, Part 2A.
- Client's time frame for investments should be over 20 years.
- There should be a low probability that client will spend more than 3-4% of their earning assets in any calendar year. This will assist in maintaining purchasing power over the long term.
- When opening a new account, balance in equities/common stocks should be in excess of $600,000.
    - This could be an $800,000 account with common stock objective of 75% that client expects to make additions to on periodic basis.
    - This could be a $2,400,000 account with common stock objective of 25% that client expects to make additions to on a periodic basis.
    - A common stock objective of over 80% or less than 20% is not practical in most instances; common stock objective must fit overall game plan.
- Gantzert Investment Co., LLC is significantly more interested in service than in sales. We take pride in 1) fulfilling our fiduciary responsibility to our clients; 2) placing our clients' interests first and foremost; 3) always acting in utmost good faith of our clients; 4) acting with integrity; and 5) taking responsibility. Our goal is to have fun and develop enjoyable client relationships.

INVESTOR BUSINESS DAILY'S 10 SECRETS

In each issue of Investor's Business Daily, they publish the following:

Investor's Business Daily has spent years analyzing leaders and successful people in all walks of life. Most have 10 traits that, when combined, can turn dreams into reality.

1. **HOW YOU THINK IS EVERYTHING:** Always be positive. Think success, not failure. Beware of a negative environment.
2. **DECIDE UPON YOUR TRUE DREAMS AND GOALS:** Write down your specific goals and develop a plan to reach them.
3. **TAKE ACTION:** Goals are nothing without action. Don't be afraid to get started. Just do it.
4. **NEVER STOP LEARNING:** Go back to school or read books. Get training and acquire skills.
5. **BE PERSISTENT AND WORK HARD:** Success is a marathon, not a sprint. Never give up.
6. **LEARN TO ANALYZE DETAILS:** Get all the facts, all the input. Learn from your mistakes.
7. **FOCUS YOUR TIME AND MONEY:** Don't let other people or things distract you.
8. **DON'T BE AFRAID TO INNOVATE; BE DIFFERENT:** Following the herd is a sure way to mediocrity.
9. **DEAL AND COMMUNICATE WITH PEOPLE EFFECTIVELY:** No person is an island. Learn to understand and motivate others.
10. **BE HONEST AND DEPENDABLE; TAKE RESPONSIBILITY:** Otherwise, Nos. 1-9 won't matter.

Selecting a Money Manager

1. Do they care about <u>you</u>?
2. How important are you to them?
3. Will they keep you informed?
4. Are they accessible?
5. Do they understand your needs and objectives?
6. Can they meet your needs and objectives?
7. How do they manage their own money?
8. How much <u>experience</u> do they have?
9. Will they assist you with planning, including:
   - establishing objectives?
   - establishing appropriate asset allocation?
   - tracking net worth?
   - tailoring assets to objectives?
   - coordinating asset allocation to time frame?
10. Are they a fanatic? (*Morningstar: "Do they love what they are doing*?")
11. What has their performance been through complete market cycles? (Can you expect better relative performance in bull markets or in bear markets?)
12. Does their strategy make sense?
13. Do the securities they hold fit their strategy?
14. Ask them to provide references, and ask the references:
    - how long have they managed money for you?
    - how well informed do they keep you?
    - how have they performed in up markets?
    - how have they performed in down markets?
    - do they coordinate your investments with your objectives, income tax plans, and estate plans?
15. How much risk is taken to achieve performance?
16. How often will they meet with you? *(meetings should be at least quarterly; at least one should be in person, portion could be by teleconference with packet delivered in advance)*
17. What are their fees?
18. Are there "soft dollar", "12b-1", termination, or other charges?
19. Will the benefits I receive exceed the costs? *(Do they add value?)*
20. Will I enjoy this relationship?

All of the above is important. If you do not have a high comfort level with your answers to the above, and especially items 1, 7, 8, 10, 15, 19, and 20, you should investigate further. An excellent guide is a book titled, <u>*Winning the Loser's Game – Timeless Strategies for Successful Investing*</u>, fifth edition, by Charles D. Ellis. This book is also valuable in helping you establish your objectives.

COMMON STOCK STRATEGY

Our strategy for managing common stocks includes the use of both individual issues and mutual funds. The mix is normally 60% of the common stock objective in individual companies and 40% in mutual funds. In many respects, this is similar to having multiple money managers. The funds we use have their own strategies/selection criteria, which complement our strategy, and provide additional diversification. There is nothing original or new about our common stock strategy. We invest in companies based on our 3-5 year outlook. The companies we purchase are selected because we have confidence that they will build shareholder value over the long term.

Some of the key items we focus on are as follows:

- general quality must be good
- earnings trend should be positive
- price/earnings (P/E) should be low relative to –
  - market
  - industry
  - projected earnings growth
  - return on net worth
- business should be understandable
- confidence in earnings should be above average
- yield is a plus if all other factors equal
- diversification by company and by industry is critical
- relative attractiveness to other companies is considered
- earnings yield relative to interest rates (higher P/Es justified during periods of low interest rates)
- downside risk (worst case scenario)
- debt level (prefer debt/capital of less than 50%)
- management – especially integrity
- liquidation value (assets relative to stock price)

At present, we tend to favor companies that pay a dividend and have a high probability of increasing their dividend payout in the future. We also prefer low debt which is easily manageable, along with adequate cash reserve to provide excellent operating flexibility. A low P/E is an important consideration. This can help minimize downside risk and increase upside potential. However, it is only beneficial if earnings are highly predictable. Management is a critical factor. Management should be concerned with building long term value for the shareholder. We have seen too many examples where there is a short term focus on stock performance and interest in personal compensation versus building shareholder value. This is a difficult factor to evaluate. We consider long-term themes which change from time to time.

Some of the key items we focus on in the selection of mutual funds are as follows:

- objective / strategy
- quality of organization
- operations – accuracy, timeliness, ease of buying and selling
- fees (Do they add value?)
- manager's experience
- do they do what they say they are going to do?
- risk level taken to produce return
- actual holdings (Do they meet objectives of fund, and do they complement our game plan?)
- will this fund provide efficient and effective way for us to achieve our objectives?

Two of the main areas in which we utilize mutual funds are: 1) to gain greater participation in international (non-U.S.) companies and 2) broad diversification through the use of index funds.

The above strategies apply to accounts that have approximately $300,000 or more allocated to common stocks. On accounts with smaller common stock positions, we will generally use mutual funds only. Normally, we would not hold any individual common stocks in smaller accounts, due to inadequate diversification.

We view common stocks as very beneficial to the investor with a time frame of 20 years or more. Common stocks should not be used as a short-term investment. For the long-term investor, it is best to have a common stock objective between 25% and 75% of the total portfolio. The investment portfolio needs to be coordinated with client's total net worth and objectives. Rebalancing is an important part of our strategy. In evaluating companies, we evaluate the risk of losing money, as well as the opportunity to generate a positive return. Our strategy is to manage risk versus avoid risk. Our process is that of a long-term investor and not a speculator. Our goal is to provide financial peace of mind for our clients. Diversification, discipline and patience will continue to provide valuable long-term benefits.

Fixed Income Strategy

Accounts having more than $250,000 allocated to fixed income are generally invested in individual bonds. When using individual bonds, we use a "ladder of maturities" approach. Depending on the amount available for individual bonds, we would have a portion maturing every 6-month period to 1-year period extending out over the next 5-10 years.

At present, most of our ladders of maturity are less than 5 years, since current yields are near historic lows. In general, we gradually lengthen the ladder of maturities when we think rates are at a relatively high level and the general trend in rates will be down. We gradually shorten the ladder of maturities when we think rates are at a relatively low level and the general trend in rates will be up. Since the normal yield curve is upward sloping (long-term bond yields are generally higher than short-term bond yields), we are generally buying longer-term bonds versus shorter-term bonds, as bonds mature. This increases our average yield over time. Diversification by maturity also reduces our risk.

A typical ladder of maturities might look as follows:

- $50,000 due 1st half of 2019; at maturity, buy bond due 1st half of 2025
- $50,000 due 2nd half of 2019; at maturity, buy bond due 2nd half of 2025
- $50,000 due 1st half of 2020; at maturity, buy bond due 1st half of 2026
- $50,000 due 2nd half of 2020; at maturity, buy bond due 2nd half of 2026
- $50,000 due 1st half of 2021; at maturity, buy bond due 1st half of 2027
- $50,000 due 2nd half of 2021; at maturity, buy bond due 2nd half of 2027
- $50,000 due 1st half of 2022; at maturity, buy bond due 1st half of 2028
- $50,000 due 2nd half of 2022; at maturity, buy bond due 2nd half of 2028
- $50,000 due 1st half of 2023; at maturity, buy bond due 1st half of 2029
- $50,000 due 2nd half of 2023; at maturity, buy bond due 2nd half of 2029
- $50,000 due 1st half of 2024; at maturity, buy bond due 1st half of 2030
- $50,000 due 2nd half of 2024; at maturity, buy bond due 2nd half of 2030

In reality, it is not this simple. Cash flow is a major factor. We consider tax consequences and relative attractiveness of bonds. We also consider diversification when using bonds other than U.S. Treasuries. As mentioned above, we also shorten or lengthen this schedule from time-to-time based on our long-term interest rate forecast. Most changes are gradual, and we generally hold bonds until maturity. We also use fixed income funds for liquidity and to complement our strategy.

For accounts with less than $250,000 in fixed income securities, we primarily use no-load mutual funds in order to provide adequate diversification and liquidity.

We prefer a balanced portfolio (a mix of stocks and bonds) over an all fixed income portfolio or an all common stock portfolio. This generally maximizes the risk-return ratio, providing best return for given level of risk. In establishing the appropriate mix, we generally begin with a 50% common stock objective and then tailor to client's specific objectives. Special consideration is given to their comfort level. The normal common stock position would not be less than 25% or more than 75%. The process for establishing asset allocation guidelines is further explained in our handout titled

"Process for Tailoring Investments to Client's Objectives".

PAUL GANTZERT - BIOGRAPHY

- Graduated from University of Illinois
- Has been in investment business since January, 1970
- With Pullman Group – an association of approximately 12 banks from 1970 – 1978
- From 1978 – 1995, was with First Midwest Bancorp; originally hired as head of Trust Department and later served as President and CEO of First Midwest Asset Management Company – responsible for managing over $1 billion in assets.
- Became partner in Gantzert Investment Co., LLC which was formed in 1996. Gantzert Investment Co., LLC is a S.E.C.-registered investment adviser handling accounts for which they have sole discretion. Gantzert Investment Co., LLC's main focus is on individual stocks. The firm currently manages over $243 million for approximately 80 families.

DIRECTIONS

Coming from North or South on Interstate 55

- Take exit 253 (Route 52 – Jefferson Street; exit 253 is North of I-80 and South of Route 30).
- Go East 1.5 miles to Essington Road (there will be a golf course on right and funeral home on the Northwest corner).
- Turn left on Essington Road and go North 1.25 miles to 1000 Essington Road (Lincolnshire Business Center). Lincolnshire Business Center is on the right side, 0.25 miles North of Black Road.

Coming from East or West on Interstate 80

- Take exit 127 (Houbolt Road; exit 127 is first exit West of Larkin and first exit East of I-55).
- Go North on Houbolt Road 2 miles to Jefferson Street. (There is a church on the Southeast corner of Houbolt and Jefferson).
- Turn right on Jefferson Street and go East 0.5 miles to Essington Road (there will be a golf course on right and funeral home on the Northwest corner).
- Turn left on Essington Road and go North 1.25 miles to 1000 Essington Road (Lincolnshire Business Center). Lincolnshire Business Center is on the right side, 0.25 miles North of Black Road.

Coming from Central Joliet

- Take Black Road West, 1.8 miles past Larkin Avenue to stoplight at corner of Black Road and Essington Road.
- Turn right on Essington Road and go North 0.25 miles to 1000 Essington Road (Lincolnshire Business Center). Lincolnshire Business Center is on the right side of Essington Road.

Coming from Northwest

- From intersection of Lockport Street (Route 30) and Division Street (Route 59) in downtown Plainfield, take Route 59 South, 5.0 miles to Black Road (Speedway on Northwest corner and Gas City of Southeast corner).
- Turn left on Black Road and go East 2.0 miles to Essington Road.
- Turn left on Essington Road and go North 0.25 miles to 1000 Essington Road (Lincolnshire Business Center). Lincolnshire Business Center is on the right side of Essington Road.