

MONONGAHELA CAPITAL MANAGEMENT

PERCEPTIONS

2 nd Quarter, June 30, 2019		% Change	% Change
	6/30/19	2 nd Quarter	Year to date
Dow Jones Industrials	26,599.96	3.21 % *	15.40 % *
S & P 500	2,941.76	4.30 % *	18.54 % *
Russell 2000	1,566.57	2.10 % *	16.98 % *
BC Aggregate BD Index		3.08 %	6.11 %
10 YR Treasury Yield	2.00 %		
30 YR Treasury Yield	2.52 %		

* Includes reinvested dividends

George Cain ... Inspired Standards

Almost 20 years ago, Jim Collins released his classic business management book *Good to Great*. With a team of research associates, Collins examined the difference between organizations that were good and those that were good but became great. Collins identified leadership as the key component that separated great companies from good companies. He postulates that great companies formulate strategies with three characteristics: an understanding of the capacity in which they can be best in the world; clear insight into the way to sustain robust cash flow and profitability; identification of those things about which they're deeply passionate. To illustrate this point, the author contrasted Abbott Laboratories and the Upjohn company to demonstrate the difference leadership can make. In the mid-sixties, the companies were almost identical in terms of revenue, profits, products and management.

In 1958, George Cain became Abbott's president. At that time, Abbott and Upjohn were drowsy enterprises that were living off past accomplishments, milking the proverbial cash cows. George Cain had inspired standards and began to implement them immediately. Although Cain was the son of a previous Abbott president, he believed the prime causes of Abbott's mediocrity were nepotism and cronyism. Cain completely rebuilt the Board and executive team with the best people he could find, merit being the only qualifier. He also refocused Abbott's research and development efforts towards nutritional products and diagnostic devices. Abbott Laboratories eventually became a leader in both fields and one of the best companies in the world. In contrast, the leadership of Upjohn plodded along, never breaking the cycle of nepotism. According to Collins,

Virtually identical companies with identical stock charts up to the point of transition, Upjohn fell 89 percent behind Abbott over the next twenty-one years before capitulating in a merger to Pharmacia in 1995 ... From 1974 to 2000, Abbott's shareholder returns beat the market by 4.5 to 1, handily outperforming industry superstars Merck and Pfizer.

The inspired work of George Cain and his team set up multi-generational success for employees and shareholders of Abbott Laboratories.

In 1982, one could have purchased Abbott Laboratories for \$12.16 per share or 1,000 shares for \$12,160. The table below highlights the progression of value, both dividends and growth, since 1982.

Abbott Labs Total Return Since 1982	
Initial Investment:	\$12,160.00
Assumes 1,000 shares of Abbott Labs bought on 01/04/1982 at \$12.16 per share.	
Market Value of Shares as of 06/30/19	\$2,509,120.00
Consists of 16,000 shares of Abbott Labs valued at \$84.10 per share and 16,000 shares of Abbvie Inc valued at \$72.72 per share. Abbott Labs split two-shares-for-one in 1986, 1990, 1992 and 1998. Shareholders received 1 Abbvie share for every 1 Abbott share in a 2013 spin-off.	
Cumulative Cash Received as of 06/30/19	\$857,870.00
Includes \$443,150 in cumulative dividends from Abbott Labs, \$270,720 in cumulative dividends from Abbvie Inc, and \$144,000 received after 2004 spin-off Hospira Inc was bought for \$90 per share in 2015.	
Total Return as of 06/30/19	\$3,354,830.00
Comprised of market value of shares and cumulative cash received less initial investment.	
Projected 2019 Annual Dividend	\$88,960.00
Assumes Abbott Labs annual dividend of \$1.28 and Abbvie Inc annual dividend of \$4.28.	

When we visit companies as part of our due diligence, we still like to tour the facilities, looking for intangible evidence of great leadership. You can actually feel great leadership permeating the exceptional companies, bottom to top, from janitors to the CEO. Identifying great leadership with sustainable vision and then having the patience to stay with them will enhance the probability for long term success.