Your First Step Toward Investment Success

For over four decades, I have offered strategies and insights to help individual investors like you. My primary goal, whether in my monthly strategy reports, at investment seminars, or for current clients of my money management firm, has been helping investors achieve long-term investment success.

What you buy, what you sell, what price you pay, and which strategies you pursue all matter for your investment success, but they aren't the most important steps in the process. Focusing first on what the "good buys" are is putting the horse before the cart.

What's your goal? First define what investment success means to you and your family. Next, determine how much risk you can or want to take in your portfolio to achieve that goal.

Does investment success mean doubling your money in five years, even if that requires a portfolio with neck-snapping volatility and nights awake in a cold sweat? Or are you like me—a more patient investor who is more interested in preserving wealth and letting the power of compounding work its magic over time?

Ask yourself how much risk you can take or want to take.

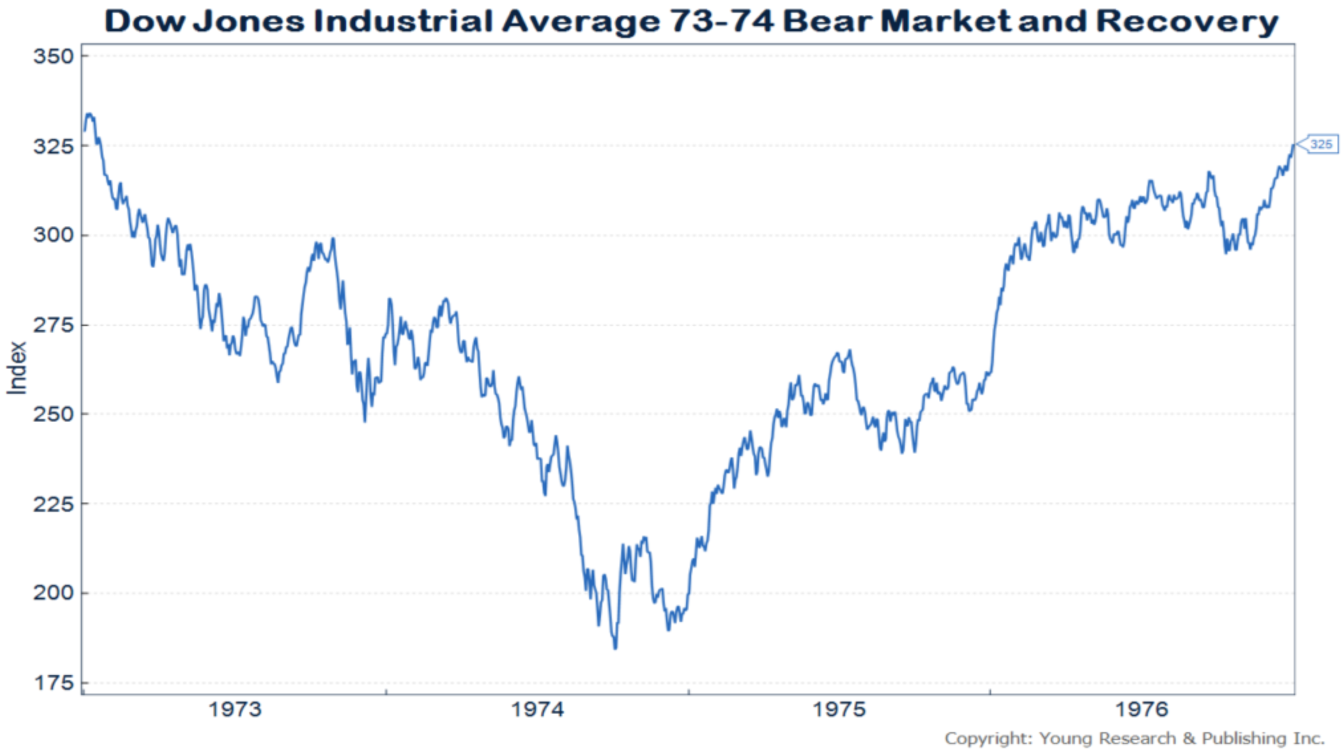
The success I want you to embrace comes from compounding and patience. I invest guided by the principles embraced through the decades by Benjamin Graham, Walter Schloss, and David Dreman.

Rising Dividends: Decades of Focus on a Winning Strategy

In 1987, I sat down with Bill Lippman for a conversation about L.F. Rothschild Fund Management's "Rising Dividends Fund." Bill had been the founder and president of the Pilgrim Group mutual funds for 25 years before he sold the firm. Bill then moved over to the New York based, L.F. Rothschild Fund Management, at the time a new subsidiary of L.F. Rothschild investment bank. (The Rising Dividends Fund would later become the Franklin Rising Dividends Fund, which still trades today, though this is not a recommendation to buy).

The Rising Dividends Fund focused on what I have been recommending to my readers for years; solid companies with strong records of increasing dividend payouts. I have been focused on dividend payments since my days at Babson reading Ben Graham and David Dodd.

Bill was interested in rising dividends as a way to protect his fund's owners from experiencing the type of punishment in their portfolios they felt in the bear market of 1973-1974. Those unhappy days of "stagflation" saw unemployment of 8.5%, CPI increases of up to 11%, and a drop in the Dow Jones Industrial Average of 46%. Afterward, investors were not eager to have their savings ripped apart again. The pain was so bad that even in 1987 when Bill and I discussed his Rising Dividends Fund, the lessons of 73-74 were still remembered well.



When we talked, Bill said “In 1973-1974, we had a really bad market. It was a disaster…and it went on and on for a couple of years. It seemed like it would never end. One then asks, ‘Is there a better way?’ As it turns out, yes, there is a better way. You must have a philosophy, and you must stick to it. Don’t be the victim of the latest hot story that comes off the tape. And that’s what we did that was different. We evolved a philosophy that made sense. We selected companies that increased dividends and had low debt and low P/Es. We wanted a solid game plan that we could follow with comfort through good markets and bad.”

My focus for you today, just as it was in 1987, is on quality dividends from companies that are dedicated to increasing their payouts. As part of the RCs program at Richard C. Young & Co., Ltd., and in my recent coverage of the Dow stocks here on *Youngsworldmoneyforecast.com*, I consistently focus on finding companies that do just that.

Another thing Bill said in our discussion that really resonated with me was a piece of advice he gave to all investors “Put down in writing what you really believe in, and then stick to it.” I encourage you to do that right now. Don’t wait until later, or let inertia allow you to forget. Do it right now. Write down what you want to accomplish by investing, and how you plan to do it. Then stick to it.

The Dogs of the Dow and Dividend Dependability

Last month, I provided you with Young Research’s dividend dependability ratings for the 30 blue-chip Dow companies. Young Research’s Dividend Dependability ratings use a combination of fundamental and qualitative factors to rate the dividend safety of each Dow component.

Every company in the Dow pays a dividend and compared to the average dividend paying company, Dow companies have above average dividend safety, but that didn’t prevent General Electric from cutting its dividend last year, or GM slashing its dividend while still a Dow component, or Eastman Kodak from cutting its dividend or, or, or.

High yielding Dow stocks are tempting to income investors. You are often talking about high yields on some of America’s best companies. In a low yield environment, a 3%+ dividend yield on a blue-chip stock has inherent appeal. But if you are retired or soon to be retired, and you rely on your dividend income to fund expenses, a dividend cut could put a dent in your retirement income. That is especially true if you follow one of the more popular Dow dividend investing strategies—The Dogs of the Dow.

The Dogs of the Dow is popular partly because it has worked over long periods of time, but also because it is a simple strategy to follow. All an investor must do is rank the 30 Dow stocks by yield at the end of each year and buy the 10 highest yielding stocks in equal amounts. The stocks are held for the balance of the year, and at the start of the following year the process is repeated.

The problem with the strategy is that the highest yielding stocks may be at most risk of a dividend cut. A high yield sometimes means a stock is out of favor (that's what Dogs of the Dow investors are hoping for), but it can also signal that the dividend is at risk. How do you avoid the problem?

That's where Young Research's Dividend Dependability ratings can help you. The highest yielding stocks in the Dow to start 2018 are Verizon, IBM, Pfizer, Exxon, Chevron, Merck, Coca-Cola, Cisco, Procter & Gamble, and General Electric.

Six of these stocks fall into the bottom third for dividend dependability. Those stocks include IBM, Exxon, Chevron, Merck, Cisco, and General Electric. The four that rate in the top twenty for dividend dependability are Verizon, Pfizer, Coca-Cola, and Procter & Gamble.

If you want to invest for yield, but reduce your risk of owning a company that may cut its dividend, you can replace the six Dogs of the Dow stocks that rank in the bottom third for dividend dependability with the highest yielding stocks from the remaining stocks that rank in the top two-thirds for dividend dependability.

Based on current yields, those stocks include Intel, Johnson & Johnson, McDonald's, Boeing, Travelers, and United Technologies. Add those to positions in Verizon, Pfizer, Coca-Cola, and Procter and Gamble, and you are looking at an average yield of 2.8%. The average projected dividend growth for this group of stocks in 2018 is 6.3%. Compare that to the 10 stocks in the

Dogs of the Dow that have an average yield of 3.4% and projected dividend growth of 3.9%. You give up 0.60% in yield for the comfort of more dependable dividends and better dividend growth prospects.

Not a bad trade for investors who rely on regular dividend income.

For more on dividend dependability, read parts one, two, and three of my series on the subject.