Bull and Bear Portfolio Update 4.27.2018

Model Guidance: No Changes for the Week

My short-term Bull & Bear Portfolio consists of 10 equally-weighted long positions and 5 equally-weighted short positions. Both the long and short stocks are selected from the Dow Jones Industrial Average. If the Dow advances over the period in which my 15-Dow stock portfolio is open, the model will make money with the stocks that advance and will lose money with the stocks that decline. And the opposite will prevail for the short stocks. Each week, I will review the model portfolio for potential changes. If no changes are required, I'll simply post no changes for the week. You can read more about my Bull & Bear Portfolio here.

Symbol	Description	L / S	Initial Investment	Starting Price	Qty L/S	Prior Day Close	Current Price	Current Value	% Chg. Day	% Chg. Inception
AAPL US	Apple Inc	Long	10,000.00	165.70	60.34	187.00	187.00	11,283.49	0.00	12.83

Symbol	Description	L / S	Initial Investment	Starting Price	Qty L/S	Prior Day Close	Current Price	Current Value	% Chg. Day	% Chg. Inception
CSCO US	Cisco Systems Inc	Long	10,000.00	44.10	226.81	43.50	43.50	9,857.11	0.00	-1.43
HD US	Home Depot Inc	Long	10,000.00	177.00	56.49	185.30	185.30	10,470.03	0.00	4.70
INTC US	Intel Corp	Long	10,000.00	51.50	194.06	54.80	54.20	10,523.97	-1.06	5.24
JPM US	Jpmorgan Chase & Co	Long	10,000.00	111.50	89.71	113.00	113.00	10,133.67	0.00	1.34
TRV US	Travelers Cos Inc/The	Long	10,000.00	136.80	73.08	130.70	130.70	9,552.76	0.00	-4.47
UNH US	Unitedhealth Group Inc	Long	10,000.00	235.10	42.54	243.00	243.00	10,336.08	0.00	3.36
UTX US	United Technologies Corp	Long	10,000.00	123.10	81.25	124.60	124.60	10,124.31	0.00	1.24
WMT US	Walmart Inc	Long	10,000.00	87.00	114.97	84.50	84.20	9,683.84	-0.31	-3.16
VZ US	Verizon Communications Inc	Long	10,000.00	47.90	208.77	47.90	47.90	9,989.56	0.00	-0.10
KO US	Coca-Cola Co/The	Short	-8,000.00	43.70	-182.90	42.30	42.30	-7,736.63	0.00	3.40
CVX US	Chevron Corp	Short	-8,000.00	122.30	-65.41	129.50	129.50	-8,467.66	0.00	-5.52
DWDP US	Dowdupont Inc	Short	-8,000.00	66.04	-121.14	68.16	68.16	-8,256.81	0.00	-3.11
MRK US	Merck & Co. Inc.	Short	-8,000.00	58.83	-135.99	59.07	59.07	-8,032.64	0.00	-0.41
IBM US	Intl Business Machines Corp	Short	-8,000.00	144.90	-55.21	144.50	144.50	-7,977.92	0.00	0.28
	Longs		100,000.00					101,955.00	-0.14	1.95
	Shorts		-40,000.00					-40,471.66	0.00	-1.17

Featured Company: Intel Corporation (NASDAQ:INTC)

In 1968, the year *2001: A Space Odyssey* was released, mankind was looking to the stars and the future of technology. The Apollo space program was heating up in preparation for the moon landing the year after. Computers were being made smaller and more powerful in order to the meet the demands of the space program and other advanced technological undertakings.

That same year, two men named Bob Noyce and Gordon Moore founded Intel. The company's first product would be produced in 1969. It was the 3101 Schottky bipolar random access memory (RAM). The team would also break ground by introducing the world's first metal oxide semiconductor static RAM, the 1101. By 1970 Intel had upended the entire industry by introducing the 1103 DRAM, a new standard in computer memory technology.

Intel's hits would keep on coming. In 1974 the company introduced the first general-purpose microprocessor. In 1975 Intel processors were shipped on one of the first PCs, the Altair 8800. In 1981, computing giant IBM would select Intel's processors for its line of PCs. In 1992 Intel became the world's largest semiconductor supplier. Through the 1990s Intel would introduce and continuously improve its Pentium line of processors. In 2006 Intel introduced the world to the first quad-core processor for desktop computers.

Today Intel is transforming its business from a focus on PCs to a focus on the cloud and smart devices. Patrick Moorhead summarized Intel's new strategy well at *Forbes*, writing:

> *Intel has been on the move for the past few years driving an incredible amount of change. Once focused exclusively on X86 processors for PCs and servers five years ago, the company has branched out into what it calls "data-centric" which takes datacenter and adds automotive via a MobilEye acquisition, FPGAs via an Altera acquisition, machine learning training via a Nervana and Movidius acquisition and diving head-first into 5G and networking. With that, the company has embraced heterogeneous computing where it is more agnostic about what compute unit does a specific workload, be it CPU, GPU, FPGA, programmable and non-programmable ASIC. Lots of change.*

Now, after a strong first quarter Intel has raised its revenue target for 2018 by $2.5 billion. Intel's data-centric businesses accounted for 49% of the company's revenue, an all-time high. Intel CFO Bob Swan explained "Compared to the first-quarter expectations we set in January, revenue was higher, operating margins were stronger and EPS was better. Our data-centric strategy is accelerating Intel’s transformation, and we’re raising our earnings and cash flow expectations for the year.”

Short-term Bull-Bear Model: Round II

I am introducing a second round of my Short-term Bull Bear Model this week. The first version of my Short-term Bull-Bear portfolio ran for about six weeks from mid-September until the end of November. The portfolio performed well. You can check out the archives here. And if you are not familiar with the strategy, go here to learn more.

Round II of my Short-term bull-bear portfolio will include 10 long positions and 5 short positions. I am advising a 60% net long portfolio, so by example you will want to buy $10,000 worth of each of the long positions and sell short $8,000 of each of the shorts. Both the long and short stocks are selected from the Dow Jones Industrial Average. If the Dow advances over the period in which my 15-Dow stock portfolio is open, the model will make money with the stocks that advance and will lose money with the stocks that decline. And the opposite will prevail for the short stocks. Each week, I will review the model portfolio for potential changes. If no changes are required, I'll simply post no changes for the week.

Keep in mind, short-term is the operative word in the strategy. Long and short positions may be counter to a long-term value-based investment program. Holding periods are shorter and turnover will likely be higher than for a long-term strategy. There is also a need to offset market and sector risk with short positions and long positions.

The 10 names I want you to take long positions in include:

1. Apple
2. Cisco
3. Home Depot
4. Intel
5. JP Morgan
6. Travelers
7. United Health
8. United Technologies
9. WalMart
10. Verizon

The five shorts are:

1. Coca-Cola
2. Chevron
3. DowDupont
4. Merck
5. IBM

Young Research's Three Part Screen for Common Stocks

In the late 1990s, I offered my readers a simple three-part screen to make the job of core common stock selection easy and comfortable. It reduced the field of play to what one might call investment-grade common stock issues.

What was the screen? I advised investors to stick with NYSE listed dividend paying stocks trading at less than 3X revenue. When I introduced the screen in 1998, it winnowed the common stock investment universe down to a few hundred issues from an unwildy 7,500+ at the time.

There was still much work to be done to craft a final investment portfolio, but the screen did a nice job of helping investors fish in the lakes stocked with trout and bass and avoid the ones where carp was the dominant species.

I explained the screen to readers as follows:

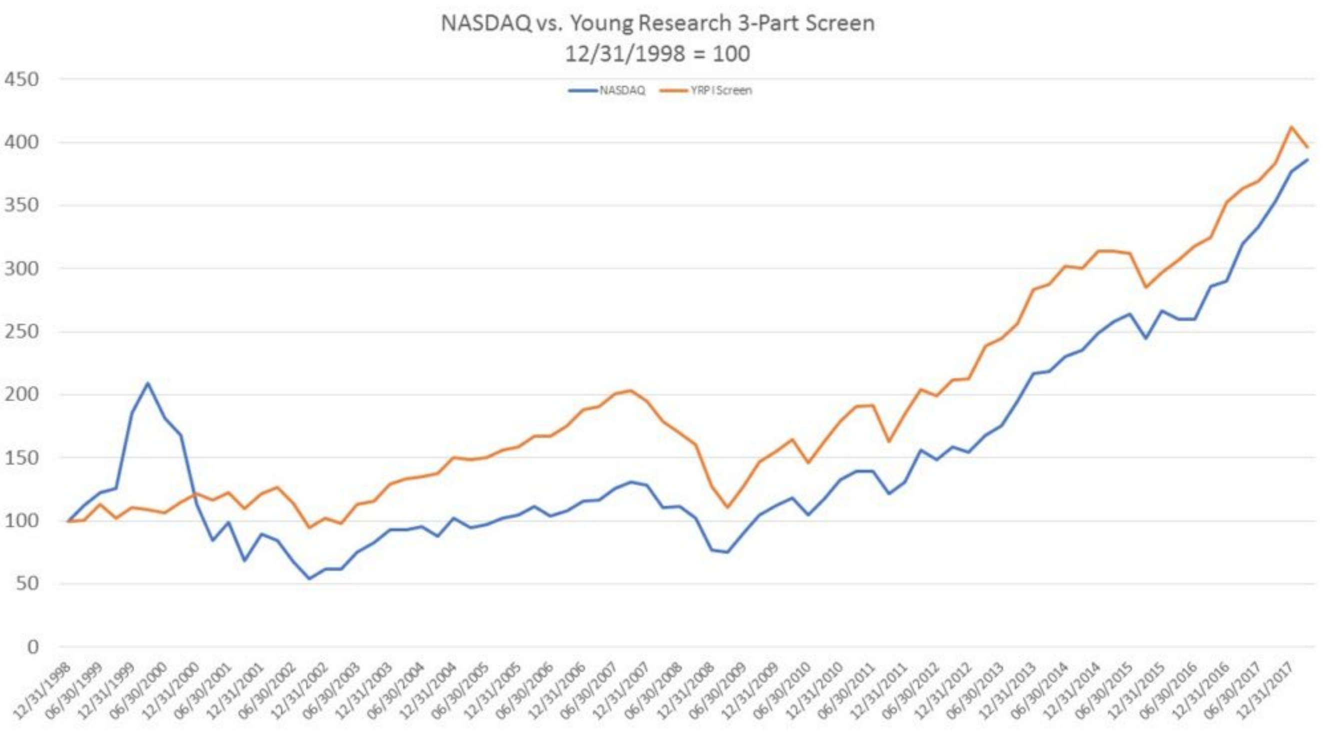
> ***Rule #1: Stay on the NYSE.*** *You have probably noticed that NASDAQ sotcks can be especially volatile. Most NASDAQ stocks are smaller and less seasoned than their NYSE brethren. Just the other day, computer component supplier Adaptec reported quarterly earnings below Street predictions, and traders hammered the rather thinly traded shares down 40% in a single session. A 40% haircut in one day is volatility beyond what I'm sure you find comfortable.*
>
> *One way to reduce this volatility is to buy only NYSE stocks for your CORE portfolio. Don't venture over to the NASDAQ. Yes, I know many fine companies trade on the NASDAQ, but a set*

of hard-and-fast rules is the tonic you need to stay out of trouble, and hard and fast means some compromising.

Rule #2: Invest only in dividend-paying stocks. *By simply eliminating the non-diviend payers, you dump a huge hunk of the speculative stock universe and greatly reduce your field of eligible NYSE candidates for your CORE list.*

Rule #3: Pay no more than three times annual revenues. *Here, you are relating a given stock's market cap (price X number of shares outstanding) to annual revenues.*

How has the investment-grade common stock universe I described in 1998 performed since? The chart below compares the performance of this exact screen run every quarter from year-end 1998 through March of this year, to the performance of the NASDAQ Composite.



Both the screen and the NASDAQ are capitalization weighted. As you can see, the screen performed slightly better than the NASDAQ, but most importantly, it did so with only about 60% of the risk of the NASDAQ.

The structure of the stock market has changed a lot over the last 20 years and an NYSE listing is much less meaningful today than it was in 1998, but the concept of sticking with quality dividend payers at reasonable prices remains my advised approach for eliminating a huge chunk of the speculative stock universe.

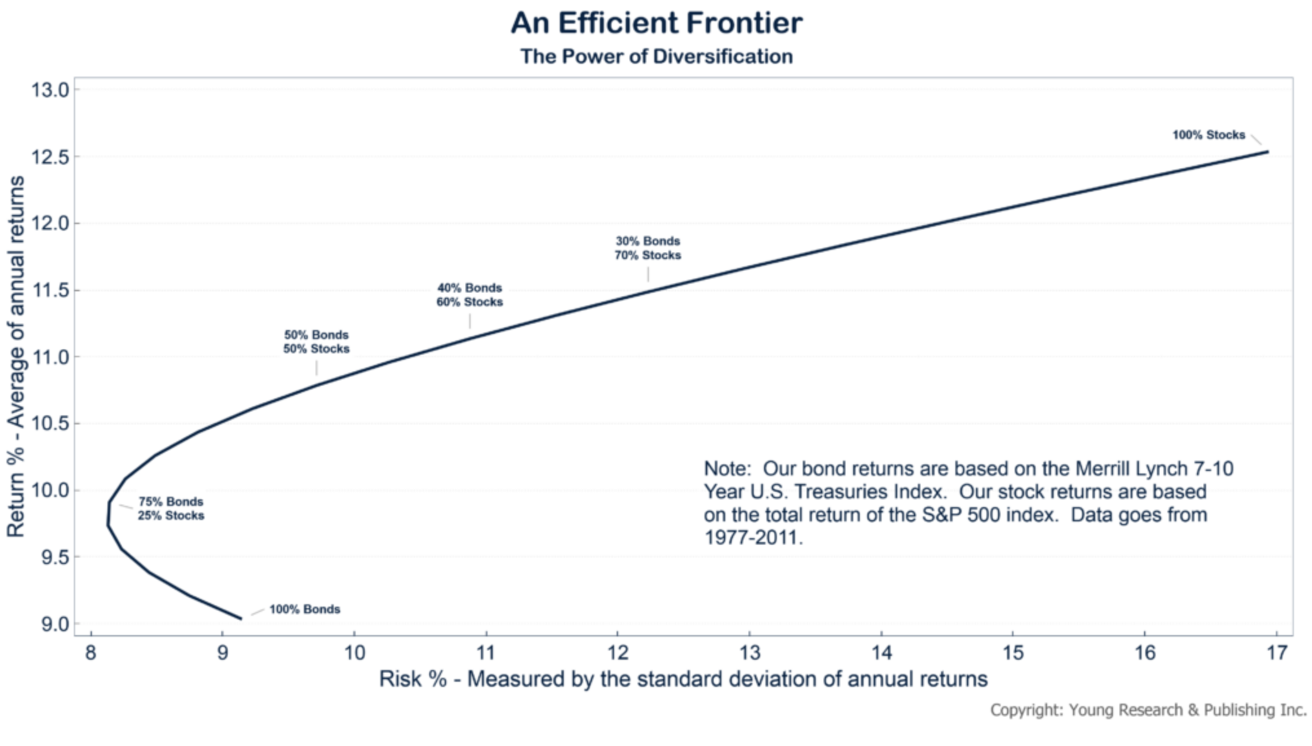
Issues included in that speculative universe that are widely held among mutual funds and ETFs you may own include Facebook, Amazon, Netflix, and Google (here I eliminate the NYSE listing criteria). Not one pays a dividend, and all four trade at more than 3X revenues. You may argue all four are good companies that dominante their space. That may be true, but it was also true of Microsoft, Intel, and Cisco in 1998 (none passed my screen at the time). Ten years later, all three were down and down more than the S&P 500.

Two decades and a couple of ghastly bear markets later, the same focus on quality, dividends, and value remains essential to your long-term investment success no matter how dominant you may believe today’s social media giants have become.

The Must-Know Investment Concept

The concept of an efficient frontier is central to proper portfolio management, but far too few investors are familiar with its use and application. Brokers and advisors, more interested in pushing product than offering investment counsel, may be to blame. An Efficient Frontier can help you calibrate risk and find the portfolio you are likely to be most comfortable with. Here's what I wrote about the Efficient Frontier back in 2002:

> *The concept of an Efficient Frontier is central to everything we do at our companies. First, we lay out our basic investor tenet of diversification and patience built on a framework of value and compound interest. Next, we overlay any investment plan under review with an eye on an Efficient Frontier. I write about this pivotal concept for you in every letter. You will read little or nothing about an Efficient Frontier in other strategy letters. I have no idea why because the concept is so absolutely central to proper portfolio construction. An investor not up to speed on both the mathematics of compound interest and the power of an Efficient Frontier is operating far beyond the fringes of investment reality. In fact, I would go as far as to say that an investor devoid of a thorough working knowledge of these two powerful investment concepts has little chance of achieving a comfortable, rewarding retirement. Hence my inclination to hammer away monthly at both concepts.*



As I have written often, an Efficient Frontier is nothing more *than the line that connects one optimal portfolio across all levels of risk. An optimal portfolio is the mix of assets that maximizes portfolio returns at a given risk level. My chart illustrates an Efficient Frontier for a combination of two asset classes—long-term corporate bonds and stocks. We have used data from a representative long-term corporate bond fund and a suitable Index 500 fund.*

Clearly an Efficient Frontier is about diversification. And investors saving in retirement portfolios or who are already retired want the appropriate mix of bonds and stocks. Here I'm writing to investors 50 years and older, but I'm tempted to mandate that investors in their 40s maintain a solid fixed-income component. I'll suggest it, if not mandate it.

Exactly what are we looking at? It's what I refer to as the boomerang. The vertical axis measures return; the horizontal axis measures risk. I always advise you to first gauge risk and much later worry about return. You'll note, as you travel along an Efficient Frontier from left to right, risk gets greater. How much do you value a good night's sleep? As I have reminded you often, between 1965 and 1981, a period of 16 years, the Dow fell 10%. Will such an extended period of stock market decline occur in coming years? I don't know about 16 years, but I can count three. And the stock market is now down for the third consecutive year for the first time since 1950, so you tell me.

Personally, I invest with no view on where the stock market will be next year or the following, for that matter. I invest with the absolute knowledge that, long-term our population increases and that the stock market tends to generate a compound rate of growth that matches the compound rate of growth of GDP. We're talking about 7% plus, of course, dividends. That's my basis for investing in stocks—nothing more, nothing less. It's not prudent to count on making one *cent more long-term than the annual compound average GDP growth, plus dividends. If you are banking on more for yourself, you're barking up the wrong tree.*

If you are having trouble managing your portfolio's risk, look for help at a seasoned, well regarded investment advisory like my family run firm, Richard C. Young & Co., Ltd. Talking with a professional can help you develop a retirement plan that will allow you to avoid crippling losses and achieve your goals. Read more about the concept of an Efficient Frontier by visiting Youngresearch.com here:

- Risk and Reward: An Efficient Frontier
- The Fright of Squandered Capital