Don’t Miss it All

Emotionalism in the market is too damaging to your portfolio. It’s too easy to miss all the rewards of the market by making bad decisions trying to time the market. In February of 1992 I used this example to explain to readers just how badly they could lose out by jumping in and out of the market.

> *It’s Too Easy to Miss It All*
>
> *Here’s another stunning analysis on why trading in and out is not for you. Analysis of stock market returns from 1946 through 1990 by Ibbotson Associates shows the following: One dollar invested in stocks in 1946 grew to $130.52 in 1990. If you take out just the best 30 months for the stock market over the 1946-90 period, the same one dollar grew to only $8.88, versus $8.43 for Treasury bills. Can you really time the market well enough to target the right 30 months in 45 years? Most certainly not.*
>
> *And yet another example of how trading can kill your total returns. These direct quotes are taken from Forbes 28 October 1991. Professor P.R. Chanoy of University of No. Texas and William Reichenstein of Baylor conducted the research for these conclusions. The professors studied returns for the S&P 500 from 1926 through 1987. “They found that if the best 50 months—only 6.7% of the total time period—were deleted, the S&P 500’s entire 62-year return disappeared.”*
>
> *In conclusion: Do not be a trader or a timer. Stay fully invested and ride out the storms in high-yielding, big blue chips that will bounce back no matter how violent a given market correction.*

Nothing has changed in 26 years about market timing. It was a bad idea then, and remains so today. As I wrote at the beginning of this month, [marry compound interest, divorce market timing](#).

Why a Balanced Portfolio is a Winner

Back in October of 1998 American markets were recovering from the Long Term Capital Management crisis. The Fed had organized a bailout, and things were getting back to normal. It felt like a good time then to remind investors of the benefits of a balanced portfolio. I wrote then:

> ### *Why a Balanced Portfolio is a Winner*
>
> *As I have written often, my own target and my goal for you is a long-term total return of 10% to 11% (after fees and taxes). This target may sound conservative, but trust me, it is aggressive and not easily achieved. To have any shot at achieving this target, expenses and taxes must be kept to rock bottom. This requires diligence, patience, adherence to a strict game plan, proper diversification, and portfolio balance. The mix of 60% stocks and 40% bonds meets my return goals (note the 10.3% below). At the same time, it cuts volatility and risk. (The single worst year showed a 14.3% loss, versus 26.5% with a 100% stock portfolio.) It's a mix most conservative investors will love and should deploy.*
>
> *Diversification and portfolio balance are the foundation on which you build your portfolio.*

I continued later to also caution readers against allowing emotionalism to govern their investment actions:

Emotionalism is an Investor’s Meanest Foe

> *Events of the moment should never be part of the investment mix. I price my portfolio once a year at tax season (because I must). Beyond this tax-related housekeeping chore, I pay little attention to prices. Most of what I own, I have owned for a long time. I know how things are going month to month and find it counterproductive to rustle through my holdings regularly. You’ll be amazed at how comfortable you can become with a hands-off approach. You sure as heck will pay a lot less in commissions and taxes. And you will defeat what is every investor’s meanest foe—emotionalism.*

A decade of ultra-loose monetary policy has sent interest rates into the tank, and with them the prospective returns on bonds, stocks, and assets of all types. My new working target for a balanced portfolio is about half of the old target. I do continue to advise a balanced approach for most investors. Balance helps investors avoid making the emotionally charged investment decisions that often sabotage portfolio performance. At my family run investment counsel firm, our focus is on crafting balanced cash flow-centric portfolios.

If you’d like to learn more about how Richard C. Young & Co., Ltd. helps clients invest their money in a balanced portfolio, sign up for my son Matt’s monthly letter to clients (free even for non-clients). Matt is president and CEO of Richard C. Young & Co., Ltd. and has been named one of *Barron’s* Top 100 investment advisors for each of the last five years (2012-2016). Disclosure

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My 3 Step Portfolio Check Up Plan

Back in August of 1993 I laid out a three step portfolio check up plan for investors. If you answer these three questions, it should give you a decent idea of how your portfolio should be positioned at the moment. I wrote:

> *Few investors realize that you can keep your portfolio in shape simply by asking (1) Are short-term interest rates moving up or down on a trend basis? (2) Is inflation advancing or declining on a trend basis? (3) Is the economy expanding or contracting? You don't need to go beyond these questions for help in balancing your investments portfolio in any cycle.*

The answers to those questions today are:

- Short term interest rates are finally moving up after being held low for years by the Federal Reserve.
- On trend the rate of inflation has been accelerating since early 2015, as measured by the government's somewhat flawed CPI index.
- The economy is expanding, and faster than it has for some time.

I went on to write:

> *In the 1960s, the Dow gained an average 1.8% per year. In the 1970s, the average annual advance was only 0.5%. In the 1980s, however, the Dow averaged a whopping 12.2% per year. (These average annual figures are exclusive of dividends.) In the 20-year span beginning in 1960, the stock market made little headway. In the 1980s, it was gangbusters. Why the shocking divergence? Interest rates and inflation. A rise in both is bad for the stock market. Both the 1960s and 1970s opened with*

> *low interest rates and low inflation that moved higher during the decade. The 1980s, however, opened with high interest rates and inflation that would, over the decade, fall sharply, triggering a boom in stock prices.*

With rates rising today, and inflation advancing, it would benefit investors to pay close attention when making portfolio allocation decisions.

At my family run investment counsel firm, Richard C. Young & Co., Ltd., clients are served with fully customized portfolios of individual stocks and bonds generating income that will pay their families a retirement wage in good times and bad.

If you'd like to learn more about the strategies employed at Richard C. Young & Co., Ltd., I encourage you to sign up for the monthly client letter (free even for non-clients). In it, my son Matt, president and CEO of the firm and one of *Barron's* Top 100 investment advisors for each of the last five years (2012-2016) Disclosure, explains the strategies and decisions made in client portfolios from month to month. You won't be disappointed.

Avoid the Horror: Stick to Your Plan

The underlying value of a company isn't always fairly reflected in its share price. Some stocks carry stratospheric price multiples when compared to their peers. And some trade at rock-bottom discounts.

There doesn't always seem to be a ready answer for why companies with similar assets, similar business plans and similar potential carry such varying valuations. You can rest assured however, that there is one thing driving all of these discrepancies, supply and demand.

Twenty years ago, I wrote that there are short, medium and long-term influences on share prices that have little to do with company fundamentals. But these forces do affect supply and demand. Here’s how I explained it back in 1998:

> ***More Buyers Than Sellers****. This is the basic reason that stocks go up rather than down. It is useful to gauge supply and demand, short and intermediate term, as well as long term. Short term, I like the first quarter of the year for its especially favorable supply/demand fundamentals. Every pension plan owner wants to fully fund his program in the first quarter in order to take advantage of a full year of compounding. It only makes sense to get your money working as fast as possible. Intermediate term, I like the supply/demand kicker of pre- and presidential election year politics. The pols do not want to rock the boat in the year leading up to and the year of a presidential election, and they sure as heck don’t want to ignite a recession (a killer for stocks). The old phrase, “It’s the economy, stupid!” packs a mean wallop in presidential elections. Long term, I am impressed with the power of baby boomers’ savings. I have written before about the excellent number-crunching PaineWebber’s Ed Kerschner has done on this subject. It’s the best I’ve seen. Ed expects that individual investors will continue to be big buyers of stocks. “This could represent $25 trillion incremental market value over the next 15 years, truly big bucks when you consider that the value of the equity market is about $13 trillion today.” I like the long-term supply/demand picture for stocks.*

Don’t allow the ups and downs of oscillating supply and demand for stocks affect your investment decisions. Stick to your plan of patient compound interest generation and you will undoubtedly avoid the horrors of trying to chase performance through short, medium, and long-term cycles.

What Waylon Jennings can Teach You About Investing

Waylon Jennings can teach you a lot about being a successful investor. The most important part of Jennings' success was his go-it-alone, do-it-yourself strategy. Jennings didn't attempt to sound like anyone else. He charted a musical course that was unique to him. He avoided the herd by making his own decisions. That's how I want you to invest. In 1995, I wrote of Waylon and his success:

> *"Well, I Nearly Got Caught at a Burger King."*
>
> *"And a couple of times on a plane./I thought I was safe from detection with all of the weight I had gained./But walking around in a jumpsuit—that didn't work worth a dang./So I bought me some Levi's and grew me a beard, and you'll never guess who I am./Nobody knows I'm Elvis: Nobody knows this is me./After all of my tries, I've got the perfect disguise, and I'm who I want to be."*
>
> *Waylon Jennings, who penned the above song, "Nobody Knows," is one of the only people on the face of the earth who can actually preface a story with "One night, me, Buddy, Elvis and Roy Orbison were sittin' in a restaurant in Lubbock" and be telling you the truth.*
>
> *As producer Don Was noted (in Jennings' powerful new CD—"Waymore's Blues, Part 2" RCA 66409-2), in an era when*

record companies kept their artists on a tight creative leash, Waylon was the only one allowed to produce his own records, and in so doing, created a formidable string of distinctive hits that few artists can ever rival.

Doing it himself and bringing his own powerful creativity to bear has made Waylon Jennings successful in music. And I promise, these traits can make you successful in investing far beyond your wildest dreams. You simply need to pledge to do your own thinking, your own homework—which I'm here to help you with—and make your own decision. Most investors, especially institutional investors, run with the herd, traveling en masse from one investment idea to another. The herd game is not for you. Bring on individuality.

When you develop an investment plan that is geared to your specific needs, you buck the herd mentality.

You must chart your own unique investment course. At my family-run investment counsel firm, Richard C. Young & Co., Ltd., no client is part of the "herd." Each client has his own needs and circumstances addressed Read more about how we help clients by signing up for our monthly client letter, written by my son Matt, the firm's President and CEO. The letter is free, even for non-clients, My hope is that it will help you chart your own course.

Are You One of the Many

Investors Wasting Your Time?

If there’s one thing investors do to waste a lot of their time, it is comparing the performance of their portfolios to the S&P 500 or the Dow Jones Industrial Average. These indexes have little in common with any well balanced and well diversified portfolio. They simply aren’t good proxies for conservative, retired or soon to be retired investors to use for their investments. In December 2004 I called the practice a big waste of time. I maintain that view today. I wrote then:

> ***A Big Waste of Time***
>
> *One of the most inane exercises carried out by professional and amateur investors alike is comparing performance against, for example, the S&P 500 or Dow 30. These things are moving targets. Investors are not comparing apples to apples. For example, the original Dow began in 1896 with 12 components. What are you comparing yourself against? American Cotton Oil or American Sugar Refining or perhaps Chicago Gas? No, all of these companies have long since disappeared from the Dow 30. In fact, only one of today’s Dow 30 companies started out in Charles Dow’s index back in 1896. The sole survivor is General Electric. The others have either gone bankrupt or merged and merged again. The Dow today is even 10% different from the Dow in 1999, as Eastman Kodak, AT&T, and International Paper have been replaced by AIG, Verizon, and Pfizer.*
>
> *Both the Dow and the S&P 500 not only are moving targets, but are survivalist weighted. Losers and bankruptcies are dropped and replaced with up-and-comers. And neither index is encumbered with sales charges, expenses, or fees of any kind. And indices don’t pay taxes, which takes a giant bite out of most investors’ portfolios. No, you will do yourself no good comparing your own efforts or those of your manager’s against moving targets.*

> *Instead, measure yourself against a set of reasonable goals based on long-term growth of the economy and normalized interest rates, both nominal and real. With a clear understanding of probable long-term growth and income characteristics, you are equipped to establish your own personal targets.*

There are thousands of indexes available, including some with greater value as comparisons for investor portfolios. Those should be sought out and used in a way that takes into account all the factors I mentioned back in 2004. Don’t make the mistakes so many do by comparing your portfolio to an index that has nothing to do with your goals, risk tolerance, or desire for diversification.