Emerge from the Investment War a Winner

The simple act of avoiding major losses by diversifying my portfolio and focusing on value and compound interest has allowed me to emerge from the investment war as a winner. It can work for you too if you have the patience and endurance for such a strategy. This method is all about risk management, something I wrote about in December of 2003.

> ***Dead Aim…***
>
> *"When the difference between life and death can be counted in milliseconds, you need every advantage you can get. Which is why SureFire developed its Special Operations series to be the best extreme-duty tactical illumination tools in the world."*
>
> ***Risk Management Defined***
>
> *When SureFire asked operators what they wanted, the company was told a light that could survive a halo insertion or a midnight raid on a crack house. Operators wanted SureFire to deliver a light bright enough to find and blind suspected adversaries. SureFire handhelds can be used as non-lethal "force options." As the company likes to say, "Shine a SureFire in a suspect's eyes, and he's out of the fight." The company understands that you might not be a Special Forces operator hunting for terrorists in an Afghanistan cave to benefit from the retina-searing white light produced by the 500-lumen M6 Millennium. And you may not need a SureFire weapon light for your Heckler & Koch, Colt, or SIG submachine gun, but, then again, you may. But Special Forces operators around the world take dead aim with SureFire illumination tools as the ultimate in risk-management tools.*
>
> ***Invest for Consistency***

Every Special Ops fighter knows that on any mission risk management is the first order of duty. It's a basic military tenet that also works as a basic financial tenet. Why then do so few investors seem to know anything or care about risk management? Usually because of (1) greed, (2) lack of training, and (3) pressure from salesmen, who account for most of the assets held by individual investors. I'm often shocked when I hear what an investor owns in his or her retirement portfolio. For the most part, investors own portfolios of securities that have been sold to them. It's true. There's no way to sugarcoat the deal: Most investors simply own a pile of rubbish.

For four decades, I have been a consistently successful investor, practicing my basic investment tenet of diversification and patience built on a foundation of value and compound interest. I'm sure you can dig up folk who will at least tell you that they make more money than does Dick Young. Perhaps this is the case, but my conservative, balanced approach is suitable for investors who want to avoid debacles and emerge from the investment wars with a comfortable nest egg in retirement.

Market Timing: A Long-Odds Loser's Bet

It can be easy to forget the lessons of the past as the current bull market seems to run infinitely onward. Overextended stock market valuations have a habit of correctly quickly and unexpectedly. Once the crash hits, it's often too late to rebalance a portfolio into more defensive sectors.

Market rebounds have a similar time horizon. Once investors realize markets are on an upward trajectory, many of the best days of returns have been left behind. If you are caught out of the market, waiting for that perfect moment, it's already gone.

To avoid the dangers of market timing, develop a strategy that meets your individual goals and objectives today, and implement it rigorously throughout the market cycle. In January 1997, I called market timing a long-odds losers' bet. Here's what I wrote back then:

> *A Startling Expose on Market Gambling*
>
> *The seminal statistical study on market timing was produced by Towneley Capital Management and reproduced by T. Rowe Price for shareholders. The study covered a 7,802-day trading period from 1963 to 1993. It showed that over the entire period $1 invested grew to $24.30 (in a capitalization-weighted composite of stocks traded on the NYSE, ASE and NASDAQ). If, however, an investor missed just the best 40 days, or only 0.51% of the days, $1 grew to only $6.50. Over 73% of the three-decade gain was blown by missing just the 40 best days. You get the picture. It's a long-odds loser's bet trying to jump in and out of markets. You simply can't afford to miss those few best days, as has been the case for those who have missed the last four months.*
>
> *When I started in the investment industry in 1964 working for Ed Rosenberg at Clayton Securities in Boston, Dreyfus was king of mutual funds. Today, Dreyfus is less prominent, but still a fine group. Dreyfus offers a nice quantitative fund, Dreyfus Disciplined Stock Fund. The fund's literature details the fund's disciplined approach to stock selection along with its view on risk management.*
>
> *Dreyfus writes, "The fund seeks to neutralize unpredictable investment risk in a number of ways. The fund's managers are*

currently committed to the following risk management principals: (1) No market timing, and (2) No industry or economic sector bets." No doubt Dreyfus' managers had their hands on a study of cumulative returns done by competitor Vanguard using S&P/BARRA Growth & Value indexes.

The Guru Investment Trap

Over the last few years you have seen just how badly so-called gurus can get a prediction wrong. The complete failure of "experts" to predict Brexit, the election of Donald Trump, and even the economic implications of a Trump Presidency are good examples of how seemingly sound predictions can lead folk astray.

Market predictions are the same. In May of 1995 I warned readers away from placing their faith in forecasts with a little set of examples I've quoted for you here:

> *Last fall when I told you that 1995 would be a decent year for the stock market, I was not making a prediction. Rather I was making an observation based on history. In my lifetime, every year before a presidential election has been good for the stock market. Along with this historical tidbit, I knew that corporate insiders were raising dividends to shareholders like crazy while buying gobs of their own stock. All in all, a pretty tasty stew was in the pot.*
>
> *Was my positive view the prevailing wisdom? No indeed, quite the opposite. Listed below are three forecasts from late 1994 and early 1995, each from a well-respected source. Consider the following in light of the 1995 stock market bull run.*

> ***Forecast #1***: *"Technically this is one sick market. Maintaining or adding to investments at this time is a very risky proposition. We continue to advise that new subs reduce exposure and quickly move toward a 95% cash or T-bill allocation."*
>
> ***Forecast #2***: *"The long-term outlook remains negative. Our weekly high-low differential gauges are in very poor shape. This is yet another sign that these Dow rallies are masking the incredible technical weakness lurking beneath the surface. We feel it's crucial you remain in a defensive position."*
>
> ***Forecast #3***: *"Is this the beginning of an emerging bull market? We don't think so. The majority of our indicators continue to give off bearish readings and until there is evidence to the contrary we'll continue working under the assumption we're in a bear market that has further to run."*
>
> *Well, what the word? In my book, it's 0-for-3. Not a helpful prediction in the lot, and all three wide-of-the-mark projections were made by seasoned, thoughtful analysts.*

Rather than relying on predictions to guide your investing, depend on a strategy that reduces risk, increases income and supports compounding.

The Three Word Secret to Sound Investing

If you aren't getting paid regularly for your investment in a company's stock, you are taking it on faith that someday, at the precise moment you need to sell to generate cash, the price will sit at a gain for you. Buy low, sell high, right?

But what happens if there is no “high?” Stock prices can remain depressed for agonizingly long periods of time. From year-end 1965 – 1981, the Dow Jones Industrial Average was down 10%. Investors who were counting on capital appreciation to fund a comfortable retirement were short changed.

Meanwhile, those investors who demanded a margin of safety in the form of regular dividend payments fared much better.

In November of 1997, I wrote about Ben Graham, the pioneer of the idea of a *margin of safety*, the three-word secret to sound investing. Here’s what I told readers then:

> ***Ben Graham’s Margin of Safety***
>
> *Graham died in 1976, yet his wisdom is as fresh as if he were standing before us today. Ben Graham & Co.’s advice to investors is to evaluate a stock as if you were considering buying the entire company. Graham’s secret of sound investing can be distilled into three words—margin of safety.*
>
> *Why am I focusing on Graham’s margin of safety? Because we are all happy as sin with the stock market advances of recent years, but I don’t want you to lose perspective. When I was in the institutional brokerage business with Model Roland & Co. in the early 1970s, the Dow fell by 44% in just two years. As bad a year as 1973 was—the Dow fell over 16%—it was only a warm-up for 1974. In 1974, the floor caved in. The Dow plummeted over 27%.*
>
> ***Sixteen Years of Falling Stock Prices***
>
> *Investors tend to be a little myopic. Many investors are terrific at extrapolating the past into the future. These misguided souls are not investors at all. Rather, they are speculators. Do you know that the Dow was actually down 10%*

over a 16-year period from its starting point in 1965 to year-end 1981? Do you realize that the yield on the Dow today is less than 40% of its historical average? Stocks are paying an average of only 1.7%, versus the historical average of 4-1/4%. But it's a new era, you're thinking. Things are different today. With the Dow at 8100, the old rules no longer apply.

Well, I can tell you for sure, when you're not getting paid to invest, you're not getting paid. Pure and simple. Today's common-stock investor is plunking down his hard-earned money and, in effect, saying, "I will take may gains on the come. Don't worry about paying me anything today." It's the greater fool theory, not investing. I can give you lots of reasons why yield is low today. In the end, you can still say to me, reasons schmeasons, I'm not getting paid! And you would be right.

Richard C. Young & Co., Ltd named to Barron's Top 100 Independent Advisors for Seventh Consecutive Year

I am pleased to announce that for the seventh consecutive year our boutique conservative investment counsel firm has been named in *Barron's* Top Independent Advisors list (2012-2018). Disclosure Our firm's inclusion is notable because the nature of the investment advisory business is changing and not for the better. Private equity firms, breakaway brokers, and others more focused on gathering client assets than providing high value investment counsel are now a dominant force in the advisory business.

The *Barron's* list is unfortunately becoming institutionalized. There is now a separate firm list for the likes of Edelman Financial, Creative Planning (dropped this year for potential regulatory infractions), and United Capital Financial Advisers.

With tens of thousands of clients and hundreds of advisors, there is nothing boutique about these firms. Acquisitions and asset gathering are the order of the day. These firms are becoming mini-versions of Vanguard or Schwab call centers, but with store fronts. Few do proper investment research and analysis. And the fees of some are far from client friendly. Charging 1.50% out of the gates for an index-based ETF portfolio and some basic financial planning as some "advisors" do may be worse than the 2 and 20 model of hedge funds. At least the hedge funds are working for the fees their clients are paying.

Richard C. Young & Co., Ltd. has always been a boutique investment counsel firm and it will remain that way whether that means staying on the *Barron's* list or getting knocked off by this new breed of acquisition hungry advisors. Our clients financial well-being has always been our number one priority and it will always remain that way.

How to Diversify Your Portfolio the Right Way

Diversification is a must, but there is a right way to diversify and a wrong way. Loading your portfolio with eight different stock ETFs may minimize stock-specific risk, but in a nasty bear market, all eight of your ETFs are likely to get bludgeoned. The right way to diversify is to include assets that tend to zig when others zag. Counterbalancing is key here and the all-time counterbalancing champion is Treasury bonds. As a measure of the powerful counterbalancing force of Treasury bonds, consider that in 22 of the 24 bear markets since the 1920s, intermediate Treasuries have risen in value.

I have long urged readers and clients to diversify across asset classes, and in 1999 I told them that asset allocation is your vital first step. I wrote:

> *Asset Allocation Your Vital Fist Step*
>
> *I am 58 years old and have worked in the investment business for 35 years. I will not compromise 35 years of savings to speculate in the financial markets today, and I strongly hope that you adopt the same approach. I am well diversified to ride through any sort of financial turmoil, and this is the strategy I offer to you monthly. Your most important task is asset allocation. …*
>
> *The older you are the larger the fixed income component of your portfolio should be. Each month I provide you with recommendations for this portion of your portfolio. Given the booming stock market of recent years, you may be hesitant to increase your commitment to fixed-income securities. But what if I told you that long-maturity Treasury STRIPS actually have outperformed the stock market since 1982? I'm making this up, right? No, indeed. You'd have been the winner with your U.S. Treasury STRIPS, even through the great stock market of the 1980s and 1990s. And, oh yes, your full-faith-and-credit Treasuries, along with being free of state and local taxes, guarantee your return of principal at maturity. Anything not to like here? See how easy it is to lose perspective? It's also easy to become lazy and carelessly greedy.*

Shortly after I suggested allocating assets to bonds, the market proved the value of fixed income once again. During the bear market that started in January 2000, intermediate-term Treasury bonds gained nearly 15%.

At my family run investment counsel firm, Richard C. Young & Co., Ltd., fixed income portfolios are crafted for clients with a focus on age, risk tolerance, and objectives. If you would like to learn more about Richard C. Young & Co., Ltd.'s approach, sign up for the firm's monthly client letter. My son Matt writes the letter each month to explain the investment philosophy used to create client portfolios, and any changes that may have been made during the month. The letter is free, even for non-clients.

When You Plan Ahead, Damage Can Be Minimized

Hurricane Florence is bearing down on South Carolina, with some estimates suggesting four FEET of rain could swamp the coastal towns. Even for seasoned hurricane survivors, that's a mega-monsoon.

Debbie and I have encountered many hurricanes in our decades of East Coast living. Most recently our Key West home was visited by Hurricane Irma, which left much of the Keys devastated. Our home was left relatively intact compared to some neighbors.

In 2004 I outlined some of the preparations built into our home. My point then was that when you plan ahead, damage can be minimized.

My Big Idea

I’ve been writing to you about my Big Idea. My program is based on the human tidal wave of over 70 million Baby Boomers who, in about four years, will begin to retire and will head south to warm weather and low taxes. I’ve written about Florida as a state that will garner increasing interest by Baby Boomers. Well, as might be expected, when one is especially enthusiastic on a subject, outside influences can, shall we say, put a damper on things. As it turns out, this year’s hurricane season was a beauty, and Florida got hit with four major storms in one season. There hasn’t been a hurricane season like this one for one state since Texas got hit back in 1886. Florida got whupped up by Charley, Frances, Ivan, and Jeanne. Naples, my favorite for relocation, did not get hit. My home base in the Florida Keys also avoided a hit from any of the four, as did Amelia Island north of JAX, another one of my favorites. And my strongly advised St. Joe came away unscathed. Even with a recordsetting four hurricanes, I don’t have much to complain about. And Florida real estate sales remain strong. The WSJ recently reported, “So far, the four hurricanes that pummeled Florida during the past two months have done little to scare investors away from commercial real estate in the Sunshine State.” And sales at St. Joe remain red-hot.

The whole East Coast, not just Florida, felt the wrath of this year’s hurricane season. Virginia was hit hard, and a lot of historic Richmond was under water. Jeanne dumped a foot of water in Delaware. The Carolinas, Maryland, Pennsylvania, and New Jersey all had loads of problems. It was a tough year in the East. After Hurricane Andrew in 1992, Miami-Dade County adopted much tougher building codes. In Miami-Dade, buildings must now be built to withstand 140-mile-per-hour winds.

I’ve been an East Coast island resident for almost 30 years *and have weathered a number of nasty hurricanes. They are not much fun, but when you have a plan, dealing with storms is easier. In the Keys, our home is built to withstand 150-mph winds. We built our home like a fortress, with deep overhanging porches to protect windows, jumbo oversized roof beams, and vertical posts with lug bolts the size of your fist. We have zip on-and-off accordion metal shutters for exposed doors. In Naples, where our son, Matt, lives with his family, their fortress has brand-new hurricane-resistant metal doors, including the vulnerable garage. Windows are hurricane fighters. When you plan ahead, damage can be minimized.*

The same principles can be applied to your investment portfolio. Building a diversified portfolio on a foundation of value and compound interest will leave you ready for any market storm.

The 6 Basic Investing Principles That Will Make You a Winner

There are six basic investing principles that, if followed diligently, can make you a winner. I wrote about these principles in the fall of 1991, and if you are one of my long-time readers who has stuck to them, like me you have achieved investment success. If you are a newcomer to the investing philosophy of Dick Young, I can tell you that this is how I operate, and it has worked for me year after year.

Here are the six principles that made me a winner in the investment battle:

Six Guiding Investment Principles

It's a regimented, slow and steady progression. Not much spinning, but through the years, a lot of weaving. I've been a winner in the investment battle, and you can be a winner too, thanks to six basic investment principles:

1. *SAFETY: I don't lose my money. I've not taken a meaningful loss in my near 30 years of investing; my biggest was for $5,000;*
2. *DIVIDENDS: I emphasize dividends and interest;*
3. *COMPOUND INTEREST: I place strong value on the power of compound interest;*
4. *FEES: I pay few commissions and sales charges. Rarely do I take a big tax hit because I let my positions alone to grow;*
5. *BALANCE: I balance my program rather evenly between U.S. Treasury securities investments and commons stock investments. I don't try to outguess the markets;*
6. *SIMPLICITY: I keep it real simple.*

How to Invest Like a Hall of Famer

Those of you who have been with me for many decades may remember back in 1991 when I wrote about investing like Wade Boggs played baseball. Consistency was my focus for you then, and it remains so today. I emphasized Boggs' ability to get on base. He led the league in on-base percentage six times during his career. Boggs' career strike out record was a miniscule 6.9%. I wrote:

Ever hear of Wade Boggs? Boggs is a pretty dull guy on the *baseball field (not off the field, however). He doesn't light up the sky with home runs (although he gets his share), and he's one of the slowest guys on the Boston Red Sox—a real danger on the base paths. Yet every time you look around, the darn guy is on base again. He rarely strikes out. He's steady in the field and makes few errors. Wade Boggs will surely be in the Hall of Fame. He's consistent, and he's highly disciplined. You can count on Wade to give you a Hall of Fame effort each and every game year after year. Consistency is Wade's key.*

I set my investment program along the same lines. You get Hall of Fame results if you emphasize discipline and consistency. You need not go for the home run. Spray those singles around the field. Stretch a little for those doubles. Hit to all fields. Take what the pitcher—or market—gives you every time up and put the ball in play. Don't strike out. Have a plan, and make it your goal to stick to your plan year after year. You just can't beat the value of a disciplined, ordered approach.

And of course, Boggs was inducted into the Hall of Fame in 2005.