The 3 Components of Investor Success You Should Care About

On Wall Street, traders and speculators are closing their doors. *The Wall Street Journal's* Rachael Levy recently reported:

> *Boston-based hedge fund Frontlight Capital LP is shutting after fewer than three years in operation, people familiar with the matter said.*
>
> *Four other hedge funds earlier this month announced they were closing, as investors re-evaluate a once-highflying industry plagued by weak returns.*
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> *Through September of this year, Frontlight's fund, Frontlight Enhanced Macro Master Fund I, LP, lost 4.17%, according to a document reviewed by The Wall Street Journal. The fund lost 5.6% last year. The firm managed about $280 million, the document said.*

Such speculators have no use for the ONLY three components of investor success I care about, and you should care about too.

1. Cash flow
2. Compounding and
3. Patience

Over the long term (patience) always leads to capital appreciation. ALWAYS.

Follow the cash, and compounding and time will allow the power of cash to steadily and relentlessly pull capital appreciation forward.

Stick with cash flow always.

Trading, and speculating that there will be a greater fool available to sell your shares to in the future is what has driven these hedge funds out of business. Don't make the same mistake, focus on my three components for success.

The Right Attitude for Winning Investing

Investing is all about attitude. Are you too eager to take on risk in good times? Too ready to cut and run in bad? Can't commit to an investing plan? Don't have the resolve to stick to a sustainable withdrawal rate?

In early 1999 I talked with the former American League MVP, Boog Powell about attitude. I wrote this that May:

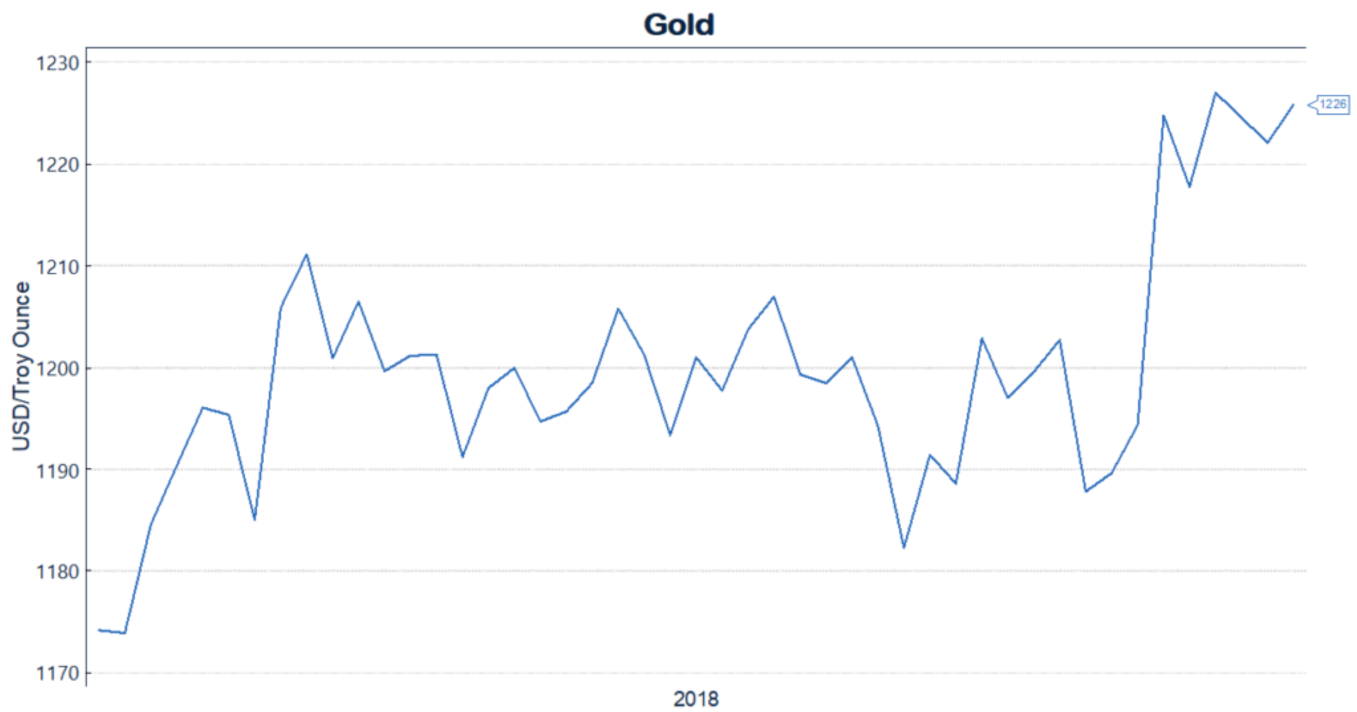
> *I was talking to Baltimore Oriole baseball legend Boog Powell recently. During the baseball season, Boog runs Boog's Barbecue at Camden Yards in Baltimore. Off-season, he is in Key West occasionally as "guest" barbecue celeb at his high-school buddy's local spot. Boog will tell you that barbecue is an attitude. Well, successful investing is also all about an attitude. Your mental framework will go a long way in making you a successful investor. The primo way for you to have a winning attitude 100% of the time is to become a programmed investor. Operate on the premise that the economy grows over time, as do corporate earnings, and thus stock prices. Don't trade in and out. Ride the long wave to prosperity in a risk adjusted way that reflects your age, investment acuity, financial resources, risk tolerance, and need for income from your investments.*

Managing your attitude is the hardest part of successful investing. Keeping calm during market turbulence isn’t easy when you’re on your own. Working with a professional can make a difference in your comfort during difficult times. If the last week of market volatility has you looking for guidance, sign up for the Richard C. Young & Co., Ltd. monthly client letter (free even for non-clients). Take some time to read through older letters to understand our steady approach to investing.

Getting on the Map with Gold

I have been a longtime supporter of including gold in diversified portfolios. Gold is a safe-haven asset, an inflation and currency hedge, and a hedge against geopolitical turmoil and general market turbulence. It is an insurance policy of sorts. When everything else is down, gold is often up. Gold’s counterbalancing effects can dull the pain of a market rout.

We have seen shades of gold’s counterbalancing power over recent weeks as both stocks and bonds have sold-off while gold prices have risen.



I've long been an outspoken advocate of owning gold (I say owning because I buy gold and do not intend to sell). I've spoken on gold at conferences around the country, and I have researched and written about gold for nearly 50 years.

Becoming a reliable purveyor of gold insight was no easy trick. At 30 years old I was given a tough, international assignment, and then judged by some of the most demanding names in the business. In August of 2017, I told readers the story of the research breakthrough that put me on the gold map. Here it is for you:

> ### *London, 1971*
>
> *Portfolio strategy discussions and strategizing with the world's biggest institutional clients started for me with a mix of Boston, New York, and London research. My institutional research and trading days trace back to August 1971 with Model Roland & Co. The Boston offices were on Federal St. in the old financial district. I was 30 years old.*

Gold Research for Leo Model

By the summer of 1972, I was off to London on a gold/gold-shares research trip. This eye-opening experience gave me access and exposure to the largest players in the international gold market. I met contacts and gained background that would be invaluable to me, and thus to my clients, for the ensuing 45 years. Meetings at Samuel Montague and Consolidated Gold Fields, for example, allowed me to craft a detailed report for Leo Model on gold as a commodity as well as a monetary asset.

E.M.B. Comes Through

Mr. Model thought enough of my report to put it into the hands of no less than America's dean of international monetary experts, Edward M. Bernstein. This was a little unnerving for me as a 30-year old who was prepared for a sour outcome and a lecture from Herr Model, a demanding employer.

Well, much to my surprise, Mr. Model soon received a note from E.M.B., perhaps the #1 expert in the world on the intricacies of gold: "I think the collection of papers on gold is excellent. It seems objective and pointed. I have no suggestions. … Put me on the list to get what Model Roland puts out on gold."

That did it for me. I was on the map.

Get Rich Slow with This

Strategy

Most “get rich quick” schemes end up turning into “get poor quick” schemes. Reach too deep into the risk pool and you’re likely to fall in. I knew that 30 years ago, and in 1988 I wrote:

> *I’m an ultra-conservative investor at heart…and by intent. I know my reputation in the industry puts me in the most cautious camp possible, and that’s just swell with me. My motto has always been, “Get rich slowly with compound interest.”*
>
> *At even a 7% rate of return, money doubles in about ten years. In IRA, Keogh and other retirement accounts, over half of total return should come from dividends and growth of dividends.*
>
> *Dividends are the foundation for any serious investment portfolio. I’ve told you many times that over the 50-year period, end 1986, the Dow Jones Industrial Average compounded at 4.8%. Dividends on average provide a yield of 4.5%. And then there is the 4.6% long-term dividend growth rate that combines with current yield to make dividends the focus consideration in any investment-grade portfolio. Look for a yield that is higher than the yield for the average Dow stock (currently 3.6%); look for dividend growth better than the Dow’s historical 4.6%; and look for a price earnings ratio (P/E) that is below the Dow P/E (currently 14.2x). If you make it your point to select stocks that meet these three initial tests, you will be well on your way to assembling a portfolio with excellent prospects for long-term total return. Don’t be overly anxious about capital appreciation. Let appreciation take care of itself. You want to lock in a relatively high yield and good dividend growth prospects.*

The Dow yields have changed today, and buybacks are a bigger part of the investment picture than they were in those days, but the principle remains the same: get rich slowly with compounding.

Don’t Manage Your Money Like This

In September of 1992, I outlined the tragic story of a MLB slugger, Jack Clark who had misspent his money and wound up in bankruptcy. I wrote:

> ## *It’s Time for Bankruptcy*
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> *Not for you of course. No, I’m writing to you about bankruptcy for Jack Clark, Boston Red Sox slugger, but this story carries a lesson for most of us.*
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> *Now here’s a guy—a good guy, too—with a three-year Red Sox contract worth $8.7 million. And yet Jack is bust. He has listed $11.5 million in debts, versus only $4.8 million in assets. Clark owns 18 automobiles, including a $717,000 Ferrari. He dumped over $1 million into the Jack Clark Racing Team and earned next to nothing on it. He owes American Express over $55,000 and Visa nearly $20,000. The guy’s monthly statements must look like a J. Crew catalogue. He owes state taxes. He owes Fed taxes. He owes his agents.*
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> ## *You Need to Protect Your Principal First*
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> *Here is a story of financial excess that is truly hard to*

imagine. Jack Clark is a young man who has earned millions. But he did not have a plan for his financial future. He did not even plan for today. And he did not protect his principal.

Remember last month when I wrote to you about not blowing your principal? For many investors, the accumulation of principal may be short-lived, like a professional athlete's, or even a one-time shot, such as receiving an inheritance. That's why it is so important to protect—not plunder—your principal. Jack Clark blew $8.7 million. Who knows what's ahead for Jack Clark, but it will most likely include starting from scratch financially. Had Jack invested along the lines outlined monthly here, his wealth would have increased with consistency, and his financial worries would today be non-existent.

The lesson here is that whether you have $8 or $8 million, you must have a disciplined, consistent plan for your financial future with first priority given to protection of principal.

Clark's story turned from bad to worse this year. At age 62, after earning what was estimated to be $15 million during his long baseball career and working for multiple television and radio sports broadcasters, Clark has filed for bankruptcy once again.

Instead of enjoying what should be a comfortable retirement, Clark is starting from scratch once again. He didn't protect his principal, he spent it, twice.

Don't make the same mistakes as Clark. Protect your principal with a disciplined, consistent plan for your financial future.

Here's the Investing Advice I'd Give a Professional Athlete

This is the advice I gave professional athletes and my readers twelve years ago about how to make your retirement dollars last a lifetime. I wrote:

> *I advise you regularly to invest only for dividends or interest. I want you to insist on getting paid, as I do. If you want to speculate with a portion of your capital, that's fine, but do not mess with your primary stash of cash. When you retire, your earning years are over. Kaput. You earn no more. Therefore, every dollar you have the day you retire must be treated with the deepest reverence. Treat each dollar as you would a family member. Would you wave good-bye for good to even an extended family member? Well, I guess there might be one or two exceptions, but on balance you would not. The same goes for each one of your retirement dollars. When you spend your money, it can no longer work for you for the rest of your life. Were I advising professional sports athletes with their huge initial contracts, my first advice would be to invest every upfront bonus dollar in 90-day U.S. T-bills and roll over the T-bills until such time that a suitable conservative, professional registered investment advisor had been selected. I would advise these athletes to not spend one dime of that bonus. No new Cadillac Escalade. Every bonus dollar from day #1 would be sequestered so as to earn dividends or interest for a lifetime. A sports career passes in a flash. And no offense here, but who attended class in college?*

If you need help managing your money to avoid risk, sign up for the Richard C. Young & Co., Ltd. client letter (free even for

non-clients) by clicking here. Each month my son Matt writes the letter for clients of our family run investment counsel firm. Matt is the President and CEO and has been named one of *Barron's* Top 100 Investment Advisors for each of the past seven years. In the monthly letter, Matt explains the decisions we make for clients' portfolios, and how they fit into a broader strategy for risk management. Enjoy!

You'll Never Know It All, But Know Enough

Don't try to be a know-it-all investor. Building a solid foundation on diversification, patience, value, and compound interest, has always worked for me, without having to "know it all."

In December 2003 I explained my deliberate method of focusing on dividends and interest to generate compound interest, writing:

> ***Invest for Dividends & Interest***
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> *I'm not a speculator or trader, and I don't offer strategies for either group. Work hard, invest your hard-earned savings regularly for interest and dividends, and let your investments breathe. Let them take the air. Let them work for you as a long-term store of value keyed to the miracle of compound interest. Do you have a compound interest table? Please promise me that you will not start yet another year without the world's most valuable investment tool on your desk.*
>
> *You need to be on a specific track in order to ensure your success as a consistent long term compounder of your savings.*

If I can do it, you can do it. This is especially so since I give you everything you need to be a winner in my monthly letters. As such, I’m darn deliberate about what I recommend to you. I clearly and consistently lay out strategies for both of us. I don’t mince words. You know exactly where I stand. We are on the same team. I beat on a handful of topics to the point of badgering. That’s because 40 years of experience have shown me what works and what doesn’t. I’m excited to be reinforcing these concepts for you each month because I know you benefit from the consistency.

Key West-Style Consistency

As I’ve written in the past, my strategy for us both is not a know-it-all approach. Rather, it is know enough. I insist on keeping it easy and simple. Friends of mine own a neat restaurant here in Key West. This special place has won a Zagat Award for two consecutive years, which, I’m told, is quite rare. Located on the corner of Olivia and Elizabeth, the little white restaurant is the savored province of locals who try to keep good ideas to themselves. My friends’ answer to how they have achieved such great success? Consistency.

Consistency is also the guiding light I shine for you each month, ad nauseum, I’m afraid. Consistency, of course, is about risk management and my basic investor tenet of diversification and patience built on a foundation of value and compound interest.