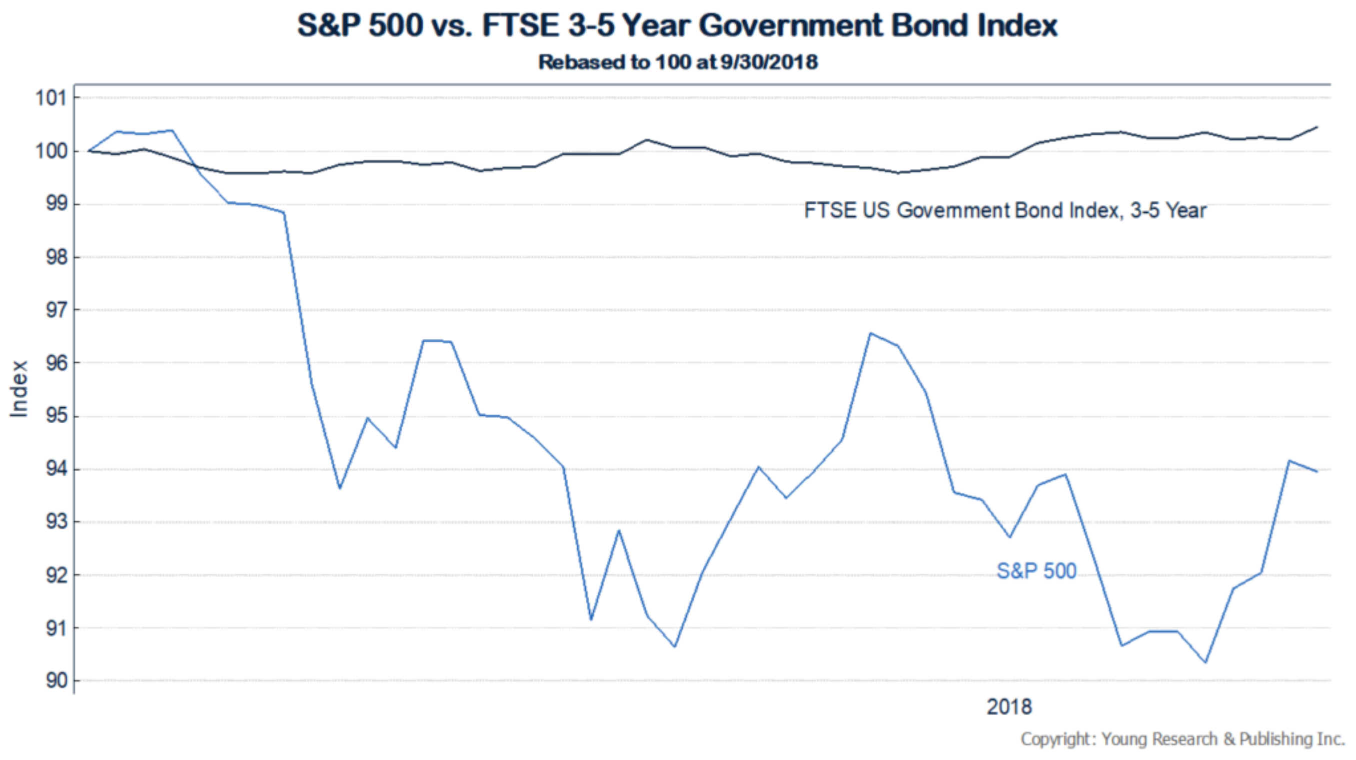
Most People Aren’t Measuring Performance Correctly: Here’s How

When you measure performance in your portfolio, are you getting the right picture? If you are like most investors, the answer is no. Here is what I wrote in December 2013 about how you should be measuring performance:

> *Cycles and Investment Success*
>
> *Understanding cycles is vital to your long-term investment success. Most folk intuitively understand that the economy and the financial markets go through cycles. The economy expands and then it contracts, the stock market rises and falls, interest rates go up and they go down. Cycles just come with the territory in a free market economy, but when it comes to evaluating investment performance, too many investors behave as if cycles don’t exist. The mutual funds and investment managers who have earned the highest returns over a given period of time, whether it is three years or five years, gather the largest share of investors’ assets.*
>
> *Three or five years may seem as though it is long enough to evaluate investment performance, but it is not. The proper way to evaluate investment performance is to measure over a full market cycle. Why? Because just as the economy and the broader stock market go through cycles, so too do investment strategies. More aggressive investment strategies are likely to outperform in up markets, but they are also likely to trail badly in down markets. The opposite is true of a more defensive strategy.*

Commit This to Memory: *Update*

UPDATE: Since I originally posted this on October 11, 2018. Look at my chart to see what has happened since then.



Bond yields are rising, tech stocks look shaky, emerging market currencies are tanking, and in the midst of the longest bull market in history, September property sales in Manhattan are down 39% compared to 2017, with median sales prices falling 9% during that time.

There are some warning signs flashing. What should you be doing now to prepare for a future downturn? In April of 2002 I wrote:

> *Here is a historical goody that will offer you much comfort. In every stock market downturn since 1950, with one mini-exception, intermediate-term U.S. Government bonds have risen. Talk about the power of counterweighting. Talk about an*

Armadillo-like defense shield.

If you want to properly prepare for your retirement and retire in comfort, please commit the preceding to memory. Promise yourself you will keep your fixed-income component up to snuff. And never futz with your mix. Do not be an interest-rate forecaster or a trader. Once you have your mix correctly in place, leave it alone except for occasional tinkering and pruning. You do not want to hack and chop. Portfolio management for long-term conservative investors is about ebb and flow—slow and steady and patient. Remember, successful investing is counterintuitive. For example, most investors equate successful investing with trading activity, when just the reverse is true. At the same time, they look to stock price gains as their equities benchmark. In reality, the place to begin is dividends and dividend growth. Companies that pay a decent dividend and increase the dividend year after year will have share price appreciation. It comes with the turf.

What Will Happen if Trump Increases Tariffs on China?

This week President Trump said it would be “highly unlikely” that he would hold off on increasing many tariffs on Chinese goods from 10% to 25%. Analysts are asking, what will happen if he goes forward with his plan?

The media is answering that question with a spectrum of possibilities ranging from apocalypse to Armageddon.

But what happens if Trump doesn’t take a tough stance with

China? What is China's endgame? And, if China is successful in implementing its plans via unfair trade practices, would the potential outcome be any better for the U.S. economy than the negative aspects of a trade war?

In December of 2005 I analyzed the China question, writing:

> *Chinese End Game*
>
> *Is China deceiving the world about its military spending and intentions? I believe the answer is clearly yes. London-based International Institute of Strategic Studies is floating a weapons and defense spending number of over $62 billion for last year versus official Chinese reports of $30 billion. Seems the comrades count spending on Russian submarines, aircraft, and destroyers as "off balance sheet" items. China is fixated on re-unification with Taiwan and anticipates military intervention from the U.S. I have explained why such intervention is not needed.*

The economic impact of a war with China would be devastating for all sides. If tariffs can be used as a negotiating tool to bring the Chinese to the table on unfair trade practices, it could be a success for both countries in the long term.

Are You a Shepherd or a Gunfighter?

Before you answer, remember that at least 50% of gunfighters end up dead.

Are you the type of person who will dutifully grow your investment portfolio over the years by shepherding it in the right direction?

Or will you risk it all in one high risk gunfight after another until your number is called?

Consider what I wrote here, thirty years ago in December of 1988. It's a comparison of some high-level shepherding vs. some inexperienced gun slinging.

> *Do you know the two most powerful words in investing? If you've been with me through the years, you know the answer. But for all of my new subscribers, the two magic words are COMPOUND INTEREST. Let me show you their importance and suggest an exclusive menu of high-yield winners perfect for your portfolio.*
>
> *The name Joseph Rosenberg may not mean anything to you. Joe's a money manager for Loews Corp. How much does Joe shepherd? Over $1 billion. A few years ago I made a presentation to Loews' top management. The group included CEO Laurence Tisch, now also head man at CBS. Rarely if ever have I been more impressed with the composite investment knowledge of a small management team. It's, of course, not for lack of acuity that you'll find Laurence and Preston Tisch listed among the Forbes "Four-Hundred Richest Americans" at a staggering $1.7 billion.*
>
> ***"The Most Important Thing in Investing"***
>
> *You can imagine my interest when I opened my 1989 Fortune "Investors Guide" and saw staring at me a near-full page color photo of Joe Rosenberg in his mountain climbing clothes. Joe is an adventurer at heart, but when it comes to investing, listen to Fortune tells readers:*
>
> *"Joseph Rosenberg, who manages more than $1 billion for Loews Corp., believes so fervently in the awesome power of compounding that he carries a compound interest table in his*

pocket at all times…even to the peaks of Yosemite. His faith is simple and absolute." Says Joe of the powers of compounding: "It is the most important thing in investing."

About the same time I was enjoying Fortune's neat picture of Joe sitting high atop a peak at Yosemite, I read an article on a young woman referred to by the Wall Street Journal as "the new Wall Street guru." The Journal informed us that this young lady had enjoyed a single-day media coronation, "while some legendary investors [including Joe and the Tisch brothers, I might add] have built their records over decades."

And how is the "new guru" doing? Not so well, I'm afraid. Her fund ranked dead last in its category in the 1988 period annualized by the Wall Street Journal. So much for new gurus.

Think about it. Do you want to become wealthy by following my policies of compound interest performance, or do you want to draw to an inside straight, pan for fool's gold, or perhaps relive the financial equivalent of the gunfight at the OK Corral? As Joe Rosenberg told Fortune readers, "It's foolish to undermine the power of compounding by taking big risks that could kick you out of the game."

To harness the power of compounding you must be a shepherd, not a gunfighter.

My Concentration Is on Full Faith & Credit Pledge U.S.

Treasuries

As Wall Street tumbles, my concentration is on full faith and credit pledge U.S. treasuries. *Reuters*' Caroline Valetkevitch reports on the market:

> *The Nasdaq fell 3 percent on Monday as investors dumped Apple, internet and other technology shares.*
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> *Shares of Apple Inc fell after the Wall Street Journal reported the company had cut production orders in recent weeks for all three iPhone models launched in September.*
>
> *The iPhone maker's stock dropped 4.0 percent to $185.86 and is now down 19.9 percent from its Oct. 3 record closing high in the wake of a disappointing holiday quarter sales forecast.*
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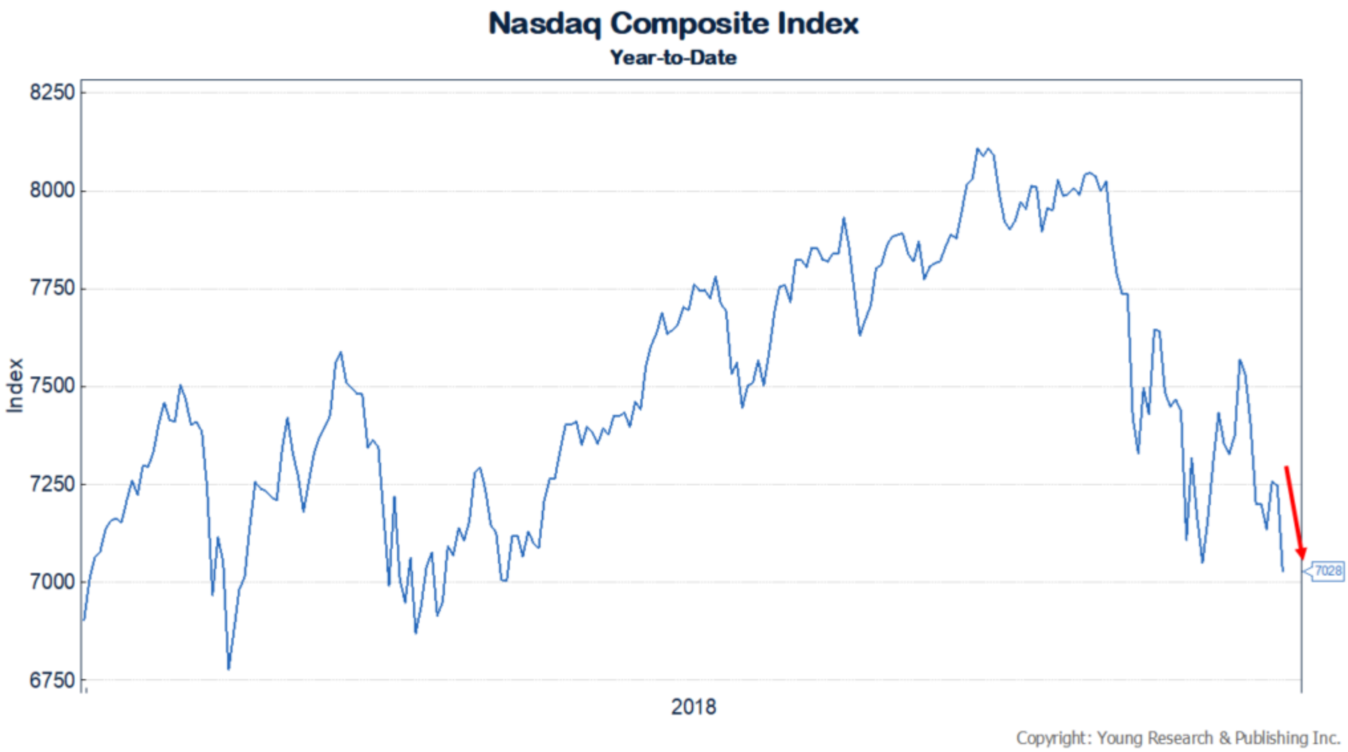
> *Other market leaders – including the 'FANG' stocks – also fell sharply. Shares of Facebook were down 5.7 percent, Amazon.com was down 5.1 percent, Netflix fell 5.5 percent.*

Read more here.



Are You About to Retire Broke?

Most Americans are simply not saving enough. *GOBankingRates* released a survey this week showing that 42% of Americans will retire broke. Hopefully, that doesn't include you, but even if you have been saving, it's a good bet you could do more.

In July 2014, I explained to readers why they should boost savings.

> ### *Boost Your Savings*
>
> *The strategy implication of a low-return environment is that savings must play a greater role in your investment plan. The stock and bond markets aren't going to bail you out. To secure a prosperous financial future, today's low-return environment demands that you boost your savings rate. And not just by a*

little, but by a lot.

Consider a hypothetical investor who we will call Joe. Joe is 50 years old and he plans to retire in 15 years. Joe has $1.2 million in retirement savings. He has an annual income of $150,000 and he thinks he can retire comfortably with $100,000 in income. Since Joe doesn't plan to retire for another 15 years, we have to adjust his $100,000 income need for future inflation. Assuming a 3% inflation rate, Joe will need to take $155,000 in income when he retires.

Using my maximum advised 4% withdrawal rate, Joe shouldn't retire until he has a $3.9 million portfolio ($155,000 is 4% of $3.9 million). Since Joe already has $1.2 million invested in a 50-50 mix of stocks and bonds, his savings goal is within reach. But only if he makes regular contributions to his portfolio. How much does he have to contribute to his portfolio to achieve his savings goal?

A lot more than he would if he could count on a 7% return. At a 7% return, Joe would be able to put away $2,000 per month, or about 16% of his income, and easily achieve his retirement savings goal. But at a 4% return, Joe will have to save about $84,000 per year to reach his $3.9 million target in 15 years—that's more than half of his annual income.

The ugly reality of the Fed's aggressive monetary policy is that many Americans are going to have to save more and work longer in order to retire comfortably. I am not suggesting that you boost your savings rate to 50% of your annual income, but I am suggesting that you reassess your retirement savings plan in light of today's low prospective return environment.

The Historical Primacy of Dividends

In July 2011 I wrote:

> *On page 480 of 1962's Security Analysis by Graham, Dodd, and Cottle, I underlined the above header. Since that time, I must have worn out a thousand red pens underlining books, but rarely are they investment books. I have never required another book on investing. I have since read a handful of other books on investing that I have found somewhat useful, but it has been a couple of decades since the last one. And I have no need to add to the list. Successful investing is to me more an art than a science. And intuition plays a big part. Since I graduated from Babson College with a BS in investments in 1963, I have relied on the wisdom outlined in the paragraph headed "Historical Primacy of Dividends." In chapter 35, the authors explain, "For the vast majority of common stocks, the dividend record and prospects have always been the most important factor controlling investment quality and value. In the majority of cases, the price of common stocks has been influenced more markedly by the dividend rate than by the reported earnings."*

Dividends are still the ultimate way to value common stocks. You have no control over the ups-and-downs of stock prices, but every quarter when you receive a dividend payment, that's a real return. And when you put those cash payments to work on compounding, it only gets better.

At Richard C. Young & Co., Ltd., we craft custom portfolios of dividend paying stocks for our clients. Each portfolio is filled with stocks that not only pay regular dividends, but which also have a history of increasing those dividends.

If you would like to learn more about the Retirement Compounders Portfolio strategy, sign up for the Richard C. Young & Co., Ltd. monthly client letter (free, even for non-clients). There my son Matt, President and CEO of the family run investment counsel, spends time each month explaining our strategy, including the historical primacy of dividends.

Here's How You Should Approach Investing in China

The China Household Finance Survey run by Gan Li at Chengdu's Southwestern University of Finance and Economics, recently found that one fifth—that's 20%—of Chinese homes do not have occupants. Instead these homes are owned as investments in what could be one of the world's most distorted markets ever.

Back in February of 2012, I wrote about China's "ghost cities," and the dangers of investing in a command economy. Government subsidies, capital controls, and excessive regulations distort the Chinese economy, making analysis of normal economic signals difficult.

With Chinese shares already down over 20% (in yuan terms) in 2018, and Trump administration tariffs threatening to take a bigger bite out of the Chinese economy in the future, I urge all investors to read my analysis on investing in China here.

> ***China***
>
> *I have long advised against direct investment in China. Among the many reasons I am bearish on China is the country's vastly distorted economy. China is a command style economy run by an*

unelected political party—the Communist Party of China (CPC). The CPC's policies have resulted in a grand misallocation of capital. A mercantilist currency policy, perverse incentives for provincial government officials, and crude monetary policy tools have helped inflate a fixed asset and real estate bubble that puts the U.S. real estate bubble to shame.

A Quality Problem

It should be obvious to most that things are not as they seem in China. China has reported GDP growth of 9% or more in every quarter over the last two years, but the Shanghai Composite Stock Index has plunged more than 30% during that time. If China's economy were truly booming, Chinese shares would most likely be trending up. China suffers not from a quantity of economic growth problem, but a quality growth problem. China's GDP statistics are being propped up by unproductive fixed asset investment. The real estate sector is the most obvious example. To prop up GDP growth rates the Chinese are building entire cities, but they are virtually empty. For more on these ghost cities, be sure to check out the China's Empty Cities [video at www.youngresearch.com](www.youngresearch.com). It is perplexing that the world has allowed a command style economy run by an unelected political party to become such an important player in the global economy. China is now the world's second largest economy and America's second-largest trading partner. If China heads into the tank, the world economy will suffer.

No Profit Motive

China doesn't play by the same rules or have the same motives as the world's other large economies. China has consistently manipulated its currency to gain export market share and it has subsidized favored industries through its financial system to the detriment of non-Chinese companies. Take the rare earths industry as an example. China now has an effective monopoly on rare earths production. Not because of the *country’s low labor costs or a lack of reserves in other countries, but because Chinese rare earths companies were provided with subsidized loans. Rare earths companies ramped up production in the ’80s and ’90s and drove prices down to unprofitable levels. The Chinese government was more interested in maintaining stability through high employment then, as they are today. Low prices pushed rare earths producers in the U.S., Australia, and elsewhere out of business. With the support of subsidized loans, China’s rare earths companies were the only companies able to remain in business at such low prices. Now the U.S. relies on China (at least temporarily) for a supply of metals vital to the defense industry and other high-technology industries. Sound like a smart strategy to you?*

How Does Your Retirement Portfolio Look?

How does your retirement portfolio look?

- Do you actually have any idea what you are doing? Do you feel like you are over your head and investing with a crap-shoot mentality?
- Are you subsisting on outmoded, far-too-big mutual funds or, worse yet, those ghastly oversized index funds?
- Are you a total neophyte on bond investing and pretty much devoid of understanding the miracle of interest, patience, and compounding?

If your answer is yes to any of these questions, you may require a whole new battle plan to strengthen your investment strategy.

Since 1978 Young Research has developed strategies for conservatives like you.

My son Matt Young, CEO of our family investment counseling firm, writes our monthly client letter to level the playing field for concerned conservatives.

After four decades of writing my monthly subscription-based strategy reports, I have retired. Now, I concentrate 100% on international research that supports the efforts of Matt and his senior leadership team at our family investment counseling business. My research is a fundamental component of Matt's monthly client letters.

Why not stay in touch with Matt and me monthly. If you are not yet signed up, simply add your name to our inquiry register below.

My family looks forward to welcoming you and your family to a whole new world of compounding, consistency, and comfort.

Warm regards,

Dick