

Like a Loaded Shotgun, Capital Protection is Your Best Defense

The adage “defense wins championships,” is perhaps as true in investing and personal security as it is in football. In April of 2012 I explained to readers that investors who understand two critical points about their investment strategy will be better prepared to defend their capital. I wrote:

What’s your competitive advantage? It does not matter what your endeavor, if you do not have a competitive advantage, you must expect, at best, a mediocre outcome. A surgeon who performs a given operation many times a week will always enjoy a competitive advantage over a surgeon who performs that same procedure once per year. A patient who thoroughly understands the concept of “number needed to treat” (NNT) is dramatically more informed than the patient who does not. A homeowner greeting a home invader with a 12-gauge semi-automatic shotgun loaded with low recoil 00 buck has a huge leg up on the homeowner nervously fingering a handgun, regardless of the caliber. A good survival rule of thumb is that the only reason for a handgun is to fight your way back to your shotgun. An investor able to defeat inertia, while at the same time able to be a master of patience and the profound power of compound interest, will always end the day in the investors hall of fame. This investor understands that (1) inactivity is most often his best friend, and (2) not losing money is vastly more important than how much one makes.

Risk Analysis for Consistent, Positive, Prudent Returns

Through the years, I have been relentless in my efforts to alert investors of the dangers of taking on too much risk. It may seem redundant, but investor minds have been proven to be easily distracted, especially when it comes to matters of prudence. In August 2014 I explained my policy of risk avoidance, writing:

One of the most important investment steps you can take is to look at the big picture—that is, get high above street level so you can actually see the parade. Big risks are always big ideas, loaded with complexity and controversy. In most cases, the media is geared to work against you, and it's difficult to break through and get at the truth. To frame risk parameters, I use inference reading—what I call outcome analysis—and on-the-ground anecdotal evidence. Whether you are currently in retirement or saving for a secure retirement within the next decade or so, retirement investing leads directly to risk analysis. I exert minimal effort worrying about what I am going to make on my investments. I concentrate on interest, dividends, portfolio balance, diversification, and compound interest. I know what I am being paid up front. And I know that a well-diversified portfolio of equities, fixed income, precious metals, and foreign currencies has historically provided consistent, positive, prudent returns.

Nine Ways to Powerfully Boost Your Investment Performance

Even after the recent correction there are a lot of overpriced, overhyped stocks in the market, but you can still chart your way to success. Here are nine rules you can use to guide your way. I first listed these back in August of 1996, but they work just as well today as they did then.

Investment success hinges on a handful of time-tested principles:

- 1. As Albert Einstein pointed out, compound interest is the greatest mathematical discovery of all time. I write every issue with a compound interest table at hand.*
- 2. Investment results are inversely proportional over time to trading activity.*
- 3. Market timing is a bankrupt strategy whose time has never come.*
- 4. Sales charges and high expenses are the toxic waste of the mutual fund industry and will kill long-term performance if not shunned.*
- 5. Dividends and dividend growth are the dominant considerations for long-term conservative investors.*
- 6. Past performance in the mutual fund industry has virtually no correlation to future results and often is a devastatingly contrary indicator.*
- 7. Stocks will outperform bonds and cash long term and belong as a cornerstone in every investor's portfolio.*
- 8. Since the mid-1920s, the long-term total return on stocks has been about 10% (dividends and cap appreciation). Plot to target a potential 10% consistent long-term total return with as little risk as possible.*
- 9. Diversify, diversify, diversify. None of us has tomorrow's newspaper. Set yourself up to win in any*

investment environment.

Be the Master Chef of Your Own Unique Investment Recipe

Back in June of 1992 and today, I stress to my readers the importance of balance and diversity in their portfolios. Back then I wrote:

Fine Balance From a Master Chef

Did you happen to see the McIlhenny & Co. recent advertisement for the company's Tabasco brand pepper sauce? The ad caught my eye because it ran a photo and culinary commentary from Susan Spicer, chef/owner of Bayona, a New Orleans restaurant most deserving of the recognition it is receiving. In the ad, Susan tells readers, "In my approach to creating dishes, balance is a primary concern. I love playing with the palette of sweet, sour, salty, hot and bitter flavors, so it's exciting to find one product that incorporates several of these properties."

Balance—from Chef/Owner Susan Spicer to Your Portfolio

Well, if you have sampled Susan Spicer's culinary genius, you know firsthand that she is a true master of balance. It was fun for me to see her picture in Food & Wine, and as I read her words on balancing flavors and incorporating exciting properties, I thought about how Susan's approach to pleasing the palette is much the same as the investment approach I use for you here. The sweet, sour, salty, hot and bitter flavors

that combine to highlight Bayona's wonderful culinary fare are similar to the mix needed to produce a dynamic investment portfolio. The concept is the same in both instances. Successful balancing of a fine meal crafted by Ms. Spicer is not dissimilar to the success you can achieve by blending just the right mix of financial assets to form a personalized investment portfolio.

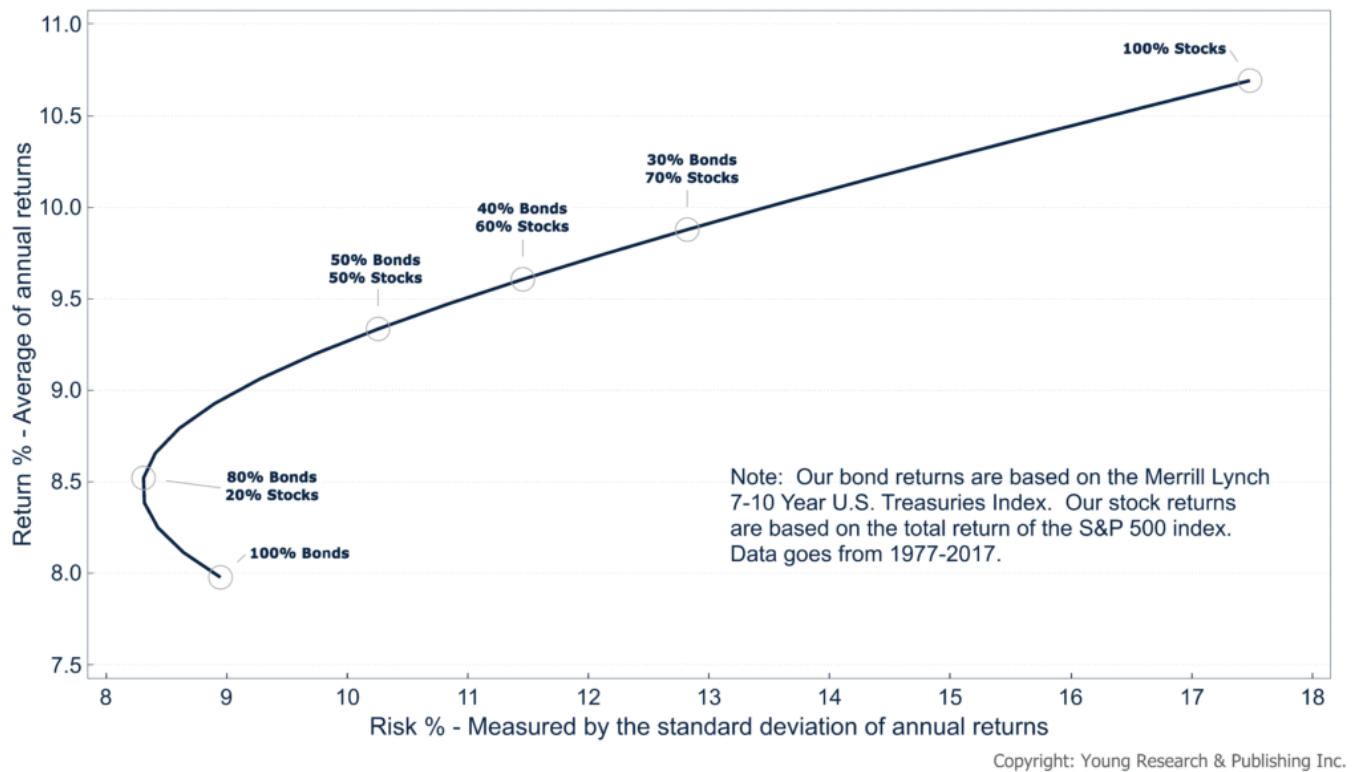
Anyone can understand how a balance of flavors can make food taste better, but it's not so easy to understand the benefits of diversification in your portfolio.

But take a look at the chart below. The line on the chart is called an "efficient frontier," and it displays the risk and returns on a portfolio of stocks and bonds ranging from 100% bonds to 100% stocks. These are real returns, and the chart makes clear that moving from an undiversified portfolio of 100% bonds to a diversified portfolio of 80% bonds and 20% stocks can both increase return and lower risk.

If you would like to experience the culinary mastery of Susan Spicer, you're in luck. Spicer is still running [Bayona](#) in New Orleans, serving entrees like fennel pepper-crusted lamb loin and sautéed pompano. Spicer has also written a book, [Crescent City Cooking: Unforgettable Recipes from Susan Spicer's New Orleans](#), detailing her signature dishes for adventurous home chefs.

If you need help mastering balance in your investment portfolio, [click here to signup](#) to receive a call from one of the seasoned professionals at my family run investment counsel firm, Richard C. Young & Co., Ltd. You will receive a free portfolio review with absolutely no obligation.

An Efficient Frontier The Power of Diversification



Remember This to Survive 2019 Market Turmoil

The new year is here, and America's stock markets are weathering some turmoil after ending 2018 mired in volatility. There are some concerns about the future earnings potential of companies currently making up big parts of the major stock indexes. Apple's current trouble is just the most recent example.

Back in September of 2012, I reminded readers of one simple fact that can help them through hard times in the markets. I wrote "In the majority of cases, the price of common stocks has been influenced more markedly by the dividend rate than by the reported earnings." I continued:

Dividends Then and Now Are the Answer

While at Babson College, I studied Ben Graham's Security Analysis. I still return to it regularly. In Chapter 35, Ben Graham writes, "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. In other words, distributed earnings have had a greater weight in determining market prices than have retained and reinvested earnings." Graham concludes with, "Since the market value in most cases has depended primarily upon the dividend rate, the latter could be held responsible for nearly all the gains ultimately realized by investors."

Always Keep It Simple Made sense to me in the sixties and continues to make sense to me today. In fact, I attribute most of the success I have had in the investment industry to what I learned from Ben Graham nearly five decades ago. To keep track of dividends today, I rely on the same S&P Stock Guide [Ed. note: the S&P Stock Guide is no longer published.] that I relied upon when I began in business. Keep it simple and good things happen every time.

In 2019, Keep it Simple, and remain focused on your dividends.