

# How to Avoid Wall Street's Unshakable Attachment to Earnings

Back in December of 1997, I explained Wall Street analysts' fixation with earnings, and more specifically, earnings guidance. I wrote:

## ***Forget Wall Street's Myopic Attachment to Quarterly Earnings***

*It's important for you to grasp the primary control force of short-term market action. The control force is quarterly earnings reports versus Wall Street projections. Companies that fail to meet Street projections face utter carnage. However absurd this senseless, myopic concentration on quarterly earnings may be, it is reality. The gyrations brought on by earnings' hits and misses confuse and worry individual investors. Forget these reports, and forget the gyrations as well. I beg you, with every market gyration, do not watch the bulging-eyed TV commentators who look like they're hooked on heroin.*

*Instead, adopt a compound interest-based, long-term game plan that features prudent diversification, common sense, patience and rigorous adherence to rock-solid, time-tested principles. You will accumulate wealth at a rate beyond what you might never have considered possible.*

It's over twenty years later, and Wall Street hasn't changed a bit. Despite having been walloped hard—**twice**—by mega stock market crashes, analysts are still focused on the ups and downs of quarterly earnings and guidance. Such a short-term view can

wreak havoc on investors' portfolios when market volatility appears.

If you want to sleep well at night, adopt the compound-interest based, prudent, diversified, common sense, patient and rigorous methods I described in 1997. For help with that approach, sign up in the form below to be contacted by a seasoned member of the investment staff at my family run investment counsel, Richard C. Young & Co., Ltd. We can help you build a balanced portfolio.

---

## What Are You Getting Paid?

It's a seemingly simple question, what are you getting paid? Most people can recall their weekly or monthly employment income without hesitation, but do you know what your portfolio is paying you quarterly? If you aren't focused on generating income from your investment portfolio, you may want to adjust your strategy. In April 2006 I discussed the importance of getting paid, now. I wrote:

### *Pay Me Now*

*When you invest in portfolio securities, your first question should be, what am I getting paid? I do not want you investing your serious money in securities that pay you neither interest nor dividends. Do not put your hard-earned capital at risk with the view of buying a portfolio security today and selling it to someone else tomorrow at a higher price. To me, this is speculation, not investing. Go with what you know by not only demanding to be paid, but by also holding your taxes and transaction costs to a minimum, as I do. Trust me, over time, the penalty of taxes and transaction costs is a brutal killer*

*for most investors. Think reverse compounding here.*

*OK, so compound interest and dividends must underpin your investment thinking. Albert Einstein described compound interest as “the greatest mathematical discovery of all time.” Ben Franklin wrote on compound interest, “’Tis the stone that will turn all your lead into gold.” Charlie Munger, longtime partner to Warren Buffett, wrote, “Understanding the power of compound return and the difficulty getting it is the heart and soul of understanding a lot of things.”*

### ***Ben Graham Speaks***

*In almost each of my strategy reports over the decades, I’ve written about the power of dividends. Mr. Value Investing, Ben Graham, devoted a ton of ink to the subject. In fact, B.G. wrote, “One of the most persuasive tests of high quality is an uninterrupted record of dividend payments going back over many years.” Graham believed that “the defensive investor might be justified in limiting his purchases to those meeting this test.”*

---

## **When You Get OLD, Things Have to Be RIGHT**

It all started for Chuck Berry on 21 May 1955 with Chuck’s simple three-chord—Bb, Eb7, F7 (played in A by many guitarists for ease)—recording of Maybellene, an adaption of “Ida Red,” with Jerome Green on maracas, Johnnie Johnson on piano, Jasper Thomas on drums, and the legendary Willie Dixon on bass. By the end of June 1956, “Roll Over Beethoven” ran to #29 on the

Billboard charts. Berry would go on to produce hit after hit, including "School Days," "Rock and Roll Music," "Sweet Little Sixteen," and "Johnny B. Goode."

Berry, the Real King of Rock & Roll, died in March of 2017, leaving a musical legacy that will be hard for anyone to rival. Back in October of 1985, I wrote about one opportunity I had to enjoy Berry in concert. While waiting for the show, Berry treated the audience to some valuable advice. I wrote then:

*Recently, I took my teenaged children to the Warwick (RI) musical theater to see a concert given by rock and roll legend, Chuck Berry.*

*Prior to the start of the concert Berry made some last minute changes with his amplifier and speaker alignment. After making the desired changes, Berry opened his show by telling his audience with a grin "When you get OLD, things have to be RIGHT."*

*His opening line brought down the house! The next day I couldn't help but remember Berry's one liner and think that his statement applied directly to investments as well as music.*

*I have just finished reading a Sports Illustrated account by Douglas S. Looney headed "Thrown for Some Big Losses." Looney outlined the financial plight of Dallas Cowboy great, Tony Dorsett.*

*Questionable business deals and investments have brought Dorsett to the edge of bankruptcy. The IRS has garnished his Cowboy paycheck and placed liens on two Dallas area houses to satisfy \$414,247.91 owed in back taxes. \$520,000 had been blown in a "speculative oil and gas deal that went pffft." And the list went on and on. Here was a man with a supposed \$1,127,000 contract in 1977 and a new \$2,725,000 contract cash*

*poor!*

*SI writer, Looney, printed Dorsett's old Pitt coach's Johnny Majors, view on the debacle. Majors said, "The shame of all this is that Tony could have put all his money in 9% savings and never had to work another day in his life. I'm just guessing he got the wrong advice.*

*Tony Dorsett's problems are all too common. Too many investors simply fail to use good common sense. When dealing with your financial future (whether young or old), things as Chuck Berry said, have to be RIGHT.*

If your retirement isn't on solid ground, you should seek assistance in managing your portfolio. Signing up for the [monthly client letter alert](#) (free even for non-clients) from Richard C. Young & Co., Ltd. will show you how one of *Barron's Top 100* investment advisors (2012-2019) [Disclosure](#) manages money for retired and soon to be retired clients. You should demand the same level of service for your own investments.

---

## **Build Your Investment Strategy for the Field of Play**

Are you a trader or speculator? Or are you long term investor saving for a comfortable retirement? What's your field of play?

In December of 2011 I wrote to readers explaining that each sport is dependent on the field of play. Coaches and players enter the game with a clear understanding of what they are trying to achieve, and the area within which they are trying to achieve it. Does that describe your current investment planning

picture? If not, your first step is understanding your field of play. I wrote:

*Football, baseball, soccer, hockey—each has something in common that can be translated into the investment world: Management knows in advance that 100% of the action will take place in a designated space, whether arena or field. As such, the focus is on a significant known. While it is true, certainly in baseball fields, that performance venues are different, the differences are known well in advance and are likely to remain static for a long time. Let's take the Boston Red Sox. Whom, by the way, should we blame for this year's disaster? Was it not convenient of Theo to leave bodies (see Crawford's outrageous contract) strewn all over Fenway Park and then simply quit, walk away from the carnage, and jump to the Cubs?*

*Here's the play. The Sox develop a team that is theoretically built to take advantage of the oddities of Fenway Park. The Yankees do the same tailored to a completely different mix of ballpark physical oddities. Many decades ago, I decided that field of-play thinking was necessary, at least for me, in order to allow disciplined thought and strategic planning on the investment front. Most investors, professional or amateur (I am never sure where the line is drawn), form decisions based upon news of the day, emotion, and the views of others. This crowd is action-oriented, wrongly believing that the more action in a given portfolio, the better odds for satisfactory performance. In fact, it's exactly the opposite. I decided to take the news of the day off the table, to pay no attention to day-to-day market action, and to not seek out the opinion of others, but rather rely on my own thought process. This approach, of course, mandates extensive reading on a broad array of subjects. Enter inference reading as the heart of my decision-making process. The final leg involved putting all the information gathered from my reading and study into a*

*workable format, or playing field.*

---

# The Surest Way to Win in Equities

When it comes to your investments, you must develop a plan that is more than just reliance on rising stock prices. Share prices can remain depressed for agonizingly long periods of time. A decade or more of no return with a regular retirement draw, can quickly decimate a life-time worth of savings. Regular dividend payments offer a refreshing stream of income to help you navigate long dry spells in the stock market. If you haven't yet been convinced of the power of dividends, read what I wrote back in April of 1992 below:

## ***Dividends Are Key to Your Stock Investing Success***

*Now what about individual stocks? Here, again, what you don't do can be the key to your success. Don't succumb to sales pressure. Don't buy new issues (IPOs). Don't buy secondaries. Don't buy junk. When you are pressured to speculate and trade, resist.*

*Remember what I've so often told you—that the surest way to win in equities over time is by concentrating on dividends. Over many cycles, the Dow has provided a 9% total return (no commissions or taxes here) including capital appreciation and dividend yield. Dividend yield has accounted for a full 50% of total return. If you can choose between a stock with a 5% yield and one with a 0% yield, it's clear that one of these selections gets you out of the starting blocks with a decided*

advantage.

### ***The Dow Fell for 16 Years***

*If you still are not convinced of the value of my dividend approach, take careful note of the following: In 1965 the Dow closed the year at 969.26. In 1981, 16 years later, the Dow closed at 875.00. The Dow lost 10% over a period that for most Americans equates to half a working lifetime or all of a retirement. Without dividends, the game was over.*

*Invest based on what you do know rather than on what you are guessing about the future. None of us knows what the future holds. I can give you guidelines, and I can help you construct a portfolio that will absolutely make you a winner regardless of what happens, but I cannot tell you what the headlines will be in tomorrow's newspaper. Bet on the cards you hold, not on drawing to an inside straight.*