The Antidote to Inflation Poison

In my long investment career, nothing has worked harder against my success than the negative compounding effect of inflation. Every year inflation reduces the value of the money I have worked hard to save, and impedes my progress in reaching my investment goals. In March of 2010, I explained to readers the effects of inflation I had seen in my lifetime. I wrote:

> ***Nickels & Dimes***
>
> *You may have had a similar experience growing up to the one I'm about to tell you. The early 1950s was a great time to be a kid, even more so for me in Cleveland Heights, Ohio, with Paul Brown and Otto Graham leading the Browns.*
>
> *Often on Saturday afternoon, my brother and I would walk to the movie theater from our house on Birch Tree Path to watch those old-time black-and-white cowboy Westerns featuring Johnny Mack Brown, Tim Holt, Bob Steele, and Ken Maynard. My mom would give us 30 cents each, just right for a Saturday matinee ticket (10 cents), popcorn (10 cents), and a Pepsi (5 cents).*
>
> *The remaining 5 cents was for Topps baseball cards from the corner store near Noble Elementary. I still have my original collection of Topps baseball cards, albeit sans the colorful wax packaging and the sugardusted pink bubblegum slabs. Topps had just gotten going in the early '50s and had largely replaced the much better, for my money, Bowman cards.*
>
> ***Savage Inflation***
>
> *So that's what 30 cents bought 57 years ago. Today at our super little Tropic Cinema in Old Town Key West, a matinee is*

> *$9, popcorn is $3, and Pepsi sells for $2. Baseball cards can run $2.50/pack. In the early '50s, Pepsi ran a slogan that said, "Twice as much for a nickel, too/Pepsi-Cola is the drink for you." Pepsi's large bottles were around even back in the early '50s. So let's add it up. $3 + $9 + $2 + $2.50 = $16.50. Depending on where you live, your grand total will be somewhat different from mine. But let's not quibble. Today we are all paying over 54-to-1 the cost of the early '50s. That's some savage inflation and dollar depreciation regardless of how you want to work the math.*

To avoid the savage effects of inflation, I focus my equity investments on companies that not only pay out regular dividends, but also regularly increase those dividends. The steady collection and compounding of such shares can work as an antidote to the poisonous effects of inflation in your portfolio. Make sure you have a plan in place to build an inflation fighting portfolio today.

How the Rolling Stones Amassed a Fortune Where Others Have Failed

Last week Mick Jagger shared some video of his cardio workout routine. There he was dancing and moving to the music like only Mick can. Jagger was showing the world that, despite recent heart surgery, he is not slowing down. After years of hard touring and the excesses of the rock and roll lifestyle, Mick, Keith, and the rest of the Stones remain vital. During decades of near constant work, during which many of their contemporaries have failed, they have amassed fortunes. I described their investing process back in January of 2003. I wrote:

> *Geezers in Wheelchairs…*
>
> *This year is the 40th anniversary of the world's greatest rock & roll band—the Rolling Stones. Grizzled but game, the Stones truck on with their 15th North American tour. "Always precocious, the Stones at 60 look a lot like Segovia at 90: Keep the morgue on standby," wrote the very funny Joe Queenan in the WSJ. The Stones are big business, real big business. As Fortune noted in its recent cover story, "The Stones have made more money than U2, or Springsteen, or Michael Jackson…or the Who—or whoever." The topgrossing North American tour of all time was the Stones' 1994 Voodoo Lounge tour. With a gross of over $120 million, these guys know how to make money and how to keep it. Jagger went to the London School of Economics.*
>
> *For me and perhaps for you, the really big news on the Stones is the recent hybrid (two layers) SACD release of the band's pre-1971 material owned by Allen Klein and his ABKCO Records (the Stones' longtime early label). Over the years, ABKCO has had many requests to reissue these titles using the latest digital remastering techniques. Until now, ABKCO did not feel that improvements in the mastering warranted reissue.*
>
> ## *A New and Exciting Technology*
>
> *So what has changed? A new and exciting technology has been introduced by Sony and Philips (inventors of the CD). The new discs have two layers. One is a normal CD. The other is a Super Audio CD (SACD). Both layers benefit from Direct Stream Digital (DSD) encoding, which captures every nuance of the original master tapes. You will hear the "'rawness' of the guitars, the vocal quality and the natural distortion of the band as it sounded in the studio." Best of all, you can hear it on any CD player you own today or on any SACD-compatible*

player. The Stones' CD to start with is Out of Our Heads with "Satisfaction," "Mercy, Mercy," "Hitch Hike," and "The Last Time" (ABKCO 94292).

Rock-Solid Investors

Not only are Mick Jagger and Keith Richards the band's two key writers, musicians, and performers, but they are also serious investors. In Fortune's great article, Keith, in his inimitable way, told Andy Serwer, "I have a small portfolio. I find things I love, like houses—bricks and mortar. Nothing wrong with a bit of land." A sound statement from a fellow few felt would live to invest in anything, never mind "a bit of land." In fact, as Fortune noted, the Stones' "Steel Wheels [tour] had to be insured—Lloyd's covered Stones tours—and before the insurer would issue a policy, the band had to take physicals. Keith passed, legend has it, to his own astonishment."

The Golden Loom

Over the last decade, Mick and Keith have made nearly $60 million in royalties on the over 200 songs they have written together. And these so-called performance rights will key Mick's and Keith's future wealth accumulation. Even as they sleep, their music plays on turntables, CD players and jukeboxes around the world, spinning an ever-building pile of golden performance royalties.

Compound Interest Key

As time passes, the combination of compound interest and sensible investing makes Mick and Keith wealthy beyond the dreams of most performing musicians who, in that they are not music writers, never benefit from the awesome power of performing rights and compound interest. Mick and Keith, along with running mates Ronnie Wood and Charlie Watts (now a *crotchety 61 years old), have indeed approached the geezers-in-wheelchairs stage for most performers. But somehow the Stones defy time and roar forth at the top of their game as the world's greatest rock & roll band.*

> ### *Cold, Hard Cash*
>
> *You, of course, don't need to be in the financial league of Mick Jagger and Keith Richards to benefit from the awesome power of compound interest. You do, however, have to have something to compound. It is for this reason that I have been shifting names in the Monster Master List to only investments that pay you cold, hard cash today. I'm referring to either interest from fixed-income securities or dividends from common stocks.*

If your portfolio isn't generating income, you should take some time to study the value of dividends and compounding. Visit www.younginvestments.com and download *Dividend Investing: A Primer* from the home page. Read the free whitepaper and put the power of compound interest to work for you today.

No Second-Guessing, No Deviation from Focus

Here's what I told you, all the way back in February of 2015: stay fully invested. I wrote:

> ***Stay Fully Invested***
>
> *As I've written ad nauseam, I do not get in and out of the markets. I maintain my fixed income/equities balance,*

adjusting as time passes (fast) for my age. For an investor who is crafting a dividends/interest-oriented portfolio to pass along to heirs, I can live with a 75/25% equities/ fixed income mix. But where income and safety in retirement is the target, the reverse ratio is optimal—no second-guessing, no deviation from focus, and no market timing to be tolerated.

PPPP—Your Guide

I think a policy of PPPP will keep you and your family on a proper track. Here I am referring to my goal to Preserve and Protect via Perspective and Patience. If my PPPP immediately strikes you as a theme that makes you warm and fuzzy, I am excited for your future success. If instead such a seemingly boring approach leaves you cold, you still have my warmest regards, but also my great concern for your future success.

If your investment plan is strong, you shouldn't be tempted to second-guess it, or deviate. A good plan will prepare you for the risks you're willing to endure given your time horizon. If you need help crafting such a plan, request a free consultation with a member of the seasoned investing staff at my family-run investment counsel firm, Richard C. Young & Co., Ltd. by clicking here. Once contacted, you will be guided through a no-obligation review of your portfolio by an experienced professional. You too can build an investment plan that requires no second-guessing.

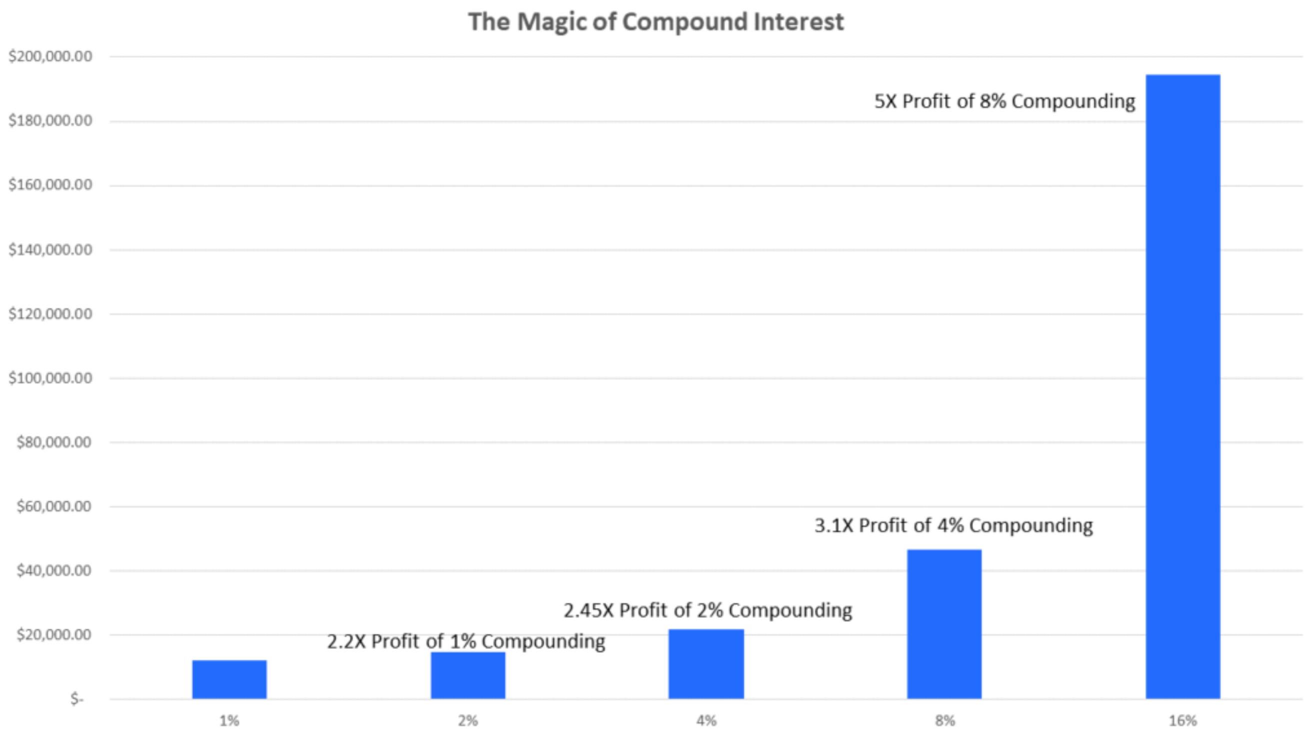
Avalanche! It Is Astonishing

How Your Money will Pile Up

There is little as satisfying as the long-term gratification felt after planning ahead, saving, and reaping the rewards of your efforts. The best way to achieve that euphoria is to harness the power of compound interest by purchasing stocks and bonds that pay you a steady stream of income. Then put that income to use by compounding it, over and over again like an avalanche. In June of 2016 I encouraged investors to harness this “avalanche of return.” I wrote:

> ***An Avalanche of Return***
>
> *The most important aspect of investing for the long term is—without a doubt—compound interest. The act of compounding your investment over time creates an avalanche of returns that turns a small initial investment into a cascade of cash payments your family can rely on during good times and bad. And there’s no better time to get started than today. Like an avalanche, high initial dividends—once reinvested—will accelerate the profit generation of your portfolio.*
>
> *At www.youngresearch.com, we post regularly on the awesome power of compound interest. In our latest compound interest post, we illustrate for readers the exponential increase in profits that compounding can deliver to you. Here’s an excerpt: “As each rate of return doubles, your profit more than doubles. When you compound at 2% for 20 years, your profit is 2.2X your profit when compounding at 1%. And when you compound at 8% for 20 years, you have more than 3X the profit that you do when you compound at 4%. Double your return again, which is admittedly unrealistic over a 20-year period, and your profit is 5X your profit when compounding for 20 years at 8%.”*
>
> *That logic doesn’t only apply to dividends, but it illustrates*

well the benefits of higher yields. On the chart below, you can see the differences in profit as returns move from 2% to 4%, and from 4% to 8%. It is astonishing how your money will pile up when given time to compound.



The Most Frequently Asked Investor Question

Throughout my years in the investment industry, the question most frequently asked by clients is probably “How are we doing?” In June 2015 I explained how I answer that question. I wrote:

How Are We Doing?

Throughout my first 28 years in the investment industry, I worked in the trenches, talking daily with clients and the *financial media, as well as speaking at investment seminars around the world. All that changed in 1992, when I decided to move off the front lines and concentrate exclusively on research and writing, and Debbie and I moved to Key West, only 90 miles from Cuba. Hard to believe, but it has now been 23 years since I made that transition.*

Concentrating on One Question

Taking stock as I set up to write this month, I decided to concentrate on one of the frequently asked questions from clients over the years. From my memory bank, the ranking #1 question was, how are we doing? Well, "we" most certainly did not include Dick Young, so in actuality what the client wanted to know was how he or she was doing. From day one, I had trouble with this often-asked question, because I was pretty certain the answer I would give would not feel right to me and, in the end, would not be especially helpful to my client. So I muddled along with mixed success.

Pre-Established Goals

Today, with the benefit of decades of hindsight, I have come to recognize that the clear winner would have been to simply decide with clients whether they were comfortable with the way we were meeting the pre-established goals we had worked out together. That meant no more comparing to one or more market indices or the efforts of other business associates. That sounds pretty simple in theory, but in actuality, a different picture emerges.

Buy High, Sell Low

The decided tendency of a vast majority of investors is to greatly understate sensitivity to risk. Most investors work off a "buy high, sell low," emotionally charged template that is a bear to dismiss. The concept of patience is anathema to *most. For many, action is the partner of success—when in fact history proves this not to be true. Sadly, the final nail in the coffin of goal construction is the total inability of most investors to embrace the two most important words in successful retirement account investing: compound interest.*

OK then, a number of hurdles must be conquered before a suitable goal-oriented plan can be put in place. It is clear from my above menu that the subject of risk sensitivity must be addressed first, followed by some homework on portfolio activity, patience, and compound interest. Once satisfactory common ground is achieved, it is time to determine targeted returns.

The answer to the question “How are we doing?” is dependent on your performance relative to how you planned to do. Planning is the hardest part of investing. If you need help creating an investment plan for your portfolio, fill out the form below. You’ll be contacted by a seasoned professional from my family run investment counsel firm. They will guide you through a no obligation review of your portfolio, the first step in building an investment plan that is right for you. If you would like more information, visit www.younginvestments.com.

Miss This Investing Concept to Your Everlasting Sorrow

Lack of patience, more than anything else, hamstrings investors in their pursuit of profits. I wrote in July 2004 that impatiently trading in and out of equities with no eye toward compound interest will bring investors everlasting sorrow.

> ***Compound Interest and You***
>
> *Here's a compound interest story that should help you and your spouse. Let's assume a hypothetical $10,000 investment with a 7% annual return for 20 years. Investor A draws the 7% ($700) each year for living expenses. At the end of 20 years, the original $10,000 in capital remains in place, and $14,000 in simple interest has been drawn for living expenses. The end value in capital and interest drawn is $24,000. Now let's assume hypothetical Investor B invests the same $10,000 at the same 7%, but draws nothing and simply let's the money compound for 20 years. Well, $10,000 compounded at 7% for 20 years has an end value of $38,696. You will see that $14,696 ($28,696 – $14,000) represents interest on interest. Over half of the long-term total return for Investor B reflects interest on interest. Unfortunately, compound interest is not a concept that is well understood by most investors.*
>
> *To their everlasting sorrow, most investors not only lack a basic knowledge of compound interest, but also lack patience and dividend/interest religion. Many are greedy, trade way too often, and are in debt. For the record, I have no debt. I buy for cash. I have never employed margin and tend to own the investments I make for a long, long time.*

Retired and soon to be retired investors should place their confidence in the unmatched power of compound interest.