Are You Setting Yourself Up for a Retirement Disaster?

In 1999, most equity investors thought they couldn't go wrong. Anything they bought simply gained in value. Easy, right? Not so fast. Soon, many Americans were facing a retirement disaster of their own creation. In July of 2004 I wrote:

> *You've Lost 37%…*
>
> *Treasuries are boring! Right? You may be in the boring, boring camp, as are many investors. I hear Treasuries described as boring all the time. And yet I wonder what it is that is just so boring about a security that has no credit risk, no stock market risk, and offers a steady flow of cash. Furthermore, the U.S. government 100% guarantees all interest rate payments and timely return of principal at maturity. Well just for the heck of it, I looked up the word "boring" in my mini Webster's Pocket Dictionary. Tiresome is used to describe boring. Let's see…tiresome? Do you equate a steady flow of risk-free cash and a 100% guarantee of your principal as tiresome? I sure don't.*
>
> *The Fuddy-Duddy and the Scold*
>
> *Let's dig a little on the boring/tiresome front. Let's say you retired at year-end 1999, after having some good years in the stock market. In fact, after the spectacular stock market run of the late 1990s, you may have considered yourself a pretty shrewd stock market investor. Many investors, consumed with aggressive investing, had literally gotten smart overnight, or so they thought. Dividends were disdained. Warren Buffett had almost morphed into a tedious fuddy-duddy. The father of value investing Ben Graham's margin of safety principle was gathering more dust than a stack of Brenda Lee records. Mr.*

Mutual Fund Jack Bogle's table pounding on low fees and mutual fund integrity had turned this revered pioneer into a silly old scold.

So as 1999 came to a close, you packed away your gold watch and stepped off the commuter train for the last time, here's what no doubt unfolded, if not for you then for a big percentage of your cohorts in the retirement class of 1999.

Retirement Disaster

Armed with newfound aggressive stock market success formulas of the 1990s, you assembled a portfolio of equities, 50% NASDAQ and 50% S&P 500. No boring U.S. Treasuries and the like for you. In fact, no fixed income at all. After all, how could market-beating mid-teen growth be racked up with fixed income? Fixed income was for old people, right?

OK, let's see how the retirement class of 1999 has done. Oops, in the nearly five years since retirement, a portfolio of 50% NASDAQ/50% S&P is down by 37%. Now I have not included dividends here, but little in the way of dividends is offered by the NASDAQ and S&P, so let's not quibble. Far more serious issues are at hand.

A Life's Savings Down the Rat Hole

If, for example, you had an equities portfolio worth $1 million at year-end 1999, it now would be worth $610,000. As a retiree, drawing my mandated 4% (today's max) would give you $24,000 annually, versus $40,000 at retirement. That's a nasty jolt to a retirement standard of living. But no sweat. Stocks will roar back, right? They did roar back. My numbers are post last year's charge. These truly depressing numbers are after an enormous comeback in 2003. Most equities today are once again on a downward slope.

It turns out, that sometimes it’s better to be a fuddy-duddy. If you aren’t sure how to build a portfolio that seeks to protect you in times of market turmoil, please fill out the form below. You will be contacted by a seasoned member of the investment staff at my family run investment counsel firm. They will give you a free portfolio review and explain some changes you could make to better achieve your goals. Building a strong investment plan and working to achieve its goals can help you avoid sending your life’s savings down a rat hole.

Three Dangerous Traps Investors Face

There’s a lot you can’t control when you’re investing. Putting your money in securities necessitates some risk taking. You probably aren’t managing the companies you own, or the governments you lend to yourself, so you have to trust managers and politicians to do that. And you’ll never direct consumers and taxpayers, so revenue streams are completely out of your control. There are though, things you can do to put yourself on sounder footing. In July of 2004 I wrote:

> *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.*

So the three traps I explained that can harm your investing success are

- Being greedy
- Trading too often
- Being in debt

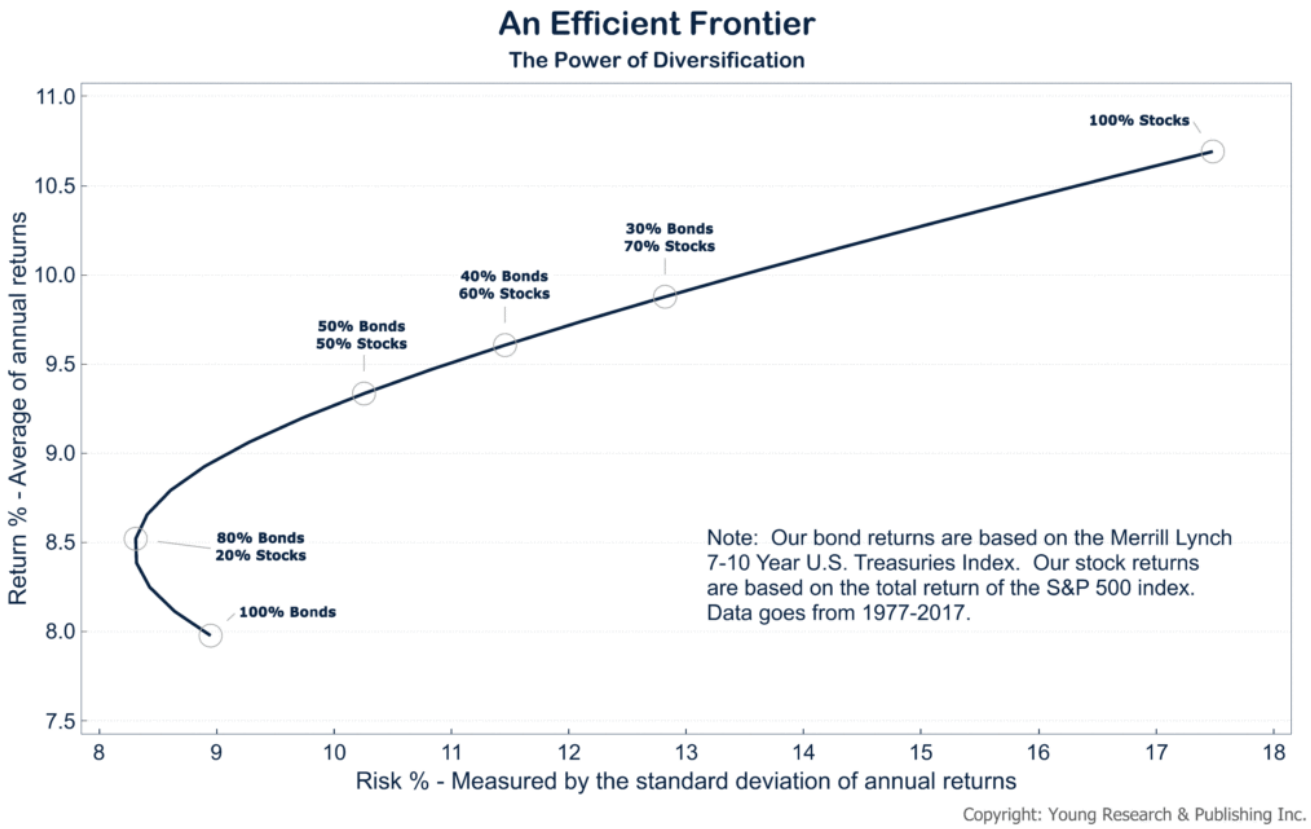
Greed will inevitably ruin your patience. Trading too often will generate fees you can't afford. And using debt to buy investments, while not a mortal sin, can turn your gains into losses so fast it'll snap your neck.

Focus your investing on compounding, and work to avoid the three traps.

You Have Two Jobs to Do in Record Breaking Markets

The S&P 500 500 index closed at a record high yesterday, and could do so again today. Back in June of 2004 I was telling readers about how to position their portfolios when stock prices rise well above trend. I told them then that they had two jobs in preparing for such lofty stock prices. I wrote:

> *So what is your plan during periods when stock prices rise well above trend? You have two jobs. First, be sure your exposure to equities does not exceed what, for you, is a conservative and appropriate level. Second, place more emphasis than normal on dividends. Look to maximize yield. And by all means, confine your list to conservatively managed and financed businesses where you have a margin of safety. Balance sheets with little or no debt have strong appeal during such periods. Cash is king. As my chart on dividend yield shows, most stocks do not offer much in the way of yield. What is proper weighting in stocks for you? Well, take a look at my Efficient Frontier chart. The farther you go to the right, the better your returns with ever-greater risk. The farther you go to the left, the less risk along with lower returns.*



Click image to enlarge.

#1 Is Risk Management

I, of course, do not know what your level of comfort is or your time frame of reference. If you are retired or soon to be, your eye toward risk must be intensified. Risk management is the first order of military engagement and, perhaps shockingly, must be the first order of business for investors. In my own case, I spend a lot of time gauging risk and little time appraising upside potential. My upside gains are a product of the time value of money. I rely on patience and the relentless compounding of interest and dividends.[…]By diversifying over a quality list of balance-sheet-strong dividend payers and eschewing trading, long-term results are pretty much baked into the cake.

I was focused then, as I am today, on risk management. Remember your two jobs: 1) achieving proper portfolio balance, and 2)

focusing on dividends. If you need help crafting such a portfolio, 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.

Can You Bank on the Fed?

There's a saying in finance that you shouldn't fight the Fed. What that means generally, is that if the Fed is encouraging riskier or less risky behavior with its policies, you should go along.

But what happens when the Fed is giving mixed policy signals? The Fed increased rates as recently as December 20, and was discussing further hikes even later. Now, in June markets see the Federal Open Market Committee signaling two possible rate cuts in 2019. That's a neck snapping change of course.

Such turnabouts aren't new for the Fed though. Back in April 1995 I wrote:

> *In recent testimony to the Senate Banking Committee, Fed Chairman Greenspan told the committee that the economy is slowing. He indicated that rates may have peaked and in fact soon could reverse to the downside.*
>
> *Greenspan's report, I believe, was a politically based oddity. Not two weeks earlier in a speech in Honolulu, Greenspan said signs of a slowing economy were scant and inflation pressures*

> *remained worrisome. Had conditions changes so much in a matter of less than two weeks? Of course not. Mr. Greenspan was playing politics pure and simple. He wants to be renominated for a new term as Fed chairman.*

I'm not suggesting the Powell-Fed is playing politics today, but I am suggesting that you must prepare yourself for rapid changes in Fed policy. You must develop an investment plan resilient enough to withstand Fed shocks. My favored strategy for doing so is building income producing portfolios that seek to avoid risk where possible. If you haven't already developed a similar investment plan, I suggest you do so today.

An Investor's Meanest Foe

For the over five decades that I have counseled individual investors like you, I have consistently advised the ruthless elimination of emotionalism from one's financial affairs. Emotionalism is an investor's meanest foe.

How do you eliminate emotionalism from your investment decisions? There are many facets to emotionalism, but as I wrote to my investment strategy report subscribers twenty years ago, one simple way to defeat emotionalism is to take a more hands-off approach.

> *Events of the moment should never be part of the investment mix. I price my portfolio once a year at tax season (because I must). Beyond this tax-related housekeeping chore, I pay little attention to prices. Most of what I own, I have owned for a long time. I know how things are going month to month and find it counterproductive to rustle through my holdings*

> *regularly. You'll be amazed at how comfortable you can become with a hands-off approach. You sure as heck will pay a lot less in commissions and taxes. And you will defeat what is every investor's meanest foe—emotionalism.*

Some may scoff, but for many, the seemingly innocent act of tracking daily portfolio fluctuations can trigger the type of emotionally charged investment decisions that sabotage portfolio performance.

I have learned that through decades of in the trenches work with investors, but academic studies also show that the more often an investor reviews his holdings, the less likely he is to craft a return-maximizing portfolio.

A hands-off approach remains the mandate today.

Originally posted May 25, 2018.

Learn How Risk Reward & Time Are Related

You cannot possibly save properly for retirement without a thorough comprehension of the miracle of compound interest and the value of time.

I like the materials Vanguard has prepared to introduce the risk, reward and time theory to retirement Investors.

Click here to kick start your mission to retirement security.

You will be glad you did.

Are You Sitting the Bench When You Should Be Winning the Game?

Last week I explained that I don't miss the boat because I'm always in the boat. The post was an outline of my long-time philosophy for remaining fully invested so as not to miss the best times of market performance. My avoidance of market timing isn't simply intuitive. In fact, in December 1991 I detailed some of the research on which I based that philosophy. I wrote:

> ***Your Biggest Mistake in Investing Is to Market Time***
>
> *You don't want a fund that is an active trader. Market timing does not work; it's a fool's game. Forbes presented one version of the case well in its issue of 28 October 1991. The article explains a study done by professors Chandy and Reichenstein. The study examines monthly stock returns for the S&P 500 from 1926 through 1987. It found that "if the best 50 months—only 6.7% of the total time period—were deleted, the S&P's entire 62-year return disappeared."*
>
> *The Ibbotson studies covered market return from 1946-1990. They showed that $1 invested in stocks in 1946 grew to $130.52 in 1990. If, however, the 30 best months were taken out, $1 grew to $8.88 versus $8.43 for T-bills. Stocks barely beat T-bills over 44 years, without those critical 30 months.*
>
> *Do you now see how terribly dangerous it is to be on the sidelines during the precious few really good months in the long, long stock market cycle? You, I know, intuitively believe that you can market time, or at least that Dick Young*

> *can for you. It ain't so. The biggest mistakes I've personally made in the market have been being on the sidelines at the wrong time.*

Selling out into cash is not the best action investors can take to prepare their portfolios for times of turbulence. Instead they should seek to develop a diversified portfolio that attempts to minimize and counterbalance risks in order to ride out volatility.

I Don't Miss the Boat, Because I'm Always in the Boat!

Market volatility is up, and any time that happens I get asked one question more frequently: "Is it time to sell it all and wait?" My answer is an emphatic no. Attempting to time the market by selling out and buying in is a great way to miss the best days and months of the market's performance. Instead I recommended in May of 1991 that investors prepare ahead for market volatility by focusing on stocks with low betas. I wrote:

> *In the stock market the words risk and volatility are synonymous. I want you to concentrate most of your efforts on stocks that are less volatile than average.*
>
> *What you need to know is a stock's beta, or the measure of its volatility. A stock with a beta of 1.0 has characteristics of volatility that equal the average stock. A stock with a beta of 0.8 is only 80% as volatile as most stocks. A stock with a beta of 1.3 is 30% more volatile than most stocks.*
>
> *You want to achieve your 20% goal with as little volatility as*

> *possible. You will sleep better with less volatility and you will be able to ride out market downturns fully invested with a large degree of comfort. You will be most comfortable with stocks that have betas of 1.0 and less.*
>
> *Remember, over time the stock market advances in seven of every ten years. Over the years, my biggest failures have come from missing the boat or being under-invested during major market moves. When times were tough, I missed the boat because I was too hesitant to invest, and during recession I was under-invested. No more. Today, I never miss the boat because I am always in the boat, and I want you to remain in the boat along with me. It is simply a matter of ensuring how you are balanced in the boat so as not to be rocked out in rough water.*

If you need help crafting a portfolio that minimizes risk and focuses on generating income, you can complete the form below. You will be contacted by a seasoned advisor from my family-run investment counsel firm, Richard C. Young & Co., Ltd. The advisor will perform a portfolio review—completely free and without obligation—explaining the programs being offered to help investors meet their goals.

Write These Six Words Down

If you are looking for the best advice I can give anyone getting started in investing, you'll need to travel back to November 1989. At the time, I was debriefing on the Blanchard's NCMR New Orleans Investment Conference of that year, at which I had spoken. An attendee asked me a question, and my answer included

the six most important words in investing. I wrote of the scene:

> ***THE MOST IMPORTANT WORDS IN INVESTING***
>
> *I've just returned from speaking at the biggest investment conference in the U.S. I now speak at only one national conference per year, and Blanchard's NCMR annual extravaganza is clearly the place to be. My "Double Your Money" seminars were packed with Intelligence Report subscribers, and I was delighted to personally meet so many of you. The seminar/workshop format is an excellent forum for in-depth strategy discussions and detailed answers to subscriber questions.*
>
> ***Most of Us Are Risk-Averse***
>
> *What questions were asked most often? Over three-quarters of the queries had to do with zero-coupon bond strategies, risk/reward, and interest rates in general. Indubitably the majority of conference attendees were risk averse and looking for ways to make money while sleeping well in the process.*
>
> *One woman from the Midwest asked me what I thought were, in just a few words, the most important guidelines in investing. My short reply: "full faith and credit," and "compound interest."*
>
> *Write those six words down and remember them when you set out to review your family financial plan.*

I urge you today, as I did then, to make compounding and fixed income the corner stones of your investment portfolio.