Are You Confused by the Investment Hype?

As an individual investor, you may be confused by the hype and pressure aimed at you by the media and securities salesmen. The constant drumbeat of news, both good and bad, can create an emotional response from even the most stoic of investors. Couple that with many investors' lack of experience, and trouble can erupt from portfolios during tough market times. In July 1993 I wrote:

> ## *You're on the 15th Tee.*
>
> *At the Four Seasons golf course in Nevis, West Indies, high in the lush green hills of this remote Caribbean island, you are overlooking the yawning expanse of a many hundred foot deep gorge. Where's the pin? Where do you hit? You hit over the gorge to some unseen and distant manicured green. For novices, it would take small-arms fire to hit the other side of the gorge. But for you, the seasoned pro, it's but a well-timed whack with your Wilson #3 wood. No problem, you're on the green.*
>
> *The challenge of this extraordinary hole on one of the world's most beautiful golf courses is nothing to you, because you are disciplined and practiced, and you concentrate on your game.*
>
> *Investing is much like golf. Discipline concentration and a practiced stroke are paramount to winning investors as well as to steady golfers. Think about it. Do you apply the same level of concentration to your every investment move as you would on a tricky 20-foot putt? Have you mastered a practiced, mechanical, unemotional approach to your investment program?*
>
> *Discipline, confidence and a mechanical approach work every*

time and make sense in many avenues of life. One of my regular monthly goals here is to logically convince you of the value of these vital traits.

Invest With the Slow Ebb and Flow of the Tides

Like many investors, you may often be confused by events of the moment. Media hype and sales pressure are difficult hurdles to overcome. Here, you learn how to overcome emotion in investing. You learn how to harness the awesome long-term power of compound interest and to invest with the slow ebb and flow of the tides. Do not invest on each crashing wave of headline news. If it’s a good idea today, it will be a good idea tomorrow and the next day. Take it easy, relax and do not be an in-and-out trader or market timer. Be ruthlessly organized using the principles found here each month.

Invest with the comfort and knowledge that you have a disciplined, long-term strategy. I help you plot your investment map monthly. If you’ve been with me for many years, you know the consistent approach used month to month to month. Over my three decades of investing, I’ve developed a series of disciplines that work well for me, with high odds of success. Each month I stick to these and emphasize their long-term success for you.

You don’t have to face the emotional task of investing alone. You should seek the guidance of a trusted fiduciary advisor, who will guide you through the construction of an investment plan, and give you the confidence to stick with that plan when times get tough.

If you’d like a glimpse at what a trusted advisor offers investors, signup for the monthly client letter alerts from my family run investment counsel firm. Each month in the letter my son Matt, President and CEO of Richard C. Young & Co., Ltd., explains the ongoing strategies we employ on our clients' behalf. The letter is free, even for non-clients, and you will receive an alert each month when the newest is available. Click here to sign up.

How to Build 37% of Your Wealth in Just Ten Days

In the Spring of 1996, I explained how important just ten days of a 31-year period were to building 37% of their wealth. I wrote that March:

> ***Market Timing Strategy—Bankrupt***
>
> *Before I tell you what other funds I have bought this month and which funds I have on my short list for the next few months, I want to startle you, shock you, and convince you beyond any doubt that market timing is a bankrupt strategy whose time has never come.*
>
> *Here's the only example you'll ever need to never market time again. T. Rowe Price put these numbers out a year or so ago. The original research was done by Towneley Capital Management.*
>
> *If you invested $1 for a 31-year period (1963-1993), your $1 grew to $24.30 at year-end 1993. But if you missed just the 10 best trading days out of the 7,802 trading days, your $1 investment grew to only $15.40. That's right, by missing just 10 days, your return was slashed by 37%. Do you know what percentage of the trading days we are talking about here? Less than one-quarter of one percent (0.128%).*

Now then, if instead of only 10 days you missed the best 40 days of 7,802 trading days, your $1 grew to only $6.50. By missing just 0.51% of the total trading period, your return was slashed by an unimaginable 73%. How's that for missing the boat?

OK, what if you missed out on just 1.15% of the trading days? Well, by missing just 90 of the total 7,802 trading days, your $1 made a glacier-like advance to $2.10. You would have been head-faked out of 91.4% of your long-term profits.

Still with me? The news gets worse—a lot worse. In-and-out trading necessitates not one, but two correct buy/sell decisions. It does no good to get out of the market advantageously unless you can also get back in advantageously—and both are low odds, big "ifs." Furthermore, there is a substantial transaction penalty to pay on each and every buy and sell. You find commissions extracted from your hide. And you do not see the bid/ask spread that is also lost on each transaction.

Finally, in all non-tax-deferred accounts, a tax penalty will be extracted. And depending on your location, the onerous nature of state and local taxes along with federal taxes may be a back snapper.

Market timing is akin to trying to draw an inside straight in poker or to yank the mask off the Lone Ranger. Not good ideas—not good ideas at all.

You won't be able to pick which days you earn your 37%, but if you remain invested with a balanced portfolio and a strong investment plan created with your advisor, you won't need to. The market will do the work for you.

This Decision Could Lead You to Financial Disaster

Odd things are happening in the economy right now. The most obvious is the recent destruction of oil facilities in Saudi Arabia. But there are also subtler, less obvious warning signs, including the first injections of liquidity into markets by the Fed in 10 years on Tuesday and Wednesday.

Couple that with the Fed's lowering of the Fed Funds rate despite economic growth and low unemployment, and things appear uneasy. These are the times at which it would be easy to make an investment mistake. I wrote in July 1995:

> *"My name's Marlow. General Sternwood wanted to see me."*
>
> *Devotees of the classic black-and-white Hollywood films now hear original wording from Raymond Chandler's 1939 movie, The Big Sleep, introducing a new CD produced by Charlie Haden.*
>
> *Haden, viewed by many as today's dominant voice in jazz bass, recently integrated to stunning effect a lead using the nostalgic Warner Bros.' Fanfare theme music and the Marlow spoken word line as preludes to his own original composition Always Say Goodbye.*
>
> *Always Say Goodbye was inspired by the few times Charlie felt he had not properly said goodbye to friends or family who, unknown to him at the time, he would never see again.*
>
> *Haden's thoughtful weave of Hollywood movie, theme music nostalgia and his own original composition reflecting his agony over failing to say goodbye built an emotionally charged*

piece of music that has rewarded him with the Down Beat International Critic's Award for jazz album of the year.

In Always Say Goodbye, it was emotion that helped Charlie Haden win success. Unfortunately, in the world of investing, unlike musical composition and execution, emotion can be the trigger to financial disaster not success.

Responding to market movements emotionally or irrationally is possibly the worst mistake an investor can make with his money.

To give you an indication of how emotional a bad day in the market can get, imagine two scenarios. In both scenarios, you're a 67-year-old who has $1,000,000 saved for retirement.

In the first scenario, imagine you have put $50,000 cash in a briefcase, and you're headed along a crowded street to your bank to deposit it. Suddenly someone grabs the briefcase and runs off, never to be seen again. You never even had a chance to say goodbye. How emotional would you be? If you're like most Americans your heart is pumping, you're breathing heavily, you're scared, and you want your money back.

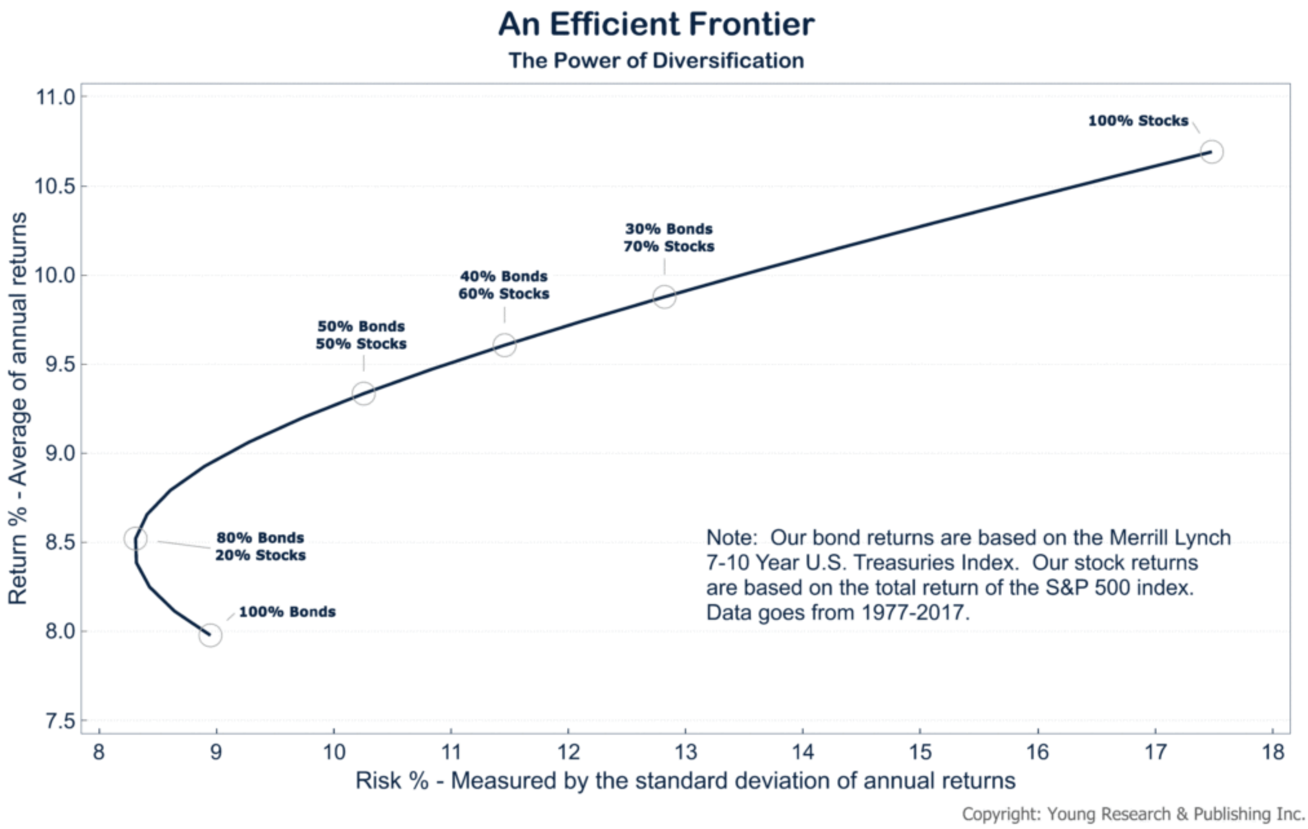
In the second scenario, imagine your $1,000,000 is invested in the stock market, which drops 5% in a day. On paper, you've lost $50,000. On average since 1928, the S&P 500 has fallen by over 5% in a single day about once every year-and-three-months. If you panic, get emotional and sell everything in the face of this loss, you're no better off than when the thief stole your briefcase. That money is gone forever.

The difference between scenario one and scenario two is that in the second scenario if you have confidence in your investment plan and an advisor to guide you through the turbulence of markets, you have the opportunity to avoid an emotional mistake, to avoid financial disaster, and even to get your money back.

Witness the Raw Power of Diversification

Diversification isn’t only a tool to minimize losses when assets fall in value, it has the power to actually increase your return while lowering risk. Here’s how I explained it in December of 2015 (with the chart and associated text updated to 2017):

> *Calculating the Efficient Frontier*
>
> *You need to look at your asset deployment from the top down, focusing on diversification between stocks and bonds. My Efficient Frontier display shows you the power of diversification. Note the left-to-right uphill slanting curve that initiates with a position of 100% bonds and terminates with a position of 100% stocks. We have made our calculations using the Merrill Lynch 7-10 Year U.S. Treasuries Index and the S&P 500 total return index from Young Research for the period of 1977– 2017. We calculate the Efficient Frontier by using annual returns and assuming annual rebalancing.*



Draw 1% per Quarter

Where is your best fit along an Efficient Frontier? To answer, you must first establish your ability to absorb risk in the hunt for returns. For decades I have written that in retirement, your target should be a 1% per quarter draw from your portfolio, and not a penny more. This does not mean, however, that you should not position yourself to potentially exceed 1% per quarter returns. Your actual return over any quarter will be controlled largely by the climate of the financial markets at the time, which neither you nor I control. And the climate itself will be determined by the stage of the economic and monetary cycles. I have studied these cycles over five decades and keep you updated regularly. The winter stage of the upside economic and monetary cycle is here, to be followed by a period of discomfort in the economy and the financial markets.

If you need help creating a well-diversified portfolio, fill out the form below. If you do, a trusted senior member of my family run investment counsel team will contact you. You will be offered a free, no-obligation portfolio review and an explanation of how we can help you achieve your investing goals.

With This Plan You Can Save More in 8 Years than in 32 Without It

In October of 1999 I explained why there is only one right way to save; early and often. I wrote:

> ***Compound Interest: Your Key to Wealth***
>
> *Here's an example of the power of compound interest that I hope you will pass on to your children and grandchildren.*
>
> *We have two hypothetical investors, Chad and Tad. Chad starts right out of his MBA program investing $1,200 a year starting at age 25 through the time he is 32-years old. He makes eight $1,200 investments. Chad then oddly becomes a monk, ending his savings days. Assume just a modest 9% annual return through age 64, just pre Chad's 65-year age retirement from monkdom. Chad's eight years of savings ($9,600) and 40 years of compounded interest provide a final balance of $227,390.*
>
> *Tad, on the other hand, spends his early years as a ski bum in Telluride and doesn't start saving until he is 33. But from age 33 until age 65, Tad is able to save $1,200 a year from his job as wildlife conservationist in the remote reaches of Montana. He puts away $1,200 a year for 32 years, giving him a*

total savings of $38,400—four times the contributions Chad made in only eight years of savings before monkdom. Tad's balance at the same 9% assumed growth rate is $214,560. Even though Chad invested $1,200 a year for only eight years early in his "career," because of 40 years of compound interest, Chad's final savings total beat Tad's, who diligently socked away the same $1,200 a year, but for a long 32 years.

Such is the power of compound interest. Save early. Save often. And do not compromise your capital. When you lose 50%, you must make 100% on your next investment just to get even. And at that, you have a zero return. That's stinko math in my book.

So after just eight years of early saving, Chad used compounding to save himself more than Tad could in 32 years of trying to play catch up. Put the power of compounding to work in your portfolio. Investing in companies with generous dividends, and records of regularly increasing those dividends is a bedrock strategy of my family run investment counsel firm.

If you would like to discuss how a dividend-centric investment plan could work for your retirement, please fill out the form below. You will be contacted by a seasoned advisor from Richard C. Young & Co., Ltd. and given a free, no-obligation portfolio review.