Beat Investment Danger with This Strategy

In the 21st Century, investors have been subjected to a roller coaster ride. From the dot com crash to the housing bubble, the financial crisis, and the Trump Bump, the market has proven volatile.

Be wary of these violent market swings. It is easy to become complacent in bull markets, but if recent bear markets are any guide, that complacency is dangerous.

More than anything else, to beat that danger you need a consistent approach. I wrote in February 2010:

> *Consistency through cash flow—that is the goal at our family investment management company and that is my primary goal for you in these strategy reports. Clients of our family management company are most often soon-to-be-retired and retired investors or conservative small business owners saving for a secure retirement. And it is just such a conservative group I write to monthly. As most of you know, I grew up in Shaker Heights, Ohio, during the Paul Brown/Otto Graham Cleveland Browns era. I learned about consistency from Graham and Brown. Over their 10 years together, the duo racked up a .854 winning percentage. This consistency has never been matched by another coach and QB. Over Graham's 10 pro seasons, Graham and Brown never once failed to win a division title and play for the championship.*
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> *A full 55 years later [64 years later now in 2019], I have not forgotten the lesson of consistency I learned from Paul Brown and Otto Graham. Our family investment company office at 500 Fifth Ave. in the heart of Old Town Naples, Florida, is dedicated to Paul Brown, Otto Graham, and the Cleveland Browns*

of their era [Our office now located at 5150 Tamiami Trail North, Suite 400, Naples, Florida 34103].

Over the four and one-half decades [five and half now] I have been advising investors, my emphasis on consistency through cash flow and the miracle of compound interest has never changed. When you lose 50% on an investment, you have to make 100% the next time out just to get even. And that is with a zero return. When you focus laser-like on investments that pay you cash in the form of dividends or interest, you mute portfolio volatility and the propensity for debilitating loss.

In my many years in the investment industry, one problem stands above all others in affecting performance—inconsistency.

Investors have a hard time sticking to a plan. They often make irrational choices that sabotage their stated goals. Sometimes that can happen because they didn't work with an experienced advisor to build their plan in the first place. Or, they are led astray by the circus-like scare tactics of financial television. Sometimes emotionalism simply defeats their good judgment.

If you want to build your investment future with a consistent plan based on dividends and interest for your portfolio, fill out the form below. You will be contacted by a seasoned member of the investment team at my family-run investment counsel firm, Richard C. Young & Co., Ltd. They will give you a free, no-obligation portfolio review and explain our investment philosophy.

With the right help and a consistent approach, you can beat the dangers of investing. Start today.

The Final Nail in the Coffin for Mutual Funds

The mutual fund industry has been facing headwinds for years. First, the industry became too big. So dominant were the biggest funds, they couldn't invest without moving the market themselves.

The next problem for mutual funds was the advent of the ETF. ETFs hollowed out the high-fee actively managed equity fund industry.

I wrote about these problems here in November of 2006:

> *I write often that the majority of mutual funds offer no compelling reason for investment. Here's a double shocker for you. Of the top-ten largest equity mutual funds, seven come from one family. How could one management company capture so many places in the top-ten-size race? Must have pretty spectacular performance, right? That must be the reason. Well, performance has been fine, but the single compelling reason these funds sit at the top ten in size is that all seven have 5.75% front-end sales loads. Sales pressure gets big results. The majority of fund sales for load funds are made by salesmen to unsophisticated investors. No knowledgeable investor would invest in a load fund.*
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> *The second big surprise is that I now think ETFs have come closer to being in a position to overwhelm the mutual fund industry. For the ETF industry as a whole, it is a little early in the game because, as yet, not all the chairs at the table have been filled. The fixed-income side needs to broaden out a lot. I especially hope that Vanguard will substantially broaden its ETF menu. I would guess that within a year I will be able to give the green flag to the ETF industry as the lead*

horse in the long-term race between ETFs and the mutual fund industry. There will be a select group of mutual fund groups that will continue to prosper as the ETF industry hollows out the mutual fund industry.

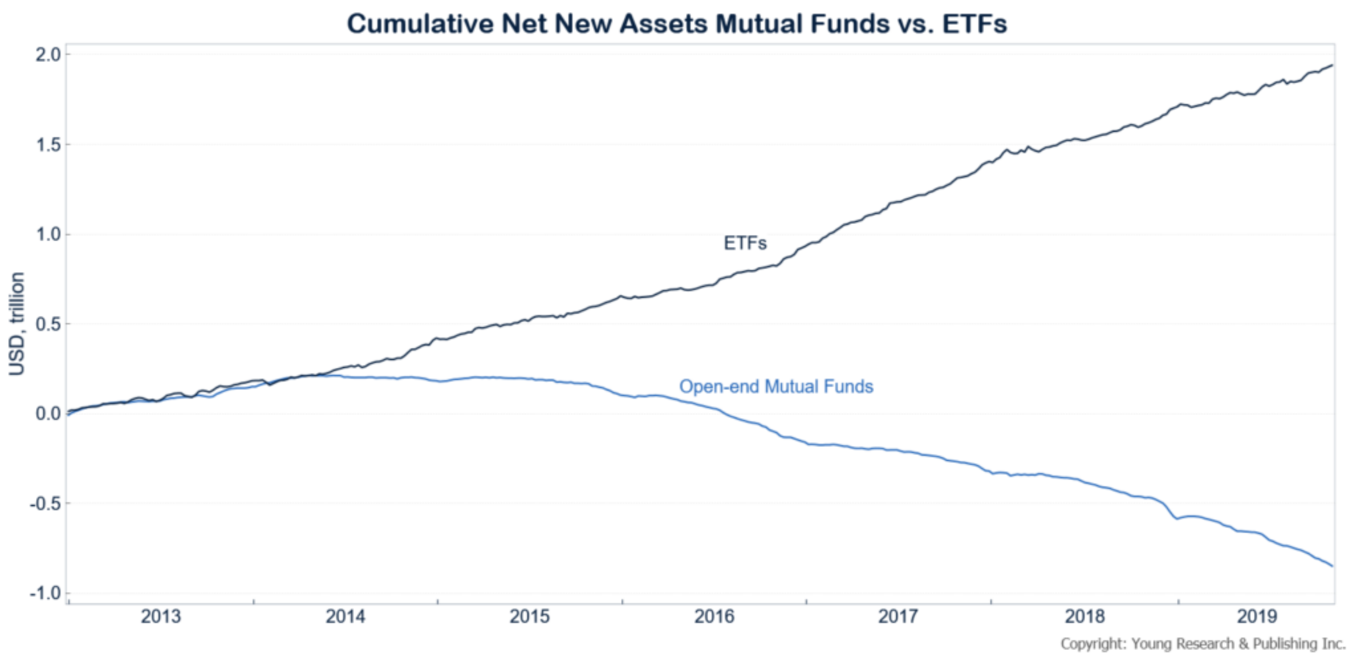
Holding back ETFs' complete domination of the fund industry has been an SEC rule that forced companies offering ETFs to apply for "exemptive orders." Because ETFs weren't technically allowed to exist, companies intending to operate ETFs had to be granted an exception.

Today, with more than 2,200 ETFs in the marketplace, the SEC has finally voted to adopt a new rule to modernize their regulation. The commission announced:

The Securities and Exchange Commission today announced that is has voted to adopt a new rule and form amendments that are designed to modernize the regulation of exchange-traded funds (ETFs), by establishing a clear and consistent framework for the vast majority of ETFs operating today. The adoption will facilitate greater competition and innovation in the ETF marketplace, leading to more choice for investors. It also will allow ETFs to come to market more quickly without the time or expense of applying for individual exemptive relief. In addition, the Commission voted to issue an exemptive order that further harmonizes related relief for broker-dealers.

"Since ETFs were first developed over 27 years ago, they have provided investors with a number of benefits, including access to a wide array of investment strategies, in many cases at a low cost," said SEC Chairman Jay Clayton. "As the ETF industry continues to grow in size and importance, particularly to Main Street investors, it is important to have a consistent, transparent, and efficient regulatory framework that eliminates regulatory hurdles while maintaining appropriate investor protections."

The modernization of the ETF industry is probably the final nail in the coffin of mutual funds. You can see in the chart below the magnitude of investors’ move from mutual funds to ETFs. But ETFs aren’t much better today. The ETF industry has grown so large; it is facing some of the same issues I noted about the mutual fund industry in 2006. Today, investors are better served by developing a portfolio of dividend-paying stocks, rather than investing in the index ETFs that have become so popular.



If you need assistance in building a portfolio of dividend-paying stocks, fill out the form below. A seasoned member of the investment team at my family run investment counsel firm will contact you to explain our individual stock investing strategy and how you might benefit from it.

Here's What to Look for As Markets Enter an Election Year

Election years have historically been good to stock market investors. It is now one year away from Election 2020, and market participants are hanging on every word from the candidates. Here's what I wrote about election year markets back in November 1991:

> *Remember Tom Mix?*
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> *All the great old black and white Western movies of the 1950s, like Tom Mix, featured patented three-part bank robberies that went something like this:*
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> *Scene 1: The bank is robbed. Bad guys ride out in a cloud of dust and the chase is on. Scene 2: Bad guys split—one-half to an arroyo or cottonwood grove; one-half to a box canyon. The posse rides by and misses them. Scene 3: After a short and quite harmless wait, the gang unites and rides off in the opposite direction the posse has taken, finally ending up at the shack (how often did movie makers of the 1950s use that same old shack?), where the strong box is shot open and the loot split among the gang.*
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> *Those black and white westerns were a lot of fun even though the three-part bank robberies didn't change much from one show to the next. Maybe it was the repetition that made us so comfortable with Tom Mix, The Lone Ranger and the like.*
>
> *THE INVESTMENT CYCLE GOES THROUGH THREE STAGES*
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> *I want you to look at investing in a similar three-part fashion. There is considerable similarity, in fact, between the old posse-chases-the-gang and the investor-chases-profits in the financial markets. Let me show you how to position*

yourself in the three-part investor drama that goes like this:

Scene 1: The chase is on. Stocks and fixed-income investments offer bargains when yields are high, P/Es are low, interest rates are high and beginning to decline, inflation is on the wane and a recession is at its nadir. The marketplace begins to react to lower interest rates, lower inflation and the first signs of business recovery—and bonds and stocks advance sharply in price. …

Scene 2: The temporary hideout stage is now in place. Investors are clearly nervous and have pulled off the path to wait. And there is reason for nervousness. CD rates and money fund rates have collapsed. The yield on the Dow—it has never ended any calendar year in history below 2.95%—is only 3%. Little looks enticing in the investment markets. Fine—that's exactly how stage two always looks. It is the old where-do-I-go-now? quandary. The answer is not difficult. Just ask yourself what that old gang would have done in Tom Mix's Westerns. You take a break and rest up for the sharing of the spoils that will come your way in stage three of the investment cycle. You let the posse ride by.

President Bush Holds One of the Four Keys to Future Profits

Scene 3: But can you count on a scene 3 to pull you through? Where's the shack, and who'll shoot the lock off the strong box for you? Sure you can count on scene 3. You see, President Bush has an election year coming up. What do we know about election years? That incumbent politicians want to be voted back for another term in office.

We know that for sure. And what do voters hate most when heading out to vote? Crowding their way through long lines of the unemployed. And those in the unemployment lines like queuing up for the dole even less than they like voting for the incumbent. George Bush knows all about election year *politics, as does Federal Reserve monetary maven Alan Greenspan. What's the tonic? Why, lower interest rates.*

Since the election of 1952, the average S&P 500 performance in an election year (the 12 months from November in the preceding year to November in the election year) has been 8.2%.

You can't always depend on an election year though. In that time, there were three election years in which the S&P 500 fell in value. Those were 1960, 2000, and 2008. You'll notice quickly though that none of these elections had an incumbent president running. The incumbents, Eisenhower, Clinton, and Bush, were all finishing their second terms. You may also notice that in each of these three years when the stock market lost value in an election year, the opposition party candidate won the election.

Despite the historic strength of election year markets, you should maintain vigilance in your investment portfolio. Avoid unnecessary risks and focus on income and compound interest. If you need help focusing on what's important in investing, sign up for the client letter from my family run investment counsel firm, Richard C. Young & Co., Ltd. You can sign up by clicking here. The letter is free, even for non-clients.

Big Macs or Sit-Down Service

Today, you can lend $10,000 to the U.S. government, which just closed its books for the year with a deficit of almost $1 trillion, and lock in an income stream of about twelve dollars per month for the next decade.

That's enough to treat yourself and the wife to a couple of Big

Macs once a month. But if McDonald's keeps raising prices, a couple of years from now, you may need a buy-one-get-one coupon to treat the wife.

The interest payments on government bonds are fixed, and are so tiny today they don't even keep pace with the massaged inflation numbers reported by the Labor Department.

Of course, nobody is forcing you to lend the Treasury Department money. The savvier choice might be to invest $10,000 in shares of Clorox. Clorox will pay you double what the Treasury Department is willing to fork over, and they will likely give you a pay increase every year you are a shareholder.

Filet and lobster won't be on the menu, but you might be able to afford a joint with sit-down service.

The chart below compares the dividend yield of Clorox to the yield on 10-year government bonds. The trade-off today is an easy one.