Can You Live Forever? How about Your Investment Portfolio?

A recent study performed by Australian scientists found that the human genome predicts the species' lifespan to be about 38 years. Modern scientific discoveries and improvements in the standard of living have increased that to about 72 years worldwide and much higher in some developed countries.

It should come as no surprise that the longer you live beyond the day you retire, the more you'll spend during retirement on maintaining your standard of living. How long can you do that? 20 years? 500 years? Here's how I explained the idea of living to 500, and how you can plan your investment portfolio for longevity.

Will You Live Forever? How About 500 Years?

> *In today's brand-driven media cycle, anything promoted with the imprimatur of a trendy company like Google gets a full airing and lots of exposure, no matter how offbeat. Recently, president of Google Ventures (the corporate investment capital arm of Google Inc.) Bill Maris told Bloomberg that he believes humans can live to be 500 years old. Maris is not what you would consider a typical Google employee. He's been trained in neuroscience, and helped develop Google's Calico project to address ageing. No surprise, Silicon Valley's young millionaires and billionaires want to live to enjoy their*

wealth for a very long time.

Maris says he hopes to live long enough not to die. That’s probably not going to be the case for most of today’s retired or soon-to-be-retired investors. But that doesn’t mean you can ignore the thought of outliving your money. There are a number of ways you can prevent portfolio ruin. The first and most obvious is to take a sharp pencil to your budget. For most of the last half-century, I have advocated a 4% draw on your retirement nest egg. Recently, I have advocated a lower draw (when possible) to minimize lasting damage from the Fed’s complete destruction of yield over the last seven years.

You can see on my Maximum Portfolio Withdrawal Rate chart below that an investor in 1946 with a 50/50 portfolio of stocks and bonds, rebalanced annually, would draw down his portfolio quite rapidly by taking 8% per year. Even drawing 7%, 6%, or 5% doesn’t inspire comfort, as each portfolio is depleted in less than 34 years. You may thinking that 34 years is plenty, but take a look at the timeline here. The bulk of this investor’s retirement took place in the ’50s and ’60s, when returns on a 50/50 portfolio were quite strong. In contrast, today’s bond yields are so low, you may not earn 4% on your savings, meaning you’ll have to save even more to live comfortably. Withdrawing 5% could force you to take up residence at the entrance to Wal-Mart greeting customers when you should be enjoying your golden years.

Another way you can protect yourself from drastic moves in the balance of your portfolio is to rely on its income to produce your 4% draw. Investing in companies with high dividend yields can help you achieve that income. Today, you face an investment climate where high dividend yields aren’t abundant. Take a look at the yield of the S&P 500 in my chart below. The average yield shown there (since 1945) is 3.4% for the index. Today, the index yield doesn’t even break 2%. Loose Federal

> *Reserve policies going back to the 1990s have decimated yields by propping stock prices up into bubble territory. To mitigate the effects of low yields overall, you can prepare your portfolio for future income by selecting stocks of companies with policies that favor dividend increases year after year. If dividends increase 5% every year, after five years a stock with an initial yield of 2% will yield 2.6% on your initial dollar invested, and so on.*

You can achieve a portfolio that keeps you and your family secure well into your retirement by focusing on buying the stocks of companies that will keep raising their dividends. That’s one of the areas we focus on for clients at my family-run investment counsel firm, Richard C. Young & Co., Ltd. If you would like to learn more about the strategies we use, click here to sign up for our monthly client letter (it’s free even for non-clients).

The First Question You Should Ask Before Investing

If you are beginning your investment adventure, one of the first questions you may ask yourself is, “how do I diversify my investment portfolio?” Perhaps preceded by, “should I diversify?”

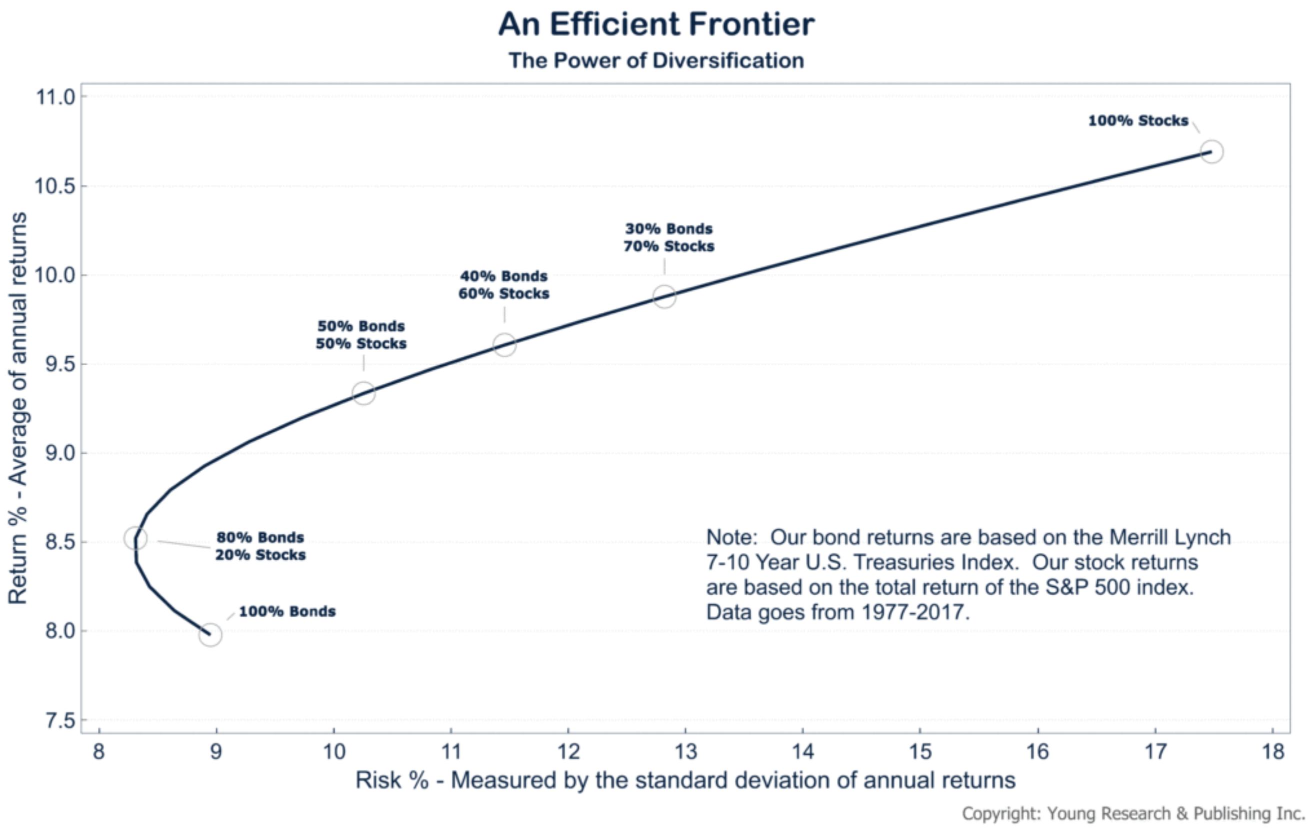
While the answers to *how* you diversify are many, the answer to whether or not you *should* diversify is easy; yes, absolutely.

Diversification can lower your risk and raise your returns at the same time. And diversifying can prevent you from feeling the full effects of a downturn in the prices of any single class of assets.

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 increase your return while lowering risk. Here’s how I explain it:

> *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.

Can You Double Your Money in a Year? Fail at Diversification, and You May Need To

Can you double your money in a year? Not many people can. But if you lost 50% of your portfolio value, that's precisely what you would need to do to make it back to even.

If the prospect of trying to double your money sounds unappealing, I suggest you try not to lose that much in the first place. I wrote about this a while back, saying:

> *Unchanged Since the Twenties*
>
> *According to BBC television, the Classic Coke bottle, the VW Beetle and AGA Cooker are the three finest industrial design achievements of the 20th century. You know the Classic coke bottle, you know the VW Beetle, but the AGA Cooker?*
>
> *Contemporary stoves pale by comparison to this handcrafted, cast iron cooker that quickly becomes the heart and soul of any kitchen it inhabits. Available in a handful of vibrant enameled color, the heavily insulated, gas-fired AGA has no temperature controls and is always on.*
>
> *In most kitchens, 80% of cooking is done on the stove top and 20% in the oven. With an AGA, the reverse is true—80% or more is done inside. Externally vented ovens prevent cooking smells from returning to the kitchen, while gentle radiant heat produces superb cooking results—never, ever dried out.*
>
> *The AGA works on the principle of stored heat within the well-insulated cooker; your job is to simply choose the temperature you want from one of four separate ovens.*
>
> *This timeless, handcrafted work of beauty, functionality and simplicity was designed over 70 years ago and remains virtually unchanged since the 1920s. For more info on the incomparable AGA Cooker, [visit www.aga-ranges.com].*

> *Timeless describes the AGA’s design, and timeless is the first word I use to describe my investment principles for you. I hope you will embrace my timeless set of investment principles; they will allow you a lifetime of investment rewards.*
>
> *As a serious, long-term investor, I want you to always consider risk before profits. Never forget, when you lose 50% on an investment, you must double your money next time out just to get even. And even then, you have earned zero return.*

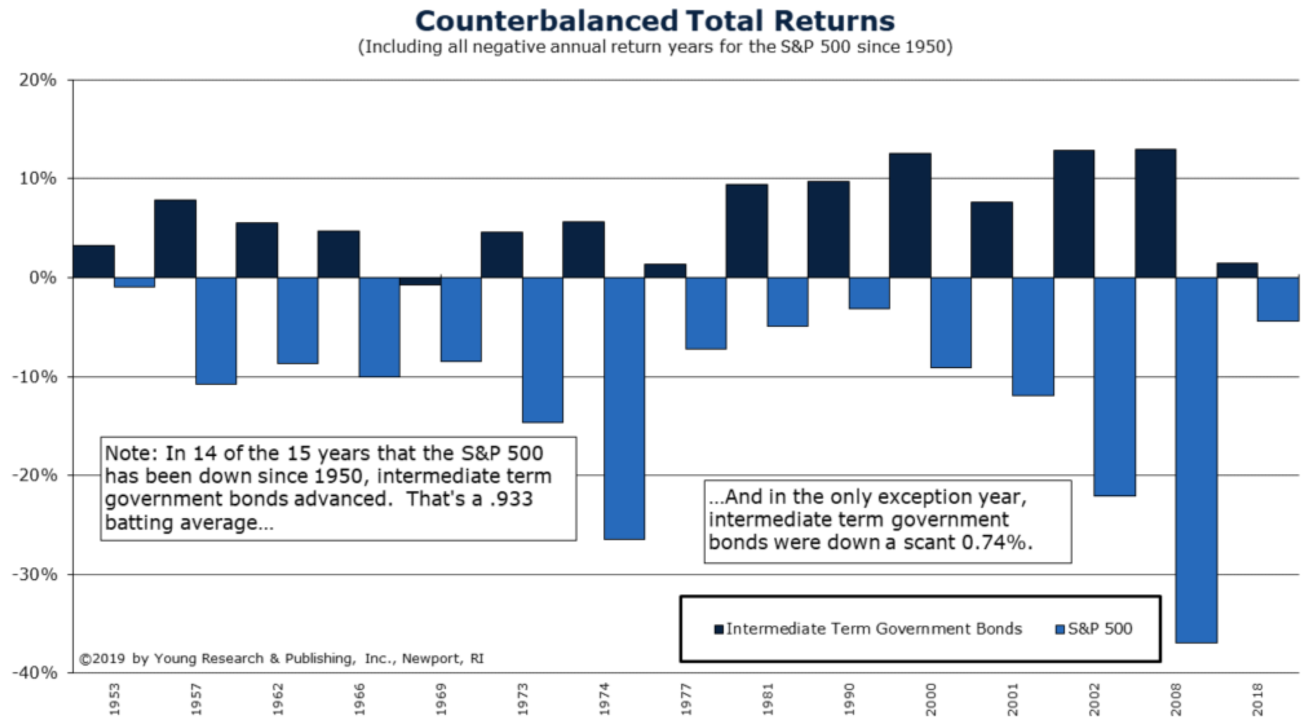
Reducing risk in your portfolio is the best way to prevent wild swings that could generate losses from which you can’t come back. Focusing your efforts on diversification, dividends and interest, and on companies in industries with high barriers to entry can help you reduce risk in your portfolio. It’s hard to double your money in a year, but it’s easy to get started on reducing risk in your portfolio.

Build Yourself a Barricade Against Volatility

In the fight to reduce that risk in my portfolio, I remain doggedly attached to my principled investment strategy of diversification and compound interest. I encourage readers to build a “volatility barricade.” I’ve explained my volatility barricade plan before, writing:

> *Your Volatility Barricade*
>
> *Your portfolio’s fixed-income position does two things for you. (1) It either throws off cash for you to spend at Ace or True Value (not Wal-Mart or Home Depot) in retirement or, instead, allows your interest to compound in an IRA. (2) Your fixed income holdings (short and medium term) will most often zig when stocks zag. You benefit with a counterbalancing*

teeter-totter. Please [refer to the chart below]. Here you will see that since 1950, in 14 of the 15 years that the S&P 500 has been down, intermediate-term government bonds advanced. That's a .933 batting average. And in the only exception year, intermediate-term government bonds were down a scant 0.74%. Nice counterbalancing, wouldn't you say?



If you built yourself a volatility barricade in 2006, you probably withstood the bursting of the housing bubble with fewer gut-wrenching swings in your portfolio's value than your peers. I encourage every reader to incorporate fixed income into his portfolio today.

Getting on the Map with Gold

Another way I encourage all investors to diversify their portfolios is with a position in precious metals, especially gold.

I have been a longtime supporter of including gold in diversified portfolios. Gold is a safe-haven asset, an inflation and currency hedge, and a hedge against geopolitical turmoil and general market turbulence. It is an insurance policy of sorts. When everything else is down, gold is often up. Gold’s counterbalancing effects can dull the pain of a market rout.

I’ve long been an outspoken advocate of owning gold (I say owning because I buy gold and do not intend to sell). I’ve spoken on gold at conferences around the country, and I have researched and written about gold for nearly 50 years.

Becoming a reliable purveyor of gold insight was no easy trick. At 30 years old I was given a tough, international assignment, and then judged by some of the most demanding names in the business. Here’s the story of the research breakthrough that put me on the gold map.

London, 1971

Portfolio strategy discussions and strategizing with the world’s biggest institutional clients started for me with a mix of Boston, New York, and London research. My institutional research and trading days trace back to August 1971 with Model Roland & Co. The Boston offices were on Federal St. in the old financial district. I was 30 years old.

Gold Research for Leo Model

By the summer of 1972, I was off to London on a gold/gold-shares research trip. This eye-opening experience gave me access and exposure to the largest players in the international gold market. I met contacts and gained background that would be invaluable to me, and thus to my clients, for the ensuing 45 years. Meetings at Samuel Montague and Consolidated Gold Fields, for example, allowed me to craft a detailed report for Leo Model on gold as a commodity as well as a monetary asset.

E.M.B. Comes Through

Mr. Model thought enough of my report to put it into the hands of no less than America's dean of international monetary experts, Edward M. Bernstein. This was a little unnerving for me as a 30-year old who was prepared for a sour outcome and a lecture from Herr Model, a demanding employer.

Well, much to my surprise, Mr. Model soon received a note from E.M.B., perhaps the #1 expert in the world on the intricacies of gold: "I think the collection of papers on gold is excellent. It seems objective and pointed. I have no suggestions. … Put me on the list to get what Model Roland puts out on gold."

That did it for me. I was on the map.

Get Your Start Diversifying Your Portfolio Today

These are only some of the ways to diversify your portfolio. You should attempt to diversify as soon as possible. Waiting increases the chances that whichever asset class you are currently invested in will suffer a catastrophic loss.

If you lack the time to understand the complicated process of diversifying your portfolio, you should ask for help. Begin a relationship with one of America's top investment advisors, like my family run investment counsel firm Richard C. Young & Co., Ltd. Experts there can help you diversify your portfolio across a range of asset classes.

If you would like to speak to a seasoned investment advisor from Richard C. Young & Co., Ltd., for a free, no-obligation portfolio review, please fill out the form below. You will be contacted by someone who can help you navigate the difficulties of diversification.

You Must Find Investments that Fit Your Needs

In the past, I’ve explained to investors that they need to find investments that fit their needs. You must measure your needs against what I referred to as a “complete understanding of where we are in terms of both the economic and monetary cycles.” I wrote:

> *I am not looking for the investment markets to do anything for me. I long ago positioned myself to wade through any form of financial market dislocation. I always evaluate risk before potential returns. I invest with a complete understanding of where we are in terms of both the economic and monetary cycles. Where I would invest new money at the start of a cycle is quite different from where I would invest in the latter stages of a cycle.*
>
> ***Consumer Staples and Health Care Shares***
>
> *As a cycle matures, understand that the number of suitable options for investment begins to dry up. It becomes much harder to find investments that fit your needs. Often, you will find yourself sifting through the rubble of industry sectors currently out of style with the investment community at large. Today, I am thinking energy and materials, including pipelines, which are on the top of my shopping list through thick and thin. Despite the cycle, consumer staples and health care always make my short list. Most other industries blow in and out of favor depending on how Wall Street has temporarily abandoned one or more. Your smart option is to search out opportunity amongst the out-of-favor.*

> ***The Great John Neff***
>
> *John Neff, in his Vanguard Windsor fund days, was an outstanding proponent of investing in the forlorn, the unloved, the out-of-favor. John was noted for his patience and willingness to be out of synch for extended periods. During my institutional brokerage days, I loved working with Wellington Management, Windsor fund’s management company. I knew many managers and analysts at Wellington and fondly remember, when I was the new kid on the block with a lot to learn, the helpful, informative lunches and analyst sessions. These learning sessions still serve me well today. And the contrary opinion, out-of-phase success of John Neff played a big part in the learning curve I share with you over four decades later.*

Understandably, many retired and soon to be retired investors would rather focus on their families and hobbies than on developing the skills necessary to succeed at choosing the right investments.

Help is available that can relieve you of the burden of managing your portfolio. If you need assistance in making the right choices for your investments, fill out and submit the form below. A seasoned member of the investing team at my family-run investment counsel firm, Richard C. Young & Co., Ltd. will contact you to provide a free, no-obligation portfolio review. Start working to find the investments that fit your needs today.