You Must Defend Your Wealth with a Tactical Battle Plan

There's nothing more important to your investment success than protecting your principal. Capital gains will come and go, but losing the money you worked hard to earn is like taking a direct hit from a Scud missile. You need to build a tactical battle plan to kill the enemy—in this case, risk—and to win. Here's the battle plan I laid out for readers shortly after Operation Desert Storm, and I remain committed to it today.

> *You'll Be The Big Winner!*
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> *General Norman Schwarzkopf built the allied forces military victory in the Middle East on diversity. Schwarzkopf did not go into battle single-handed. Given the mental make-up of Saddam Hussein, the American general had no idea what might be launched at him. So he skillfully deployed a wide array of weapons—from the A-10 Warthog and Apache helicopter to the Patriot Missile to the M-2 Bradley fighting vehicle and the M-1 battle tank and the F-15 Eagle fighter bomber—and victory was achieved. Fortified with his arsenal of blue-chip weapons, Schwarzkopf, the master tactician, was prepared for any type of adversity.*
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> *<u>YOU NEED A TACTICAL BATTLE PLAN</u>*
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> *Your tactical battle plan for investment success should be patterned after Schwarzkopf's strategy in the Middle East. Plan well to meet any challenge with an arsenal of investor weapons, and in the end (which is where it really counts) you'll be the big winner. Of course, you won't need in your arsenal any A-10 Warthogs armed with 30-caliber Gatling guns. You won't be going after enemy tanks buried up to their gun turrets in the sand. You won't need an A-10 Warthog's massive*

nose-mounted gun hammering nearly 4,000 rounds a minute and making, as The Wall Street Journal's John Fialka noted, a sound "like a gigantic zipper as it atomizes its targets." No, you won't need quite the same weapons. What you will need is a carefully crafted investment arsenal assembled to carry you through all types of investment market conditions.

To protect your principal, you want to fight risk wherever you find it dug in. The arsenal you need to do that is an internationally diversified stock portfolio focused on dividend-paying stocks like my Retirement Compounders® program, and a bond portfolio filled with bonds backed by the full faith and credit of the United States Treasury, as well as investment-grade corporate bonds picked just for you. You'll want the air support of a precious metals component to act as an insurance plan for any surprises that happen in your investment war.

If you want to learn more about how these tools are used while managing portfolios at my family-run investment counsel firm, click here to sign up for our monthly client letter (free even for non-clients).

One More Reason You Shouldn't Invest in China

The coronavirus is just one more reason you should avoid direct investment in China. Symptoms of a bigger problem are the decisions of the Chinese government to:

1. restrict information on the spread of the virus,
2. deflect blame onto others, and to

3. silence early attempts to alert the public to the problem.

In 2012, I explained China's bigger problem to readers, and why you should avoid the Middle Kingdom as an investment destination:

> ## *China*
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> *I have long advised against direct investment in China. Among the many reasons I am bearish on China is the country's vastly distorted economy. China is a command style economy run by an unelected political party—the Communist Party of China (CPC). The CPC's policies have resulted in a grand misallocation of capital. A mercantilist currency policy, perverse incentives for provincial government officials, and crude monetary policy tools have helped inflate a fixed asset and real estate bubble that puts the U.S. real estate bubble to shame.*
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> ## *A Quality Problem*
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> *It should be obvious to most that things are not as they seem in China. China has reported GDP growth of 9% or more in every quarter over the last two years, but the Shanghai Composite Stock Index has plunged more than 30% during that time. If China's economy were truly booming, Chinese shares would most likely be trending up. China suffers not from a quantity of economic growth problem, but a quality growth problem. China's GDP statistics are being propped up by unproductive fixed asset investment. The real estate sector is the most obvious example. To prop up GDP growth rates the Chinese are building entire cities, but they are virtually empty.*
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> *It is perplexing that the world has allowed a command style economy run by an unelected political party to become such an important player in the global economy. China is now the world's second largest economy and America's second-largest*

trading partner. If China heads into the tank, the world economy will suffer.

No Profit Motive

China doesn’t play by the same rules or have the same motives as the world’s other large economies. China has consistently manipulated its currency to gain export market share and it has subsidized favored industries through its financial system to the detriment of non-Chinese companies. Take the rare earths industry as an example. China now has an effective monopoly on rare earths production. Not because of the country’s low labor costs or a lack of reserves in other countries, but because Chinese rare earths companies were provided with subsidized loans. Rare earths companies ramped up production in the ’80s and ’90s and drove prices down to unprofitable levels. The Chinese government was more interested in maintaining stability through high employment then, as they are today. Low prices pushed rare earths producers in the U.S., Australia, and elsewhere out of business. With the support of subsidized loans, China’s rare earths companies were the only companies able to remain in business at such low prices. Now the U.S. relies on China (at least temporarily) for a supply of metals vital to the defense industry and other high-technology industries. Sound like a smart strategy to you?

Chinese Hacking

There is also mounting evidence that China has been hacking into the networks of U.S. companies and organizations. The Wall Street Journal reported recently that a group of hackers (read: the Chinese government) hacked into the U.S. Chamber of Commerce’s computer network. The Journal reports that the hackers may have had access to the Chamber’s network for more than a year before the breach was discovered. The full extent

> *of the damage from the hacking incident will be difficult to determine, but it is possible the Chamber's network was used to send booby-trapped emails to Chamber members (large U.S. companies) to gain access to their computer networks with the likely intention of stealing trade secrets. According to the U.S. counterintelligence chief, the Chinese are "the world's most active and persistent perpetrators of economic espionage."*
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> *So then, China unfairly manipulates its currency to gain export market share, it subsidizes favored industries driving companies in America and other countries out of business, and it illegally hacks into U.S. company computer networks. Sound like a country that should be our #2 trading partner? How about a country you want to invest in? I continue to avoid Chinese shares and advise the same for you.*

China's command economy and the fear its leaders have of losing power are at the heart of the three problems I laid out for you at the beginning of this post. That's not a way to run one of the world's largest economies.

Despite my aversion to investing in China, I encourage you to invest internationally. My Retirement Compounders® investment program invests in many foreign companies with stellar records of paying and increasing dividends each year.

If you'd like to learn more about the value of investing in foreign companies for dividends, read *Dividend Investing: A Primer* from my family-run investment counsel firm, Richard C. Young & Co. Ltd. In the report, you'll discover how many developed countries' stock markets have higher average yields than that of the United States. The number is probably more than you'd think.