Should You Take the Dividend Blood Oath?

I have always been passionate about dividends, and if you learn to understand their power, you will be too.

I even told readers in 2002 to take a blood oath to buy only dividend payers. Alarmed? While I was joking about the blood oath, I was very serious about the power of dividends in an investment portfolio, and I still am.

Here’s what I wrote:

> *As to dividends, not long ago, Fortune ran a nice piece, “Reap the Dividends.” Fortune wrote, “According to Ibbotson Associates (I love their work), if you had invested $100 in the S&P 500 in 1926 and continually reinvested the dividends, that stake would be worth $247,352 today. Without dividends that same $100 would now be worth just $9,844.” Read what I just wrote out loud to your spouse. And then take your thou shall buy only dividend payers blood oath together. Your blood oath will keep you out of a pack of trouble. Boards of directors that raise dividends with regularity must believe their company is moving forward. If not, dividend increases would not be voted. You will further insulate yourself from risk if your dividend payers have a strong balance sheet with a reasonable debt load. And no debt is best of all, but rare today.*

If you would like to learn more about how dividends can help you achieve your retirement goals, download *Dividend Investing: A Primer*. It is packed with information about why dividends must be part of your investment portfolio. Click here to download a free copy of the report from Richard C. Young & Co., Ltd.

What the Iran Situation Means for Gold

Since the end of 2019, gold prices have been on a breakout trajectory. Now, in response to rising tensions with Iran, things are getting very interesting.

The news that the United States had bombed Iranian Major General Qassem Soleimani increased the perception of risk in the Middle East, and drove the price of gold even higher.

I have always suggested to investors that they maintain a gold component in their portfolios, not as a road to riches, but as an insurance policy against inflation, disaster, and war. Typically when every other assets' price is falling, gold's is rising.

Here's how I explained it back in 1986:

> *Throughout history gold has been the money of last resort. Every central bank in the industrialized world holds gold as an international reserve asset. Countries like Switzerland maintain a high percentage of gold holdings in relation to total money supply.*
>
> *What is the proper course to take in building a gold cornerstone for investment portfolios? Most individuals look to bullion coins, mining shares, and gold certificates from major banks. I like certificates when an individual has no interest whatsoever in gold and invests in gold strictly as a portfolio tool. Certificates also have appeal for institutional investors. Gold mining shares should not be used as a gold proxy for cornerstone positions.*

> *Gold share mutual funds should be considered in the stock fund section of one's portfolio, but not in the gold cornerstone section. Shares are subject to political and natural disruptions that invalidate their inclusion as gold cornerstone investments.*

Since I wrote those words, a lot has changed in the way Americans can invest in gold. The creation of gold-backed ETFs was probably the most significant development. To learn more about how to invest in gold today, click here.

If you would like to understand how my family-run investment counsel firm uses precious metals to craft counterbalanced portfolios, sign up for Richard C. Young & Co., Ltd's monthly client letter. The letter is free, even for non-clients. You don't want to miss it.

Did You Get AirPods for Christmas?

At the turn of the century, the most popular Christmas gifts among America's young teens were Pokemon playing cards and merchandise. Now, 20 years later, the hottest gift for Christmas is Apple's AirPods. The pro version of the small wireless headphones cost $249 (before taxes).

Shortly after the kids opened their gifts on Christmas 1999, I was writing about a new technology I thought would be significant in the coming years: Bluetooth. Through inference reading and analysis, I had determined that Bluetooth could be a major innovation in technology. As it turns out, it is the very technology that allows Apple’s AirPods and billions of other devices to communicate.

I wrote back then:

> *Pulling out a Bluetooth—what a way to start the millennium. A group of five superpower companies (Intel, IBM, Nokia, Ericsson, and Toshiba) have formed a consortium to pull a Bluetooth surprise. It looks to me as if Bluetooth will fast become as brand recognized as, say, Intel’s Pentium chip.*
>
> *So what is Bluetooth, and why do you care? Bluetooth is a radio wave-based language. The technology will allow several wireless devices to communicate with each other wirelessly (a voice-activated phone with a Palm Pilot with a laptop). By summer, I look for many Bluetooth-enabled devices to hit the market. How big is the market? It may be a slow start—maybe one-half million devices sold in 2000—but the explosion will come.*

And explode it did. In 2018 alone nearly 4 billion devices sold with Bluetooth. Projections for 2019 are 4.2 billion, rising to 5.2 billion devices by 2022.

The same inference reading skills I applied to examing Bluetooth technology 20 years ago are what I use in support of my family-run investment counsel firm, [Richard C. Young & Co., Ltd.]() today. Each year, just as we did in 1999, Debbie and I cover many thousands of miles in pursuit of information we can use to measure the pulse of markets.

That research and the efforts of a full investing staff are explained each month in the client letter from Richard C. Young & Co., Ltd. If you want to understand our investment efforts and strategies better, please sign up for the letter by [clicking here](). It’s free, even for non-clients. You can also see back issues by [clicking here]().

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?”

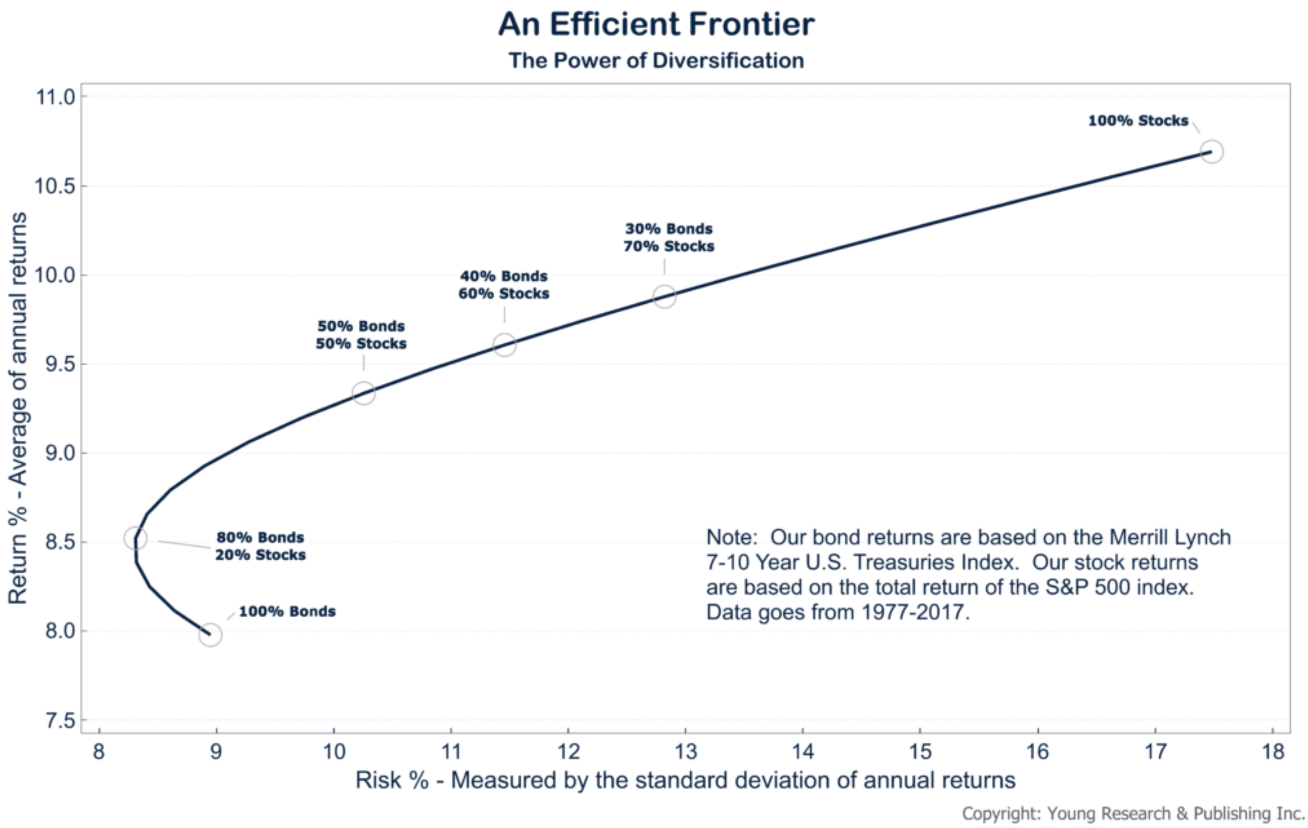
While the answers to *how* you diversify are many, the answer to whether or not you *should* diversify is easy; yes, absolutely.

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.

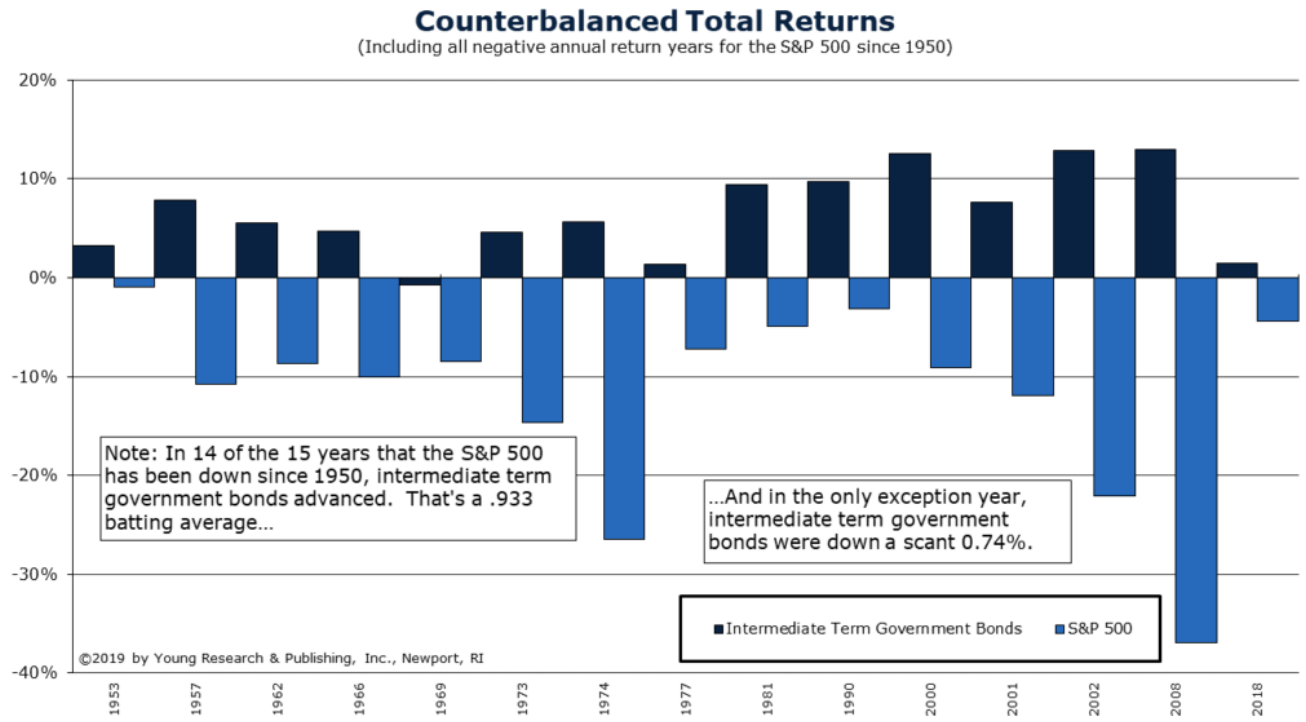
Reducing risk in your portfolio is the best way to prevent wild swings that could generate losses from which you can't come back. Focusing your efforts on diversification, dividends and interest, and on companies in industries with high barriers to entry can help you reduce risk in your portfolio. It's 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.

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.*
>
> *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.*
>
> *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*

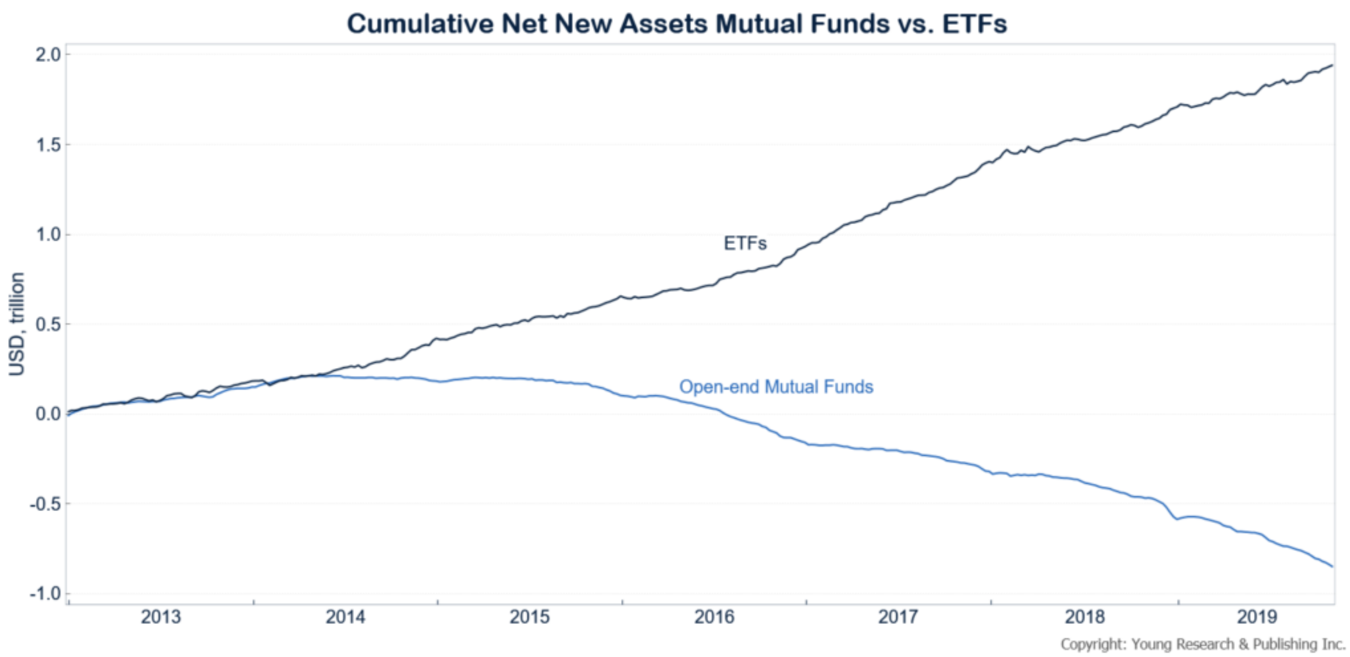
> *horse in the long-term race between ETFs and the mutual fund industry. There will be a select group of mutual fund groups that will continue to prosper as the ETF industry hollows out the mutual fund industry.*

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?*
>
> *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:*
>
> *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.*
>
> *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*
>
> *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.