# Do You Feel Good?

Around four years ago I was practicing French with Debbie before a trip to Paris. I wrote then:

> *Je Me Sens Bien*
>
> *As you read this month's strategy report, Debbie and I will be in Paris. Practicing her French yesterday, Debbie asked me if I knew the meaning of je me sens bien, with James Brown as a clue. Well, not knowing for certain, I guessed, "I feel good," a great James Brown lyric. Debbie was astounded that I got the quiz, as was I, because I really had no idea. So what gives? The answer lies in association. The rhythm of the four words simply brought the James Brown lyric to mind, literally out of the blue. These things can happen with association. It's a mindset thing that isn't always easy to explain. In recent days, given the extraordinary volatility in the financial markets, mindset and association are an especially vital concept for investors. When you are in the right place mentally, you can have no problem weathering volatility. If not, well…*
>
> ***Successful Investing Is a Mindset***
>
> *As you know, I do not check the prices of my investments daily, weekly, or even monthly. I do an annual checkup only at tax time. When I make a significant investment, I have no intention of liquidation anytime soon. I am in for the long haul. Thus, short- or even medium-term volatility is of zero concern to me, beyond keeping an eye out for a name on my watch list that may have taken a temporary beating due to no particular fault of its own. So, then, successful investing is a mindset based upon a master plan that allows an investor to find comfort through thick or thin.*

Since then, I have traveled to Paris many times, and I am in the city now, amidst the sad reaction to the burning of Notre Dame cathedral. People in Paris are not exactly feeling good. But there is hope. Much of the cathedral is still standing, and a city as old as Paris has endured tragedies of this kind before.

Revolutions, occupations, crippling riots and terrorist attacks have befallen Paris, but the city’s people have a way of focusing on the long-term. Quality, durability, and timelessness describe the aesthetic that has made Paris the center of the cultural world.

The lesson of Paris’s success is to focus on the long-term. Weave that principle into your investment portfolio, as well as your life in general. Avoid risk, compound your portfolio, and don’t let emotion guide your actions. Steadfastly adhering to such a plan will make you feel good.

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# In Wine and Investing, One Must Get the Big Picture Right

There are few subjects studied by so many, but still so little understood as investing and wine. Nearly everyone you meet has an opinion on both, but start getting specific and you realize the pool of knowledge isn’t deep. You don’t need to be an expert in either, but it helps to get the big picture right. In February of 2011 I wrote:

> *Medieval Monks*
>
> *Terroir (teh-RWAHR). Literally “terrain” in French. David Downie in Food Wine Burgundy explains that originally terroir*

*was used to refer to the particular qualities that soil and climate bestow on wine. The French word climat designates a micro-environment, micro-climate, and micro-terroir. Climat can embrace a few rows of vines here, another few rows there, separated by another climat. Michael Broadbent, writing in the foreword of The Great Domaines of Burgundy, tells us that compared to Bordeaux, Burgundy is far more complex: Small vineyards with similar names are in the ownership of several individual producers. Medieval monks had a special facility for understanding the specific soil and climat of Burgundy. It is this knowledge that eventually would introduce the world-class pinot noir (red) and chardonnay (white) wines of Burgundy to the world.*

## *Get the Big Picture Right*

*After spending some time researching the terroir of Burgundy and many of Burgundy's small vineyards, I can tell you that the subject matter is as complex as any I have endeavored to understand. Grapes planted in the most suitable soil under just the right weather conditions produce the classic French white Burgundy found, by example, in Puligny-Montrachet. Successful wine making is a top-down affair. Get the big picture right, and good things can happen.*

## *Diversification & Dividends*

*It occurred to me on a number of occasions that, just as terroir dominates the study of Burgundy, the same terroir concept dominates my thinking on the stock market. In the proper monetary, economic, and political environment, most quality stocks will offer suitable returns, some, of course, better than others. A well-diversified group of dividend payers is certain to do just fine, as long as the financial terroir is hospitable. Many decades ago in Young's World Money Forecast, I concentrated only on terroir and did not write* *about individual securities at all. My target was the big picture, period. I felt that if I could get the big picture right for my clients and subscribers, they could deal with individual securities selection. I still devote the bulk of my time as it relates to the financial markets to the big picture. Get the big picture wrong, and your securities portfolio is likely to suffer mightily. Get the big picture right with the view that you will stick with dividend and interest-paying, blue-chip securities, and you most certainly will do well. A rising tide tends to lift all ships.*

*It is with this thinking that I manage my own personal affairs and formulate the global investment strategy for our family investment company.*

If you are struggling to get the big picture, it may be time to seek assistance. My family run investment counsel firm, [Richard C. Young & Co., Ltd.] is dedicated to assisting conservative retired, and soon to be retired, investors and their families in developing a plan for the long-term. If you would like to talk to a seasoned investment professional about your portfolio, please fill out the form below. You will then receive a call for a consultation with absolutely no obligation.

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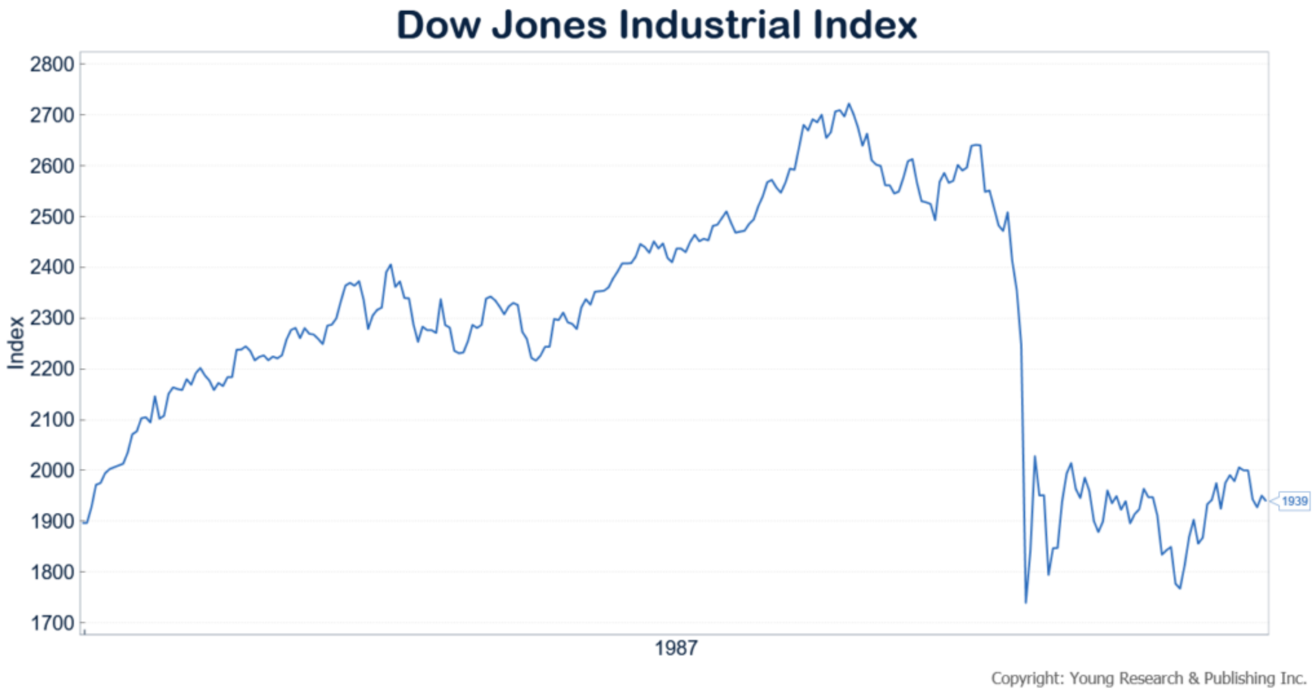
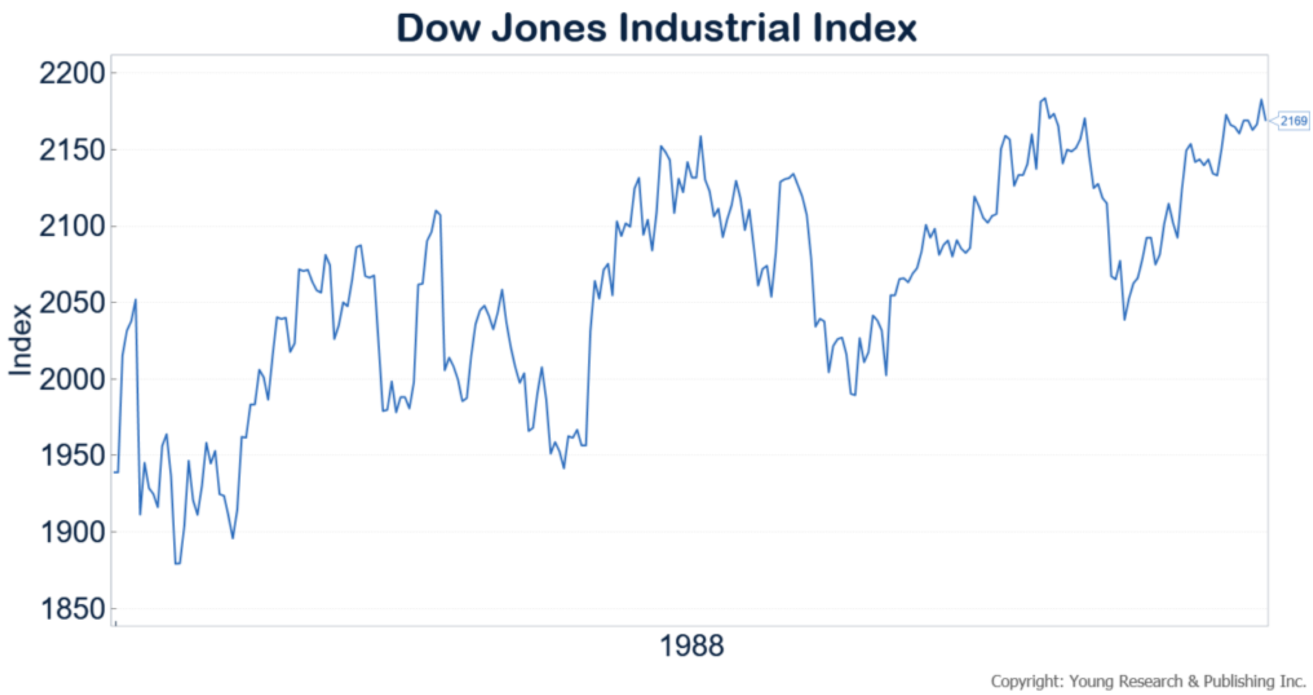
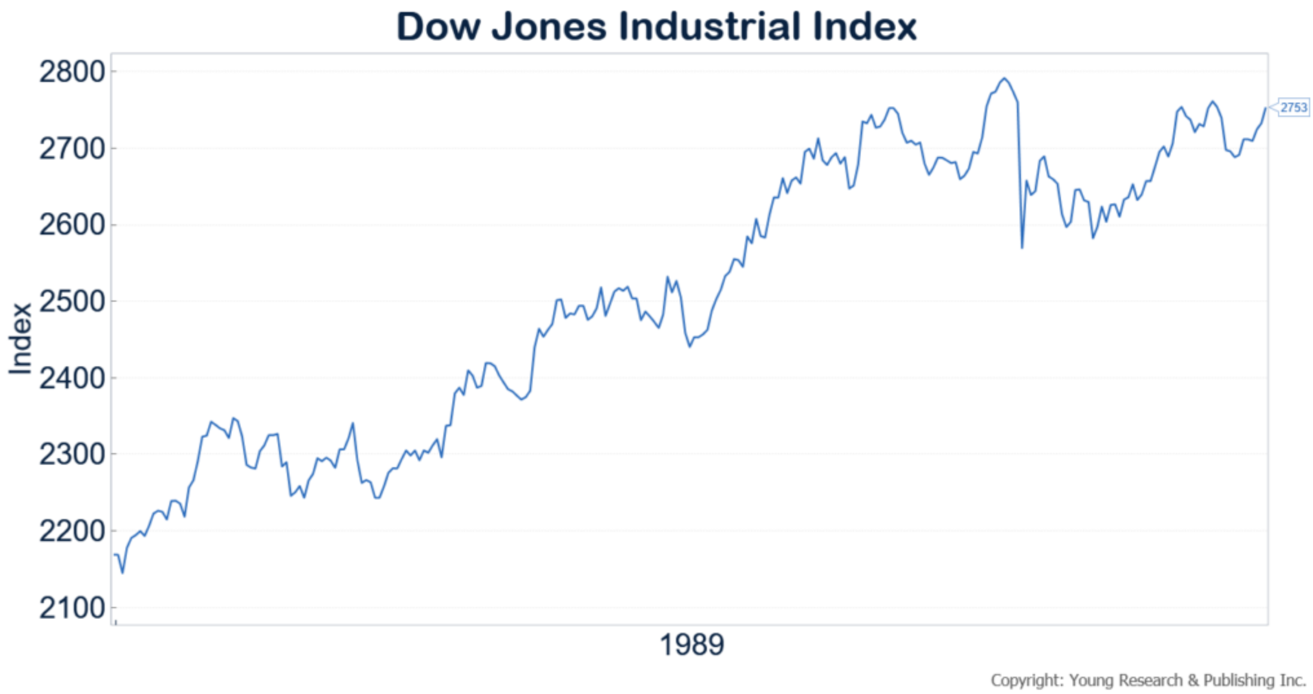
# The Dividend Plan

Panic selling during periods of market decline can be devastating to your long-term investment success. In 1987 many investors were frightened out of the market and missed out, not only on the rebound in shares in the following years, but on all the dividends they could have used to buy more shares at depressed prices. I reminded readers of that in February of 2009 when the Great Recession was at its bleakest. Here's what I wrote:

> ## *The 1987 Debacle*
>
> *I remember the crash of September/October 1987 like it was yesterday. Virtually overnight, the Dow collapsed to about 1700 from 2700. Terrified investors fled the stock market, just as they did in 2008. Well, the next two years were gangbusters and, by fall 1989, the Dow was once again back above 2700. My three charts (below) give you a bird's-eye view of each of the three historic years in American stock market history.*






## ***Dividends Paid Based on Shares***

*Recently, I’ve been driving home the point that what really counts is the shares you own and the dividends you are paid, not the point-in-time value of your shares. Companies pay your dividends based on the number of shares you own, not on the value of those shares on any given day. Picture it this way: You are sitting at your walnut desk with a stack of* *beautifully engraved stock certificates in front of you. The certificates are embossed with the number of shares each certificate represents. From your bright, sunny window you clearly can see your mailman as he drops off a pile of envelopes that you know from long experience includes your regular dividends (in many instances higher than in previous quarters). You are comforted by sorting through your stack of engraved certificates and excited to once again begin opening your companies' envelopes, each providing you with a dividend check. It's a pleasant scenario to be certain, as dividends are your financial lifeblood.*

## *A Collector of Dividends*

*Look around you! No one has taken away any of your treasured certificates. And no one has altered the number of shares embossed on each of the finely engraved certificates. Furthermore, not one of your companies has failed to send along your dividend check as promised. Nor has your mailman failed to deliver your checks to your mailbox. You do not spend a moment wondering at what price you could sell your certificates to someone else, because, as a collector of dividends, you have no earthly reason to sell. This is certainly so if you have crafted from the start a quality list of 32 discerning blue-chip, dividend-paying companies.*

## *Mystical-Like Compounding*

*Astute investors invest to accumulate wealth over the long term through dividends, dividend increases, and the mystical-like compounding of dividends. This is compared to flighty speculators who have the misguided goal of selling shares to someone else at a higher price.*

Make a plan, focus it on dividends, and stick to it.

# Two Strategies to Avoid Outliving Your Money

In July 2007 there was a sense of unease in the markets and I was warning investors to prepare themselves with a low draw on their portfolios. I also gave investors two ways to help prevent outliving their money. Read here:

> *At the start, retired investors and investors saving seriously for retirement (76 million boomers will begin retiring next summer) must answer two basic questions: (1) What is the proper mix of stocks and bonds? (2) How much money can be drawn annually from an investment portfolio? I have used Ibbotson data and examined 20-year rolling time periods from 1926 on. I have concentrated on minimum returns in order to advise a portfolio mix most likely to assure a draw of my advised 4%. The highest minimum return over 20-year rolling periods was achieved with a portfolio mix of 50/50 bonds and stocks. That minimum return was 4.6%. I would treat a 50% fixed-income portfolio component as suitable. And there is no way I'd go over 4% (inflation adjusted) for my annual draw. In fact, if possible, investors of suitable means are advised to cut back to a 3.5% draw (of an initial portfolio). Of course, the two best ways to make sure that you and your spouse do not outlive your money are to (1) work longer, and (2) slash your annual living expenses.*

If you are still working, there is a third way to stretch your retirement portfolio, save more. Saving more today and compounding it for later is the key to a happy retirement. Prudent investors may also consider a 3% draw today.

# The Yield Curve Inverted: Time to Panic?

If you have been reading the financial papers or watching *CNBC*, you have seen the news that the U.S. yield curve has inverted. Typically, this is a sign of a coming recession, and that could be the case today. If, though, you have been following my advice, there is no reason to panic. Have patience and rely on the diversified, counterbalanced portfolio you have built for generating dividends and compound interest. In August of 2013 I explained the power of counterbalancing in your portfolio:

> *Managing a common stock portfolio takes— above all else—patience. Your goal should never be what to sell next; rather, it should be what stocks you can hold through thick and thin. It is true that portfolio activity, for most investors, runs inversely to consistent long-term performance. How should you measure performance and how should you construct an all-weather portfolio? First, "all-weather" means you do not want to be jumping in and out of the market attempting to predict bull and bear markets. For five decades, I have been investing my own money as well as advising conservative investors saving for retirement. As such, I have invested through many gut-wrenching bear markets and disastrous single years like 2008, which ended with the speculative non-dividend-paying NASDAQ down a frightening 40% for the year. Through all the years of turbulence, I have remained fully invested in a balanced, widely diversified securities portfolio featuring a counterbalanced approach.*
>
> *I have firsthand experience of what happens when counterbalancing is not in force. The Harleys I rode back in*

*the old days had engines bolted straight to the frame. Talk about vibration and calamity. The constant vibration caused nuts and bolts to loosen and fall off. When you're on a long-distance road trip, a breakdown in the middle of nowhere is cause for concern. I have found myself in just such a situation and it's no fun. Today's Harleys feature counterbalanced engines offering both a smooth ride and a minimum of road trip calamities.*

## *A 2008 Test Kitchen*

*Counterbalancing simply makes common sense. Let's look at 2008 as a test kitchen. All the broad averages got hit. High ground, so to say, was achieved by owning positions that got hit least. Consumer staples worked well; no matter how bad the times, investors are not going to forsake toilet paper, toothpaste, or their prescription drugs from Walgreens or CVS.*

Counterbalancing is a necessity for your portfolio. If you need assistance in creating a portfolio that is counterbalanced to protect your investments in good times and bad, please fill out the form below. You'll receive a call from a seasoned investment professional at Richard C. Young & Co., Ltd., my family run investment counsel firm, dedicated to helping retired and soon to be retired investors like you enjoy a successful retirement.

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# Don't Get Kicked Out of the

# Game

One of the biggest mistakes an investor can make is to imagine that the market will perform the same way year after year. Last year's winners are often this year's losers. I warned investors against this mistake in July 1992, writing:

> *How many investors—not you I hope—buy mutual funds keyed to recent performance ratings? These are usually the funds not to buy. Have you ever heard of Frank Russell Co.? These folk do a really good job of researching vital investment info. In a recent Pension & Investments article, the following item was of vital importance to you. A new study by the Frank Russell Co. has confirmed a long-held tenet of the investment industry: It's useless to select a money manager based on past performance. In fact, the study found, there is no satisfactorily significant relationship between past and future performance.*
>
> *Not only will you not find value in looking at past performance as a predictor of future results, you will not be able to deal with the high turnover, high taxes, anti-compounding issue. And just how important is compounding? Fortune magazine in its special investment strategy article "A Low-Risk Path to Profits" noted the views of Joe Rosenberg of Lowes Corp. "Joseph Rosenberg, who manages more than $1 billion for Lowes Corp., believes so fervently in the awesome power of compounding that he carries a compound interest table in his pocket at all times. His faith is simple and absolute." Says Joe, "It is the most important thing in investing. It's foolish to undermine the power of compounding by taking big risks that could kick you out of the game." Joe is dead on the money here.*

Joe was right. You don't want to get kicked out of the game by making a bad decision. Don’t buy last year’s winners hoping for a repeat. Work to mitigate risk in your portfolio and allow the awesome power of compounding to do the rest.

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# Here’s What You Need to Know about Dividends

In November 1999 tech stocks with no dividends seemed like a sure bet. Despite the hype, I was still doing my best to encourage my readers to stick the principles of dividends and compounding. Here’s what I wrote then:

> ### *Historically, Dividends Provide Much of Total Return*
>
> *What about the base for the economy and the stock market in general? As I’ve written often, the two are inexorably linked. After all, could stocks on average outrun the performance of all the companies that jointly contribute to our country’s gross domestic product? No. and, here’s why.*
>
> *Over seven decades, from 1926 to 1997, U.S. nominal gross domestic product (non-inflation adjusted) grew at a compounded 6.4% per year. Over the same period, the return on stocks due to price appreciation (dividends not considered) was a compounded 6% per year. The fit is almost exact. I know you’re thinking that the stock market must have done better than that, but it did not.*
>
> *Investors, however, did better due to the average annual compounded 4.6% return paid to shareholder from dividends. The*

*total return from (1) price appreciation and (2) dividends was an average compounded 10.6%, but remember, over 43% of total return came from dividends. Sadly, today's investors have almost completely forgotten about dividends. Perhaps with the average yield on stocks about 1.5%, instead of the historical 4.6%, there is some reason not to spend much time on dividends. Nonetheless, most investors are unlikely to see stock price appreciation that outruns nominal GDP growth over time.*

You can read more about the benefits of dividends in your portfolio in, Dividend Investing: A Primer, a white paper on the subject produced by my family run investment counsel firm, Richard C. Young & Co., Ltd.

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# The 5 Rules of the Financial Armadillo

In the heart of a bull market in March 1997, I was urging investors to ignore the "TV media financial gibberish, most of which is sensationalized to keep you twitching to the max." I wanted to show readers how to insulate themselves from a bear market. To do so, I gave them my Financial Armadillo Strategy, an armor-plated long-term plan I use myself to this day. I wrote:

1. Take a pledge of allegiance each day to your most trusted investor ally, compound interest. Learning how to better harness the awesome power of compound interest assures you of long-term success. It is interest on interest that allows you to invest like the world's most successful

capitalist, Warren Buffett.

2. Commit to memory the first two rules of investing. Rule #1: Do no lose your capital. Rule #2: Do not forget Rule #1.
3. Ruthlessly slash, hack and chop your investor costs. None of us knows the future for certain. Yet while you may not know the future, you sure as heck can know your costs today. Most mutual funds and annuities are high-cost breeders. Get rid of these leeches. You win every day by keeping your costs low.
4. Armor-plate yourself against the taxman. Your best strategy is to hold trading to an absolute minimum. The mutual fund arena is fraught with trading excess. The average turnover rate is 80%, or more than 10 times what I target in my own account and advise for you. In every mutual fund's annual and semiannual reports is a statistical display of portfolio turnover. Aim for 40% or less for your CORE funds. Don't forget, each time a mutual fund manager sells a stock at a profit, you get a tax bill. These guys invest with no regard for your tax bill or your devotion to compound interest. You simply cannot pay enough attention to mutual fund portfolio turnover.
5. Diversify, diversify, diversify. Proper diversification will help you sleep well during bear stock markets. We have not seen a bear market in years, and we are all, quite honestly, spoiled. Today is a dangerous time in the annals of the stock market and the least safe time in the last 16 years to be inadequately diversified. Sooner or later the music will stop, and you do not want to be the one left without a chair. You want to properly diversify yourself before it's too late. You will never regret your diligence.

Times are never too good to ignore these basic tenets of investment philosophy. When you take off your investment armor, that's when you become vulnerable to the swings of the market.

If you aren’t already following this plan, start today.

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# You’re in Charge: Act—Don’t React

Thirty years ago this month, I was working hard to explain to investors like you the simple power of having a plan. An investment plan is the reliable engine that keeps your investment train on its track. I told readers they shouldn’t make investments without consulting their plan, writing:

> *Am I clear on this? Sit back, take a deep breath and repeat after me, “I will have a plan; I will not be a reactionary investor; I will practice diversification.”*
>
> *Still with me? You see, I want you to lower your financial blood pressure. If an idea is sound today, it must be sound tomorrow. I learned decades ago never to make an investment move on the day I think it is time to move. I always sleep on an idea; rarely am I sorry I’ve waited. Do not be an emotional investor, do not be sold investments by salespeople, and do not make investments that do not fit into your predesigned master plan.*

Later I explained how a vital part of my investment plan, diversification, reduces risk, and how important that is to your investment future.

> *When you own only one stock, your stock portfolio comes with about 72% more risk than the minimum risk, or systematic risk, in owning a portfolio of hundreds of stocks. By simply adding one stock and building a two-stock portfolio, you cut your*

> *associated risk to about 36%. By the time you add eight more stocks and reach the 10-position portfolio level, you will have assembled a portfolio that has only about 7% more risk than owning hundreds of stocks. [Editor's note: For various technical reasons that number is higher today.]*

If you are reacting in the investment markets, you're already too late. You must create a plan ahead of time to deal with market volatility. If you need help building an investment plan, sign up in the form below to be contacted by a seasoned member of the investment team at Richard C. Young & Co., Ltd. They will discuss your financial goals and provide feedback under no obligation.

Act—don't react.

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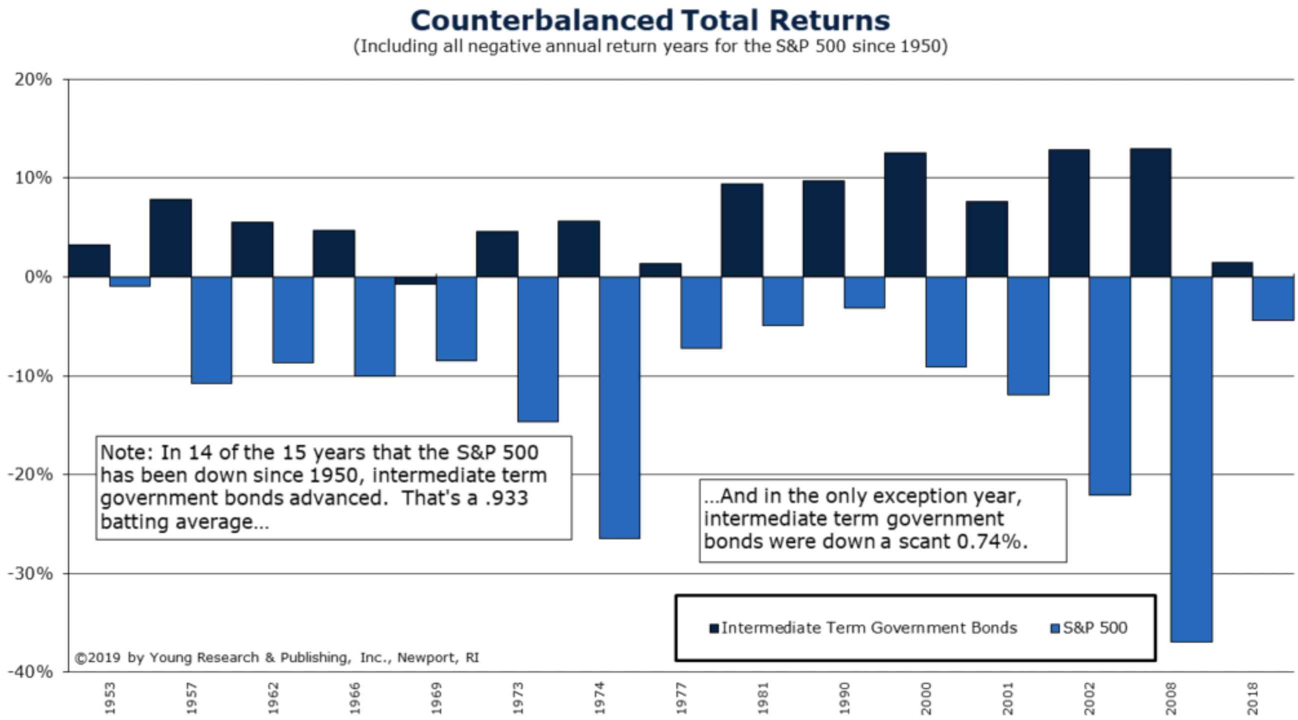
# Here's How to Build Yourself a Barricade Against Volatility

Back in October of 2006, as the crest of the Housing Bubble was forming, I remained doggedly attached to my principled investment strategy of diversification and compound interest. That month I encouraged readers to build a "volatility barricade." Here's what I wrote (with updated numbers to reflect the intervening years):

> ***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 had built yourself a volatility barricade in 2006, it is likely you managed the bursting of the housing bubble with fewer gut-wrenching swings in your portfolio's value. I encourage every reader to incorporate fixed income into his portfolio, today.