High Barriers to Entry Make for Safer Investments

I have written many times through the years about the benefits of businesses with high barriers to entry. Those barriers often include protection by government regulations, including rights of way, monopoly power, and intellectual property. In November of 1996 I explained the value of intellectual property and how difficult it is to generate. I wrote:

> *Have Mercy!…*
>
> *Back in the spring of 1964, XERF was the most powerful commercial radio station on earth. With a thunderous quarter-million watts of energy pumping from its massive transistor deep in the Mexican Coahuila Desert south of the Texas border of Del Rio, the XERF signal could bounce off the ionosphere on a clear cold night all the way from the Rio Grande to Cleveland, Ohio.*
>
> *A nighttime spin on an AM radio dial to XERF 1570 brought in the tortured wail of Wolfman Jack. With his patented intro of "Aaaoooooooo…all right, baby, have mercy," the Wolfman influenced thousands of rhythm-and-blues fans of the sixties, including the creator of Star Wars and American Graffiti—George Lucas.*
>
> ***George Lucas Preceded Star Wars Fame With American Graffiti***
>
> *Needing a link between the teenagers and music for his groundbreaking movie, American Graffiti, Lucas cast the Wolfman playing himself as that central link. Lucas' genius of tying together great rock 'n' roll music from the fifties and sixties with then-unknown actors (Richard Dreyfuss, Ron Howard, Cindy Williams, Harrison Ford) and their trusted nighttime ally, disc jockey Wolfman Jack, made American*

> *Graffiti one of the biggest selling pictures of all time. It stands today as a true American icon.*
>
> *Intellectual property, like that created by George Lucas and certainly Bob Smith for his long-running “Wolfman Jack” syndicated radio shows, is the stuff that can make for great investing. Intellectual property is not created on an assembly line. Rather, it is crafted one story or image at a time by unique individuals. A company that epitomizes America’s ability to create intellectual property in a seemingly never-ending flow is Disney (NYSE: DIS).*

Working in an industry with high barriers to entry allows companies to limit gains of competitors attempting to take market share with identical or only slightly improved products. Many of investors’ favorite companies today are working in industries with very low barriers to entry. If you are investing in companies operating in low-barrier-to-entry industries be sure to account for the additional risk.

How to Avoid Wall Street’s Unshakable Attachment to Earnings

Back in December of 1997, I explained Wall Street analysts’ fixation with earnings, and more specifically, earnings guidance. I wrote:

Forget Wall Street’s Myopic Attachment to Quarterly Earnings

> *It’s important for you to grasp the primary control force of short-term market action. The control force is quarterly earnings reports versus Wall Street projections. Companies that fail to meet Street projections face utter carnage. However absurd this senseless, myopic concentration on quarterly earnings may be, it is reality. The gyrations brought on by earnings’ hits and misses confuse and worry individual investors. Forget these reports, and forget the gyrations as well. I beg you, with every market gyration, do not watch the bulging-eyed TV commentators who look like they’re hooked on heroin.*
>
> *Instead, adopt a compound interest-based, long-term game plan that features prudent diversification, common sense, patience and rigorous adherence to rock-solid, time-tested principles. You will accumulate wealth at a rate beyond what you might never have considered possible.*

It’s over twenty years later, and Wall Street hasn’t changed a bit. Despite having been walloped hard—***twice***—by mega stock market crashes, analysts are still focused on the ups and downs of quarterly earnings and guidance. Such a short-term view can wreak havoc on investors’ portfolios when market volatility appears.

If you want to sleep well at night, adopt the compound-interest based, prudent, diversified, common sense, patient and rigorous methods I described in 1997. For help with that approach, sign up in the form below to be contacted by a seasoned member of the investment staff at my family run investment counsel, Richard C. Young & Co., Ltd. We can help you build a balanced portfolio.

What Are You Getting Paid?

It’s a seemingly simple question, what are you getting paid? Most people can recall their weekly or monthly employment income without hesitation, but do you know what your portfolio is paying you quarterly? If you aren’t focused on generating income from your investment portfolio, you may want to adjust your strategy. In April 2006 I discussed the importance of getting paid, now. I wrote:

> ***Pay Me Now***
>
> *When you invest in portfolio securities, your first question should be, what am I getting paid? I do not want you investing your serious money in securities that pay you neither interest nor dividends. Do not put your hard-earned capital at risk with the view of buying a portfolio security today and selling it to someone else tomorrow at a higher price. To me, this is speculation, not investing. Go with what you know by not only demanding to be paid, but by also holding your taxes and transaction costs to a minimum, as I do. Trust me, over time, the penalty of taxes and transaction costs is a brutal killer for most investors. Think reverse compounding here.*
>
> *OK, so compound interest and dividends must underpin your investment thinking. Albert Einstein described compound interest as “the greatest mathematical discovery of all time.” Ben Franklin wrote on compound interest, “’Tis the stone that will turn all your lead into gold.” Charlie Munger, longtime partner to Warren Buffett, wrote, “Understanding the power of compound return and the difficulty getting it is the heart and soul of understanding a lot of things.”*
>
> ***Ben Graham Speaks***

> *In almost each of my strategy reports over the decades, I've written about the power of dividends. Mr. Value Investing, Ben Graham, devoted a ton of ink to the subject. In fact, B.G. wrote, "One of the most persuasive tests of high quality is an uninterrupted record of dividend payments going back over many years." Graham believed that "the defensive investor might be justified in limiting his purchases to those meeting this test."*

When You Get OLD, Things Have to Be RIGHT

It all started for Chuck Berry on 21 May 1955 with Chuck's simple three-chord—Bb, Eb7, F7 (played in A by many guitarists for ease)—recording of Maybellene, an adaption of "Ida Red," with Jerome Green on maracas, Johnnie Johnson on piano, Jasper Thomas on drums, and the legendary Willie Dixon on bass. By the end of June 1956, "Roll Over Beethoven" ran to #29 on the Billboard charts. Berry would go on to produce hit after hit, including "School Days," "Rock and Roll Music," "Sweet Little Sixteen," and "Johnny B. Goode."

Berry, the Real King of Rock & Roll, died in March of 2017, leaving a musical legacy that will be hard for anyone to rival. Back in October of 1985, I wrote about one opportunity I had to enjoy Berry in concert. While waiting for the show, Berry treated the audience to some valuable advice. I wrote then:

> *Recently, I took my teenaged children to the Warwick (RI) musical theater to see a concert given by rock and roll legend, Chuck Berry.*

Prior to the start of the concert Berry made some last minute changes with his amplifier and speaker alignment. After making the desired changes, Berry opened his show by telling his audience with a grin "When you get OLD, things have to be RIGHT."

His opening line brought down the house! The next day I couldn't help but remember Berry's one liner and think that his statement applied directly to investments as well as music.

I have just finished reading a Sports Illustrated account by Douglas S. Looney headed "Thrown for Some Big Losses." Looney outlined the financial plight of Dallas Cowboy great, Tony Dorsett.

Questionable business deals and investments have brought Dorsett to the edge of bankruptcy. The IRS has garnished his Cowboy paycheck and placed liens on two Dallas area houses to satisfy $414,247.91 owed in back taxes. $520,000 had been blown in a "speculative oil and gas deal that went pffft." And the list went on and on. Here was a man with a supposed $1,127,000 contract in 1977 and a new $2,725,000 contract cash poor!

SI writer, Looney, printed Dorsett's old Pitt coach's Johnny Majors, view on the debacle. Majors said, "The shame of all this is that Tony could have put all his money in 9% savings and never had to work another day in his life. I'm just guessing he got the wrong advice.

Tony Dorsett's problems are all too common. Too many investors simply fail to use good common sense. When dealing with your financial future (whether young or old), things as Chuck Berry said, have to be RIGHT.

If your retirement isn't on solid ground, you should seek assistance in managing your portfolio. Signing up for the monthly client letter alert (free even for non-clients) from Richard C. Young & Co., Ltd. will show you how one of *Barron's Top 100* investment advisors (2012-2019) Disclosure manages money for retired and soon to be retired clients. You should demand the same level of service for your own investments.

Build Your Investment Strategy for the Field of Play

Are you a trader or speculator? Or are you long term investor saving for a comfortable retirement? What's your field of play?

In December of 2011 I wrote to readers explaining that each sport is dependent on the field of play. Coaches and players enter the game with a clear understanding of what they are trying to achieve, and the area within which they are trying to achieve it. Does that describe your current investment planning picture? If not, your first step is understanding your field of play. I wrote:

> *Football, baseball, soccer, hockey—each has something in common that can be translated into the investment world: Management knows in advance that 100% of the action will take place in a designated space, whether arena or field. As such, the focus is on a significant known. While it is true, certainly in baseball fields, that performance venues are different, the differences are known well in advance and are likely to remain static for a long time. Let's take the Boston Red Sox. Whom, by the way, should we blame for this year's disaster? Was it not convenient of Theo to leave bodies (see Crawford's outrageous contract) strewn all over Fenway Park*

and then simply quit, walk away from the carnage, and jump to the Cubs?

Here’s the play. The Sox develop a team that is theoretically built to take advantage of the oddities of Fenway Park. The Yankees do the same tailored to a completely different mix of ballpark physical oddities. Many decades ago, I decided that field of-play thinking was necessary, at least for me, in order to allow disciplined thought and strategic planning on the investment front. Most investors, professional or amateur (I am never sure where the line is drawn), form decisions based upon news of the day, emotion, and the views of others. This crowd is action-oriented, wrongly believing that the more action in a given portfolio, the better odds for satisfactory performance. In fact, it’s exactly the opposite. I decided to take the news of the day off the table, to pay no attention to day-to-day market action, and to not seek out the opinion of others, but rather rely on my own thought process. This approach, of course, mandates extensive reading on a broad array of subjects. Enter inference reading as the heart of my decision-making process. The final leg involved putting all the information gathered from my reading and study into a workable format, or playing field.

The Surest Way to Win in Equities

When it comes to your investments, you must develop a plan that is more than just reliance on rising stock prices. Share prices can remain depressed for agonizingly long periods of time. A decade or more of no return with a regular retirement draw, can quickly decimate a life-time worth of savings. Regular dividend payments offer a refreshing stream of income to help you navigate long dry spells in the stock market. If you haven't yet been convinced of the power of dividends, read what I wrote back in April of 1992 below:

Dividends Are Key to Your Stock Investing Success

Now what about individual stocks? Here, again, what you don't do can be the key to your success. Don't succumb to sales pressure. Don't buy new issues (IPOs). Don't buy secondaries. Don't buy junk. When you are pressured to speculate and trade, resist.

Remember what I've so often told you—that the surest way to win in equities over time is by concentrating on dividends. Over many cycles, the Dow has provided a 9% total return (no commissions or taxes here) including capital appreciation and dividend yield. Dividend yield has accounted for a full 50% of total return. If you can choose between a stock with a 5% yield and one with a 0% yield, it's clear that one of these selections gets you out of the starting blocks with a decided advantage.

The Dow Fell for 16 Years

If you still are not convinced of the value of my dividend approach, take careful note of the following: In 1965 the Dow closed the year at 969.26. In 1981, 16 years later, the Dow closed at 875.00. The Dow lost 10% over a period that for most Americans equates to half a working lifetime or all of a retirement. Without dividends, the game was over.

Invest based on what you do know rather than on what you are guessing about the future. None of us knows what the future holds. I can give you guidelines, and I can help you construct a portfolio that will absolutely make you a winner regardless

> *of what happens, but I cannot tell you what the headlines will be in tomorrow's newspaper. Bet on the cards you hold, not on drawing to an inside straight.*

Like a Loaded Shotgun, Capital Protection is Your Best Defense

The adage "defense wins championships," is perhaps as true in investing and personal security as it is in football. In April of 2012 I explained to readers that investors who understand two critical points about their investment strategy will be better prepared to defend their capital. I wrote:

> *What's your competitive advantage? It does not matter what your endeavor, if you do not have a competitive advantage, you must expect, at best, a mediocre outcome. A surgeon who performs a given operation many times a week will always enjoy a competitive advantage over a surgeon who performs that same procedure once per year. A patient who thoroughly understands the concept of "number needed to treat" (NNT) is dramatically more informed than the patient who does not. A homeowner greeting a home invader with a 12-gauge semi-automatic shotgun loaded with low recoil 00 buck has a huge leg up on the homeowner nervously fingering a handgun, regardless of the caliber. A good survival rule of thumb is that the only reason for a handgun is to fight your way back to your shotgun. An investor able to defeat inertia, while at the same time able to be a master of patience and the profound power of compound interest, will always end the day in the investors hall of*

> *fame. This investor understands that (1) inactivity is most often his best friend, and (2) not losing money is vastly more important than how much one makes.*

Risk Analysis for Consistent, Positive, Prudent Returns

Through the years, I have been relentless in my efforts to alert investors of the dangers of taking on too much risk. It may seem redundant, but investor minds have been proven to be easily distracted, especially when it comes to matters of prudence. In August 2014 I explained my policy of risk avoidance, writing:

> *One of the most important investment steps you can take is to look at the big picture—that is, get high above street level so you can actually see the parade. Big risks are always big ideas, loaded with complexity and controversy. In most cases, the media is geared to work against you, and it's difficult to break through and get at the truth. To frame risk parameters, I use inference reading—what I call outcome analysis—and on-the-ground anecdotal evidence. Whether you are currently in retirement or saving for a secure retirement within the next decade or so, retirement investing leads directly to risk analysis. I exert minimal effort worrying about what I am going to make on my investments. I concentrate on interest, dividends, portfolio balance, diversification, and compound interest. I know what I am being paid up front. And I know that a well-diversified portfolio of equities, fixed income, precious metals, and foreign currencies has historically provided consistent, positive, prudent returns.*

Nine Ways to Powerfully Boost Your Investment Performance

Even after the recent correction there are a lot of overpriced, overhyped stocks in the market, but you can still chart your way to success. Here are nine rules you can use to guide your way. I first listed these back in August of 1996, but they work just as well today as they did then.

> *Investment success hinges on a handful of time-tested principles:*
>
> 1. *As Albert Einstein pointed out, compound interest is the greatest mathematical discovery of all time. I write every issue with a compound interest table at hand.*
> 2. *Investment results are inversely proportional over time to trading activity.*
> 3. *Market timing is a bankrupt strategy whose time has never come.*
> 4. *Sales charges and high expenses are the toxic waste of the mutual fund industry and will kill long-term performance if not shunned.*
> 5. *Dividends and dividend growth are the dominant considerations for long-term conservative investors.*
> 6. *Past performance in the mutual fund industry has virtually no correlation to future results and often is a devastatingly contrary indicator.*
> 7. *Stocks will outperform bonds and cash long term and belong as a cornerstone in every investor's portfolio.*
> 8. *Since the mid-1920s, the long-term total return on*

stocks has been about 10% (dividends and cap appreciation). Plot to target a potential 10% consistent long-term total return with as little risk as possible.

9. *Diversify, diversify, diversify. None of us has tomorrow's newspaper. Set yourself up to win in any investment environment.*

Be the Master Chef of Your Own Unique Investment Recipe

Back in June of 1992 and today, I stress to my readers the importance of balance and diversity in their portfolios. Back then I wrote:

> *Fine Balance From a Master Chef*
>
> *Did you happen to see the McIlhenny & Co. recent advertisement for the company's Tabasco brand pepper sauce? The ad caught my eye because it ran a photo and culinary commentary from Susan Spicer, chef/owner of Bayona, a New Orleans restaurant most deserving of the recognition it is receiving. In the ad, Susan tells readers, "In my approach to creating dishes, balance is a primary concern. I love playing with the palette of sweet, sour, salty, hot and bitter flavors, so it's exciting to find one product that incorporates several of these properties."*
>
> *Balance—from Chef/Owner Susan Spicer to Your Portfolio*
>
> *Well, if you have sampled Susan Spicer's culinary genius, you know firsthand that she is a true master of balance. It was*

> *fun for me to see her picture in Food & Wine, and as I read her words on balancing flavors and incorporating exciting properties, I thought about how Susan's approach to pleasing the palette is much the same as the investment approach I use for you here. The sweet, sour, salty, hot and bitter flavors that combine to highlight Bayona's wonderful culinary fare are similar to the mix needed to produce a dynamic investment portfolio. The concept is the same in both instances. Successful balancing of a fine meal crafted by Ms. Spicer is not dissimilar to the success you can achieve by blending just the right mix of financial assets to form a personalized investment portfolio.*

Anyone can understand how a balance of flavors can make food taste better, but it's not so easy to understand the benefits of diversification in your portfolio.

But take a look at the chart below. The line on the chart is called an "efficient frontier," and it displays the risk and returns on a portfolio of stocks and bonds ranging from 100% bonds to 100% stocks. These are real returns, and the chart makes clear that moving from an undiversified portfolio of 100% bonds to a diversified portfolio of 80% bonds and 20% stocks can both increase return and lower risk.

If you would like to experience the culinary mastery of Susan Spicer, you're in luck. Spicer is still running Bayona in New Orleans, serving entrees like fennel pepper-crusted lamb loin and sautéed pompano. Spicer has also written a book, *Crescent City Cooking: Unforgettable Recipes from Susan Spicer's New Orleans*, detailing her signature dishes for adventurous home chefs.

If you need help mastering balance in your investment portfolio, click here to signup to receive a call from one of the seasoned professionals at my family run investment counsel firm, Richard

C. Young & Co., Ltd. You will receive a free portfolio review with absolutely no obligation.