Remember This to Survive 2019 Market Turmoil

The new year is here, and America's stock markets are weathering some turmoil after ending 2018 mired in volatility. There are some concerns about the future earnings potential of companies currently making up big parts of the major stock indexes. Apple's current trouble is just the most recent example.

Back in September of 2012, I reminded readers of one simple fact that can help them through hard times in the markets. I wrote "In the majority of cases, the price of common stocks has been influenced more markedly by the dividend rate than by the reported earnings." I continued:

> ### *Dividends Then and Now Are the Answer*
>
> *While at Babson College, I studied Ben Graham's Security Analysis. I still return to it regularly. In Chapter 35, Ben Graham writes, "For the vast majority of common stocks, the dividend record and prospects have always been the most important factor controlling investment quality and value…. In the majority of cases, the price of common stocks has been influenced more markedly by the dividend rate than by the reported earnings. In other words, distributed earnings have had a greater weight in determining market prices than have retained and reinvested earnings." Graham concludes with, "Since the market value in most cases has depended primarily upon the dividend rate, the latter could be held responsible for nearly all the gains ultimately realized by investors."*
>
> *Always Keep It Simple Made sense to me in the sixties and continues to make sense to me today. In fact, I attribute most of the success I have had in the investment industry to what I learned from Ben Graham nearly five decades ago. To keep track*

of dividends today, I rely on the same S&P Stock Guide [Ed. note: the S&P Stock Guide is no longer published.] that I relied upon when I began in business. Keep it simple and good things happen every time.

In 2019, Keep it Simple, and remain focused on your dividends.

In 2019, Give Me Cash

That's my investment creed. I don't mind when markets are down as long as I'm still getting paid. Regular dividends and interest are succor to any investor when capital appreciation is wiped out at the whim of the markets.

In January of 2012, I explained my investment creed, writing:

> *So the investment environment today is cloudy and laced with sinkholes and other entrapments. Your mandate is armadillo-like self-protection both on the portfolio front and the personal security front. I invest a substantial portion of my personal wealth in liquid portfolio assets I can jockey around at a moment's notice. I have, what are for me, huge positions in blue-chip stocks, fixed income, gold, and foreign currencies. I will continue to add to these positions. I care about asset protection and purchasing power protection—period. If some pleasing capital appreciation comes my way, great, but I do not invest with price appreciation as anything but an afterthought. Give me my interest and dividends and protect my capital and leave me alone. That's my investment creed.*

Make "Give Me Cash" your New Year's resolution. Set your portfolio on course for dividends and interest payments you can use to fund your retirement, or to unlock the power of compounding through reinvestment.

Happy New Year!

The Winning Investment Technique Used by Queen Elizabeth I

Two years ago I told readers the story of John Maynard Keynes' lectures on compound interest in the late 20s. Keynes told the story then of Queen Elizabeth I and her impetuous and insightful use of compounding to build the British Empire. I wrote:

> ### *Compound Interest, the Foundation of an Empire*
>
> *In a series of lectures and papers in 1928, John Maynard Keynes traced England's success from the late 16th century, starting with a treasure Francis Drake had stolen from the Spaniards in 1580. Keynes was writing at the height of the British Empire, and he chalked England's success up to compounding. He wrote, "In that year he [Drake] returned to England bringing with him the prodigious spoils of the Golden Hind. Queen Elizabeth was a considerable shareholder in the syndicate which had financed the expedition. Out of her share she paid off the whole of England's foreign debt, balanced her Budget, and found herself with about £40,000 in hand. This she invested in the Levant Company—which prospered. Out of the profits of the Levant Company, the East India Company was*

founded; and the profits of this great enterprise were the foundation of England’s subsequent foreign investment. Now it happens that £40,000 accumulating at 3.25 per cent compound interest approximately corresponds to the actual volume of England’s foreign investments at various dates, and would actually amount today to the total of £4,000,000,000 which I have already quoted as being what our foreign investments now are. Thus, every £1 which Drake brought home in 1580 has now become £100,000. Such is the power of compound interest!”

Keynes opined “the power of compound interest over two hundred years is such as to stagger the imagination.” You, like me, may not be a fan of the great body of Keynes’ work, but on compound interest, there is no doubt he was correct.

Can You Afford a 50% Loss?

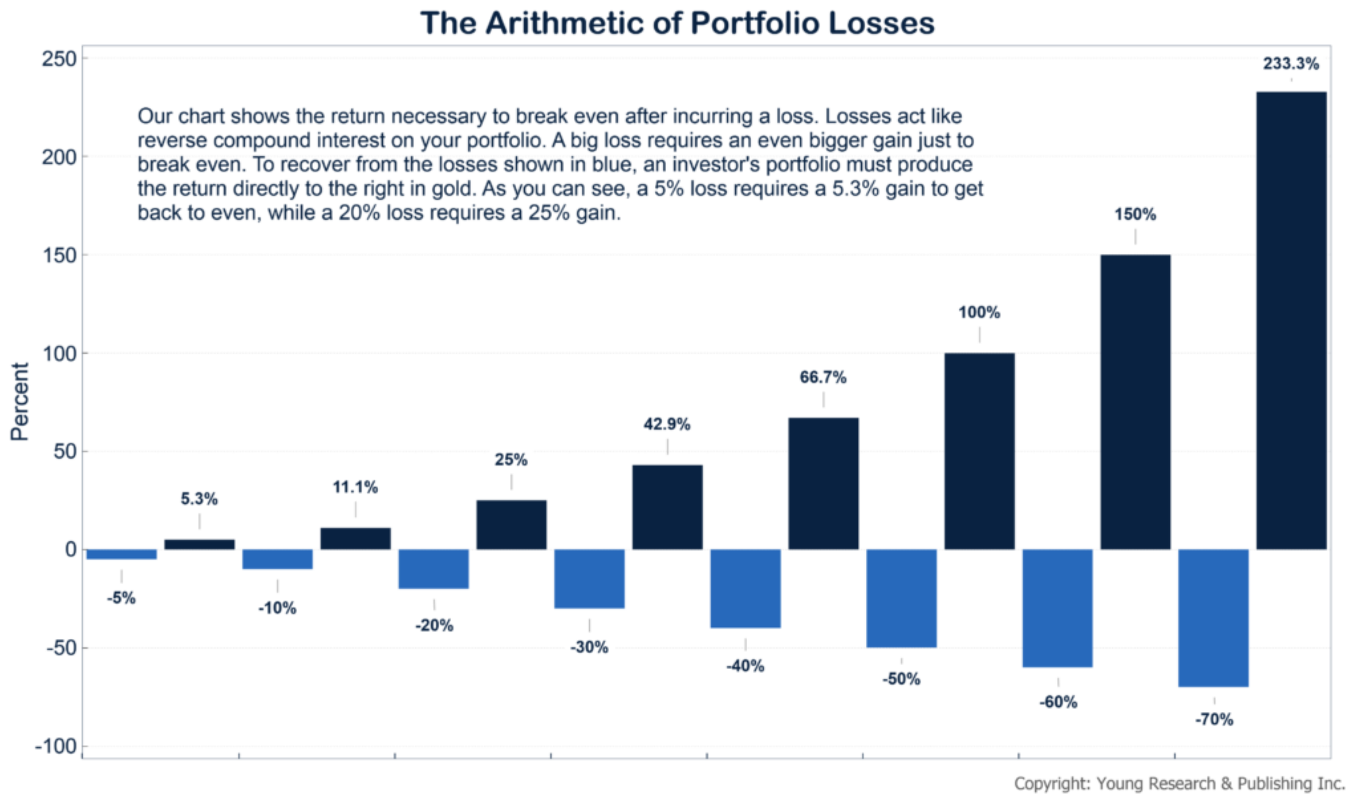
Can You Afford a 50% Loss? That’s the question I asked readers in March 2014. I wrote:

Can You Afford a 50% Loss?

It’s impossible to have it all ways. In order to craft an investment portfolio that can act as an all-weather armadillo, you must be willing to forgo potentially substantial upside rewards to balance against the horror of a downside wipeout. If you are retired or saving for retirement in the not-too-distant future, you can easily get a knot in your stomach when you look at the basic math of downside portfolio protection.

> *By example, when you lose 50% on an investment, you must make 100% the next trip to the plate just to get back even. And that’s without considering the negative drag of expenses and taxes on your gain, as well as the fact that you have not earned enough net-net to make my mandated 1% quarterly draw. I cannot impress upon you enough how ugly things can get—and fast. For a big percentage of investors, the mindset to take a deliberate and laser-focused armadillo-like approach is never achieved. For this unfortunate crowd, the ticking time bomb has already been set. What awaits is the explosion and ensuing financial carnage for the sad family.*

The tragedy of big losses in an investment portfolio is felt most by those with the least time to recover. That includes retirees and those about to retire. You don’t have the luxury of a steady paycheck to rebuild savings, or the time to wait for markets to recover. Your livelihood in retirement is your portfolio. You can see the pickle investment losers find themselves in on my chart of the arithmetic of portfolio losses below. Each light blue loss has a corresponding dark blue gain that must be generated in order to simply get a portfolio back to even. If you’re entering retirement soon, or you’re already enjoying life after work, it’s no longer the time to take chances. Invest with prudence.



Here's the *Minimum* You Should Invest in Fixed-Income

Back in May of 2002 I warned readers of the dangers of market timing, and of investing too much of their portfolio in equities. I wrote:

> ***Your Focus: Dividends & Interest***
>
> *In this issue, I re-emphasize why I think conservative investors must focus laser-like on fixed-income interest and dividends from common stocks. No matter what hype you read in the media or hear from brokers, stocks in general are not cheap—far from it. When all you get from the average big company stock is a 1.5% yield and you pay nearly 30 times*

earnings in the process, you are not looking at bargains. As you know, I do not invest for my own account on where I think the market is going, nor do I advise market prognostication for you. If Warren Buffett or Charlie Munger or Martin Whitman or Mike Holland or Jack Bogle don't do it, and Ben Graham never did it, I sure as heck am not advising market timing for you.

Counterbalancing Is King

Instead, I invest a minimum 30% in fixed-income securities and the balance (70%) primarily in value-oriented equity securities. And I emphasize dividends. That is the exact strategy I insist you adopt if you want to retire in comfort. If, instead, you and your spouse are comfortable with gut-wrenching volatility, sweat-soaked sheets, and the raw nerves and foul disposition that come with sleep deprivation, just take a pass on my value-based diversification strategy.

A substantial counterbalancing fixed income position is still right for investors today. Diversification among asset classes is one of the most consistently effective ways to minimize losses in a market downturn. If you are unsure about the diversification in your portfolio, evaluate your holdings today and make the necessary adjustments.

How Can You Spot a Loser in Investing?

Back in July 1994, I wrote:

You Has It or You Don't.

Dressed in snakeskin, feathers, grease paint and radiant colors, New Orleans gris-gris musician, Dr. John, delivers his musical message. Funky, gumbo-tinged rhythms spiced with a Bayou flavor makes for a perennial Mardi Gras atmosphere when delivered by Crescent City favorites like Jessie Hill, Cyril Neville, Chuck Carbo, Allen Toussaint, and the eclectic Night Tripper, Dr. John.

When asked what makes the whole musical gumbo of New Orleans come together, Dr. John explains that it's the groove of the thing, a pulse, an inner self sort of thing. Notes the Doctor, "You either has it or you don't."

The Rhythm of Investing

Why is it that some investors you know seem to get it right most of the time, while many more do not? No rhythm, that's why. It's not hard to spot a loser in the financial markets. A loser has no plan, little perspective and less understanding of the risk/reward trade-off. There's no beat.

A winner in the financial markets, by contrast, always has a plan, has great perspective and is a keen student of the risk/reward ratio. It's the backbeat that lays down the rhythm for the foundation of New Orleans R&B as well as for successful investing. You need the foundation.

So, to spot an investing loser, look for someone with "no plan, little perspective and less understanding of the risk/reward trade-off." If you haven't developed these three critical elements of a winning investment strategy, get started today. Here are three small steps you can take today towards investment success.

1. Get a plan. If that means hiring an advisor, do so.
2. Get some perspective. A good start can be made by signing up for the Richard C. Young & Co., Ltd. monthly client

letter (free even for non-clients) at younginvestments.com.
3. Get a better understanding of the risk/reward tradeoff by picking up a copy of *The Intelligent Investor* by Benjamin Graham. And if you have managed to spot an investing loser among your friends or family, the book makes a great stocking stuffer too.

Dr. John – Full Concert – 08/13/06 – Newport Jazz Festival (OFFICIAL)

Can Politics Predict the Markets in 2019?

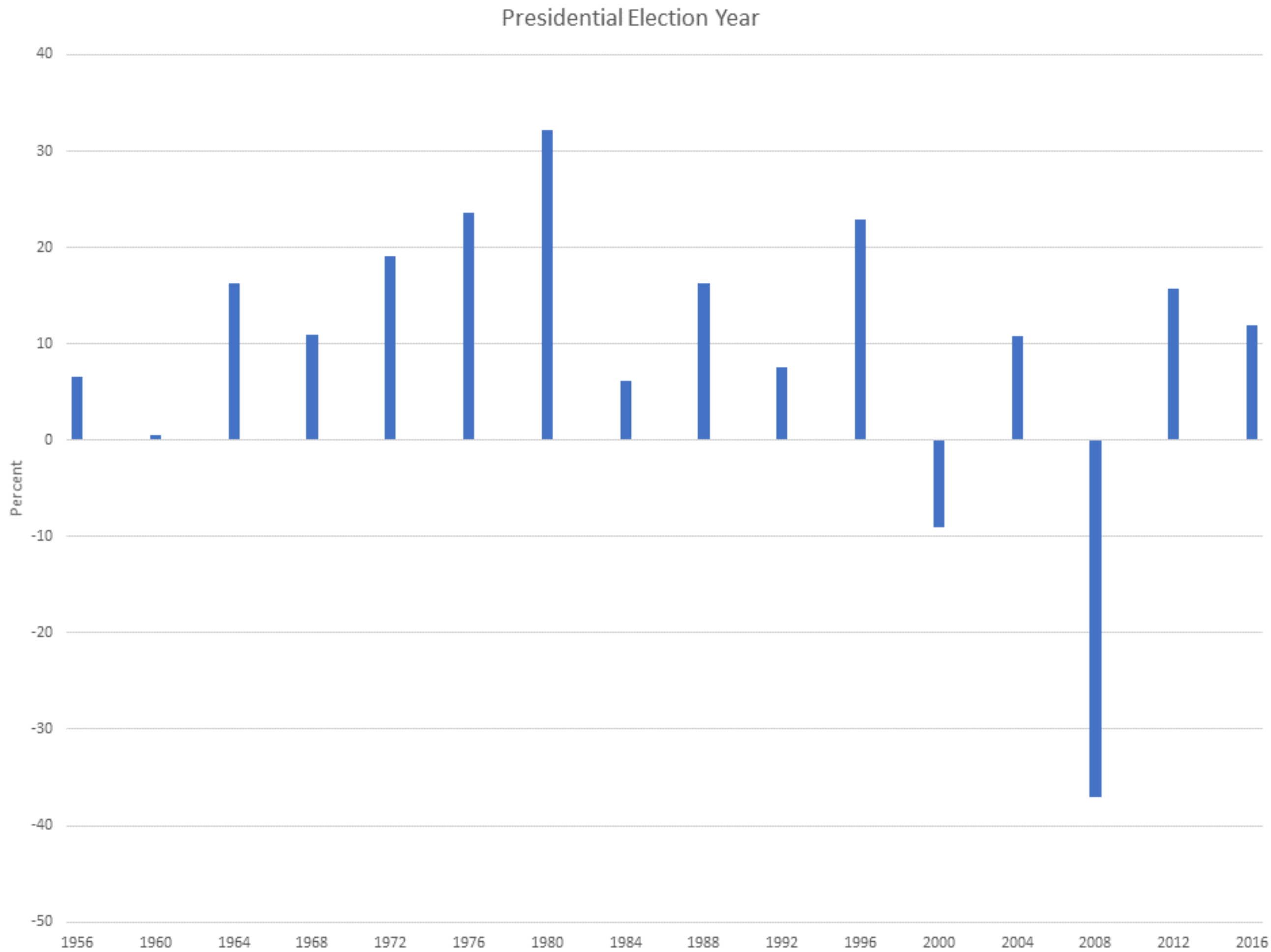
I have written in the past that politics can have a great effect on market performance. Today America is enduring one of the most contentious political climates in memory, and at the same time the stock market has become volatile.

The best year in the four-year presidential election cycle is the year before the election. In this cycle that's 2019. Since 1875, the average performance of the S&P 500 in the calendar year before a presidential election has been 14.3%. The presidential election year itself comes in next with an average of 10.9%, and midterm election years and the year after the presidential election produced averages of 9% and 8.9% respectively.

So does that mean a roaring bull market is guaranteed in 2019? Of course not, there are no promises, no tricks, and no shortcuts in investing.

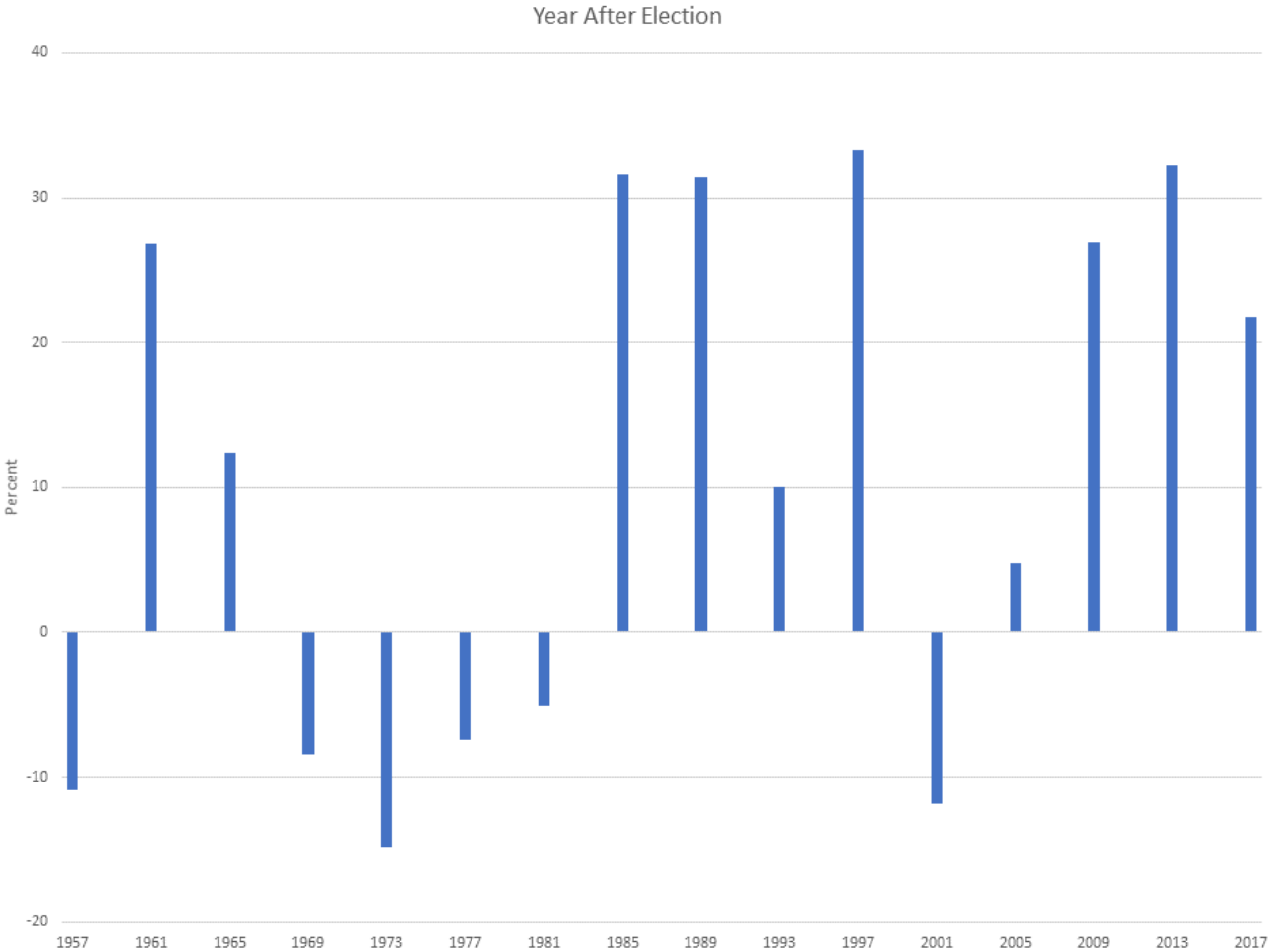
I wrote this back in 2006 (charts have been updated to reflect the subsequent years):

> *Politics & Stock Prices from 1959 On*
>
> *The stock market likes good times. Until just recently in 2005, most investors (not you, I trust) have not had much about which to cheer. Much of the trauma this year has related to the foul media coverage President Bush has received regarding Hurricane Katrina and the Iraq war. Just how much does the political landscape affect stock prices? A whole lot. In fact, few variables rate higher on my list of stock market influences. To make my point, I have put together four historical displays starting with the year I got started with the stock market—1959. The displays depict stock market gains and losses in each of the four years of the presidential cycle.*
>
> *Display #1—Election-Year Power*
>
> *Anyone who tells you to pay no attention to politics as it relates to the stock market is smoking something funny. Politicians of all stripes will say just about anything to get elected, and the vote-getting bribery of politics provides a good-time feeling in almost every election year. Since 1959, a presidential election year has brought with it higher stock prices in 10 of 12 years.*



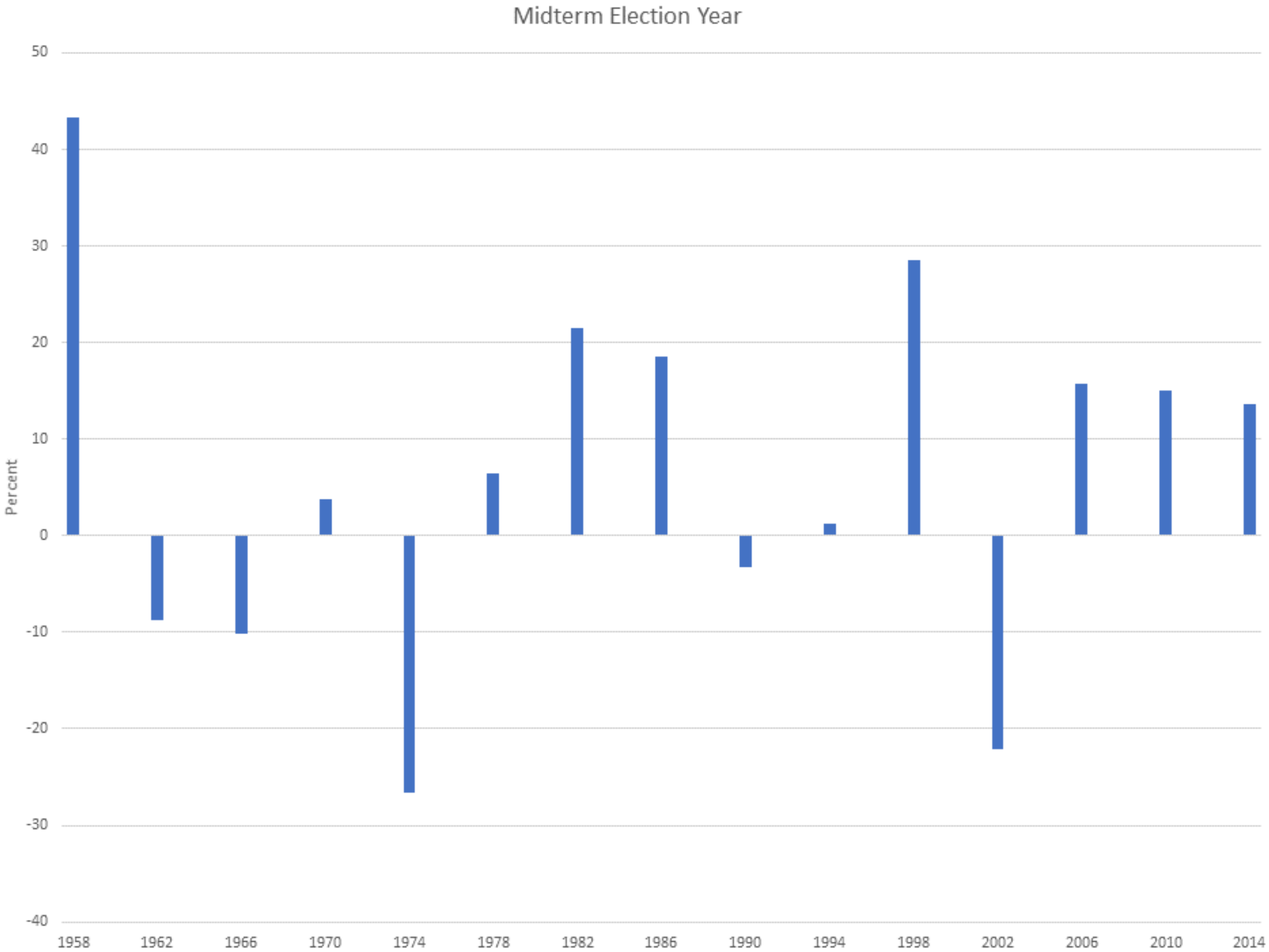
Display #2—The Year After a Presidential Election

The rubber hits the road as the incoming president attempts to back up all those over-the-top campaign promises. The results are often short of the mark, and the stock market has an in-and-out time of it. The stock market results in 2005—an after-election year—have been pretty predictable.



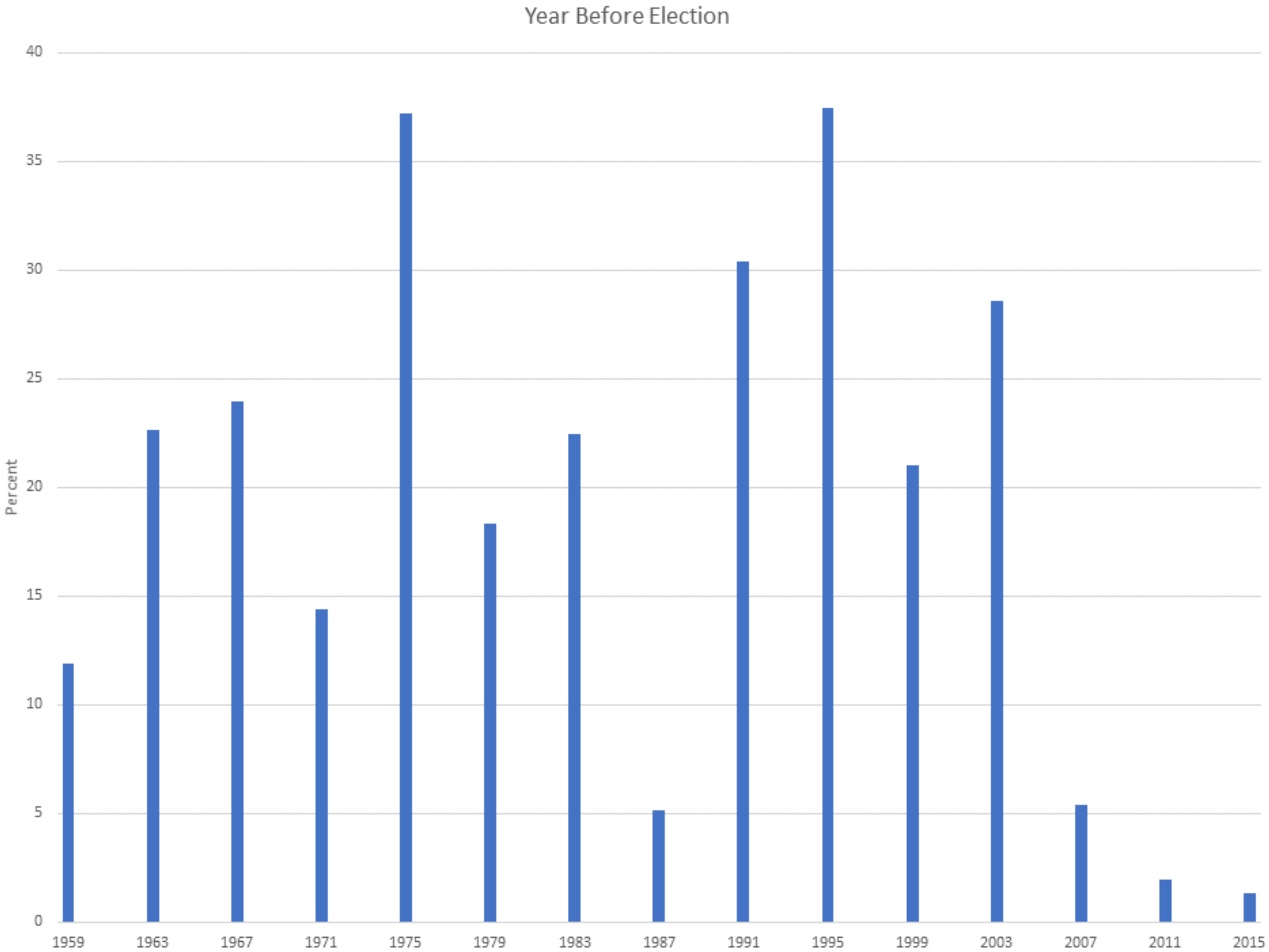
Display #3—Two Years After a Presidential Election

This is also an in-and-out year, as electioneering is not front and center. Furthermore, tough and often unwelcome presidential decisions must be made.



Display #4—The Year Before a Presidential Election

Since the banner year of 1959, there has not been a single stock market downer in the year leading up to a presidential election. Furthermore, stocks make big gains more so than in any other year in the presidential election cycle. Since 1959, you get a 22-and-2 record of ups and downs when you pair the year before a presidential election with the election year. By contrast, pairing the two years following a presidential election gives you a not-so-hot 11-and-11 record.



Looking Ahead and Cringing

In terms of the presidential election cycle, next year has the lowest odds of success of any of the four years in the cycle. Worse yet, the year coming up, 2006 (two years following the presidential election), has the fewest number of big years.

Are You Investing in the

Armored Truck of Financial Markets?

Are your investments characterized by the flash and speed of a supercar, or the reliability and protection of a Brinks truck?

There's nothing wrong with a super powered automobile made to take on curves at maximum speed, but the power that makes those machines exciting, is also what breaks their parts. All that torque can be hard on an automobile.

Meanwhile, the massive diesel engines and reinforced steel protective bodies of armored trucks make sure its cargo reaches the destination.

Back in 1990 I called Treasuries "the armored Brinks truck of financial markets." I was responding to a subscriber's comment, here:

> *Subscriber Joan Howell recently contributed a nifty note on the wisdom of Treasuries. Joan writes, "I began to see a similarity in the selling of mutual funds, stocks and automobiles—a constant turnover of whatever is the fanciest, flashiest, or sexiest mode. Not that the ones at the top of the list are that bad, they just never stay permanently at number one. Then I thought of Treasuries as an armored Brinks truck: gray, square, solid, authoritative, weighing tons; no need to be 'in fashion' but always there, reliable, very profitable."*
>
> *Joan's illustration is a beauty and adroitly defines the comfort level that Treasuries provide.*

My family owned advisory firm, purchases treasuries for clients as a component of a balanced portfolio. If you are a retired or soon to be retired investor with $500,000 or more to invest looking to ease the burden of portfolio management to spend more time with your family and would like to discuss our treasury strategy during a free, no-obligation portfolio review with a seasoned member of our investment team, please fill out the form below.

Most People Aren't Measuring Performance Correctly: Here's How

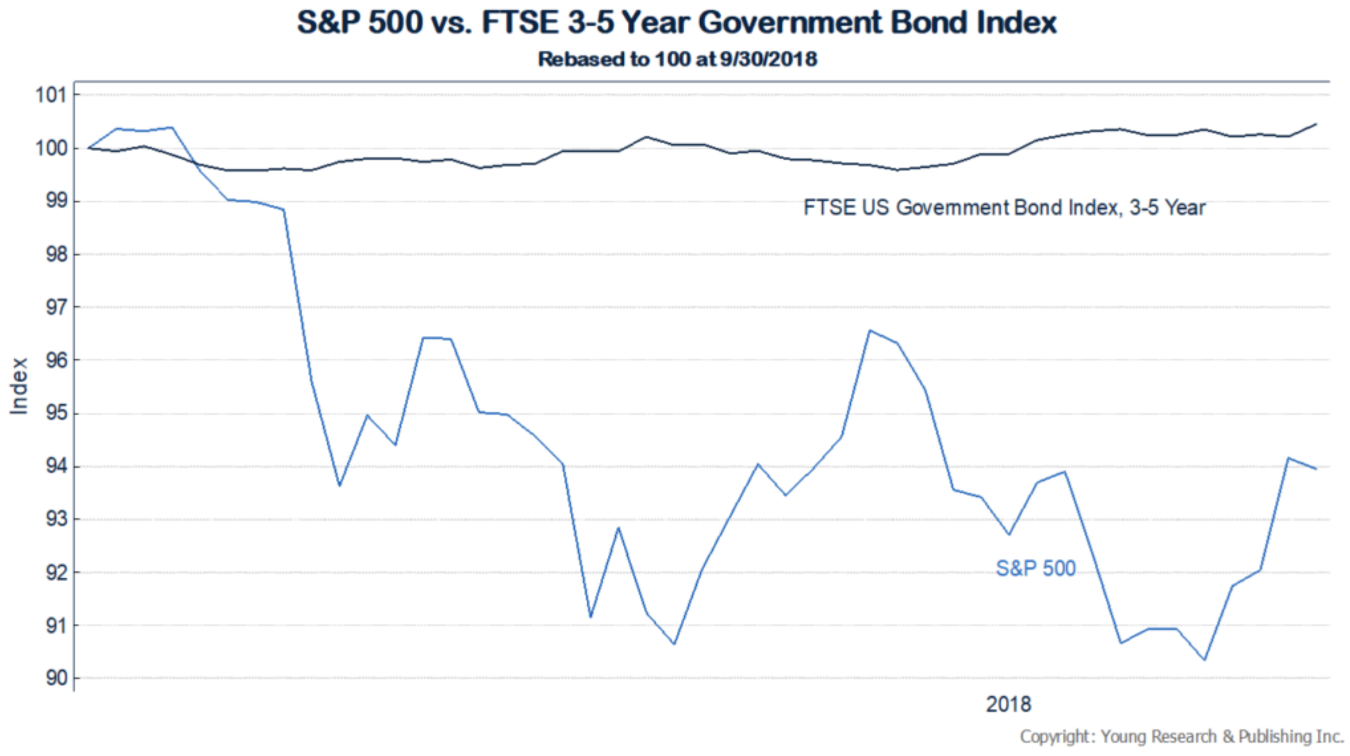
When you measure performance in your portfolio, are you getting the right picture? If you are like most investors, the answer is no. Here is what I wrote in December 2013 about how you should be measuring performance:

> *Cycles and Investment Success*
>
> *Understanding cycles is vital to your long-term investment success. Most folk intuitively understand that the economy and the financial markets go through cycles. The economy expands and then it contracts, the stock market rises and falls, interest rates go up and they go down. Cycles just come with the territory in a free market economy, but when it comes to evaluating investment performance, too many investors behave as if cycles don't exist. The mutual funds and investment managers who have earned the highest returns over a given period of time, whether it is three years or five years, gather the largest share of investors' assets.*

Three or five years may seem as though it is long enough to evaluate investment performance, but it is not. The proper way to evaluate investment performance is to measure over a full market cycle. Why? Because just as the economy and the broader stock market go through cycles, so too do investment strategies. More aggressive investment strategies are likely to outperform in up markets, but they are also likely to trail badly in down markets. The opposite is true of a more defensive strategy.

Commit This to Memory: *Update*

UPDATE: Since I originally posted this on October 11, 2018. Look at my chart to see what has happened since then.



Bond yields are rising, tech stocks look shaky, emerging market currencies are tanking, and in the midst of the longest bull market in history, September property sales in Manhattan are down 39% compared to 2017, with median sales prices falling 9% during that time.

There are some warning signs flashing. What should you be doing now to prepare for a future downturn? In April of 2002 I wrote:

> *Here is a historical goody that will offer you much comfort. In every stock market downturn since 1950, with one mini-exception, intermediate-term U.S. Government bonds have risen. Talk about the power of counterweighting. Talk about an Armadillo-like defense shield.*
>
> *If you want to properly prepare for your retirement and retire in comfort, please commit the preceding to memory. Promise yourself you will keep your fixed-income component up to snuff. And never futz with your mix. Do not be an interest-rate forecaster or a trader. Once you have your mix correctly in place, leave it alone except for occasional tinkering and pruning. You do not want to hack and chop. Portfolio management for long-term conservative investors is about ebb and flow—slow and steady and patient. Remember, successful investing is counterintuitive. For example, most investors equate successful investing with trading activity, when just the reverse is true. At the same time, they look to stock price gains as their equities benchmark. In reality, the place to begin is dividends and dividend growth. Companies that pay a decent dividend and increase the dividend year after year will have share price appreciation. It comes with the turf.*