

Does Your Portfolio Pass My Three Step Test for Balance?

Back in 1993 I explained my three-step test for balancing your investment portfolio between bonds and stocks. At the time I was recommending Treasuries, but you can use this advice no matter what kind of bonds you're buying. Use your age and my three-step test as a starting point for how you plan to allocate your portfolio. I wrote:

I want you to keep your investment portfolio well balanced. But just how much of your portfolio should be invested in equities and how much should be in Treasuries? Here's a basic strategy that is based on your age. The percentage of your portfolio that is in Treasuries should not exceed your age. For example, if you are 60, you will want a maximum 60% Treasuries component. That's your starting point. Now take these tests to see if you need to reduce that percentage. If any of these statements fits you, knock 10 percentage points off your age number. But you will only knock off a maximum of 20 percentage points in total.

Test #1: You do not require current income from your portfolio to live on. If that sounds like you, knock off 10 points. Test #2: You consider yourself to be a sophisticated, patient, seasoned investor. Answer yes to all three descriptions without a wince or snicker, and knock off 10 points from your age percentage number. Test #3: You are financially secure, if not wealthy. If you have what you believe is a solid store of financial wealth, knock off 10 points from your age percentage figure. If you qualify with two or three tests, you can knock off the maximum allowed, 20 percentage points, but no more.

A fixed income component to balance out your equity portfolio is

a vital necessity for any serious investor focused on income generation and capital preservation.

Bull and Bear Portfolio Update: 5.18.18

Model Guidance: Close Your Positions

I want you to close out your longs and shorts in the short-term Bull-Bear Portfolio model. Through last night's close, the model is up 2.80% (total return) compared to a gain of 1.30% for the Dow (assumes \$60K in capital)—a strong return for a portfolio that takes 40% less stock market risk than the Dow as a whole. And a nice boost to a balanced portfolio that may be feeling some temporary drag from rising interest rates.

With a nice profit in the bank, it is time to move on from this round of the short-term bull-bear portfolio and come back when conditions are more favorable.

I will have more on bull-bear investing and many more compelling enhancements to *Young's World Money Forecast* over coming weeks and months.

Symbol	Description	L / S	Initial Investment	Starting Price	Qty L/S	Prior Day Close	Current Price	Current Value	% Chg. Day	% Chg. Inception
AAPL US	Apple Inc	Long	10,000.00	165.70	60.34	187.00	187.00	11,283.49	0.00	12.83
CSCO US	Cisco Systems Inc	Long	10,000.00	44.10	226.81	43.50	43.50	9,857.11	0.00	-1.43
HD US	Home Depot Inc	Long	10,000.00	177.00	56.49	185.30	185.30	10,470.03	0.00	4.70
INTC US	Intel Corp	Long	10,000.00	51.50	194.06	54.80	54.20	10,523.97	-1.06	5.24

Symbol	Description	L / S	Initial Investment	Starting Price	Qty L/S	Prior Day Close	Current Price	Current Value	% Chg. Day	% Chg. Inception
JPM US	Jpmorgan Chase & Co	Long	10,000.00	111.50	89.71	113.00	113.00	10,133.67	0.00	1.34
TRV US	Travelers Cos Inc/The	Long	10,000.00	136.80	73.08	130.70	130.70	9,552.76	0.00	-4.47
UNH US	Unitedhealth Group Inc	Long	10,000.00	235.10	42.54	243.00	243.00	10,336.08	0.00	3.36
UTX US	United Technologies Corp	Long	10,000.00	123.10	81.25	124.60	124.60	10,124.31	0.00	1.24
WMT US	Walmart Inc	Long	10,000.00	87.00	114.97	84.50	84.20	9,683.84	-0.31	-3.16
VZ US	Verizon Communications Inc	Long	10,000.00	47.90	208.77	47.90	47.90	9,989.56	0.00	-0.10
KO US	Coca-Cola Co/The	Short	-8,000.00	43.70	-182.90	42.30	42.30	-7,736.63	0.00	3.40
CVX US	Chevron Corp	Short	-8,000.00	122.30	-65.41	129.50	129.50	-8,467.66	0.00	-5.52
DWDP US	Dowdupont Inc	Short	-8,000.00	66.04	-121.14	68.16	68.16	-8,256.81	0.00	-3.11
MRK US	Merck & Co. Inc.	Short	-8,000.00	58.83	-135.99	59.07	59.07	-8,032.64	0.00	-0.41
IBM US	Intl Business Machines Corp	Short	-8,000.00	144.90	-55.21	144.50	144.50	-7,977.92	0.00	0.28
	Longs		100,000.00					101,955.00	-0.14	1.95
	Shorts		-40,000.00					-40,471.66	0.00	-1.17

Bull and Bear Portfolio Update

5.11.18



Model Guidance: No Changes for the Week

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Featured Company: Verizon Communications Inc. (NYSE: VZ)

Like all telephone companies in America, Verizon's history starts back in July of 1877 when Alexander Graham Bell formed the Bell Telephone Company. Soon Bell telephone systems were popping up in all the major cities in America, which were linked by Bell's long distance calling operation. By 1910 the federal government stepped in to regulate what was fast becoming a monopoly on long-distance telephone services.

By 1944 the Bell system of telephone companies, controlled by parent company AT&T, owned all the local phone companies in every major city in America. In 1974, the monopoly's power would spark a fight between AT&T and the Department of Justice, eventually forcing the parent company to sell the 22 local phone companies in the Bell system. In 1996 the FCC deregulated local markets, allowing competition and setting the stage for what

would become Verizon.

Two of the previously regulated Bell system companies, Nynex and Bell Atlantic, merged in 1999, and then joined with Vodafone in 2000 to create a wireless telephone service they named Verizon Wireless. Only months later, Bell Atlantic merged with GTE Corp, expanding its wireless footprint across the country. The merged companies took on the name Verizon, creating the major telecommunications business that survives today.

Since then, Verizon introduced America's first 3G network in 2002, started building a fiber optic internet system known as FiOS in 2004, deployed America's first large scale 4G LTE network in 2010, became the first service provider to deploy 100Gbps technology to parts of its network in 2011, and then quickly doubled that in 2013 with the rollout of 200G speeds.

In 2014 Verizon made what may have been its most important acquisition ever by buying Vodafone's 45% interest in Verizon Wireless. With Vodafone out of the joint venture, Verizon gained full control of America's largest wireless company.

Today Verizon is continuing to work on its network by rolling out 5G wireless technology. Verizon describes the benefits of the 5G system as "about 50 times the throughput of current 4G LTE, latency in the single milliseconds, and the ability to handle exponentially more Internet-connected devices to accommodate the expected explosion of the Internet of Everything." The 5G systems will be so fast it won't just connect smartphones to the Internet, it will even compete with cable-based home broadband systems to connect TVs, desktop computers, streaming devices and all other connected machines. In 2018, Verizon plans on rolling out residential broadband services using 5G in three to five markets in America.

Verizon and its predecessors have paid investors dividends each year since 1984. The company is also a Mergent dividend achiever

that has been raising its dividend each year for 12 consecutive years. Verizon shares yield 4.85% today.

Bull and Bear Portfolio Update

5.4.2018



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Featured Company:Walmart (NYSE: WMT)

In July of 1962, Sam Walton opened the first Walmart in Rogers, Arkansas. After growing rapidly through the 1960s, Walmart went public in 1970, and Walton took his strategy of “the lowest prices anytime, anywhere,” national. In 1980, Walmart reached \$1 billion in annual sales for the first time, faster than any company before it. By that time, the store had 276 locations and

employed 21,000 associates. In 1983 the company opened its first Sam's Club location in Midwest City, Oklahoma. In 1988, Walmart opened its first "Supercenter," combining a full-scale supermarket with its general merchandise store for shopper convenience.

In the 1990s Walmart began its quest to go global. The first step was opening a Sam's Club in Mexico City via a joint venture with the Mexican retail company Cifra. By 1993, only 23 years after its first \$1 billion year, Walmart recorded its first \$1-billion-week of sales. Walmart would continue to expand globally in the 90s, opening stores near and abroad in places like Canada and China.

By 2000, Walmart had 3,989 stores and had created its first online shopping experience, Walmart.com. In 2002 Walmart topped the Fortune 500 for the first time. By 2009 Walmart had reached \$400 billion in annual sales.

Over the last eight years Walmart has made large expansions in India, South Africa and online. In China, Walmart purchased all of Yihaodian, an e-commerce business it had partially owned. During 2016, Walmart bought Jet.com, an American e-commerce website. Walmart also created a strategic alliance with JD.com, one of China's largest e-commerce retailers. Recent news reports have said Walmart is attempting to buy India's largest e-commerce business, Flipkart. The retailer's directors have agreed to the deal, but it hasn't been fully approved yet. Successful completion of the deal would give Walmart an advantage in the Indian market.

Today Walmart employs 2.3 million people in 28 countries. The company runs more than 11,700 stores and serves nearly 270 million customers each week. A recent initiative has expanded online grocery pickup to over 1,100 stores in the U.S., and will add another 1,000 in 2018, as well as locations in Canada, Mexico, and China. To better compete with online retailer

Amazon.com, Walmart has also added free 2-day shipping to Walmart.com. Walmart has been paying its shareholders a dividend every year since 1973, and has been increasing those dividends every year for 41 years. Over the last ten years the average dividend growth rate at Walmart has been 11.56%. Shares yield 2.37% today.

Bull and Bear Portfolio Update 4.27.2018



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Featured Company: Intel Corporation (NASDAQ:INTC)

In 1968, the year *2001: A Space Odyssey* was released, mankind was looking to the stars and the future of technology. The

Apollo space program was heating up in preparation for the moon landing the year after. Computers were being made smaller and more powerful in order to meet the demands of the space program and other advanced technological undertakings.

That same year, two men named Bob Noyce and Gordon Moore founded Intel. The company's first product would be produced in 1969. It was the 3101 Schottky bipolar random access memory (RAM). The team would also break ground by introducing the world's first metal oxide semiconductor static RAM, the 1101. By 1970 Intel had upended the entire industry by introducing the 1103 DRAM, a new standard in computer memory technology.

Intel's hits would keep on coming. In 1974 the company introduced the first general-purpose microprocessor. In 1975 Intel processors were shipped on one of the first PCs, the Altair 8800. In 1981, computing giant IBM would select Intel's processors for its line of PCs. In 1992 Intel became the world's largest semiconductor supplier. Through the 1990s Intel would introduce and continuously improve its Pentium line of processors. In 2006 Intel introduced the world to the first quad-core processor for desktop computers.

Today Intel is transforming its business from a focus on PCs to a focus on the cloud and smart devices. Patrick Moorhead summarized [Intel's new strategy](#) well at *Forbes*, writing:

Intel has been on the move for the past few years driving an incredible amount of change. Once focused exclusively on X86 processors for PCs and servers five years ago, the company has branched out into what it calls "data-centric" which takes datacenter and adds automotive via a MobilEye acquisition, FPGAs via an Altera acquisition, machine learning training via a Nervana and Movidius acquisition and diving head-first into 5G and networking. With that, the company has embraced heterogeneous computing where it is more agnostic about what compute unit does a specific workload, be it CPU, GPU, FPGA,

programmable and non-programmable ASIC. Lots of change.

Now, after a strong first quarter Intel has raised its revenue target for 2018 by \$2.5 billion. Intel's data-centric businesses accounted for 49% of the company's revenue, an all-time high. Intel CFO Bob Swan explained "Compared to the first-quarter expectations we set in January, revenue was higher, operating margins were stronger and EPS was better. Our data-centric strategy is accelerating Intel's transformation, and we're raising our earnings and cash flow expectations for the year."

Short-term Bull-Bear Model: Round II



I am introducing a second round of my Short-term Bull Bear Model this week. The first version of my Short-term Bull-Bear portfolio ran for about six weeks from mid-September until the end of November. The portfolio performed well. You can check out

the archives [here](#). And if you are not familiar with the strategy, [go here to learn more](#).

Round II of my Short-term bull-bear portfolio will include 10 long positions and 5 short positions. I am advising a 60% net long portfolio, so by example you will want to buy \$10,000 worth of each of the long positions and sell short \$8,000 of each of the shorts. Both the long and short stocks are selected from the Dow Jones Industrial Average. If the Dow advances over the period in which my 15-Dow stock portfolio is open, the model will make money with the stocks that advance and will lose money with the stocks that decline. And the opposite will prevail for the short stocks. Each week, I will review the model portfolio for potential changes. If no changes are required, I'll simply post no changes for the week.

Keep in mind, short-term is the operative word in the strategy. Long and short positions may be counter to a long-term value-based investment program. Holding periods are shorter and turnover will likely be higher than for a long-term strategy. There is also a need to offset market and sector risk with short positions and long positions.

The 10 names I want you to take long positions in include:

1. Apple
2. Cisco
3. Home Depot
4. Intel
5. JP Morgan
6. Travelers
7. United Health
8. United Technologies
9. WalMart
10. Verizon

The five shorts are:

1. Coca-Cola
 2. Chevron
 3. DowDupont
 4. Merck
 5. IBM
-

Young Research's Three Part Screen for Common Stocks

In the late 1990s, I offered my readers a simple three-part screen to make the job of core common stock selection easy and comfortable. It reduced the field of play to what one might call investment-grade common stock issues.

What was the screen? I advised investors to stick with NYSE listed dividend paying stocks trading at less than 3X revenue. When I introduced the screen in 1998, it winnowed the common stock investment universe down to a few hundred issues from an unwildy 7,500+ at the time.

There was still much work to be done to craft a final investment portfolio, but the screen did a nice job of helping investors fish in the lakes stocked with trout and bass and avoid the ones where carp was the dominant species.

I explained the screen to readers as follows:

***Rule #1: Stay on the NYSE.** You have probably noticed that NASDAQ sotcks can be especially volatile. Most NASDAQ stocks are smaller and less seasoned than their NYSE brethren. Just the other day, computer component supplier Adaptec reported quarterly earnings below Street predictions, and traders*

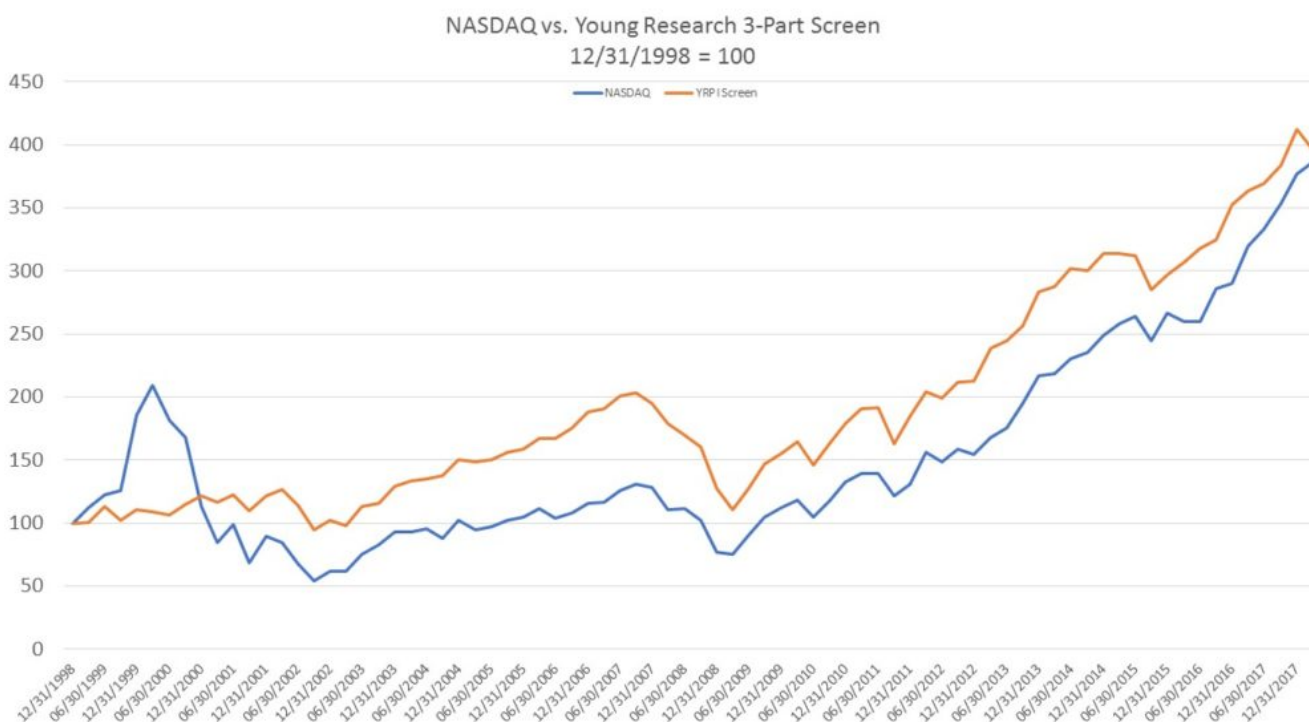
hammered the rather thinly traded shares down 40% in a single session. A 40% haircut in one day is volatility beyond what I'm sure you find comfortable.

One way to reduce this volatility is to buy only NYSE stocks for your CORE portfolio. Don't venture over to the NASDAQ. Yes, I know many fine companies trade on the NASDAQ, but a set of hard-and-fast rules is the tonic you need to stay out of trouble, and hard and fast means some compromising.

Rule #2: Invest only in dividend-paying stocks. *By simply eliminating the non-dividend payers, you dump a huge hunk of the speculative stock universe and greatly reduce your field of eligible NYSE candidates for your CORE list.*

Rule #3: Pay no more than three times annual revenues. *Here, you are relating a given stock's market cap (price X number of shares outstanding) to annual revenues.*

How has the investment-grade common stock universe I described in 1998 performed since? The chart below compares the performance of this exact screen run every quarter from year-end 1998 through March of this year, to the performance of the NASDAQ Composite.



Both the screen and the NASDAQ are capitalization weighted. As you can see, the screen performed slightly better than the NASDAQ, but most importantly, it did so with only about 60% of the risk of the NASDAQ.

The structure of the stock market has changed a lot over the last 20 years and an NYSE listing is much less meaningful today than it was in 1998, but the concept of sticking with quality dividend payers at reasonable prices remains my advised approach for eliminating a huge chunk of the speculative stock universe.

Issues included in that speculative universe that are widely held among mutual funds and ETFs you may own include Facebook, Amazon, Netflix, and Google (here I eliminate the NYSE listing criteria). Not one pays a dividend, and all four trade at more than 3X revenues. You may argue all four are good companies that dominate their space. That may be true, but it was also true of Microsoft, Intel, and Cisco in 1998 (none passed my screen at the time). Ten years later, all three were down and down more than the S&P 500.

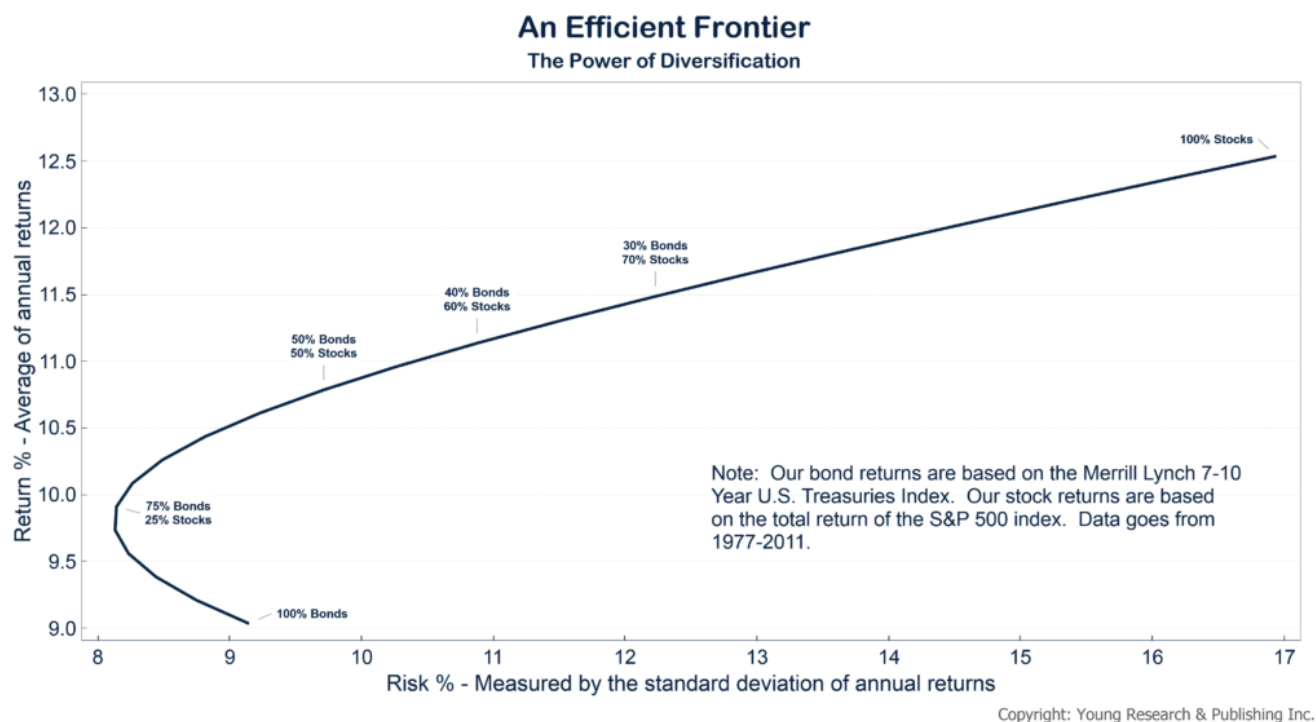
Two decades and a couple of ghastly bear markets later, the same focus on quality, dividends, and value remains essential to your long-term investment success no matter how dominant you may believe today's social media giants have become.

The Must-Know Investment Concept

The concept of an efficient frontier is central to proper portfolio management, but far too few investors are familiar with its use and application. Brokers and advisors, more interested in pushing product than offering investment counsel, may be to blame. An Efficient Frontier can help you calibrate risk and find the portfolio you are likely to be most comfortable with. Here's what I wrote about the Efficient Frontier back in 2002:

The concept of an Efficient Frontier is central to everything we do at our companies. First, we lay out our basic investor tenet of diversification and patience built on a framework of value and compound interest. Next, we overlay any investment plan under review with an eye on an Efficient Frontier. I write about this pivotal concept for you in every letter. You will read little or nothing about an Efficient Frontier in other strategy letters. I have no idea why because the concept is so absolutely central to proper portfolio construction. An investor not up to speed on both the mathematics of compound interest and the power of an Efficient Frontier is operating far beyond the fringes of investment reality. In fact, I would go as far as to say that an investor devoid of a thorough working knowledge of these two powerful investment concepts

has little chance of achieving a comfortable, rewarding retirement. Hence my inclination to hammer away monthly at both concepts.



As I have written often, an Efficient Frontier is nothing more than the line that connects one optimal portfolio across all levels of risk. An optimal portfolio is the mix of assets that maximizes portfolio returns at a given risk level. My chart illustrates an Efficient Frontier for a combination of two asset classes—long-term corporate bonds and stocks. We have used data from a representative long-term corporate bond fund and a suitable Index 500 fund.

Clearly an Efficient Frontier is about diversification. And investors saving in retirement portfolios or who are already retired want the appropriate mix of bonds and stocks. Here I'm writing to investors 50 years and older, but I'm tempted to mandate that investors in their 40s maintain a solid fixed-income component. I'll suggest it, if not mandate it.

Exactly what are we looking at? It's what I refer to as the boomerang. The vertical axis measures return; the horizontal

axis measures risk. I always advise you to first gauge risk and much later worry about return. You'll note, as you travel along an Efficient Frontier from left to right, risk gets greater. How much do you value a good night's sleep? As I have reminded you often, between 1965 and 1981, a period of 16 years, the Dow fell 10%. Will such an extended period of stock market decline occur in coming years? I don't know about 16 years, but I can count three. And the stock market is now down for the third consecutive year for the first time since 1950, so you tell me.

Personally, I invest with no view on where the stock market will be next year or the following, for that matter. I invest with the absolute knowledge that, long-term our population increases and that the stock market tends to generate a compound rate of growth that matches the compound rate of growth of GDP. We're talking about 7% plus, of course, dividends. That's my basis for investing in stocks—nothing more, nothing less. It's not prudent to count on making one cent more long-term than the annual compound average GDP growth, plus dividends. If you are banking on more for yourself, you're barking up the wrong tree.

If you are having trouble managing your portfolio's risk, look for help at a seasoned, well regarded investment advisory like my family run firm, [Richard C. Young & Co., Ltd](#). Talking with a professional can help you develop a retirement plan that will allow you to avoid crippling losses and achieve your goals. Read more about the concept of an Efficient Frontier by visiting [Youngresearch.com](#) here:

- [Risk and Reward: An Efficient Frontier](#)
- [The Fright of Squandered Capital](#)

Where do you Begin Investing?

To the uninitiated, investing can seem daunting. There are thousands of stocks, bonds, and mutual funds to choose from, and probably just as many opinions on which you should buy and which you should avoid. Even the most diligent novice can become overwhelmed by the number of decisions that must be made.

To get started, I have long advised a risk-first approach. That means a focus on fixed income.

For most investors, it's a little hard to know where to even begin. So where do you begin? Tops on my list is your fixed income component. Most investors fail to maintain an adequate mix of fixed income. Ignore my warning at your peril. In today's environment, it's not how much you are going to make, but how much of your capital you will keep. Returns ahead are going to be meager. If you are retired, draw no more than 4% out of your portfolio annually. And my tendency is to reduce this already low number. Times are tougher than you may believe. The more than-two-decade decline in interest rates is fading into history. Could rates fall further? Sure rates could give a little more ground, but there just is not much running room left on the downside.

I advised investors of the above over a decade ago and it remains true today. In today's environment, it's not how much you are going to make, but how much capital you will keep. Returns ahead are likely to be meager. Think mid-single digits on the high-side.

The Ten Worst Bets

Almost thirty years ago in 1989, I advised my readers on the ten worst bets for the year. Topping the list was overpriced real estate in New England, New York, and California followed by Japanese stocks and real estate.

My long-time followers may recall how real estate prices fared after that projection. Housing prices cracked in all three regions and entered a severe downturn. Anybody levered and long in residential real estate took it in the neck.

According to the Case-Shiller real estate indices for Boston, New York, and L.A., the peak to trough decline in prices ranged from 15% to 27%. A 20% down payment on a house was wiped out in the crash. In L.A., it took more than a decade to get back to even after accounting for inflation.

How did Japanese stocks fare in 1989?

The Nikkei 225 index was up almost 30% for the year (in local currency terms).

That was a bad call...

Indeed it was, but only for the first 12 months.

The Nikkei peaked on December 29th of 1989. Over the ensuing 14 years the Japanese shares lost 80% of their value. To this day, the index remains 45% below its all-time high.

My timing was off, but the direction was not.

I don't mention these past projections to boast. I call them to your attention because both projections were based on a careful

consideration of risk. For the prudent investor, risk must always come before return.

Things could have turned out differently for U.S. house prices and Japanese stocks, and that would have been fine. The point is that the risk one had to take to participate in those markets far outweighed the potential reward.

I see many pockets of unfavorable risk/reward relationships in today's financial markets. Some of these assets may not fare as poorly as house prices and Japanese stocks did 30 years ago, but the prudent approach is to avoid them.

Caution, balance, and diligence remain the mandate for your serious money today.