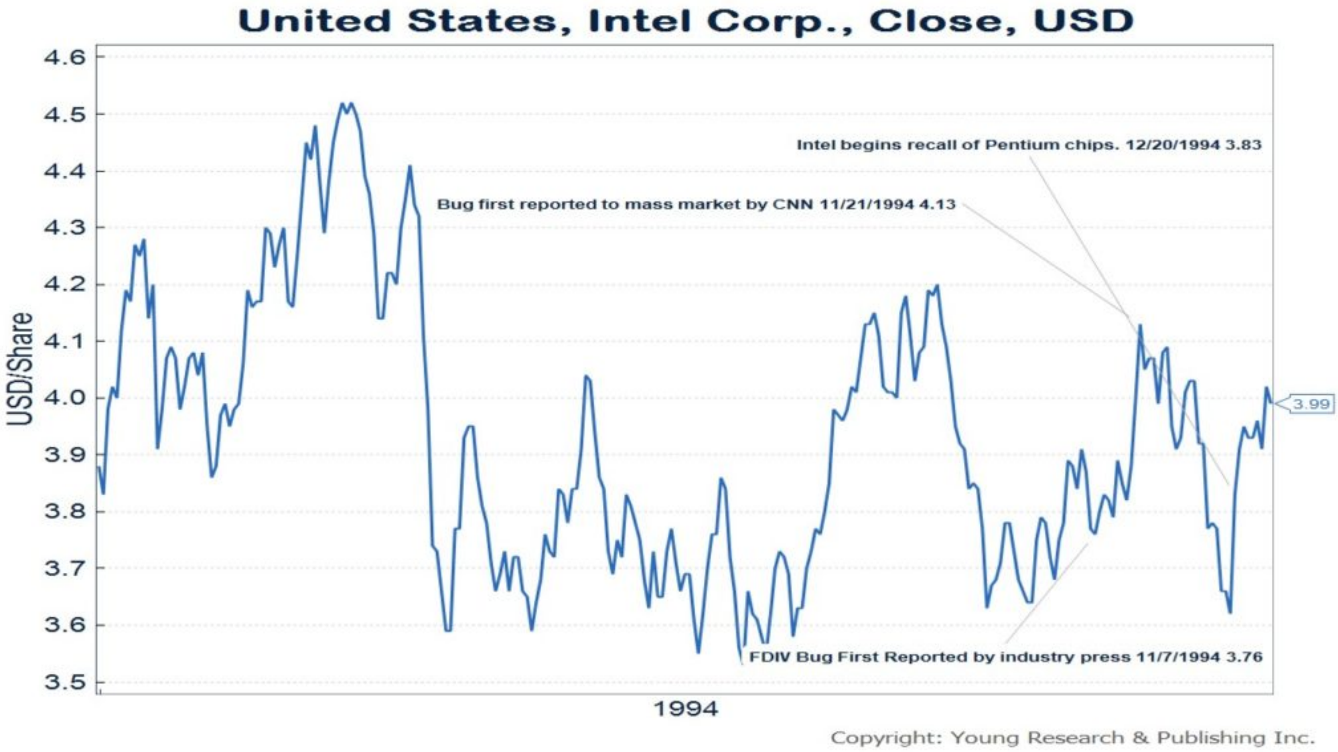
Is Your Investment Game Plan Ready for Action?

History has a way of repeating itself. In early 1995 I wrote about a math professor named Tom Nicely, who worked at Lynchburg College. Nicely was examining prime numbers using a group of five personal computers. While four of the computers gave Nicely the correct answer to a problem, 1.2126596294086, the fifth turned up a slightly different answer, 1.212659624891157804.

The cause of the fifth computer's error was the Intel Pentium processor installed on it. Nicely called Intel to explain, but was given the cold shoulder. Next, he did something which at that point was still novel, he asked for help on the Internet. Others checked Nicely's work and came back with the same results, confirming his conclusions.

Intel had already known about the problem since May when one of their own researchers had discovered it, but only after they had been backed into a corner by independent confirmation did Intel acknowledge Nicely's research. The company even offered him a consulting job.

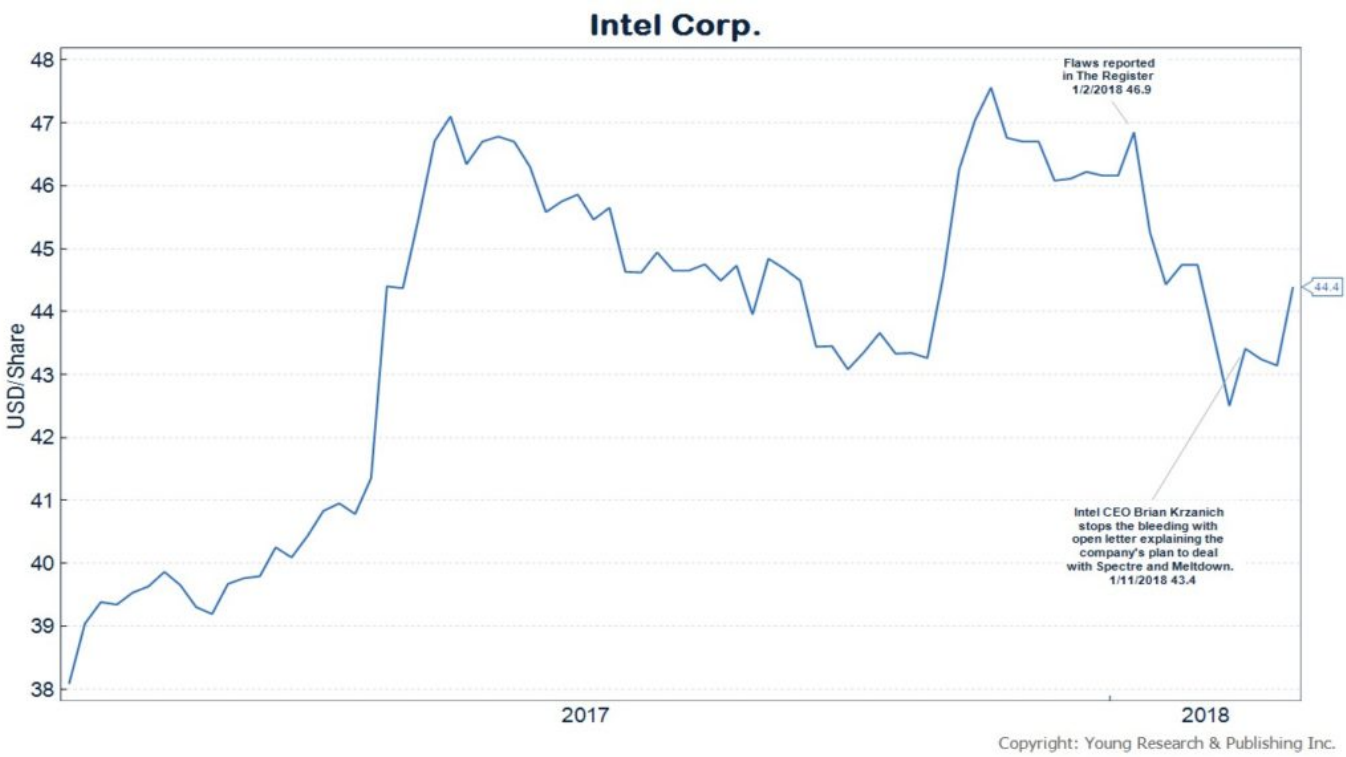
The bug was first reported in an industry journal known as *Electronic Engineering Times*, but when it was reported by the mass media on CNN on November 21, 1994, the stock dropped over 12.3% in a little less than a month. The stock only began gaining again after Intel offered a recall on December 20th.



Here We Go Again

Today Intel is in a somewhat similar, though not exact, position. A group of researchers connected by the Internet, have exposed a much larger flaw in Intel's processors, and now the company needs to deal with the fallout.

The issues, known as Spectre and Meltdown, could potentially be used by hackers to attack computers using Intel processors. The news was again first reported in an industry journal, the *Register*, out of the U.K. But in today's rapid information world, it didn't take much time to disseminate to the market. Intel's share price dropped over 9.2% in eight days.



Only after CEO Brian Krzanich wrote an open letter to the tech industry explaining Intel's next steps were investors willing to climb aboard Intel once more.

Do You Have a Game Plan?

I do not relay this story to you to shame Intel. What I want you to see here, is that companies often undergo rough periods. The tech industry in particular is prone to volatility thanks to complex products and low barriers to entry. The unexpected happens, and without a game plan you may see a lot of your own money wiped off the board quickly.

My game plan for decades has been one laid out first by Ben Graham in the *Intelligent Investor*. Graham wrote, "One of the most persuasive tests of high quality is an uninterrupted record of dividend payments for the last 20 years or more. Indeed, the defensive investor might be justified in limiting his purchases to those meeting this test." I would add to Graham's astute analysis that focusing on companies dedicated to increasing dividends helps as well.

What are Your Goals?

Another factor in investing is understanding the business you are investing in. Not many investors today can honestly say they understand what the Spectre and Meltdown flaws in Intel's chips really are. Are you prepared to invest in a company that builds a product you don't understand and can't explain? These shares are no doubt appropriate for some portfolios, but if risk avoidance is one of your goals, understanding the company from top to bottom is a good place to start.

I practice risk avoidance in all aspects of life, and especially in investing. If you are in or nearing retirement and are looking to relieve the burden of the work that must be done to minimize risk in your investment portfolio, I urge you to visit the website of my family run investment advisory, Richard C. Young & Co., Ltd. You can sign up for our client letter, free even for non-clients, to get a better idea of the principles used to make investment decisions.

Originally posted on January 19, 2018.

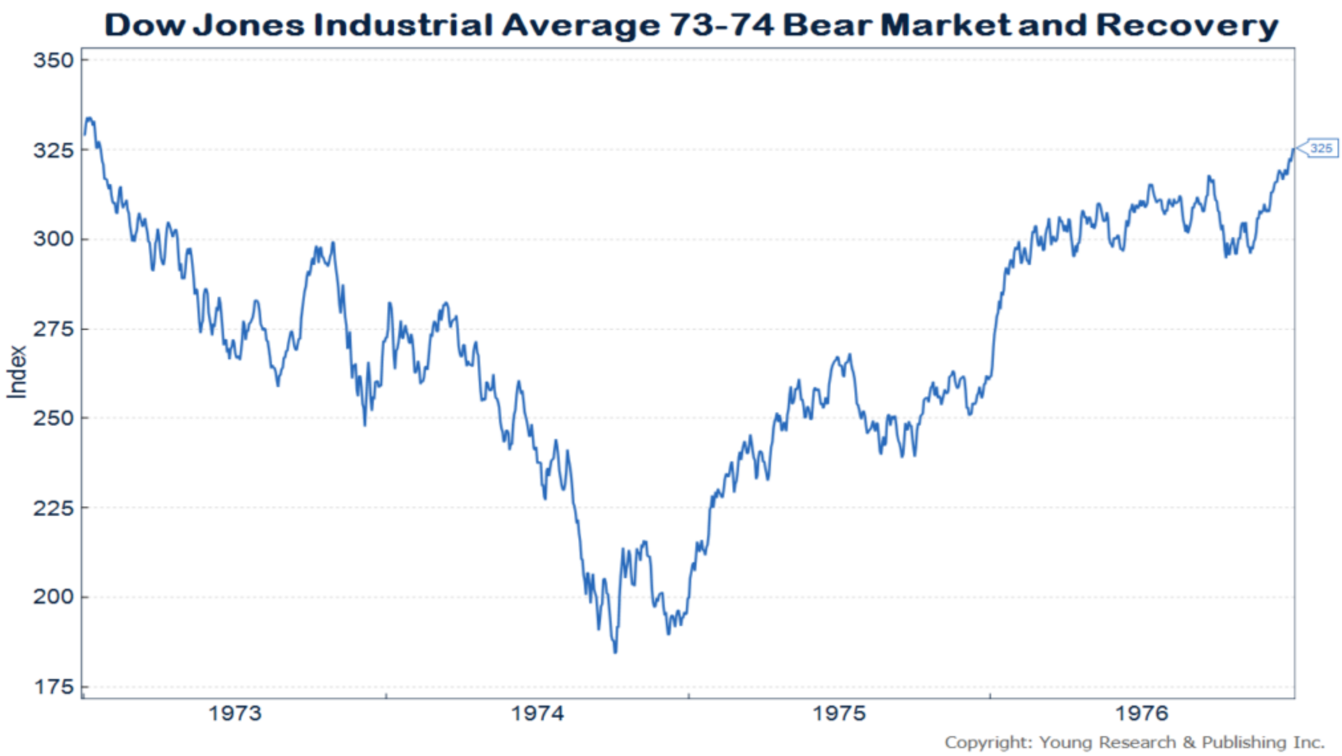
Rising Dividends: Decades of Focus on a Winning Strategy

In 1987, I sat down with Bill Lippman for a conversation about L.F. Rothschild Fund Management's "Rising Dividends Fund." Bill had been the founder and president of the Pilgrim Group mutual funds for 25 years before he sold the firm. Bill then moved over to the New York based, L.F. Rothschild Fund Management, at the time a new subsidiary of L.F. Rothschild investment bank. (The

Rising Dividends Fund would later become the Franklin Rising Dividends Fund, which still trades today, though this is not a recommendation to buy).

The Rising Dividends Fund focused on what I have been recommending to my readers for years; solid companies with strong records of increasing dividend payouts. I have been focused on dividend payments since my days at Babson reading Ben Graham and David Dodd.

Bill was interested in rising dividends as a way to protect his fund's owners from experiencing the type of punishment in their portfolios they felt in the bear market of 1973-1974. Those unhappy days of "stagflation" saw unemployment of 8.5%, CPI increases of up to 11%, and a drop in the Dow Jones Industrial Average of 46%. Afterward, investors were not eager to have their savings ripped apart again. The pain was so bad that even in 1987 when Bill and I discussed his Rising Dividends Fund, the lessons of 73-74 were still remembered well.



When we talked, Bill said "In 1973-1974, we had a really bad market. It was a disaster…and it went on and on for a couple of years. It seemed like it would never end. One then asks, 'Is there a better way?' As it turns out, yes, there is a better way. You must have a philosophy, and you must stick to it. Don't be the victim of the latest hot story that comes off the tape. And that's what we did that was different. We evolved a philosophy that made sense. We selected companies that increased dividends and had low debt and low P/Es. We wanted a solid game plan that we could follow with comfort through good markets and bad."

My focus for you today, just as it was in 1987, is on quality dividends from companies that are dedicated to increasing their payouts. As part of the RCs program at Richard C. Young & Co., Ltd., and in my recent coverage of the Dow stocks here on *Youngsworldmoneyforecast.com*, I consistently focus on finding companies that do just that.

Another thing Bill said in our discussion that really resonated with me was a piece of advice he gave to all investors "Put down in writing what you really believe in, and then stick to it." I encourage you to do that right now. Don't wait until later, or let inertia allow you to forget. Do it right now. Write down what you want to accomplish by investing, and how you plan to do it. Then stick to it.

The Dow's Most Dependable Dividend Payers Part III

Continuing with Young Research's dividend dependability rankings, the group of stocks listed below score best out of the 30 stocks in the Dow in terms of dividend dependability. Many of the most dependable dividend payers in the Dow have below average yields, but above average dividend growth prospects.

I have again listed the stocks in alphabetical order and provided the indicated dividend yield, projections for dividend growth in 2018, and commentary on why the stock scored where it did in terms of dividend dependability.

wdt_ID	Company	Indicated Yield	CY 2018 Proj. Div. Growth	Comments
1	WAL-MART STORES INC	2.08	1.97	A solid balance sheet, low earnings variability, and strong dividend coverage put WalMart in the top group for dividend dependability
2	VISA INC-CLASS A SHARES	0.69	17.39	Visa's strong earnings growth prospects, high dividend coverage, and low earnings variability make it one of the Dow's most dependable dividend payers.
3	UNITEDHEALTH GROUP INC	1.35	17.57	Strong growth and dividend coverage as well as low earnings variability put UNH in the top group.

wdt_ID	Company	Indicated Yield	CY 2018 Proj. Div. Growth	Comments
4	PROCTER & GAMBLE CO/THE	3.00	1.87	A solid balance sheet, moderate growth, a good qualitative score, and a strong record of dividend growth keep P&G in the Dow's top group despite below average dividend coverage.
5	NIKE INC -CL B	1.30	11.11	Above average dividend coverage, a strong balance sheet, and moderate earnings growth pushed Nike into the top group.
6	MICROSOFT CORP	1.97	7.55	Strong earnings growth, solid dividend coverage, and a AAA balance sheet drive Microsoft's dividend score.
7	JOHNSON & JOHNSON	2.38	4.82	A solid balance sheet, a strong record of dividend growth, and low earnings variability make JNJ one of the Dow's most dependable dividend payers.

wdt_ID	Company	Indicated Yield	CY 2018 Proj. Div. Growth	Comments
8	HOME DEPOT INC	1.89	6.74	Strong earnings growth, good dividend coverage, an above average earnings variability score, and a good balance sheet pushed HD into the top group.
9	BOEING CO/THE	2.32	20.42	Exceptional earnings growth, good dividend coverage, and a solid balance sheet helped Boeing.
10	3M CO	1.99	5.53	Solid earnings growth, moderate dividend coverage, low earnings variability, and a strong balance sheet put 3M in the top group for dividend dependability.

You can read part II here and part I here

Merry Christmas – Boogie-

Woogie Choo-Choo Train

The Dow's Most Dependable Dividend Payers Part II

Continuing with Young Research's dividend dependability rankings, the group of stocks listed below rank in the middle of the pack among all 30 Dow stocks on Young Research's dividend dependability score. In this group you will find a nice balance between yield and dividend dependability.

I have again listed the stocks in alphabetical order and provided the indicated dividend yield, projections for dividend growth in 2018, and commentary on why the stock scored where it did in terms of dividend dependability.

wdt_ID	Company	Indicated Yield	CY 2018 Proj. Div. Growth	Comments

wdt_ID	Company	Indicated Yield	CY 2018 Proj. Div. Growth	Comments
1	CATERPILLAR INC	2.13	1.94	Average dividend coverage and decent earnings growth help CAT overcome one of the highest earnings variability rankings in the Dow
2	WALT DISNEY CO/THE	1.52	7.69	Above average dividend coverage along with average growth, financial strength, and earnings variability push Disney into group two.
3	MCDONALD'S CORP	2.32	6.79	Low dividend coverage and below average financial strength keep McDonalds out of the top 10.
4	INTEL CORP	2.51	6.03	Low scores on qualitative factors along with average scores on the quantitative factors put Intel in the middle of the pack group.

wdt_ID	Company	Indicated Yield	CY 2018 Proj. Div. Growth	Comments
5	VERIZON COMMUNICATIONS	4.49	2.05	Low dividend coverage, below average financial strength, and below average growth prospects put Verizon in group two.
6	PFIZER INC	3.50	6.25	Below average dividend coverage, high earnings variability, and a strong balance sheet result in a tier two ranking for Pfizer.
7	TRAVELERS COS INC/THE	2.17	3.89	Average across the board rankings place Travelers in second grouping for dividend dependability.
8	UNITED TECHNOLOGIES CORP	2.25	5.88	Average ratings for growth, dividend coverage, and financial strength keep UTX in the middle tier.

wdt_ID	Company	Indicated Yield	CY 2018 Proj. Div. Growth	Comments
9	COCA-COLA CO/THE	3.22	5.41	Coke's low dividend coverage and low earnings growth keep the company out of the Top 10 for dividend dependability.
10	APPLE INC	1.46	9.76	Solid earnings growth, strong dividend coverage, and a strong balance sheet help Apple, while low qualitative factors drag it down.

You can read part I here.

The Dow’s Most Dependable Dividend Payers

Which companies are the most dependable dividend payers in the Dow? That may seem like an odd question to ask considering the Dow is comprised of some of America’s most successful blue-chip companies. But while Dow stocks may have more reliable dividends than your average company, dividend dependability should not be taken for granted. General Electric, once considered America’s most venerable blue-chip industrial, slashed its dividend last month. Citigroup, Bank of America, (both former Dow members), and JP Morgan were once among America’s most respected banks, but all three cut their dividends during the financial crisis.

Young Research developed a dividend dependability ranking to provide you with a snapshot of the Dow stocks that have the most secure dividends today. If you are a retired investor who relies on quarterly dividend checks to fund a portion of your retirement spending, Young Research’s rankings can help you minimize the chances of a cash flow shortfall.

The rankings are based on a variety of quantitative and qualitative factors including dividend coverage, earnings variability, financial strength, and growth prospects.

Over the coming weeks, I will provide you with insight and commentary on all 30 Dow stocks. This week I focus on the ten stocks that rank lowest in terms of dividend dependability.

The Dow’s Least Dependable Dividend Payers

The ten stocks below, listed in alphabetical order, are ranked lowest for dividend dependability by Young Research. For each stock I have provided the indicated dividend yield, projections for dividend growth in 2018, and commentary on why the stock scored where it did in terms of dividend dependability. Note that a low dividend dependability ranking does not signal an imminent dividend cut. A low ranking does indicate that the *risk* of a dividend cut is greater than it is for the average Dow company, especially in the event of adverse economic, business, or market conditions.

wdt_ID	Company	Indicated Yield	CY 2018 Proj. Div. Growth	Comments
1	MERCK & CO. INC.	3.49	2.10	Above average earnings variability and below average growth projections drag down ranking.
2	JPMORGAN CHASE & CO	2.14	7.70	Lower than average financial strength and qualitative factors bring down ranking.
3	INTL BUSINESS MACHINES CORP	3.89	6.70	IBM barely missed the second grouping. Qualitative factors and low earnings growth projections dragged it down.
4	GOLDMAN SACHS GROUP INC	1.21	8.60	Above average earnings variability, lower than average financial strength, and qualitative factors bring down ranking.
5	GENERAL ELECTRIC CO	2.71	-50.00	One of highest earnings variability ratings kept GE, even with a reduced dividend, in the lowest grouping.

wdt_ID	Company	Indicated Yield	CY 2018 Proj. Div. Growth	Comments
6	EXXON MOBIL CORP	3.73	2.60	A high payout ratio, high earnings variability, and qualitative factors pushed Exxon into the bottom grouping.
7	DOWDUPONT INC	2.13	0.00	High earnings variability, below average growth projections, and lower than average financial strength bring down ranking.
8	CISCO SYSTEMS INC	3.09	10.60	Lower earnings growth projections and qualitative factors drag Cisco down.
9	CHEVRON CORP	3.61	1.80	High payout ratio, high earnings variability, and qualitative factors drag down ranking.
10	AMERICAN EXPRESS CO	1.42	9.00	Above average earnings variability, lower than average financial strength, and qualitative factors bring down ranking.

As you may have noticed, a number of the least dependable dividend payers offer above average yields. Dividend dependability and dividend yield are inversely related. You will find as I run through all 30 Dow stocks, that the companies with the most dependable dividends have below average yields. How you choose to successfully balance dividend dependability and yield in your portfolio will depend on your own investment objectives and risk tolerance. Dividend dependability isn't the only factor that should be used to craft dividend portfolios, but it is an important factor.

These 9 Dow Stocks are Offering You a Bribe, Take It

There are 9 Dow stocks currently paying 3% *or more. (See which stocks I'm talking about in my new "*[Dow Lab](#)*")* Not one of these top 2017 cash flow winners for shareholders is in the top 12 Dow stock price performers for the year.

What we are looking at in 2017 is a “follow the leader” momentum based market move completely untethered from the long term anchor of dependable cash flow for shareholders.

I cannot think of a more dangerous signal for serious money.

As of Sept 2017, all investors should be concentrating on companies that bribe today’s stockholders with a yield of more than 3% and the promise of a higher dividend in 2017 than in 2016.

Dividends are Vital. The Reason Why Is Compound Interest

Why are dividends important? Because they allow the power of compound interest to work for you. I was speaking with a client yesterday who is in the process of helping his children establish Roth IRAs. I told him it’s amazing how just getting in the game can do wonders for one’s financial well-being: Imagine what this will look like in 50-years. Remember, just the process of starting an investment puts you or a loved one light years ahead of those bogged down and doing nothing at all.

Take a look below at the power of compound interest. An investor who makes eight annual contributions starting at age 25 and then makes no more will end up at age 64 with $227,390 at an assumed growth rate of 9%. Meanwhile, another investor who skips those eight contributions early in life and begins investing later at 33 and makes annual contributions each year until age 64 will end up with only $214,560 that year (assuming the same 9% growth rate). That’s the power of compounding.

Originally posted March 24, 2017.

THE POWER OF COMPOUND INTEREST

Get A Head Start To Retirement!

Assumed growth rate of 9%.

HYPOTHETICAL INVESTOR #1		
AGE	ANNUAL CONTRIBUTION	YEAR-END ACCOUNT BALANCE
25	$1,200	$1,308
26	$1,200	$2,734
27	$1,200	$4,288
28	$1,200	$5,982
29	$1,200	$7,828
30	$1,200	$9,841
31	$1,200	$12,034
32	$1,200	$14,425
33	$0	$15,724
34	$0	$17,139
35	$0	$18,681
36	$0	$20,362
37	$0	$22,195
38	$0	$24,193
39	$0	$26,370
40	$0	$28,743
41	$0	$31,330
42	$0	$34,150
43	$0	$37,223
44	$0	$40,573
45	$0	$44,225
46	$0	$48,205
47	$0	$52,544
48	$0	$57,273
49	$0	$62,427
50	$0	$68,046
51	$0	$74,170
52	$0	$80,845
53	$0	$88,121
54	$0	$96,052
55	$0	$104,697
56	$0	$114,119
57	$0	$124,390
58	$0	$135,585
59	$0	$147,788
60	$0	$161,089
61	$0	$175,587
62	$0	$191,389
63	$0	$208,615
64	$0	$227,390

TOTAL CONTRIBUTIONS:	**$ 9,600**
TOTAL EARNINGS:	**$ 217,790**
FINAL ACCOUNT BALANCE:	**$ 227,390**

HYPOTHETICAL INVESTOR #2		
AGE	ANNUAL CONTRIBUTION	YEAR-END ACCOUNT BALANCE
25	$0	$0
26	$0	$0
27	$0	$0
28	$0	$0
29	$0	$0
30	$0	$0
31	$0	$0
32	$0	$0
33	$1200	$1,308
34	$1200	$2,734
35	$1200	$4,288
36	$1200	$5,982
37	$1200	$7,828
38	$1200	$9,841
39	$1200	$12,034
40	$1200	$14,425
41	$1200	$17,032
42	$1200	$19,872
43	$1200	$22,969
44	$1200	$26,344
45	$1200	$30,023
46	$1200	$34,033
47	$1200	$38,404
48	$1200	$43,168
49	$1200	$48,362
50	$1200	$54,022
51	$1200	$60,192
52	$1200	$66,917
53	$1200	$74,248
54	$1200	$82,238
55	$1200	$90,948
56	$1200	$100,441
57	$1200	$110,789
58	$1200	$122,068
59	$1200	$134,362
60	$1200	$147,762
61	$1200	$162,369
62	$1200	$178,290
63	$1200	$195,644
64	$1200	$214,560

TOTAL CONTRIBUTIONS:	**$ 38,400**
TOTAL EARNINGS:	**$ 176,160**
FINAL ACCOUNT BALANCE:	**$ 214,560**

Investors Tarred and Feathered

The beginning of a long-term trend away from high-management-fee hedge funds, mutual funds and packaged product hawkers is picking up steam. For decades, individual investors have taken the bait from the high fee speculators and misallocators. Investors now appear to have awakened to the many-decade fleecing. Here, *Market Watch* highlights a fistful of troubling reminders of the ever-growing carnage.

- Last year, hedge funds shut down at a pace last seen in 2008.
- For the full year, a total of 1,057 funds were closed,

- topping the 1,023 liquidations seen in 2009.
- Hedge fund liquidations in 2016 surpassed the post-financial crisis peak.
- Average hedge-fund management fees fell to 1.48% in the fourth quarter from 1.49% in the previous three months.
- The average incentive fee for new funds declined to 17.71% from 17.75% in 2015.
- In 2016, the asset-weighted hedge-fund index returned 2.86%.
- The S&P 500, with dividends, gained 11.93%.

Benefactors of this bloodletting will be modest-sized, old-line, traditional investment council firms. These tight-knit client friendly and fee friendly firms harken back to a more civil time, when the best interests of a client topped the list of concerns in long-time family relationships. Preservation of capital and modest and consistent total returns were the order of the day. A steady flow of cash in the form of dividends and interest allowed relaxed clients to sleep well at night knowing that at all times their family advisor’s interests were meticulously aligned with their own. That’s just the way things were expected to be.

Today? Well you observe the results above.

Lower Portfolio Risk to Boost Return

Image Credit: © Tierney – Adobestock.com

UPDATE: The words I wrote in this post from August 27, 2010 are as sound today as they were back then. The basic principles of good investing just never change. This is how we operate at [Richard C. Young & Co., Ltd](#).

Do you know the difference between total return and investor return? Most investors are familiar with the concept of total return. The total return of a fund is simply the sum of the capital and income return of a fund over a certain holding period. The total return of a fund of course assumes a buy-and-hold strategy.

Investor return (a Morningstar term) is a measure of the experience of the average investor in a fund. Investor return does not assume a buy-and-hold approach. Instead it accounts for all cash flows into and out of the fund in an attempt to measure how the average investor in the fund performed over time.

Investor return is not a replacement for total return, but an important complement. Total return indicates how a fund manager performed over a certain time period, but investor return shows how the average investor in a fund performed.

Hot funds with strong recent performance often show total returns that are higher than investor return, as do volatile funds. One of the reasons investor return in volatile funds can lag total return is that investors pile into funds when they are in an uptrend, but bail out after performance turns south. You end up with a situation where there are more assets in a fund when returns are poor than when they are strong. That lowers investor return.

The formerly overhyped Legg Mason Value Trust Fund offers a telling illustration of this concept. For those of you who are not familiar with it, this is Bill Miller's fund. Prior to a recent streak of poor performance that began in 2006, Mr. Miller's fund was touted by the financial press as being the only mutual fund to outperform the S&P 500 for 15 consecutive years. Let's first look at the total return of the fund. For the 15-year period ending July 31, 2010, the Legg Mason Value Trust Fund earned a compound annual total return of 6.87%, compared to a return of 6.48% for the S&P 500. That's not bad; even after some atrocious relative performance in 2006, 2007, and 2008, Mr. Miller managed to outperform the index by a few basis points. But how did the average investor in his fund do? The 15-year investor return for the Legg Mason Value Trust Fund was only 4.40%—a significant difference of 2.47% per year.

Compare the experience of the Legg Mason fund to a balanced fund such as Vanguard Wellesley Income. Over the last 15 years, the compound annual total return of the conservative Wellesley Income Fund was 8.1%, and the investor return was 7.73%, a difference of only 0.57%. Wellesley's investor return was closer to the total return because investors in the fund didn't bail out when markets were down. Wellesley's low volatility provided investors with comfort and confidence to hold their shares. In my forty-plus years in the investment business, I have found that during down markets, investors are less likely to bail out of funds with modest volatility than those with high volatility. Bailing out of your funds during down markets is a sure way to destroy wealth. The better strategy is to increase your comfort level by lowering your portfolio’s risk. Chances are you’ll end up boosting your return.