Dow Down Over 1,000 Points

What great news for me and for you if you are actually an investor. I mean a real, seasoned investor. One who embraces common sense, patience and the acuity that comes with decades studying the power of consistent cash flow matched with the most powerful word in investing: *compounding*.

My business is, as are my own portfolios, based on exactly these concepts. Market volatility has zero to do with dividends, interest (the source of cash flow), or compounding. Absolutely zero.

In that I have no plans to sell my major holdings (many owned for decades), I am not concerned about short-term market swings. What does cause me to pay close attention is the potential opportunity to invest my regular cash flow more advantageously than during periods of market buoyancy. That's just common sense, is it not?

So, let's look at some of the information I urge my clients to use to make steady, long-term investing decisions. Linked here is intelligence you can actually use to improve your long-term investment acuity.

The *Young's World Money Forecast* (my online home base for intelligence gathering) display looks at 10 blue-chip long time Dow dividend payers with solid dividend growth prospects. Keep this invaluable little menu at hand for regular reference during periods of opportunity brought about by normal and expected short-term financial markets volatility.

Warm regards,

Dick

The Dogs of the Dow and Dividend Dependability

Last month, I provided you with Young Research's dividend dependability ratings for the 30 blue-chip Dow companies. Young Research's Dividend Dependability ratings use a combination of fundamental and qualitative factors to rate the dividend safety of each Dow component.

Every company in the Dow pays a dividend and compared to the average dividend paying company, Dow companies have above average dividend safety, but that didn't prevent General Electric from cutting its dividend last year, or GM slashing its dividend while still a Dow component, or Eastman Kodak from cutting its dividend or, or, or.

High yielding Dow stocks are tempting to income investors. You are often talking about high yields on some of America's best companies. In a low yield environment, a 3%+ dividend yield on a blue-chip stock has inherent appeal. But if you are retired or soon to be retired, and you rely on your dividend income to fund expenses, a dividend cut could put a dent in your retirement income. That is especially true if you follow one of the more popular Dow dividend investing strategies—The Dogs of the Dow.

The Dogs of the Dow is popular partly because it has worked over long periods of time, but also because it is a simple strategy to follow. All an investor must do is rank the 30 Dow stocks by yield at the end of each year and buy the 10 highest yielding stocks in equal amounts. The stocks are held for the balance of the year, and at the start of the following year the process is repeated.

The problem with the strategy is that the highest yielding stocks may be at most risk of a dividend cut. A high yield sometimes means a stock is out of favor (that's what Dogs of the Dow investors are hoping for), but it can also signal that the dividend is at risk. How do you avoid the problem?

That's where Young Research's Dividend Dependability ratings can help you. The highest yielding stocks in the Dow to start 2018 are Verizon, IBM, Pfizer, Exxon, Chevron, Merck, Coca-Cola, Cisco, Procter & Gamble, and General Electric.

Six of these stocks fall into the bottom third for dividend dependability. Those stocks include IBM, Exxon, Chevron, Merck, Cisco, and General Electric. The four that rate in the top twenty for dividend dependability are Verizon, Pfizer, Coca-Cola, and Procter & Gamble.

If you want to invest for yield, but reduce your risk of owning a company that may cut its dividend, you can replace the six Dogs of the Dow stocks that rank in the bottom third for dividend dependability with the highest yielding stocks from the remaining stocks that rank in the top two-thirds for dividend dependability.

Based on current yields, those stocks include Intel, Johnson & Johnson, McDonald's, Boeing, Travelers, and United Technologies. Add those to positions in Verizon, Pfizer, Coca-Cola, and Procter and Gamble, and you are looking at an average yield of 2.8%. The average projected dividend growth for this group of stocks in 2018 is 6.3%. Compare that to the 10 stocks in the Dogs of the Dow that have an average yield of 3.4% and projected dividend growth of 3.9%. You give up 0.60% in yield for the comfort of more dependable dividends and better dividend growth prospects.

Not a bad trade for investors who rely on regular dividend income.

For more on dividend dependability, read parts one, two, and three of my series on the subject.

Crash II, Preview

Breaking news at youngsworldmoneyforecast.com will post next week!

You will learn exactly why investors today are being misled by both the Dow 30 and the S&P 500.

You will find out why I expect historically poor performance for most investor portfolios over the next five years.

You will read the complete details of an easy-to-deploy strategy that will help you ride out the coming storm with a positive total return.

You will understand exactly why I use this strategy myself and at my investment management company.

You will not want to miss the boat here.

Dick Young’s Short Term Bull & Bear Portfolio (STBB)

One Man’s Opinion

Let’s see if STBB is for you.

You’re basically bullish on the stock market, and you have a nice chunk of cash handy that you hate to see withering away in your bank, earning squat.

You are going out of the country on an extended business trip, and you have no time to futz with your portfolio. Well, you and I are in the same boat. So I decided to share my most recent STBB short-term portfolio concept with followers to my reinvigorated *Young’s World Money Forecast*, first launched in 1978. *Young’s World Money Forecast* never died. It simply went on a 40-year vacation.

YWMF and I are now back at it. My goal is to encourage serious investors to start thinking carefully about their money and who they can work with over the next couple of decades to steer the family financial ship of state. YWMF is the perfect medium for me to share with you what I think is going on in the world. My opinions are just that, so do your homework and make your own conclusions. I am pleased to be able to offer advice during your learning process, but at the end of the day, you need to be your own boss.

As head of global investment strategy for RIA Richard C. Young & Co. Ltd., I hope you will give the name Dick Young some worthy consideration in the years ahead.

OK then, we are off and running.

My guiding principle is to include only stocks from the Dow Jones Industrial Average. Why? Because it’s like I am a DJIA insider. I’ve been in this business since what feels like the day ol’ Charles Dow thought this Dow thing up. Slightly kidding, of course, but you get the picture.

Here’s the basic deal. YWMF is all about the Dow—dedicated, you might say, to the Dow. I do not advise buying non-dividend-paying stocks to our clients, ever.

Did you know that every stock in the Dow pays a dividend? Or that long-term dividend-paying stocks offer better and more consistent returns than non-dividend-paying stocks? Serious investors, like I presume you are, simply sleep better, take less risk, and generally avoid the neck-snapping bear market volatility that is the bedmate of non-dividend-paying portfolios. No thanks to non-dividend-paying stocks, not tomorrow, not ever. We are long-term dividend and compounding disciples.

To reemphasize: My STBB portfolio includes only Dow dividend payers. I have followed the Dow, along with the leading and coincident economic indicators, for nearly five decades. I examine the monthly economic indicators under a figurative microscope to tenths of one percent. Back in the really old days, I forecasted both the leaders and the coincidents down to tenths of one percent each month. As you can see, my association with the Dow and the economic indicators is long and intense.

I emphasize my cutting-edge research with the economic indicators because you, as an investor with a high investment acuity and a long track record of success, are perfectly cognizant of the direct hand-and-glove association between the economy and the stock market. Trust me, as the stock market goes, so goes the Dow, but with far less bone-crunching volatility and much improved results thanks to dividend cash flow.

So what's the play?

My complete playing field will include Dow stocks—longs/shorts.

If the Dow advances over the period in which my long/short 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.

If instead the Dow declines? My model will take profits in the shorted Dow stocks, and stay with the long Dow stocks until they recover and show a profit. Each of these stocks is a dividend-paying blue chip likely to increase its dividend in the year ahead. Based strictly on investing criteria, there is not a reason or a rush to sell the long positions.

In the end, everything equal, a pleasing experience in a low-risk environment figures to be the outcome.

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. At some point I'll close out the model portfolio, which I will note promptly on my new STBB strategy site page. No two-week delay as there is with the snail-mail print newsletter era. We are now in the digital age. And you will have me on your side every day of every week. I am spending full time researching for our family investment firm’s clients and spending no time producing intelligence for the masses.

Debbie and I are off to Paris/Burgundy. Make it a good week.

Warm regards,

Dick

Richard C. Young