

# CAUTION: Investment Extremists Can Get Wiped Out



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In 1985, America was just coming off one of the worst bouts of inflation in its history. Much as today, with inflation trailing off but still a worry in everyone's mind, an argument naturally broke out between extremists in the financial media over whether America was poised for reignited hyperinflation or a deflationary death spiral. I had recently pioneered the Financial Armadillo Strategy and was asked to add my voice to the discussion with an op-ed in the June/July 1985 issue of *Reason* magazine. Instead of piling on with more extremism, I wrote:

*In the last decade, the world economy has become increasingly complex and unpredictable. Today, depending on the evidence being considered at the moment, you can make a compelling case for deflation and depression, hyperinflation, and every*

*economic scenario in between. As an economic and monetary analyst, I have my own carefully considered opinions on the subject. However, they are opinions, not guarantees of the future. No one can be absolutely sure what tomorrow will bring.*

*The major protagonists in the deflation versus hyperinflation controversy are urging investors to choose sides. They claim an individual's financial future depends on betting the right horse. This may be true for speculators trying to make a killing in the financial markets, but it is emphatically not the case for capital-preservation-oriented investors, who should be preparing themselves for any economic eventuality.*

*The "Financial Armadillo Strategy" is designed to preserve and enhance individual wealth in every conceivable future economic environment. Like the armored little creature from which it gets its name, the Financial Armadillo Strategy is both offensive and defensive in nature. It adapts to a wide range of investment climates and promises to endure, whatever economic upheavals may be on the horizon. The armadillo has survived since prehistoric times. Armadillo-strategy investors will be among those to survive what could truly be a tumultuous economic future.*

Then, as now, I encouraged investors to avoid extremism and emotional advice in the face of the inflation-deflation argument. I concluded:

*It's not easy for individuals to ignore the often emotional advice given by financial pundits on either side of the inflation-deflation issue. Even an extremist can, on occasion, be correct, and those who follow such advice can make a quick killing. However, when extremists are wrong, their disciples can be wiped out. It's better to be safe than sorry. The Financial Armadillo Strategy offers a common-sense way to deal*

*with the unknown.*

When you want to discuss common sense approaches to the investment unknown, visit [www.younginvestments.com](http://www.younginvestments.com), and give my office a call. In the meantime, [click here to subscribe to my free Young's World Money Forecast email alert](#). It's your port in a storm.

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## Dip a Toe into Gold



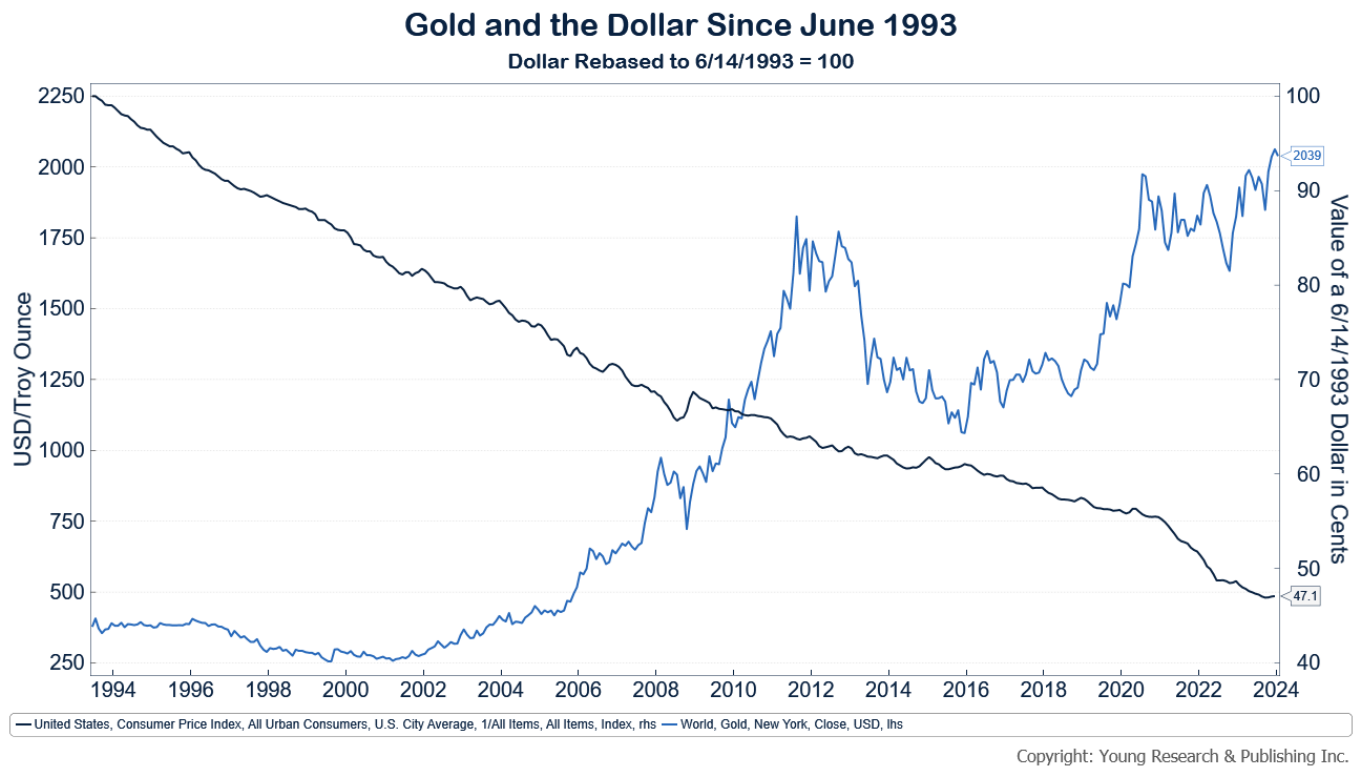
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In June of 1993, *Bloomberg's* Pam Black asked me how to stay ahead of the inflation curve. I told her to “dip a toe” in gold. I continued:

“Buy it with the idea that you won't make any money. Hopefully,

your other assets will do well, but if they don't, you'll be damn happy you were in gold."

Take a look at the chart below, and you'll see how gold and the dollar have performed since that article was published.



## “Inflation Dodger”

You want a history lesson? In 1987, I was interviewed by *The Kiplinger Magazine – Changing Times* (which is known today as *Kiplinger’s Personal Finance*). This wasn’t long after I had written *Financial Armadillo Strategy* with the late David Franke.

At the time, America was coming off some of its heaviest inflation ever, and investors wanted a solution to the problem. Despite those high rates of inflation in the 80s, I warned that even somewhat more moderate rates of inflation—like those

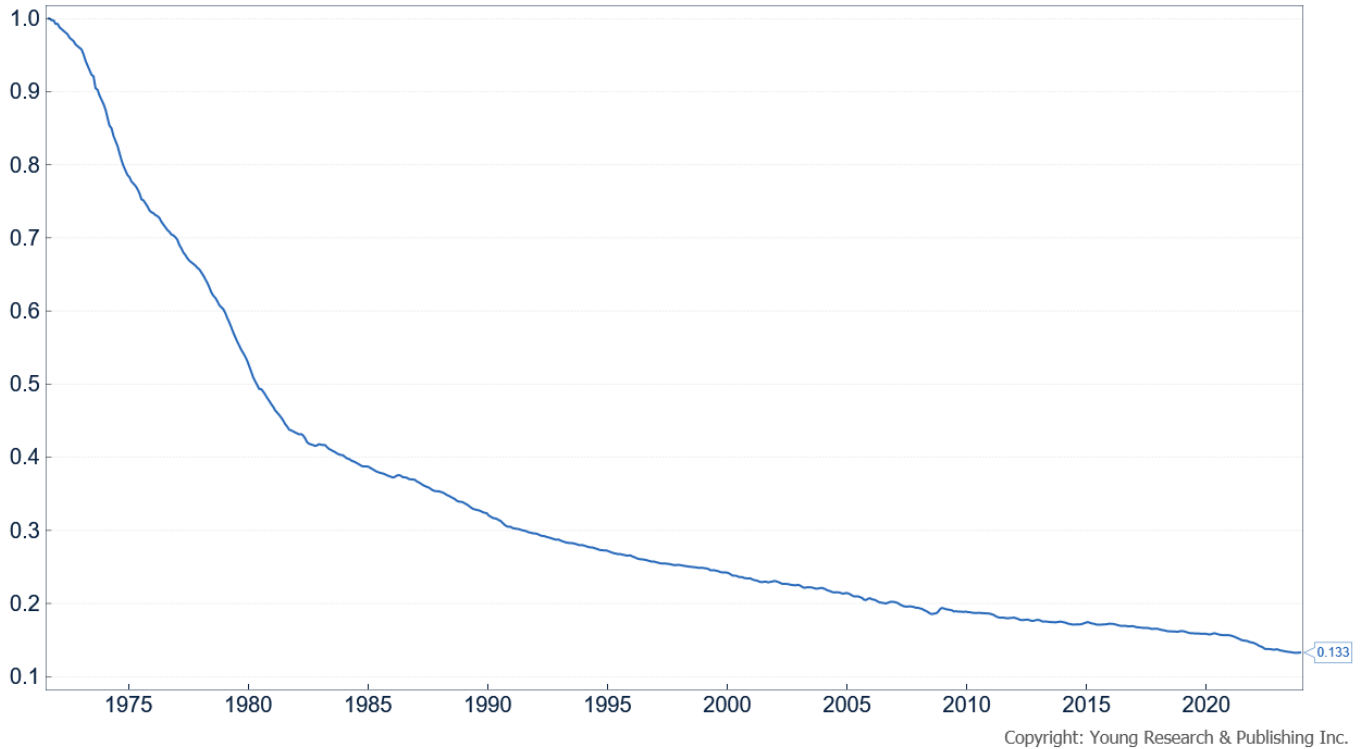
Americans have seen over the last two years—do real harm to investors. “I don’t mean 10% or 15% inflation; 4% or 5% is absolutely debilitating,” I said.

Even then—like today—I was focused on dividends and compounding to fight inflation. From *Kiplinger’s*:

*Those nearing retirement want assets that are safe but lucrative—easier said than done. Young’s “financial armadillo” seeks to deliver on both counts. It’s designed to place a protective shell around your portfolio, while allowing it to forage for profits at will. This armadillo has but three legs: equities for total return, Treasuries and gold. “The average investor has no conception of what total return is all about,” says Young. “From 1936 to 1986, the compounded growth rate for the Dow was 4.8%. If you take shorter time spans, the results are similar. That’s much less than you would expect.” But when you add dividends, the total return is 9.4%, says Young. “Dividends are extremely important. They should be worth about half the game.”*

Take a look at my chart below on the plight of the dollar since Nixon ended gold convertibility in 1971. Compared to the dollar then, today’s dollar is worth only 13.3 cents.

**The Plight of the Dollar Since Nixon Ended Gold Convertibility**



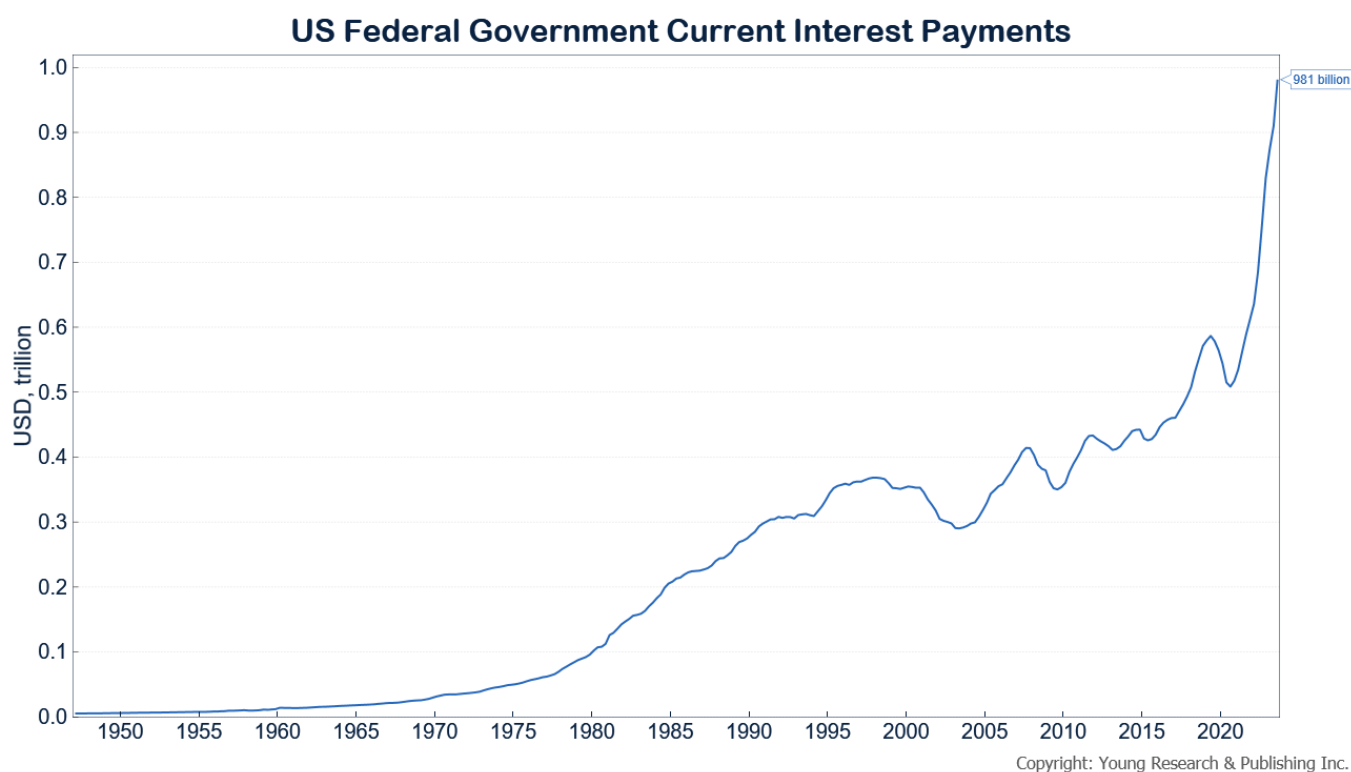
Americans have watched the dollar decline in value ever since the government severed the dollar's last links to gold, a return to which I have always advocated. The author of the article dubbed me an "Inflation Dodger." That's a name I'll proudly accept in light of the destruction of dollar value since the 1970s. When enduring that sort of purchasing power loss, all retirees may need to become inflation dodgers. To this day, dodging inflation guides much of my work at my family investment firm.

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## **Biden's Debt-Fueled Spending Binge and America's Credit**

# Rating

Since the “temporary” stimulus package of 2009 was enacted by Barack Obama and greased through the system by Ben Bernanke’s Federal Reserve, Americans have faced ever more burdensome budget deficits. After Joe Biden moved into the White House, the dangerous spending reached a new level. Uncontrolled money printing has set America up for some hard lessons as the interest on the federal debt rapidly closes in on \$1 trillion a year.



This time around, the Federal Reserve isn’t running a bond-buying program while pegging interest rates at zero. Instead, the Obama/Biden-style spending will be forced to face the music on interest. Now, after years of profligate spending, Joe Biden has put America’s treasured credit rating at risk. On Friday, November 10, 2023, Moody’s Investors Service cut its outlook on U.S. sovereign credit to negative from stable.

In January of 2012, I wrote about the Obama-era downgrades of

America's debt in the Fall of 2011:

*The international financial landscape today is far different than at any time in the past. I mean a lot different. Due to profligate mismanagement by our politicians in Washington, the U.S., for the first time in history, has lost its AAA-credit rating. Meanwhile, the Fed is pouring more and more high-octane fuel into the economic engine with increasingly foul results.*

The downgrades are a symptom of the real problem, which is too much spending. Since inflation laid bare how badly accommodating Federal Reserve policy can mess things up, Biden's overspending is exposed for the danger it is. Moody's, S&P, Fitch, and all Americans will inevitably have to recognize the danger in Biden's debt-fueled spending binge. Perhaps they will even do so before it's too late.

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## Fidelity and the Flight to the Suburbs

*Originally posted on May 13, 2021.*

Back in February, I wrote to you about how I started in the institutional research and trading investment business at Model Roland & Co. on Federal St. in Boston in August 1971. Just up the street from Model were Fidelity Investments, and Wellington Management, both of whom I called on from my very first hours on the job.

Over five decades ago, Ned Johnson, aka "Mister Johnson," ran the show at Fidelity. At Wellington, Jack Bogle, "Mr. Mutual



Fund,” had not yet left Wellington to start Vanguard.

My focus in the initial going was international research and trading, and remains so today all these decades later. I still consider Fidelity and Wellington the industry leaders.

Both firms feature great cultures, industry-leading technology, well-rounded investment programs for individuals, families, and small businesses—the type of folk I hoped to be associated with throughout my investment career.

Not a business day goes by that one of my associated companies is not involved with one or more of Fidelity or Wellington’s services.

I never would have expected, as I started out in August 1971, that I would be working with Fidelity and Wellington for over 50 years.

In Wellington’s case it, to this day, manages hundreds of billions of dollars in blue-chip, “prudent man rule” quality investment mutual funds.

In the early ’90s, Wellington’s chief investor relations officer informed me that I directed more mutual fund assets Wellington’s way in a given year than did the rest of the combined American investment newsletter industry.

And now in 2021, with our little family investment management company requiring a cutting-edge custodian for our \$1.3 billion-dollar conservative Boston-style management company we, not surprisingly, rely on Fidelity.

*Your Survival Guy*, hard to believe, joined my family business over two decades ago. But before that, he was at Fidelity which he too recalls as being run like a family business. This week he explains Fidelity’s unique positioning during the pandemic.

*In Rhode Island, you'll find a company that embraced the suburbs long ago, Fidelity. The company maintains a sprawling campus in Smithfield, RI, and will soon be hiring many young Rhode Islanders to fill out an expansion. Rachel Nunes reports for Patch:*

*Fidelity currently employs 3,200 people in Rhode Island, and the new positions will add 500 over the coming fiscal quarters.*

*"Fidelity Investments is excited to grow our footprint and expand our existing regional site in Rhode Island," said Mark Barlow, the company's senior vice president of personal investing. "We're increasing the number of client-facing associates to support not only unprecedented customer growth and engagement, but also our associates who work hard every day to help our clients. Expanding in Rhode Island gives us access to a talented and educated workforce in the Ocean State to fill these positions that are new to this market for us."*

*Applicants to the new jobs will not need to be licensed financial professional, Fidelity said. Instead, the company is looking for candidates with "strong customer-service skills, including those working in industries like hospitality and retail that may have been hit hardest by the pandemic."*

*That's just a small part of [why Fidelity is number one](#).*

**Action Line:** *If you haven't already [escaped the city](#), consider a trip to the country today to scope out your future.*

P.S. Read more about how I got my start at [Model Roland & Co. back in 1971, and gold's 50-year price explosion](#).

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# The Single Worst Market Timing Event in History

Attempting to time the market could be the most popular mistake among market participants. Here's what I wrote about market timing back in January 1997:

*Panic!...*

*History has been made. Since the exact summer Dow low of 5346.55, the Dow has soared an amazing 21.9%. Never in stock market history has the Dow added 1,000 points so fast. As a cap to the monster four-month surge, the Dow Jones News Service headlined a lead story with, "November Point Gain Was Largest Ever for the Dow." To anyone who was foolish enough to sell stocks in front of this tidal wave, the bailout goes down, in terms of points, as the single worst market-timing event in history.*

*How have you fared? With a history-making, four-month supercharged gain under our belts, now is the right time to take a little investor inventory. Are you on board with my serious long-term battle plan? Or are you running from rock to rock like most investors, dodging bullets as in an old Tom Mix western? Well, you needn't be bushwhacked by savage market swings.*

Even professionals can get market timing wrong. Later in the same piece, I wrote:

*[H]ere is a tragic example of market timing at its bankrupt worst. At the end of 1995 and the opening days of 1996, the*

*fund manager for the biggest U.S. equity fund made a massive timing/sector bet by switching the fund's biggest positions into long bonds instead of equities. In effect, he created a balanced fund for mostly unknowing investors who had largely invested in Magellan Fund as a way to participate in equities through smart stock picking. Well, the mammoth timing/sector bet was a disaster, and the fund manager is now history. And Magellan, the worst performer among the big 10 equity funds year to date, has beaten not one of its nine competitors.*

Successful investing is primarily all about compounding, time, and patience. It is more about intuition and less about anything else. And it is more about diversification and less about selection. It is all about doing less and not more.

Below, you can watch *Riders of the Purple Sage*, filmed in 1925, starring Tom Mix, Beatrice Burnham, Arthur Morrison, Warner Oland, and Wilfred Lucas. The film, directed by Lynn Reynolds, was based on the novel of the same name by Zane Grey, published in 1912 by Harper & Brothers.

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## CAT 5: Prepare for Hurricane Lee

Hurricane Lee has strengthened to a Category 5 storm and is barreling through the Atlantic on course to hit America's East Coast. Right behind Lee is Tropical Storm Margot, which is also expected to reach hurricane levels. *First Coast News* reports:

*It's very active across the Atlantic basin, but thankfully there are no local threats in Jacksonville within the next*

week. Remember to stay updated this time of year as the historical peak of the Atlantic hurricane season is approaching.

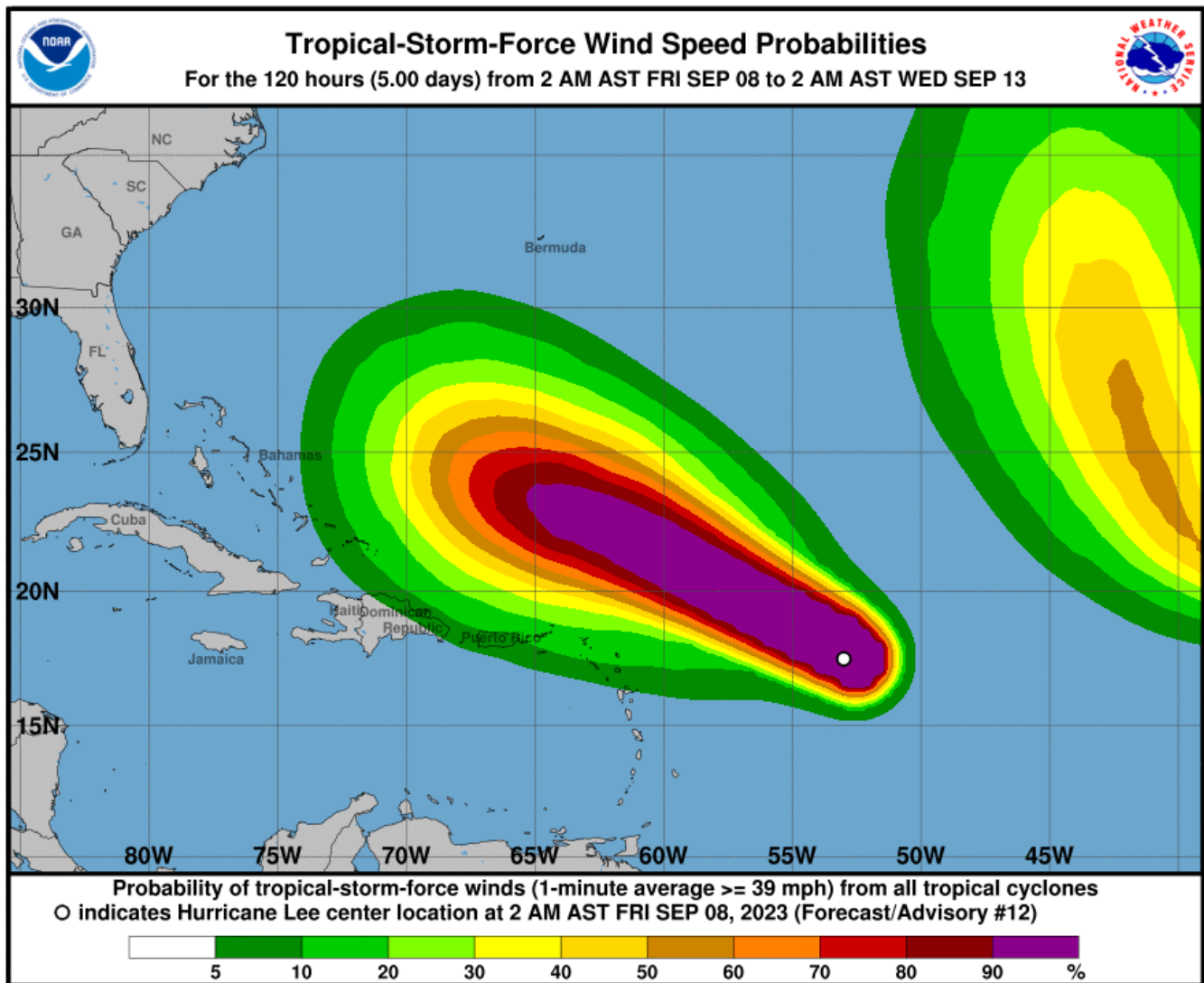
Tropical Depression 13 has formed in the Atlantic, and it is forecast to become a major hurricane by Saturday. We are watching it closely as models suggest it could head towards the Caribbean, or travel just north of the islands and near the Bahamas by mid-next week. It is too early to tell how this could impact the East Coast of the United States, but it is something to watch closely. Guidance continues to be strong on the development of this area as it moves west this week.

Hurricane Florence was said to be a “guaranteed fish storm” in its early beginnings in 2018, but the forecast changed and it ended up making a direct impact on the Carolina Coast. Not that this current system we’re watching won’t re-curve, but Florence does serve as a reminder to not write these tropical waves off too soon. Stay tuned for updates.

There are two other areas we’re monitoring as well, but do not pose a concern to us at this point. Post-Tropical Cyclone Franklin is located several hundred miles north of the Azores and is forecast to move quickly southeastward towards warmer waters east of the Azores. Another strong tropical wave is forecast to move off the coast of West Africa on Tuesday and head toward the Cape Verde Islands.

It’s already been a very active season. Normally by now, we’d only have 7 named storms. Instead, we’ve already had 11 (12 if you include the one unnamed subtropical storm in January), which is more typical for October 2.

Read more [here](#).



# Inflation Is Improperly Defined

In August 2009 I wrote:

*I do not believe in cost-push inflation. By example, union pressure to increase wages is not an inflationary event. An economy will adjust for higher wages without a general increase in the level of prices across the economy. Inflation is strictly a monetary event: i.e., too much money chasing too*

*few goods. Milton Friedman was the dean of the monetary inflation fraternity. Whenever you come across an article on M.F., be certain to read with care as you will improve your understanding of a lot of things.*

Writing for *Real Clear Markets*, John Tamny echoes my sentiments, and those of Milton Friedman, that inflation is a monetary event, writing:

*To witness the search for actual inflation (a decline in the monetary unit) among economists and pundits is like watching a hunt for green M&Ms in a bowl full of yellow ones. It's futile.*

*Which is something to keep in mind with "inflation" well in mind. Searches for it will be fruitless, misleading, or both, so long as the problem (inflation) is improperly defined. And improperly defined it is.*

*Consider the focus on wages at the moment. Supposedly rising wages are evidence of inflation. Don't you get it? If people have more money to spend, spend it they will on the way to rising prices. Except that it's not as simple as economists and their lickspittle media enablers make it out to be.*

*If employees have higher wages, logic dictates that someone is paying those higher wages. It's not as though the funds directed to workers are pulled from another planet, or picked off of a tree on which they grow. For an employee to receive more pay is only mathematically possible insofar as the employer has fewer dollars. In other words, even if you believe that rising wages cause higher prices born of "demand," you can't ignore that someone, somewhere has reduced "demand" born of funding those higher wages.*

*Prices are no different. If chicken breasts are pricey, and they seemingly are at the moment, life is about tradeoffs. If*

*chicken breasts are enjoying increasingly sizable wallet share, logic dictates that some other market good (perhaps popsicles) is being left behind at the grocery store as a vivification of the truth about tradeoffs.*

*Back to wages, logic dictates that they would rise the most amid a lack of inflation. Which is kind of a statement of the obvious. Compensation doesn't just happen any more than jobs are "created" or just "happen." Jobs are an obvious consequence of investment in new businesses and/or new ideas altogether. And when investors invest, they're plainly pursuing future returns in terms of a monetary unit, in our case the dollar.*

*From the above it's no reach to conclude that investment would shrink amid periods of currency devaluation. Put more bluntly, inflation is anti-investment. Really, why would those with title to money put it to work in search of returns coming back in dollars that are shrinking in value? Why indeed.*

*Still, lost-in-the-stone-age economists and the pundits who hang on their every word believe higher wages cause inflation. They don't. To say that higher wages or higher prices cause inflation is like saying upset stomachs cause chocolate. Causation is plainly being reversed.*

Read that last paragraph again. Then watch Milton Friedman's Money and Inflation talk given at the University of San Diego in 1978 below.

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# DeSantis Calls CBDC Central Authority an Obvious “Wolf”

In a recent interview with John Stossel, Gov. Ron DeSantis explained that some wolves come dressed in sheep's clothing, so you don't see them until it's too late. Others are obvious. DeSantis says the problems with the central authority granted by central bank digital currencies (CBDCs) are obvious. In his words, “This is a wolf coming as a wolf.” Stossel reports:

*President Joe Biden and the media are excited about something new: a Central Bank Digital Currency, or CBDC. It's a currency like Bitcoin, except controlled by the federal government.*

*Not everyone is a fan.*

*“Sometimes government does things that may appear to be benevolent but really are kind of like a wolf in sheep's clothing,” says Florida Gov. Ron DeSantis in my new video. “This is a wolf coming as a wolf.”*

*For months, I've tried to get DeSantis to sit down for an interview. What finally got him to agree was government's plan for digital money.*

*“If you don't trust central authority,” DeSantis says, “then you should see this immediately as something that is very problematic.”*

*Of course, a lot of people do trust central authority. The Biden administration says a CBDC will “protect consumers, investors ... and the environment.”*

*“That last one's a tell,” laughs DeSantis, “they would impose ideology certain criteria ... ‘You're filling up too much (with gas). Wait a minute – climate change. You can't be doing that!*

*You bought another firearm? No, no, no.'"*

*Canada's government used its banking system to control people when truckers protested vaccine rules. The government blocked their bank accounts. That stopped the protests.*

*DeSantis is so upset about the Fed's and Biden's plan for a CBDC he just got Florida's legislature to ban its use in their state.*

*I ask, "This will be a national issue. Why is it the business of a governor?"*

*"This is part of our role," he responds, citing federalism. "There's a back and forth between the federal government and the states. We're pushing back about things we don't think are good."*

*DeSantis questions the CBDC's legality. "The Federal Reserve has come out and said, We would only do it after 'consulting with the legislative and executive branches. Ideally, we'd get specific congressional authorization.' Wait a minute! It's not ideal that you get Congress. That's what the Constitution requires!"*

*Of course, the media is enthusiastic about a government-controlled CBDC.*

*CNBC says it will be "as trusted as cash, as convenient as a payment app, yet also benefit from the same blockchain technology which underpins cryptocurrencies."*

*"When I started talking about some of the dangers from privacy," DeSantis tells me, "the corporate press ... all of a sudden (said) 'DeSantis is trying to promote conspiracy theories!'" MSNBC even called it "unhinged conspiracy theory."*

*DeSantis wonders why the media even care. "Is it really*

*because they are really that invested in cross-border transactions?" he asks. "Of course not. It's because this is something that could help them advance their ideology of having more central authority ... over the average American."*

*I push him, "America's going to fall behind!" The Wall Street Journal says America's financial system is outdated and CBDCs will modernize it.*

*"Oh, please," DeSantis sneers. "They want to move to a cashless society, which would basically mean the Federal Reserve, Treasury Department would have supervisory jurisdiction over all of your transactions."*

*"Cash is independence," adds DeSantis. "You have the cash in your wallet ... It's not dependent on somebody else."*

*In other words, cash is private. So is cryptocurrency, like Bitcoin. People can buy gas and guns without using government money at all.*

*Advocates of government digital money don't like that.*

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## **What Do You Know About Vanguard's Wellesley Income Fund?**

I was recently asked some questions about Vanguard's Wellesley Income Fund by a business associate. Below is a short summary of the questions and my answers.

**The first question was, “Who manages Wellesley Income Fund?”**

The answer is Wellington Management Company, which I have had dealings with from my earliest days in the industry at Model Roland & Co. on Federal St. in Boston, where I began work in August of 1971. Wellington was founded in 1928 in Boston, and is one of America’s oldest institutional money managers. The two Wellington managers currently tasked with managing the Wellesley Income Fund are Loren L. Moran, who has been with the fund for six years, and Matthew C. Hand, who has worked on Wellesley for two years.

**The second question about the Wellesley Fund was about how the fund is organized and diversified.**

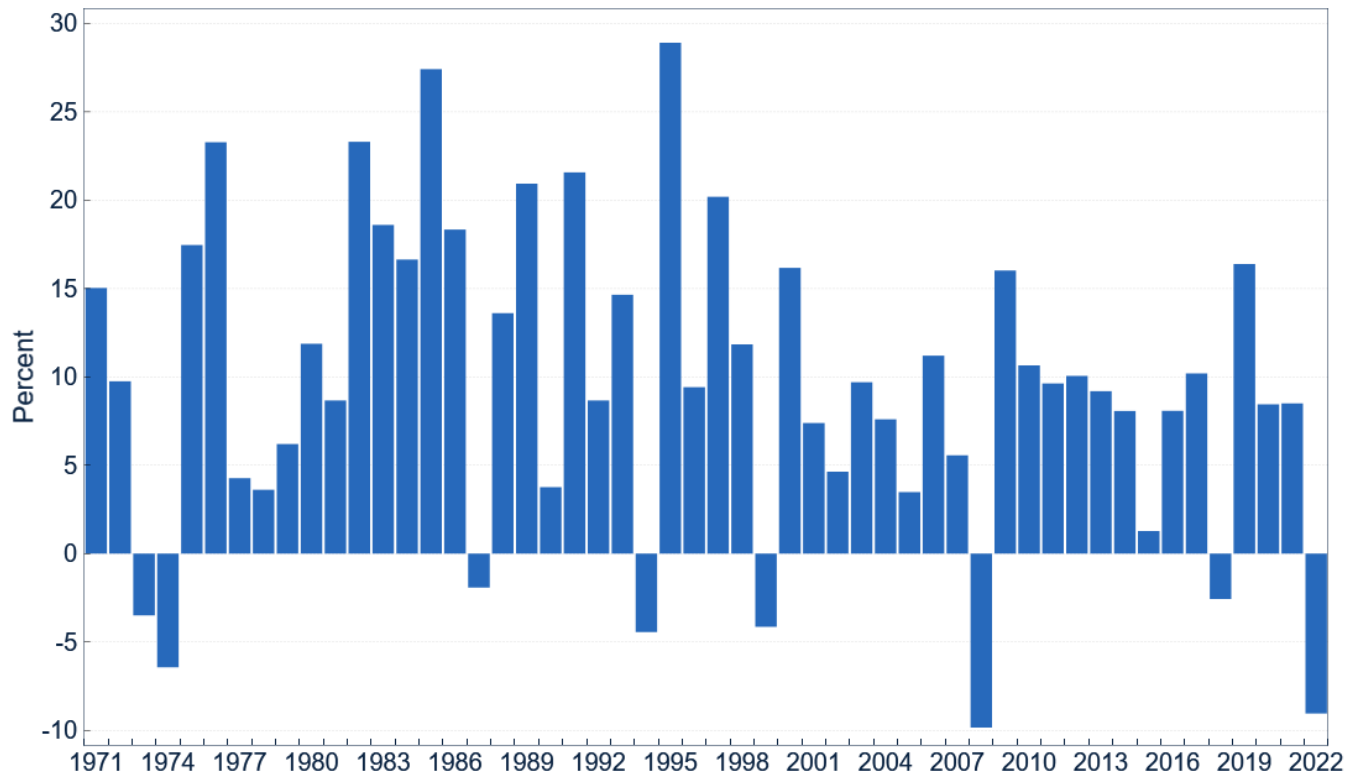
The fund is organized into bond and stock components, with 60%-65% of the fund allocated to bonds, and 35%-40% allocated to stocks. Wellington invests the bond component in “short-, intermediate, and long-term investment-grade corporate bonds, while seeking to maintain an aggregate intermediate duration.” The stock component is invested in “large-company value stocks with above-average dividends and potential for income growth.” The portfolio usually holds fewer than 100 stocks.

**The final question from my associate was about Morningstar’s rating for the Wellesley Income Fund.**

Morningstar has assigned a rating of five stars to the Vanguard Wellesley Income Fund. That’s the highest rating Morningstar assigns to mutual funds.

# Vanguard Wellesley Income Fund

Total Return



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