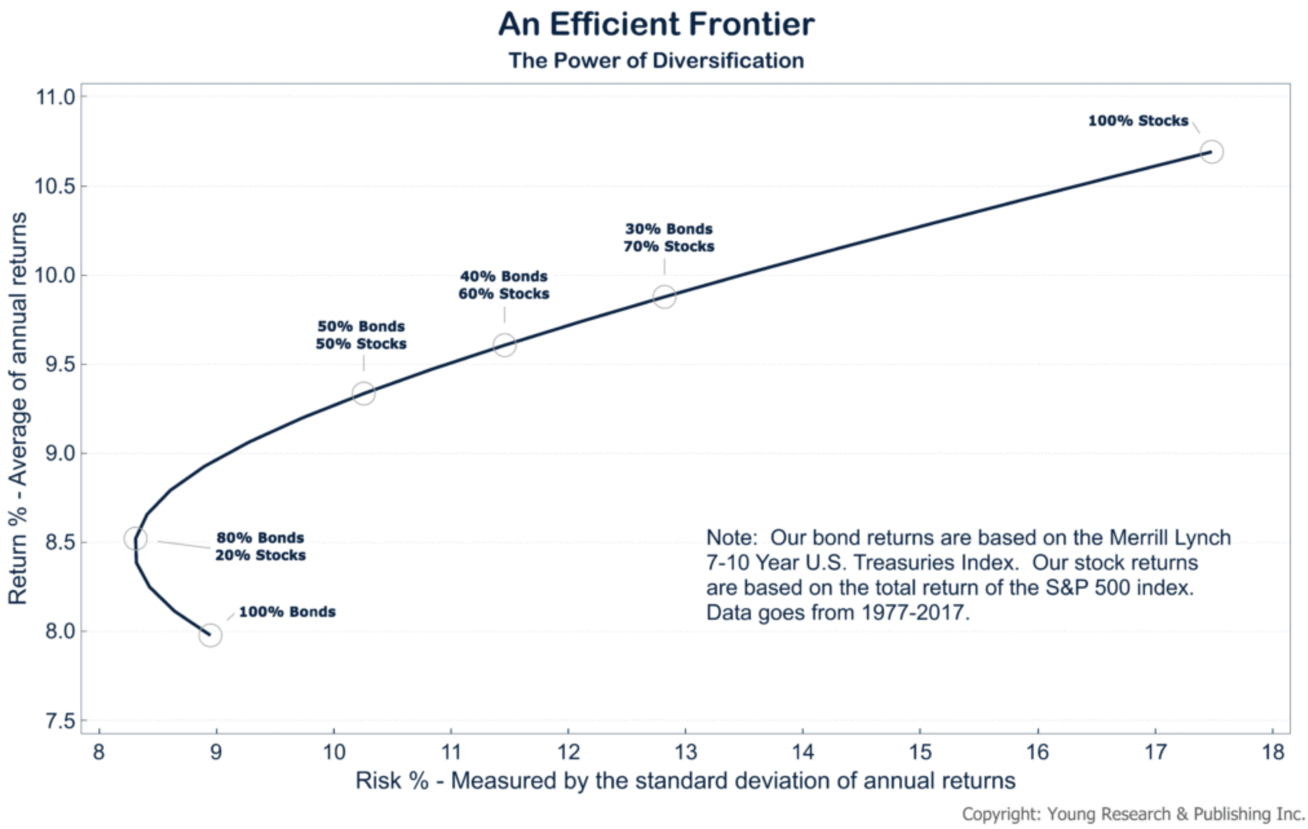
Witness the Raw Power of Diversification

Diversification isn’t only a tool to minimize losses when assets fall in value, it has the power to actually increase your return while lowering risk. Here’s how I explained it in December of 2015 (with the chart and associated text updated to 2017):

> *Calculating the Efficient Frontier*
>
> *You need to look at your asset deployment from the top down, focusing on diversification between stocks and bonds. My Efficient Frontier display shows you the power of diversification. Note the left-to-right uphill slanting curve that initiates with a position of 100% bonds and terminates with a position of 100% stocks. We have made our calculations using the Merrill Lynch 7-10 Year U.S. Treasuries Index and the S&P 500 total return index from Young Research for the period of 1977– 2017. We calculate the Efficient Frontier by using annual returns and assuming annual rebalancing.*



Draw 1% per Quarter

Where is your best fit along an Efficient Frontier? To answer, you must first establish your ability to absorb risk in the hunt for returns. For decades I have written that in retirement, your target should be a 1% per quarter draw from your portfolio, and not a penny more. This does not mean, however, that you should not position yourself to potentially exceed 1% per quarter returns. Your actual return over any quarter will be controlled largely by the climate of the financial markets at the time, which neither you nor I control. And the climate itself will be determined by the stage of the economic and monetary cycles. I have studied these cycles over five decades and keep you updated regularly. The winter stage of the upside economic and monetary cycle is here, to be followed by a period of discomfort in the economy and the financial markets.

If you need help creating a well-diversified portfolio, fill out the form below. If you do, a trusted senior member of my family run investment counsel team will contact you. You will be offered a free, no-obligation portfolio review and an explanation of how we can help you achieve your investing goals.

Don’t Be Shaken Out of the Market on Bad News

There are many investment maxims worth repeating, but one especially important today is *don’t be shaken out of the market on bad news*. Those are the ten words of advice I gave to investors back in June of 1991 in the midst of a recession, and I haven’t found a reason yet to doubt their value.

I told readers then:

> *The best time to make money in the business cycle is when recession is in place. Interest rates always decline during a recession, just as they have in the present one. And the stock market always explodes with its biggest cyclical gains during the heart of recession.*
>
> *When was the low for the Dow in the current business cycle? It was last October with the Dow reading below 2400. Many investors busily sold common stocks last August as military hostilities broke out in the Middle East. That, of course, is the kind of move that kills nervous investors in every cycle. You don’t want to be a seller on bad news, and you certainly don’t want to trade out of stocks in a weakening business environment. Open your history book and you’ll find that every recorded bull market started in the teeth of recession.*

Recently I began a monthly business cycle review asking "Is America on the Doorstep of Recession?" My answer today is no, but I hope you will follow along with me as I examine the evidence each month.

Don't be shaken out of the market on bad news. Remain invested or you'll miss the market's best performance.

Can You Double Your Money in a Year? Fail at this, and You May Need To

Can you double your money in a year? Not many people can. But if you lost 50% of the value of your portfolio, that's exactly what you would need to do just to make it back to even.

If the prospect of trying to double your money sounds unappealing, I suggest you try not to lose that much in the first place. On this topic, I wrote in November 1994:

> *Unchanged Since the Twenties*
>
> *According to BBC television, the Classic Coke bottle, the VW Beetle and AGA Cooker are the three finest industrial design achievements of the 20th century. You know the Classic coke bottle, you know the VW Beetle, but the AGA Cooker?*
>
> *Contemporary stoves pale by comparison to this handcrafted, cast iron cooker that quickly becomes the heart and soul of any kitchen it inhabits. Available in a handful of vibrant enameled color, the heavily insulated, gas-fired AGA has no*

temperature controls and is always on.

In most kitchens, 80% of cooking is done on the stove top and 20% in the oven. With an AGA, the reverse is true—80% or more is done inside. Externally vented ovens prevent cooking smells from returning to the kitchen, while gentle radiant heat produces superb cooking results—never, ever dried out.

The AGA works on the principle of stored heat within the well-insulated cooker; your job is to simply choose the temperature you want from one of four separate ovens.

This timeless, handcrafted work of beauty, functionality and simplicity was designed over 70 years ago and remains virtually unchanged since the 1920s. For more info on the incomparable AGA Cooker, [visit www.aga-ranges.com].

Timeless describes the AGA's design, and timeless is the first word I use to describe my investment principles for you. I hope you will embrace my timeless set of investment principles; they will allow you a lifetime of investment rewards.

As a serious, long-term investor, I want you to always consider risk before profits. Never forget, when you lose 50% on an investment, you must double your money next time out just to get even. And even then, you have earned zero return.

Reducing risk in your portfolio is the best way to prevent wild swings that could generate losses you can't come back from. Focusing your efforts on diversification, dividends and interest, and on companies in industries with high barriers to entry can help you reduce risk in your portfolio. It's hard to double your money in a year, but it's easy to get started on reducing risk in your portfolio today.

The Three Best Retirement Decisions I Ever Made

In April of 2004, I explained to readers three decisions about retirement that I was very happy to pass on. I wrote:

> *Long ago, I made three decisions that I am happy to pass on to you regarding retirement: (1) Don't. (2) Live in a warm weather state. (3) Live in a warm weather state without a state income tax and with a homestead exemption. My clear choice for #2 and #3 was and is Florida. We've been homestead exemption Key West residents since 1992.*
>
> *Debbie and I have traversed the complete 360 degrees of Florida. We don't travel inland much. After all, if the choice is being near the water or not, it's a no brainer, don't you think? In that I write specifically to business owners, retired investors and conservative investors soon to be retired, all can benefit from my ongoing Florida intelligence seeking.*

You probably want to stop working eventually. And you may enjoy the cold weather. And you may even enjoy the mountains more than the water. Even if you disagree on the three points I explained back in 2004, it's important that you find the right retirement plan for you, and that you begin working towards it today.

If you need help achieving your retirement goals, my family-run investment counsel firm can assist you. If you fill out the form below, you will be contacted by a seasoned member of my staff, who will discuss your retirement plan with you, and provide you with a free, no-obligation portfolio review. We can help you achieve your retirement goals, even if they are different than mine.

Retirees *Still* Cannot Afford a Walloping

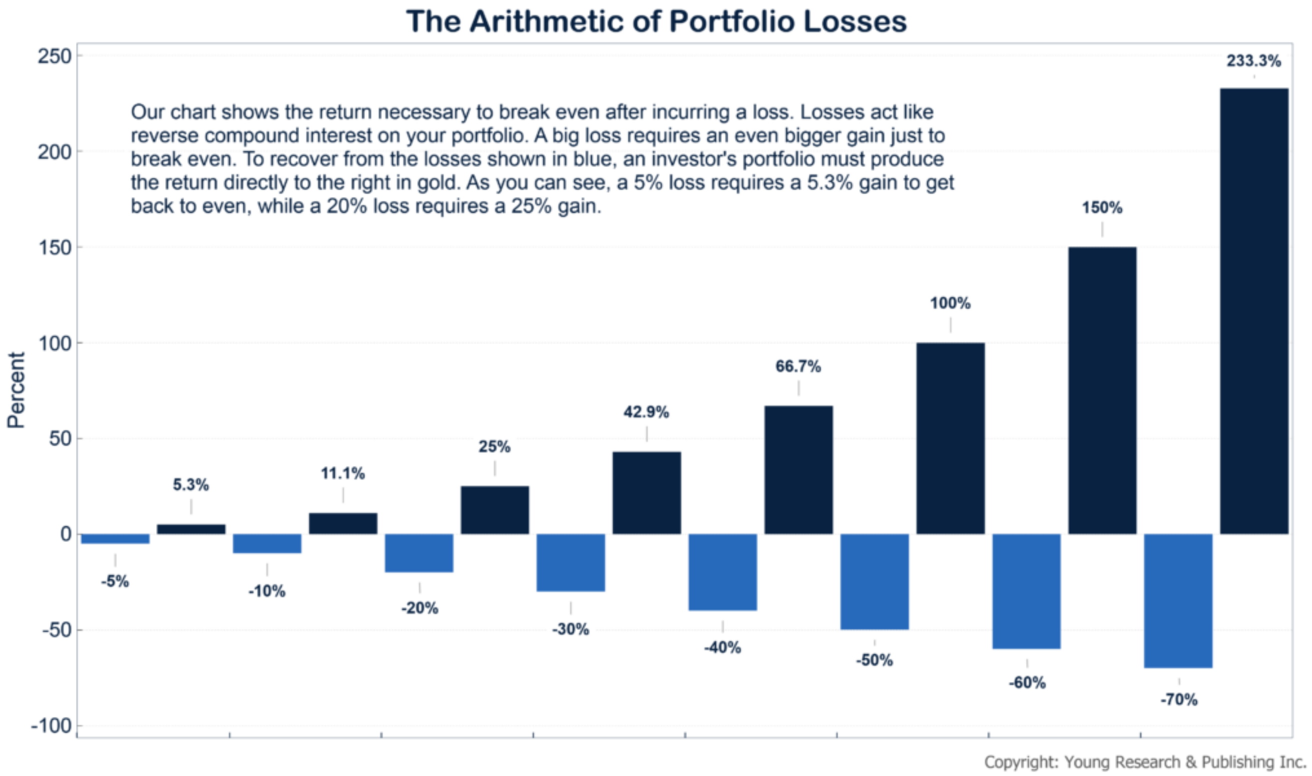
With securities markets in a heightened state of volatility, it’s a great time to ask yourself how exposed your portfolio is to risk. Most investors, if asked, would be able to provide little detail about the risks to their portfolio. If you find yourself unable to answer, that’s ok.

It’s Not Too Late, Yet

Now is the time to begin assessing the risk in your investment portfolio. If your holdings are not balanced to help you achieve your goals, you should begin shifting them as soon as possible, because, as I wrote in April 2017, retirees cannot afford a walloping.

> ***Retirees Cannot Afford a Walloping***
>
> *Back in 1989, I said, “let capital appreciation come as it will.” Unlike dividends, capital gains don’t show up every year. Since 1960, the S&P 500 has recorded 17 down years, with one of those down years coming in at a stomach-churning 38%, two in the 20%–30% loss range, and seven additional years that recorded double-digit losses. Retired or soon-to-be-retired investors simply cannot afford to get walloped with double-digit losses without a steady stream of dividend income to soften the blow. The last thing you want in a bear market is*

to be forced into selling shares at the bottom to fund living expenses. Steady, increasing dividends provide the cash flow and comfort necessary to ride out down markets. Investors who bail at the bottom decimate their portfolios and are forced into playing a game of "catch up" to get back to even.



You can see on my chart the return necessary to break even after incurring a loss. Losses act like reverse compound interest on your portfolio. A big loss requires an even bigger gain just to break even. To recover from the losses shown in black, an investor's portfolio must produce the return directly to the right in blue. As you can see, a 5% loss requires a 5.3% gain to get back to even, while a 50% loss requires a 100% gain.

If you need assistance in rebalancing your portfolio, fill out the form below. You will be contacted by a seasoned professional from my family run investment counsel firm, Richard C. Young & Co., Ltd. who will perform a free, no-obligation review of your current portfolio.

Most Investors Fail to Learn This One Thing

Through more than half a century of guiding investors in their efforts, the greatest failure I have seen is an inability to learn from history. Repeatedly market participants set unrealistic goals, use overly complex strategies in an attempt to achieve those goals, and inevitably fail. In February of 2013 I explained this phenomenon, writing:

> *The Needy Investor*
>
> *Most investors, I'm sorry to say, are greedy, lack perspective and even a modicum of patience, and simply will not embrace the ultimate power of compound interest. I have found that too many investors fail to learn from history and attempt to use projected portfolio appreciation to make up for past beatings or to meet unrealistic spending targets. These investors are what I refer to as needy, and hope is used as their strategy. They eschew common sense and reality, and are always reaching and grasping at thin air. I have found it impossible to influence this group of investors and have long since given up the effort. Both a former Harley mechanic and my current Harley mechanic have told me that they were breaking down Harleys since they were little guys. I have watched what they do with amazement, much as I do with the many jazz musicians I have studied over the decades. Whether a Harley mechanic or a jazz musician, it's an aptitude one is born with. The same is true for the intuitive investor. Investors like you have the propensity to do the right thing. Investors who are needy will never get on the right track.*

Keep It Simple, Stupid

Your next step is on the fixed-income front. You want short maturities and short portfolio duration. On the equities side, you want solid, blue-chip dividend payers with a propensity for increasing dividends. You want entrenched blue chips featuring a high barrier to entry. You never deviate from such companies. You do not guess market swings and market-time. You swear you will be patient and not greedy. Am I clear here? You may be a genius or know a genius that has a better master plan than mine. Great. But four decades ago, Ron Hoenig hired me to work at his institutional research and trading firm where he told me that he specialized in the KISS (Keep It Simple, Stupid) principle. Ron turns out to have been correct at every turn, and today, on your behalf and mine, I continue to stick with the SIMPLE approach.

In your efforts to invest successfully, I can give you no greater advice than to 1) don't be a needy investor who sets unrealistic goals, and 2) keep your investing strategies simple and understandable. It should not be difficult for you to explain your investment strategy to your 10-year-old grandchild, let alone your spouse.

My Answers to Two of the Most Common Investment Questions

During my 55 years in the investment business, two of the questions I have received most often while talking clients and customers, are "Should I get out of the market?" and "How should I weight my portfolio?"

The answer to the first question is easy, no. Stay invested. Jumping in and out of markets will only make you miss days you'll wish you hadn't.

The answer to the second question is straightforward but might take more discipline on the part of the investor to implement. It is *balance*. You should always aim for a portfolio that works to counterbalance risk. Here's how I explained balance and staying invested in September 2013:

> ***Harleys, Records, and Winchesters***
>
> *It was 1957, and I owned all three. Today, 56 years later, I still have a Harley. The very same Winchester sits on a rack four feet from where I am writing to you. And my record collection could fill a closet. My current Harley is not the same old oil dripper from 1957, and my portable RCA record player has been replaced by an AR/Dyna system from the '60s (still pretty vintage). On my desk is the single investment book I have ever relied on, Ben Graham's Security Analysis, published 51 years ago. So a lot has stayed the same for me for over 50 years, since I first entered the investment business. There has been no reason for me to change my basic approach. I continue on making timely adjustments depending on the economic and investment climate at the time. Here is my approach in a nutshell.*
>
> ***As Always, Stay Invested, Stay Balanced***
>
> *I rely on balance, compound interest, low turnover, dividends, and interest. That's it. I do not market-time, and I stay invested in a finely tuned and balanced all-weather fashion. I have written in the past that I can be your economic and financial market weatherman, but I cannot be the weather. I tinker with my portfolio based on conditions as I read the daily tea leaves. I add to my portfolio to maintain balance. And I stick to a basic group of dividend- and interest-paying*

> *securities that I have followed for a long time. I invest to receive a stream of dividends for compounding. My annual returns show a general pattern of consistency with much less volatility than many other approaches.*

Commit yourself to staying invested and to keeping your portfolio balanced. You'll be glad you did.

The Fourth—and Most Dangerous—Investment Super Cycle of My Career

I have now been working in the investment industry for 55 years, and over that time I have lived through four stock market super cycles, including the present, and most dangerous one. I explained the four cycles in March 2011, writing:

> ***Stock Market Super cycles***
>
> *I assure you, I do not plan to get gored on the next angry charge. Here is exactly how to look at things. Read and re-read what I am going to tell you here, and remember this stuff for the rest of your life. Since I got into the investment business, there have been three completed big cycles swings in the stock market. Cycle number four has now begun.*
>
> *The first cycle featured a nasty run-up in interest rates that ended with the 1981/1982 recession. During this period, the T-bill rate neared 20%, and the Dow ended 1981 below its year-end 1965 level. Not so good for cycle #1.*

> *Cycle #2 kicked off at the outset of the 1981/1982 recession and ended as the decade of the ’90s came to a close. It was a great two decades for stocks and bonds, as interest rates collapsed.*
>
> *With the new century, cycle #3 got under way. It was a roller-coaster ride in interest rates: rates declined in the early years of the new century, rose in the middle of the decade, and fell back to complete a final cyclical trough. The stock market completed a volatile 10 years right back where it began, with no net gain in the decade. Cycle #3 was a loser.*
>
> *OK then, in the first three stock market super cycles, we had two losers and one winner. Now what? As cycle #4 is forming, interest rates could not be lower. The cyclical bottom has passed. The rate on Fed funds is basically zero. Savers are being paid squat while the Fed fraudulently subsidizes the Wall Street banks at the expense of America’s thrifty, retired savers. It is a travesty.*

That fourth super cycle is still underway. Savers aren’t being paid enough, and interest paid to savers is set to decline before it rises.

In tricky investing times like these, it is important for investors to manage risk. If you are looking for ways to do that, fill out the form below. You’ll be contacted by a seasoned member of the team at my family run investment counsel, Richard C. Young & Co., Ltd. They can conduct a no obligation portfolio review for you, examining strategies to help you avoid risk.

Four Questions You Should Ask Before Investing in Stocks

Investing wisely demands due diligence. While there are certainly thousands of variables affecting any investment decision, narrowing down your focus with some broad questions can help you get started. In August of 2003, I encouraged investors to start with these four questions. I wrote:

> ***Ask These Four Questions***
>
> *As I've written, the first four questions I ask about a company concern dividend increases, share decreases, debt reductions, and cash accumulations. Many managements decry each of my benchmarks, pleading that the reinvestment of cash is best for shareholders long-term; that actual share increases, as well as the buildup in debt, bring in more capital for expansion; that cash can't possibly be a productive asset. You and I both know that there are management teams that win with such a strategy, but there are far more that do not.*
>
> *There is ample historical evidence that investors are better off with dividends. Evidence suggests that managements are far less successful in reinvesting cash than is portrayed. As for debt, Microsoft has been pretty successful sans debt. And, by the way, has a cash horde of over $46 billion (not a typo).*
>
> ***Scrap Growth Stocks***
>
> *If you stick with my four-part formula, you will bypass most of the hot growth stories. I am not a fan of the growth-stock concept. I'll take my four-part mini formula any day. I can assure you with great confidence that any company that increases its dividend year after year, steadily reduces its number of shares outstanding, regularly reduces its debt load,*

> *and accumulates a healthy cash horde is doing a lot of things right. This progression indicates conservative management. It’s the type of investment that makes sense for seasoned, conservative investors likely to have a strong affinity for my basic investor tenet: diversification and patience built on a framework of value and compound interest.*

Learn more about my dividend focused investment philosophy in the monthly client letter of my family run investment counsel, Richard C. Young & Co., Ltd. You can sign up for the letter by clicking here. It’s free, even for non-clients.

The Simple, Elegant Power of the Retirement Compounders

Long time readers have surely heard about my Retirement Compounders® portfolio. I don’t publicize the securities included in this strategy anymore, but it is still an integral part of my family run investment counsel’s planning toolkit.

Here’s what I wrote about the simple elegance of the Retirement Compounders® strategy in December of 2010:

> *Durability, Ease of Use, and Reliability*
>
> *I t was minus 5 centigrade on December first, my 72nd birthday, as we departed Kabul, Afghanistan to be joined by Special Forces ODA 594 in the 2001 hunt for bin Laden. My personal gear included one AK-47 and seven magazines of 7.62 ammo. It would be my final combat mission. So recalls Sergeant Major Billy Waugh in Hunting the Jackal. Delta Force Commander Dalton Fury in Kill Bin Laden refers to Billy (a CIA*

contractor) as His Majesty Sir Billy Waugh. Russian Mikhail Kalashnikov developed the AK-47 that Billy relied on in the mid-forties. To this day, it is the most popular assault rifle in the world. I have fired one and can see how the durability, ease of use, and reliability of a Kalashnikov would be such a winner for America's most admired and certainly most senior Special Forces/CIA operator.

The Retirement Compounders Model

Ease of use, durability, and reliability, so vital in a basic firearm, have broad applicability for someone like me who specializes in the keep-it-simple school of thought. The Kalashnikov has been used worldwide for over six decades. The durable, easy to use, and reliable formula I advise for you on common stocks has been my working model for nearly five decades. It also has been the basis for Young Research's specific Retirement Compounders model portfolio since 2003.

Simple Can Be Elegant

My Retirement Compounders model has been in place for nearly eight years. This eight-year period has been hell for investors, as each of us knows all too well. Throughout the carnage, we have not deviated one iota from our reliable dividend approach. Perhaps this is the reason our family-run investment management company has such appeal for seasoned, discerning, conservative investors. Simple can be elegant, as I have found over many decades of doing the same thing year after year.

Find a simple, elegant plan for your own investing. Avoid complex strategies that place too much emphasis on timing and prediction. Remember that any plan worth pursuing should be durable, easy to use, and reliable.