The Right Attitude for Winning Investing

Investing is all about attitude. Are you too eager to take on risk in good times? Too ready to cut and run in bad? Can't commit to an investing plan? Don't have the resolve to stick to a sustainable withdrawal rate?

In early 1999 I talked with the former American League MVP, Boog Powell about attitude. I wrote this that May:

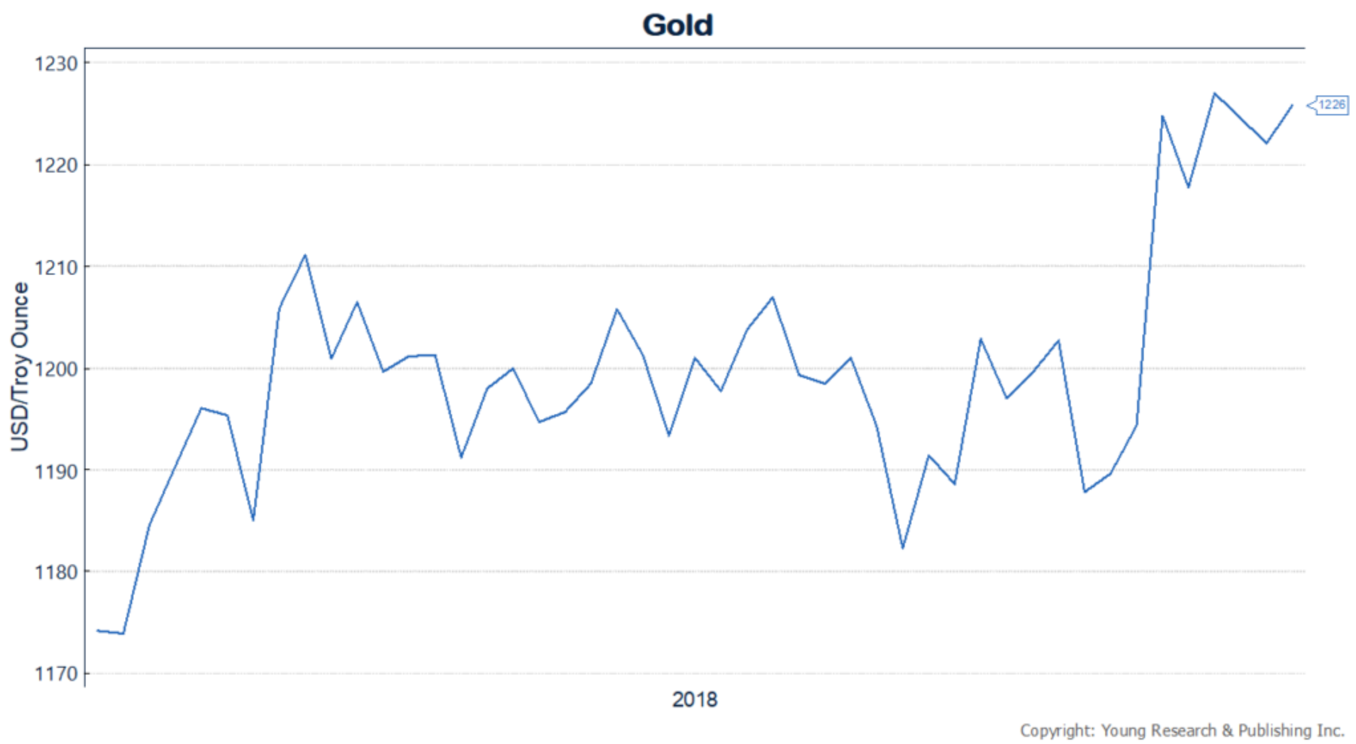
> *I was talking to Baltimore Oriole baseball legend Boog Powell recently. During the baseball season, Boog runs Boog's Barbecue at Camden Yards in Baltimore. Off-season, he is in Key West occasionally as "guest" barbecue celeb at his high-school buddy's local spot. Boog will tell you that barbecue is an attitude. Well, successful investing is also all about an attitude. Your mental framework will go a long way in making you a successful investor. The primo way for you to have a winning attitude 100% of the time is to become a programmed investor. Operate on the premise that the economy grows over time, as do corporate earnings, and thus stock prices. Don't trade in and out. Ride the long wave to prosperity in a risk adjusted way that reflects your age, investment acuity, financial resources, risk tolerance, and need for income from your investments.*

Managing your attitude is the hardest part of successful investing. Keeping calm during market turbulence isn't easy when you're on your own. Working with a professional can make a difference in your comfort during difficult times. If the last week of market volatility has you looking for guidance, sign up for the Richard C. Young & Co., Ltd. monthly client letter (free even for non-clients). Take some time to read through older letters to understand our steady approach to investing.

Getting on the Map with Gold

I have been a longtime supporter of including gold in diversified portfolios. Gold is a safe-haven asset, an inflation and currency hedge, and a hedge against geopolitical turmoil and general market turbulence. It is an insurance policy of sorts. When everything else is down, gold is often up. Gold's counterbalancing effects can dull the pain of a market rout.

We have seen shades of gold's counterbalancing power over recent weeks as both stocks and bonds have sold-off while gold prices have risen.



I've long been an outspoken advocate of owning gold (I say owning because I buy gold and do not intend to sell). I've spoken on gold at conferences around the country, and I have researched and written about gold for nearly 50 years.

Becoming a reliable purveyor of gold insight was no easy trick. At 30 years old I was given a tough, international assignment, and then judged by some of the most demanding names in the business. In August of 2017, I told readers the story of the research breakthrough that put me on the gold map. Here it is for you:

> ### *London, 1971*
>
> *Portfolio strategy discussions and strategizing with the world's biggest institutional clients started for me with a mix of Boston, New York, and London research. My institutional research and trading days trace back to August 1971 with Model Roland & Co. The Boston offices were on Federal St. in the old financial district. I was 30 years old.*
>
> ### *Gold Research for Leo Model*
>
> *By the summer of 1972, I was off to London on a gold/gold-shares research trip. This eye-opening experience gave me access and exposure to the largest players in the international gold market. I met contacts and gained background that would be invaluable to me, and thus to my clients, for the ensuing 45 years. Meetings at Samuel Montague and Consolidated Gold Fields, for example, allowed me to craft a detailed report for Leo Model on gold as a commodity as well as a monetary asset.*
>
> ### *E.M.B. Comes Through*
>
> *Mr. Model thought enough of my report to put it into the hands of no less than America's dean of international monetary experts, Edward M. Bernstein. This was a little unnerving for me as a 30-year old who was prepared for a sour outcome and a lecture from Herr Model, a demanding employer.*

Well, much to my surprise, Mr. Model soon received a note from E.M.B., perhaps the #1 expert in the world on the intricacies of gold: "I think the collection of papers on gold is excellent. It seems objective and pointed. I have no suggestions. … Put me on the list to get what Model Roland puts out on gold."

That did it for me. I was on the map.

Get Rich Slow with This Strategy

Most "get rich quick" schemes end up turning into "get poor quick" schemes. Reach too deep into the risk pool and you're likely to fall in. I knew that 30 years ago, and in 1988 I wrote:

I'm an ultra-conservative investor at heart…and by intent. I know my reputation in the industry puts me in the most cautious camp possible, and that's just swell with me. My motto has always been, "Get rich slowly with compound interest."

At even a 7% rate of return, money doubles in about ten years. In IRA, Keogh and other retirement accounts, over half of total return should come from dividends and growth of dividends.

Dividends are the foundation for any serious investment portfolio. I've told you many times that over the 50-year period, end 1986, the Dow Jones Industrial Average compounded at 4.8%. Dividends on average provide a yield of 4.5%. And *then there is the 4.6% long-term dividend growth rate that combines with current yield to make dividends the focus consideration in any investment-grade portfolio. Look for a yield that is higher than the yield for the average Dow stock (currently 3.6%); look for dividend growth better than the Dow's historical 4.6%; and look for a price earnings ratio (P/E) that is below the Dow P/E (currently 14.2x). If you make it your point to select stocks that meet these three initial tests, you will be well on your way to assembling a portfolio with excellent prospects for long-term total return. Don't be overly anxious about capital appreciation. Let appreciation take care of itself. You want to lock in a relatively high yield and good dividend growth prospects.*

The Dow yields have changed today, and buybacks are a bigger part of the investment picture than they were in those days, but the principle remains the same: get rich slowly with compounding.

Don't Manage Your Money Like This

In September of 1992, I outlined the tragic story of a MLB slugger, Jack Clark who had misspent his money and wound up in bankruptcy. I wrote:

It's Time for Bankruptcy

Not for you of course. No, I'm writing to you about bankruptcy for Jack Clark, Boston Red Sox slugger, but this story carries *a lesson for most of us.*

Now here's a guy—a good guy, too—with a three-year Red Sox contract worth $8.7 million. And yet Jack is bust. He has listed $11.5 million in debts, versus only $4.8 million in assets. Clark owns 18 automobiles, including a $717,000 Ferrari. He dumped over $1 million into the Jack Clark Racing Team and earned next to nothing on it. He owes American Express over $55,000 and Visa nearly $20,000. The guy's monthly statements must look like a J. Crew catalogue. He owes state taxes. He owes Fed taxes. He owes his agents.

You Need to Protect Your Principal First

Here is a story of financial excess that is truly hard to imagine. Jack Clark is a young man who has earned millions. But he did not have a plan for his financial future. He did not even plan for today. And he did not protect his principal.

Remember last month when I wrote to you about not blowing your principal? For many investors, the accumulation of principal may be short-lived, like a professional athlete's, or even a one-time shot, such as receiving an inheritance. That's why it is so important to protect—not plunder—your principal. Jack Clark blew $8.7 million. Who knows what's ahead for Jack Clark, but it will most likely include starting from scratch financially. Had Jack invested along the lines outlined monthly here, his wealth would have increased with consistency, and his financial worries would today be non-existent.

The lesson here is that whether you have $8 or $8 million, you must have a disciplined, consistent plan for your financial future with first priority given to protection of principal.

Clark's story turned from bad to worse this year. At age 62, after earning what was estimated to be $15 million during his long baseball career and working for multiple television and radio sports broadcasters, Clark has filed for bankruptcy once again.

Instead of enjoying what should be a comfortable retirement, Clark is starting from scratch once again. He didn’t protect his principal, he spent it, twice.

Don’t make the same mistakes as Clark. Protect your principal with a disciplined, consistent plan for your financial future.

Here’s the Investing Advice I’d Give a Professional Athlete

This is the advice I gave professional athletes and my readers twelve years ago about how to make your retirement dollars last a lifetime. I wrote:

> *I advise you regularly to invest only for dividends or interest. I want you to insist on getting paid, as I do. If you want to speculate with a portion of your capital, that’s fine, but do not mess with your primary stash of cash. When you retire, your earning years are over. Kaput. You earn no more. Therefore, every dollar you have the day you retire must be treated with the deepest reverence. Treat each dollar as you would a family member. Would you wave good-bye for good to even an extended family member? Well, I guess there might be one or two exceptions, but on balance you would not. The same goes for each one of your retirement dollars. When you spend*

> *your money, it can no longer work for you for the rest of your life. Were I advising professional sports athletes with their huge initial contracts, my first advice would be to invest every upfront bonus dollar in 90-day U.S. T-bills and roll over the T-bills until such time that a suitable conservative, professional registered investment advisor had been selected. I would advise these athletes to not spend one dime of that bonus. No new Cadillac Escalade. Every bonus dollar from day #1 would be sequestered so as to earn dividends or interest for a lifetime. A sports career passes in a flash. And no offense here, but who attended class in college?*

If you need help managing your money to avoid risk, sign up for the Richard C. Young & Co., Ltd. client letter (free even for non-clients) by [clicking here](). Each month my son Matt writes the letter for clients of our family run investment counsel firm. Matt is the President and CEO and has been named one of *Barron's* Top 100 Investment Advisors for each of the past seven years (2012-2018). [Disclosure]() In the monthly letter, Matt explains the decisions we make for clients' portfolios, and how they fit into a broader strategy for risk management. Enjoy!

You'll Never Know It All, But Know Enough

Don't try to be a know-it-all investor. Building a solid foundation on diversification, patience, value, and compound interest, has always worked for me, without having to "know it all."

In December 2003 I explained my deliberate method of focusing on dividends and interest to generate compound interest, writing:

> ***Invest for Dividends & Interest***
>
> *I'm not a speculator or trader, and I don't offer strategies for either group. Work hard, invest your hard-earned savings regularly for interest and dividends, and let your investments breathe. Let them take the air. Let them work for you as a long-term store of value keyed to the miracle of compound interest. Do you have a compound interest table? Please promise me that you will not start yet another year without the world's most valuable investment tool on your desk.*
>
> *You need to be on a specific track in order to ensure your success as a consistent long term compounder of your savings. If I can do it, you can do it. This is especially so since I give you everything you need to be a winner in my monthly letters. As such, I'm darn deliberate about what I recommend to you. I clearly and consistently lay out strategies for both of us. I don't mince words. You know exactly where I stand. We are on the same team. I beat on a handful of topics to the point of badgering. That's because 40 years of experience have shown me what works and what doesn't. I'm excited to be reinforcing these concepts for you each month because I know you benefit from the consistency.*
>
> ***Key West-Style Consistency***
>
> *As I've written in the past, my strategy for us both is not a know-it-all approach. Rather, it is know enough. I insist on keeping it easy and simple. Friends of mine own a neat restaurant here in Key West. This special place has won a Zagat Award for two consecutive years, which, I'm told, is quite rare. Located on the corner of Olivia and Elizabeth, the little white restaurant is the savored province of locals who try to keep good ideas to themselves. My friends' answer to how they have achieved such great success? Consistency.*

Consistency is also the guiding light I shine for you each month, ad nauseum, I'm afraid. Consistency, of course, is about risk management and my basic investor tenet of diversification and patience built on a foundation of value and compound interest.

Emerge from the Investment War a Winner

The simple act of avoiding major losses by diversifying my portfolio and focusing on value and compound interest has allowed me to emerge from the investment war as a winner. It can work for you too if you have the patience and endurance for such a strategy. This method is all about risk management, something I wrote about in December of 2003.

> ***Dead Aim…***
>
> *"When the difference between life and death can be counted in milliseconds, you need every advantage you can get. Which is why SureFire developed its Special Operations series to be the best extreme-duty tactical illumination tools in the world."*
>
> ***Risk Management Defined***
>
> *When SureFire asked operators what they wanted, the company was told a light that could survive a halo insertion or a midnight raid on a crack house. Operators wanted SureFire to deliver a light bright enough to find and blind suspected adversaries. SureFire handhelds can be used as non-lethal "force options." As the company likes to say, "Shine a SureFire in a suspect's eyes, and he's out of the fight." The*

company understands that you might not be a Special Forces operator hunting for terrorists in an Afghanistan cave to benefit from the retina-searing white light produced by the 500-lumen M6 Millennium. And you may not need a SureFire weapon light for your Heckler & Koch, Colt, or SIG submachine gun, but, then again, you may. But Special Forces operators around the world take dead aim with SureFire illumination tools as the ultimate in risk-management tools.

Invest for Consistency

Every Special Ops fighter knows that on any mission risk management is the first order of duty. It's a basic military tenet that also works as a basic financial tenet. Why then do so few investors seem to know anything or care about risk management? Usually because of (1) greed, (2) lack of training, and (3) pressure from salesmen, who account for most of the assets held by individual investors. I'm often shocked when I hear what an investor owns in his or her retirement portfolio. For the most part, investors own portfolios of securities that have been sold to them. It's true. There's no way to sugarcoat the deal: Most investors simply own a pile of rubbish.

For four decades, I have been a consistently successful investor, practicing my basic investment tenet of diversification and patience built on a foundation of value and compound interest. I'm sure you can dig up folk who will at least tell you that they make more money than does Dick Young. Perhaps this is the case, but my conservative, balanced approach is suitable for investors who want to avoid debacles and emerge from the investment wars with a comfortable nest egg in retirement.

Market Timing: A Long-Odds Loser's Bet

It can be easy to forget the lessons of the past as the current bull market seems to run infinitely onward. Overextended stock market valuations have a habit of correctly quickly and unexpectedly. Once the crash hits, it's often too late to rebalance a portfolio into more defensive sectors.

Market rebounds have a similar time horizon. Once investors realize markets are on an upward trajectory, many of the best days of returns have been left behind. If you are caught out of the market, waiting for that perfect moment, it's already gone.

To avoid the dangers of market timing, develop a strategy that meets your individual goals and objectives today, and implement it rigorously throughout the market cycle. In January 1997, I called market timing a long-odds losers' bet. Here's what I wrote back then:

> *A Startling Expose on Market Gambling*
>
> *The seminal statistical study on market timing was produced by Towneley Capital Management and reproduced by T. Rowe Price for shareholders. The study covered a 7,802-day trading period from 1963 to 1993. It showed that over the entire period $1 invested grew to $24.30 (in a capitalization-weighted composite of stocks traded on the NYSE, ASE and NASDAQ). If, however, an investor missed just the best 40 days, or only 0.51% of the days, $1 grew to only $6.50. Over 73% of the three-decade gain was blown by missing just the 40 best days. You get the picture. It's a long-odds loser's bet trying to jump in and out of markets. You simply can't afford to miss*

those few best days, as has been the case for those who have missed the last four months.

When I started in the investment industry in 1964 working for Ed Rosenberg at Clayton Securities in Boston, Dreyfus was king of mutual funds. Today, Dreyfus is less prominent, but still a fine group. Dreyfus offers a nice quantitative fund, Dreyfus Disciplined Stock Fund. The fund's literature details the fund's disciplined approach to stock selection along with its view on risk management.

Dreyfus writes, "The fund seeks to neutralize unpredictable investment risk in a number of ways. The fund's managers are currently committed to the following risk management principals: (1) No market timing, and (2) No industry or economic sector bets." No doubt Dreyfus' managers had their hands on a study of cumulative returns done by competitor Vanguard using S&P/BARRA Growth & Value indexes.

The Guru Investment Trap

Over the last few years you have seen just how badly so-called gurus can get a prediction wrong. The complete failure of "experts" to predict Brexit, the election of Donald Trump, and even the economic implications of a Trump Presidency are good examples of how seemingly sound predictions can lead folk astray.

Market predictions are the same. In May of 1995 I warned readers away from placing their faith in forecasts with a little set of examples I've quoted for you here:

Last fall when I told you that 1995 would be a decent year for the stock market, I was not making a prediction. Rather I was making an observation based on history. In my lifetime, every year before a presidential election has been good for the stock market. Along with this historical tidbit, I knew that corporate insiders were raising dividends to shareholders like crazy while buying gobs of their own stock. All in all, a pretty tasty stew was in the pot.

Was my positive view the prevailing wisdom? No indeed, quite the opposite. Listed below are three forecasts from late 1994 and early 1995, each from a well-respected source. Consider the following in light of the 1995 stock market bull run.

***Forecast #1**: "Technically this is one sick market. Maintaining or adding to investments at this time is a very risky proposition. We continue to advise that new subs reduce exposure and quickly move toward a 95% cash or T-bill allocation."*

***Forecast #2**: "The long-term outlook remains negative. Our weekly high-low differential gauges are in very poor shape. This is yet another sign that these Dow rallies are masking the incredible technical weakness lurking beneath the surface. We feel it's crucial you remain in a defensive position."*

***Forecast #3**: "Is this the beginning of an emerging bull market? We don't think so. The majority of our indicators continue to give off bearish readings and until there is evidence to the contrary we'll continue working under the assumption we're in a bear market that has further to run."*

Well, what the word? In my book, it's 0-for-3. Not a helpful prediction in the lot, and all three wide-of-the-mark projections were made by seasoned, thoughtful analysts.

Rather than relying on predictions to guide your investing, depend on a strategy that reduces risk, increases income and supports compounding.

The Three Word Secret to Sound Investing

If you aren't getting paid regularly for your investment in a company's stock, you are taking it on faith that someday, at the precise moment you need to sell to generate cash, the price will sit at a gain for you. Buy low, sell high, right?

But what happens if there is no "high?" Stock prices can remain depressed for agonizingly long periods of time. From year-end 1965 – 1981, the Dow Jones Industrial Average was down 10%. Investors who were counting on capital appreciation to fund a comfortable retirement were short changed.

Meanwhile, those investors who demanded a margin of safety in the form of regular dividend payments fared much better.

In November of 1997, I wrote about Ben Graham, the pioneer of the idea of a *margin of safety*, the three-word secret to sound investing. Here's what I told readers then:

> ***Ben Graham's Margin of Safety***
>
> *Graham died in 1976, yet his wisdom is as fresh as if he were standing before us today. Ben Graham & Co.'s advice to investors is to evaluate a stock as if you were considering buying the entire company. Graham's secret of sound investing can be distilled into three words—margin of safety.*
>
> *Why am I focusing on Graham's margin of safety? Because we are*

all happy as sin with the stock market advances of recent years, but I don’t want you to lose perspective. When I was in the institutional brokerage business with Model Roland & Co. in the early 1970s, the Dow fell by 44% in just two years. As bad a year as 1973 was—the Dow fell over 16%—it was only a warm-up for 1974. In 1974, the floor caved in. The Dow plummeted over 27%.

Sixteen Years of Falling Stock Prices

Investors tend to be a little myopic. Many investors are terrific at extrapolating the past into the future. These misguided souls are not investors at all. Rather, they are speculators. Do you know that the Dow was actually down 10% over a 16-year period from its starting point in 1965 to year-end 1981? Do you realize that the yield on the Dow today is less than 40% of its historical average? Stocks are paying an average of only 1.7%, versus the historical average of 4-1/4%. But it’s a new era, you’re thinking. Things are different today. With the Dow at 8100, the old rules no longer apply.

Well, I can tell you for sure, when you’re not getting paid to invest, you’re not getting paid. Pure and simple. Today’s common-stock investor is plunking down his hard-earned money and, in effect, saying, “I will take may gains on the come. Don’t worry about paying me anything today.” It’s the greater fool theory, not investing. I can give you lots of reasons why yield is low today. In the end, you can still say to me, reasons schmeasons, I’m not getting paid! And you would be right.