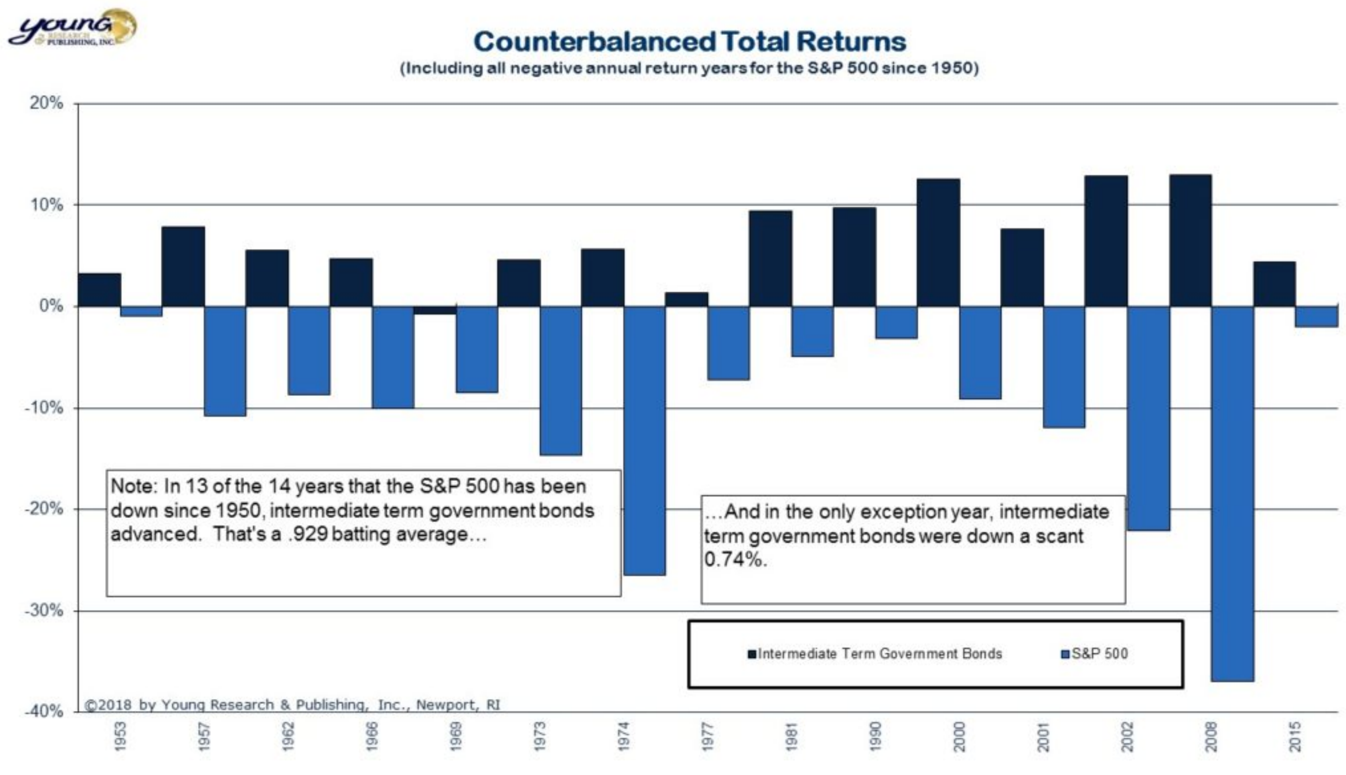
You Must Address the Issue of Risk

What risks are lurking in your portfolio? Calm markets have made many investors complacent. Are you one of them? Far too many portfolios that come across my desk are heavily invested in risky assets (yes, the S&P 500 counts) with no counterbalancing assets to tame volatility. Look at my chart below to gain an appreciation of just how helpful counterbalancing assets can be in your portfolio.

Here you are looking at the performance of intermediate-term government bonds (dark blue) in years when the S&P 500 (bright blue) lost value. Since 1950, government bonds have been up in 13 of the 14 years that the S&P 500 has been down.



In 1992 I explained to readers a timeless strategy for counterbalancing their portfolios. No matter where you are today in your investment journey, you must address the issue of risk in your portfolio. Read here what I wrote in 1992.

Regardless of your age or ability to take risk, your investment portfolio should be dominated by common stocks (equities) and related open- and closed-end funds on one side, and U.S. Treasury securities and related mutual funds on the other side….

Maintain balance in your portfolio and do not switch back and forth based on your view of the markets. I don't want you to be an events-of-the-moment shopper. Emotions are difficult to deal with when investing. If you allow emotions and events of the moment to dictate your investment thinking, you will frequently find yourself drawn to do just the wrong thing at just the wrong time in the market cycle. The old buy high, sell low advice lives on.

Designate a fixed percentage of your portfolio for Treasuries and related mutual funds and a fixed percentage for equities. Your age, financial resources, ability to take risk, and need for current income will combine to dictate how you should balance the two. In broad terms, my advice to you is to keep more than half in equities if you are a younger investor, and more than half in 1-10 year Treasuries if you are an ultra-conservative, income-oriented retired investor. Each of you has a different investment profile, so it's impossible for me to give you precise percentages. Your key is to set down your needs on paper, make yourself address the issue of risk, and then position your portfolio in two parts. Make changes only if your basic investment goals change.

You maintain balance because you do not have a crystal ball. Each day when I buy The Wall Street Journal, I look to see if tomorrow's date is on the masthead. Unfortunately, it never is, but it does emphasize that neither you nor I ever has tomorrow's headlines.

> *It is the unknown that drives the financial markets over the short and intermediate terms (months to quarters). Unless you are a fortune teller, you must accept short- and intermediate-term swings in the markets created by transient and unknown events. You do not want to invest based upon emotions created by events. Instead, invest with an understanding of the long-term principles of earnings, dividends and economic growth that in the end must govern the markets for financial assets.*

If you need assistance realigning your portfolio, or if maintaining balance takes too much time and effort, seek help. Firms like my family owned investment advisory service can take the weight of every-day management of your investments off your shoulders. If you want to learn more about the ways a Barron's Top 100 registered investment adviser (2012-2017) Disclosure is managing risk for its clients, read through the Richard C. Young & Co., Ltd. monthly client letters here. If you wish, you may sign up to receive an alert each time the newest letter is released. The service is free, even for non-clients, so you can easily gain an understanding of our risk management philosophy.

Don't let inertia hold you back from addressing the risks of unbalanced investments in your portfolio. Act now.

What Should You Buy?

Even after a mini-correction in the S&P 500, most stocks still aren't cheap. So what should you buy? In 1991 I wrote that utilities offered outstanding relative value compared to other securities.

> *Utilities Offer Outstanding Relative Value*

Three industry groups should be emphasized for new purchases in your portfolio over the next few quarters: electric, gas and telephone utilities. My number one mutual fund portfolio manager (this month's spotlight), Vanguard Equity Income Fund's Roger Newell told me recently that electric utilities are now his top industry choice with 18% of his $450 million portfolio now in utilities. Roger Newell is buying electric utilities—18% of his $450 million portfolio—because he feels the 1991 run-up in growth stocks and cyclical stocks has drained money from the utilities, and they now offer compelling relative value.

Today, outstanding would be an overstatement when referring to utilities' relative value, but there are some interesting opportunities to be had within the sector for the discerning investor. As always, a focus on dividends and dividend growth will serve you well over the long haul.

A Winning Strategy: Stay in the Game

There are endless cliches about never giving up and quitting being the surest way to lose. Finishing a race is a prerequisite to winning it. My son-in-law, E.J. Smith, managing director of our family run investment council firm, recently explained some of the philosophy behind what it takes to develop a winning investment strategy on his blog Yoursurvivalguy.com. He wrote:

"E.J., Has Your Phone Been Ringing off the Hook?"
Well this was a fun month for the stock market with wild swings from high to low of around 2,000 points in the Dow

Jones Industrial Average.

One question I'm asked on a consistent basis is "E.J., is your phone ringing off the hook?" and my answer is "no," and I know why. Most of you have been educated by Dick Young that investment success is achieved over a lifetime, not a month or two. Investment success is about hitting singles and doubles, taking some walks here and there and sometimes getting hit by a pitch. Staying in the game is key. It's a winning strategy because it puts compound interest into play. Spend a lifetime compounding money on a consistent basis and you'll wake up one day and say "Wow, I have a pile of money." It's funny, when I ask investors how they achieved their success. They don't talk about the stock market. They talk about working long hours, putting one foot in front of the other, showing up for work every day and s-a-v-i-n-g as much as they could save. Looking back 40-years, they know how tough it was to save $1,000. Compound that at 8% and it's $21,725 today. Not a bad start.

Click here to finish reading this post on Yoursurvivalguy.com.

Quality Always Rises to the Top

Back in November of 1990 many investors were nervous about their portfolios. Iraq had invaded Kuwait and war seemed inevitable. That month, the UN Security Council passed Resolution 678. The resolution gave UN members the go-ahead to use force to remove Iraq's military from Kuwait if it remained there after January 15, 1991. It seemed only a matter of time before a big war would break out. Aerial bombardment of Iraqi positions began January

16.

Despite the fear that pervaded markets, I was very confident then in my investment portfolio, as I am today. I had built a portfolio conditioned to survive maximum distress. I was focused on the long-term prospects of my investments, not how they might be affected by transitory events. While expressing my focus on the long-term, I also explained my enthusiasm for investing in collectibles, specifically vinyl records. I wrote:

> *I like to invest in collectibles, not just in stocks and bonds. What once was the biggest record store in New England, the Harvard Coop, today sells no records, not a single one. Within 12 to 24 months, you will be hard pressed to find a record in a store. Even the old specialty vendors are facing such a decline in sales that they will soon become extinct. Forget new records—few if any will be made. We are told that the digital technology of CDs is what we need, and at substantial price premiums to records.*
>
> *Let me give you some important advice. Records will be back in style and with a rush as collectors and music aficionados finally realize that they've been had just a little. Yes, digital technology offers a clarity of sound missing on records from the 1940s, 50s, 60s and 70s, but digital also delivers a sonic deficiency. Digital does not have the warmth of vinyl recordings. The sound records produce is warmer. I consider myself to be somewhat of an expert on the subject with nearly 1,000 albums, stacks of 45s, and over 400 CDs. I've made the test often, and I hear a warmth from records not available from CDs.*
>
> *I buy jazz and group harmony R&B records from the 1950s, and they are now darn hard to find. All my classical and show-tune aficionados know what I mean. …*
>
> *45 Records From the 50s Can Cost Hundreds of Dollars Each*

The U.S population is aging, is retiring early, and has money. With time on their hands, the surge in retirees will make the nostalgia/collectibles market boom. The records you like will not be available readily and will not be reprinted in record format—and the chase will be on. I'm seeing prices on 45s from the 1950s soar. Try to buy a Wrens or Valentines 45. You'll pay hundreds of dollars per record, if you can find one. Jazz, rhythm and blues, classical, and show tunes will lead the way. If you have an interest in any of these four types of music and like to collect, think vinyl, because your old favorites are going to become as rare as a balanced budget—and mighty expensive to boot.

Prescient, no? Baby Boomers and Millennials are today fulfilling my November 1990 prediction of a revival in vinyl records. Drawn in by a quality and warmth lacking in CDs and MP3s, Millennials have joined their Baby Boomer parents in fostering a vinyl resurgence. Quality has risen to the top.

My portfolio of high quality investments rose to the top during the market jitters of the Gulf War. And when the dotcom bubble burst, it powered through again. As the Great Recession hit, my high-quality portfolio persisted, suffering much less than the average. And I suspect that my portfolio, still focused on interest paying fixed income and reliable dividend payers, will succeed once again in the face of any new market upheavals. Just as vinyl has outlasted the advent of digital music technologies, a strategy focused on low risk and consistent returns will outlast an artificial bull market powered by low interest rates.

I stick to my investment game plan, and employ the same strategy for clients of my investment advisory, Richard C. Young & Co., Ltd. The firm's President and CEO, my son Matt Young, discusses taking stock of your investment goals and sticking with them in his most recent monthly client letter here (you can sign up for the letter here for free, even if you're not yet a client). I encourage you to read through Matt’s letter and assess your own risk tolerance and game plan.

As for collectibles, my current focus is on Burgundy as an investment. You can read about my extensive research on the subject in these posts from Richardcyoung.com:

- **Wine Investing—Burgundy or Bordeaux?**
- **On the Ground in Burgundy with Dick Young**
- **In Burgundy, It’s ‘Raze the House, Plant more Vines’**
- **Blue Chip Burgundy Prices up 31%**
- **Burgundy or Bordeaux?**

Your First Step Toward Investment Success

For over four decades, I have offered strategies and insights to help individual investors like you. My primary goal, whether in my monthly strategy reports, at investment seminars, or for current clients of my money management firm, has been helping investors achieve long-term investment success.

What you buy, what you sell, what price you pay, and which strategies you pursue all matter for your investment success, but they aren’t the most important steps in the process. Focusing first on what the “good buys” are is putting the horse before the cart.

What’s your goal? First define what investment success means to you and your family. Next, determine how much risk you can or want to take in your portfolio to achieve that goal.

Does investment success mean doubling your money in five years, even if that requires a portfolio with neck-snapping volatility and nights awake in a cold sweat? Or are you like me—a more patient investor who is more interested in preserving wealth and letting the power of compounding work its magic over time?

Ask yourself how much risk you can take or want to take.

The success I want you to embrace comes from compounding and patience. I invest guided by the principles embraced through the decades by Benjamin Graham, Walter Schloss, and David Dreman.

Dick Young's Research Key: Anecdotal Evidence Gathering

Originally posted September 5, 2017.

After a nearly 40-year sabbatical, I am pleased to announce that a newly reconfigured *Young's World Money Forecast* is set for its revival. Investors will have a cutting-edge, unique global investment tool that they can draw upon daily.

If your life savings, your business pension fund, or your company IRA program is based on the historical research, writing and advice from Dick Young, you will be off and running with *Young's World Money Forecast* (YWMF) back on your side.

YWMF is aimed at investors like you who hold dividends, interest, and compounding front and center in the investing process. I will continue to be on your side as I have been for so many international and domestic investors since my initial YWMF days in 1978. I want you to feel like you are part of an exclusive investment club.

My research and writing for the past 50 years has been built on the twin powerhouse, high-octane engine of inference reading and boots-on-the-ground anecdotal evidence gathering. In 1992, when Debbie and I bought our first legendary Big Twin Harley Davidsons, much of my anecdotal evidence gathering was conducted on two wheels. After 120,000+ miles and more than 25 years on the roadways and byways of North America, we have put the kickstands down on our Harleys for the last time. (They will be auctioned off sometime this fall for a charity event that supports Wounded Warriors.)

Since 2010, Debbie and I have moved much of our anecdotal evidence gathering to Europe, centering on twice-annual research trips in Paris. We just returned from a two-week sweep through France, the Baltics, Scandinavia, and St. Petersburg, Russia. Talk about a shocker of a trip, which I'll get into in my upcoming e-missives. It ain't what you read.

To receive an instant announcement of the eagerly awaited return of Young's World Money Forecast, sign up here. And, of course, you are under no obligation or risk. We do not release our roster of names of club members to anyone—ever. After all, that's the advantage of a private investment club—integrity and privacy.

Membership in Dick Young's unique club for serious international investors will cost nothing—not today or ever. Why is that? Because there's nothing I love more than researching and analyzing for our investment management company on the ramifications global affairs and politics have on safe, sensible investing. What I hate more than anything is the hype, unethical advice, and pie-in-the-sky greed foisted on investors.

You have been with me for many years, if not decades, and I appreciate the thoughtful notes I've received over the course of our time together, especially recently with my retiring from writing *Richard C. Young's Intelligence Report*. I thank each of you.

I am inviting you to join my exciting new investment project. After 40 years, it’s liberating not to be tied down to a monthly deadline with its archaic snail-mail delivery system and resulting delay. From the time I finished writing and the publisher fact checked, formatted, and sent the issue to the printer, it took nearly two weeks before subscribers received IR.

With YWMF, you’ll get the latest in my thoughts on world affairs/investments as they happen. It’s just that easy. And I nearly forgot to mention, in this escalating age of social media and Internet intrusion, you’ll never see an outsider’s annoying pop-up ad/video/jiggling whatever on my new YWMF website. No outsiders allowed!

Welcome aboard.

Warm regards,

Dick