The 6 Basic Investing Principles That Will Make You a Winner

There are six basic investing principles that, if followed diligently, can make you a winner. I wrote about these principles in the fall of 1991, and if you are one of my long-time readers who has stuck to them, like me you have achieved investment success. If you are a newcomer to the investing philosophy of Dick Young, I can tell you that this is how I operate, and it has worked for me year after year.

Here are the six principles that made me a winner in the investment battle:

> ### *Six Guiding Investment Principles*
>
> *It’s a regimented, slow and steady progression. Not much spinning, but through the years, a lot of weaving. I’ve been a winner in the investment battle, and you can be a winner too, thanks to six basic investment principles:*
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> 1. *SAFETY: I don’t lose my money. I’ve not taken a meaningful loss in my near 30 years of investing; my biggest was for $5,000;*
> 2. *DIVIDENDS: I emphasize dividends and interest;*
> 3. *COMPOUND INTEREST: I place strong value on the power of compound interest;*
> 4. *FEES: I pay few commissions and sales charges. Rarely do I take a big tax hit because I let my positions alone to grow;*
> 5. *BALANCE: I balance my program rather evenly between U.S. Treasury securities investments and commons stock investments. I don’t try to outguess the markets;*

6. *SIMPLICITY: I keep it real simple.*

Why a Balanced Portfolio is a Winner

Back in October of 1998 American markets were recovering from the Long Term Capital Management crisis. The Fed had organized a bailout, and things were getting back to normal. It felt like a good time then to remind investors of the benefits of a balanced portfolio. I wrote then:

> ***Why a Balanced Portfolio is a Winner***
>
> *As I have written often, my own target and my goal for you is a long-term total return of 10% to 11% (after fees and taxes). This target may sound conservative, but trust me, it is aggressive and not easily achieved. To have any shot at achieving this target, expenses and taxes must be kept to rock bottom. This requires diligence, patience, adherence to a strict game plan, proper diversification, and portfolio balance. The mix of 60% stocks and 40% bonds meets my return goals (note the 10.3% below). At the same time, it cuts volatility and risk. (The single worst year showed a 14.3% loss, versus 26.5% with a 100% stock portfolio.) It's a mix most conservative investors will love and should deploy.*
>
> *Diversification and portfolio balance are the foundation on which you build your portfolio.*

I continued later to also caution readers against allowing emotionalism to govern their investment actions:

> ### *Emotionalism is an Investor’s Meanest Foe*
>
> *Events of the moment should never be part of the investment mix. I price my portfolio once a year at tax season (because I must). Beyond this tax-related housekeeping chore, I pay little attention to prices. Most of what I own, I have owned for a long time. I know how things are going month to month and find it counterproductive to rustle through my holdings regularly. You’ll be amazed at how comfortable you can become with a hands-off approach. You sure as heck will pay a lot less in commissions and taxes. And you will defeat what is every investor’s meanest foe—emotionalism.*

A decade of ultra-loose monetary policy has sent interest rates into the tank, and with them the prospective returns on bonds, stocks, and assets of all types. My new working target for a balanced portfolio is about half of the old target. I do continue to advise a balanced approach for most investors. Balance helps investors avoid making the emotionally charged investment decisions that often sabotage portfolio performance. At my family run investment counsel firm, our focus is on crafting balanced cash flow-centric portfolios.

If you’d like to learn more about how Richard C. Young & Co., Ltd. helps clients invest their money in a balanced portfolio, sign up for my son Matt’s monthly letter to clients (free even for non-clients). Matt is president and CEO of Richard C. Young & Co., Ltd. and has been named one of *Barron’s* Top 100 investment advisors for each of the last five years (2012-2016). Disclosure

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My 3 Step Portfolio Check Up Plan

Back in August of 1993 I laid out a three step portfolio check up plan for investors. If you answer these three questions, it should give you a decent idea of how your portfolio should be positioned at the moment. I wrote:

> *Few investors realize that you can keep your portfolio in shape simply by asking (1) Are short-term interest rates moving up or down on a trend basis? (2) Is inflation advancing or declining on a trend basis? (3) Is the economy expanding or contracting? You don't need to go beyond these questions for help in balancing your investments portfolio in any cycle.*

The answers to those questions today are:

- Short term interest rates are finally moving up after being held low for years by the Federal Reserve.
- On trend the rate of inflation has been accelerating since early 2015, as measured by the government's somewhat flawed CPI index.
- The economy is expanding, and faster than it has for some time.

I went on to write:

> *In the 1960s, the Dow gained an average 1.8% per year. In the 1970s, the average annual advance was only 0.5%. In the 1980s, however, the Dow averaged a whopping 12.2% per year. (These average annual figures are exclusive of dividends.) In the 20-year span beginning in 1960, the stock market made little headway. In the 1980s, it was gangbusters. Why the shocking divergence? Interest rates and inflation. A rise in both is bad for the stock market. Both the 1960s and 1970s opened with*

> *low interest rates and low inflation that moved higher during the decade. The 1980s, however, opened with high interest rates and inflation that would, over the decade, fall sharply, triggering a boom in stock prices.*

With rates rising today, and inflation advancing, it would benefit investors to pay close attention when making portfolio allocation decisions.

At my family run investment counsel firm, Richard C. Young & Co., Ltd., clients are served with fully customized portfolios of individual stocks and bonds generating income that will pay their families a retirement wage in good times and bad.

If you'd like to learn more about the strategies employed at Richard C. Young & Co., Ltd., I encourage you to sign up for the monthly client letter (free even for non-clients). In it, my son Matt, president and CEO of the firm and one of *Barron's* Top 100 investment advisors for each of the last five years (2012-2016) Disclosure, explains the strategies and decisions made in client portfolios from month to month. You won't be disappointed.

When Investing, It's Better to be a Leper than a Lemming

During my five decades of investing, I have more often than not been arguing against the going wisdom of the markets. To call me a contrarian would be accurate. Leper investor also fits.

In December of 2001, I explained what I called "Leper Investing," to my readers.

> ***Leper Investing***
>
> *In order to invest successfully over your lifetime, you need to act counterintuitively; that is, against the prevailing Wall Street wisdom. You want to buy contrary-opinion names—those stocks loathed, despised, and shunned by the institutional magnets. Your caches of lepers will generate above-average returns for you when you exercise patience. You must be ahead of the curve to invest this way. You must have vision and patience and be able to look over the horizon. Most often, you will want dividend-payers.*

Later I went on:

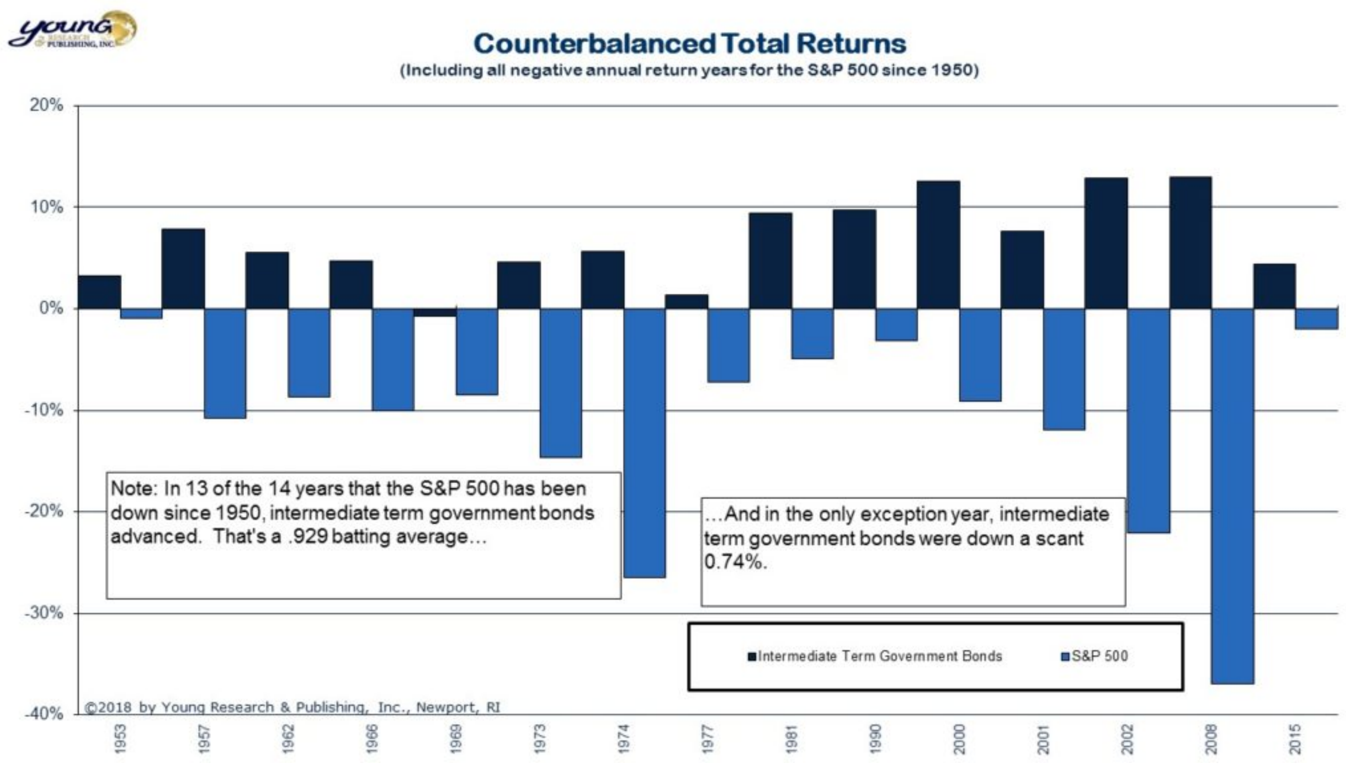
> *I've suggested that conservative investors buy only dividend-paying stocks. I can't emphasize this rule strongly enough for you. My Retirement Compounders program is built 100% on dividend-paying equities. Ben Graham, the father of value investing, said, "One of the most persuasive tests of high quality is an uninterrupted record of dividend payments." Burton Malkiel, Vanguard trustee, Princeton economics professor, and author of A Random Walk Down Wall Street, one of the best books ever written on investing, wrote in his book, "Historically, high-dividend yields have meant better returns…looking for above-average yield is itself a contrarian strategy. Investing in high-dividend stocks therefore is likely to lead you to attractive issues."*

I continue to encourage investors to seek out unloved, forlorn and out-of-favor stocks with a focus on those paying dividends, and with a history of increasing those dividends each year.

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.*
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> *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.*
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> *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.

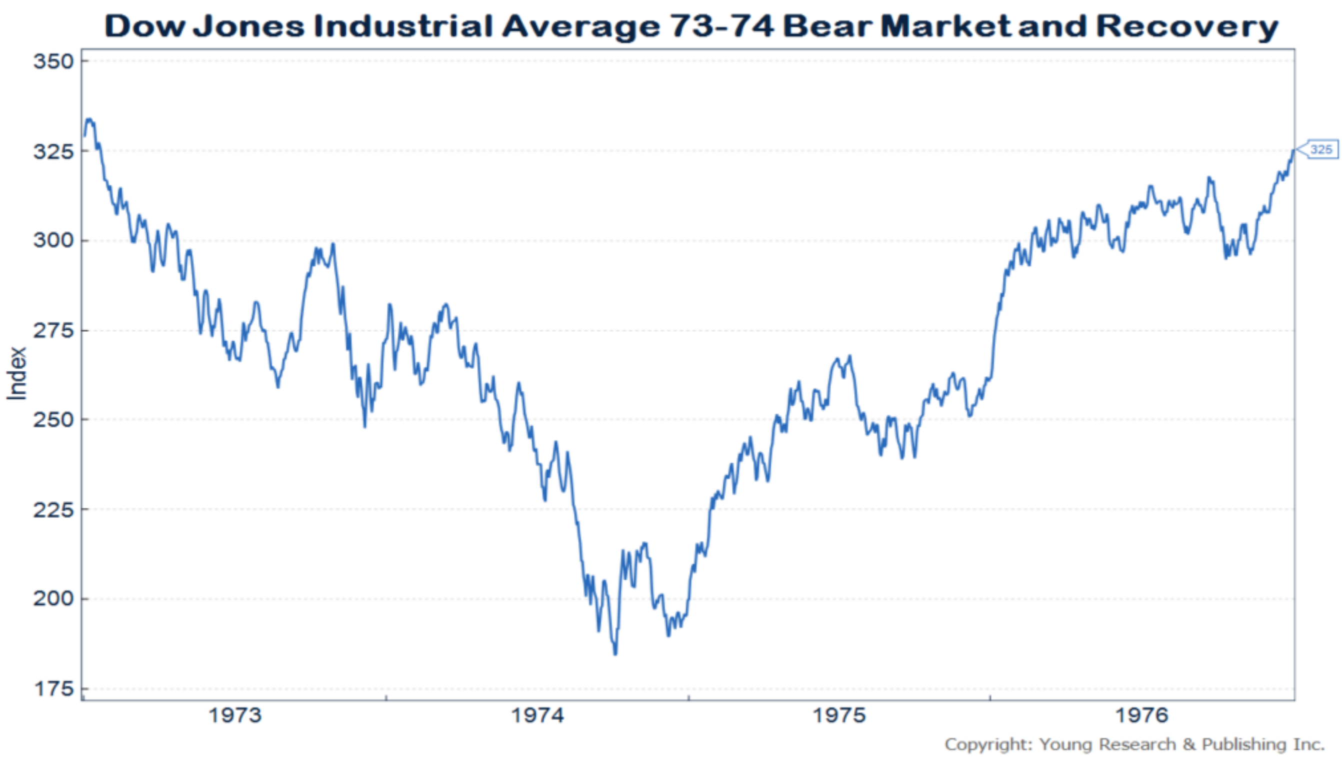
Don't let inertia hold you back from addressing the risks of unbalanced investments in your portfolio. Act now.

Rising Dividends: Decades of Focus on a Winning Strategy

In 1987, I sat down with Bill Lippman for a conversation about L.F. Rothschild Fund Management's "Rising Dividends Fund." Bill had been the founder and president of the Pilgrim Group mutual funds for 25 years before he sold the firm. Bill then moved over to the New York based, L.F. Rothschild Fund Management, at the time a new subsidiary of L.F. Rothschild investment bank. (The Rising Dividends Fund would later become the Franklin Rising Dividends Fund, which still trades today, though this is not a recommendation to buy).

The Rising Dividends Fund focused on what I have been recommending to my readers for years; solid companies with strong records of increasing dividend payouts. I have been focused on dividend payments since my days at Babson reading Ben Graham and David Dodd.

Bill was interested in rising dividends as a way to protect his fund's owners from experiencing the type of punishment in their portfolios they felt in the bear market of 1973-1974. Those unhappy days of "stagflation" saw unemployment of 8.5%, CPI increases of up to 11%, and a drop in the Dow Jones Industrial Average of 46%. Afterward, investors were not eager to have their savings ripped apart again. The pain was so bad that even in 1987 when Bill and I discussed his Rising Dividends Fund, the lessons of 73-74 were still remembered well.



When we talked, Bill said "In 1973-1974, we had a really bad market. It was a disaster…and it went on and on for a couple of years. It seemed like it would never end. One then asks, 'Is there a better way?' As it turns out, yes, there is a better way. You must have a philosophy, and you must stick to it. Don't be the victim of the latest hot story that comes off the tape. And that's what we did that was different. We evolved a philosophy that made sense. We selected companies that increased dividends and had low debt and low P/Es. We wanted a solid game plan that we could follow with comfort through good markets and bad."

My focus for you today, just as it was in 1987, is on quality dividends from companies that are dedicated to increasing their payouts. As part of the RCs program at Richard C. Young & Co., Ltd., and in my recent coverage of the Dow stocks here on *Youngsworldmoneyforecast.com*, I consistently focus on finding companies that do just that.

Another thing Bill said in our discussion that really resonated with me was a piece of advice he gave to all investors "Put down in writing what you really believe in, and then stick to it." I encourage you to do that right now. Don't wait until later, or let inertia allow you to forget. Do it right now. Write down what you want to accomplish by investing, and how you plan to do it. Then stick to it.

Crash!

I have been investing since the spring of 1964, and I do not remember being as uncomfortable with the health of the financial markets as I am today. Given that unpleasant prelude, I also want to advise all investors that my own investing position has not changed since I began investing 53 years ago.

I do not market time, i.e., moving in and out of the markets. I pay zero attention to daily, weekly or monthly price movements and have never made an earnings projection in my life.

I do not keep tabs on the exact value of my own account. My assets are spread around with custodial friends whom I have known for decades. Not a lot changes for me year to year. Dust continues to gather on old portfolio friends, some of which I often forget I own because they have been with me so long. I tend not to break off long associations with old friends, whether individuals or portfolio proxies. More important, I never lose a minute’s sleep or worry about tomorrow.

You may find the Dick Young method of investing boring. If you had any idea of exactly how little money I started with and how much I have today—strictly as a result of interest, dividends and compound interest—you might, for a second, gasp. I do not rate highly in terms of exciting returns. Quite the opposite. *Boring* pretty well sums up the Dick Young lifetime investment ideology.

I have accomplished what I have with only Debbie’s help. I have never had any partners or any debt. And I don’t listen to the views of many, except perhaps those of Dave Hammer, my longest friend in the investment industry.

I am a long way from an investment genius and could probably name countless investment industry folk who are a whole lot smarter than am I. I loved Shaker Heights High School, but rarely studied. Eventually I did graduate, much to my own as well as my MIT-alum father's great surprise.

I have little use for today's Marxist-centric, ridiculously priced college tuition structure or academia in general. Given that, I remain loyal to Babson College, which I loved and where I did study. I actually managed to escape with a great degree due 100% to a newly gained ability to concentrate when I actually cared about the material I was given.

So, as you can see, I have been on a well-worn course for a long time, and, yes, I have learned a lot along the way. You may even conclude that I just might be able to offer you and your family a small bit of intelligence, comfort and support as you proceed along your own investing career. By this time, you probably clearly understand that there are areas where you cannot expect me or my investment management company to be of any help whatsoever.

I started off my warning letter to you with the word *crash* because without a number of prescient moves our much maligned (due in no small measure to his own shoot-from-the-hip tweets) president has made, my projected crash undoubtedly would have already set upon us.

We all have to play the hand we're dealt and, for each of us, the hope is that our individual intuition can carry the day. I wish all of you a Happy New Year—one that benefits you and makes you comfortable given your individual goals and responsibilities.

My best advice to you is to start the New Year off with a brand new resolution:

Do not do stupid things and you will greatly improve your odds

of concluding 2018 with a smile on your face.

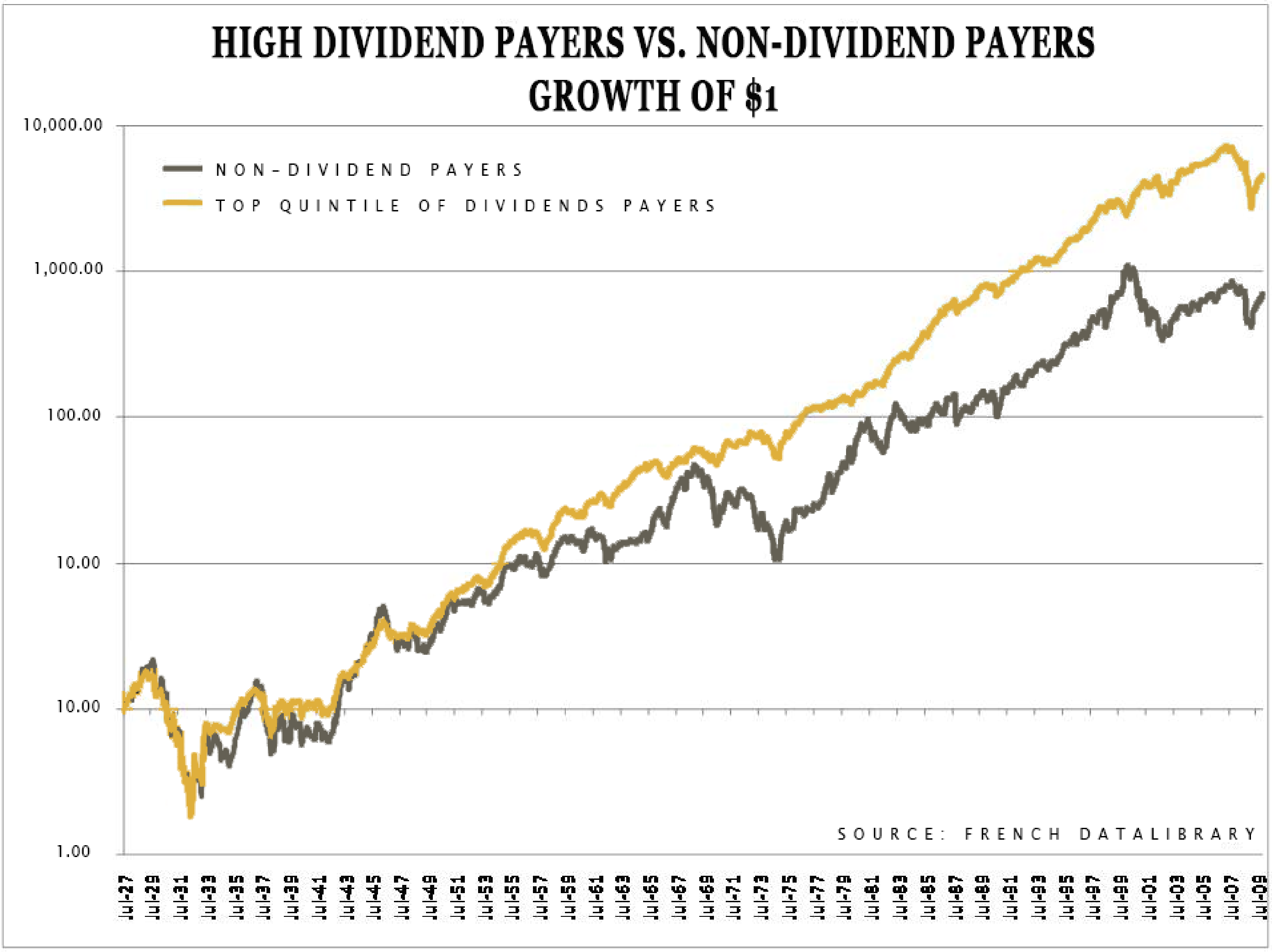
Warm regards,

Dick

A Simple Strategy for Stock Market Success

For over four decades I have used a simple strategy to successfully invest in the stock market. I invest exclusively in dividend paying stocks. I especially favor those with high yields, a strong balance sheet, and a history of annual dividend hikes. This strategy is simple, but it works.

Historically, high dividend payers have outperformed non-dividend payers. In the chart below I show the growth of $1 in non-dividend paying stocks to the growth of $1 in the highest yielding quintile (top 20%) of U.S. stocks. The difference in performance is profound. $1 invested in non-dividend payers in June of 1927 grew to $696. That same dollar invested in the highest quintile of dividend paying stocks rebalanced each year, grew to over $4,500.



You may study my chart and wonder why any investor would bother with non-dividend payers. This strategy is not complicated. Anybody with access to a financial database and some time can run a few screens and come up with a list of candidates to buy. As I see it, the reason more investors don't focus exclusively on dividend payers is because they lack patience. Building wealth in dividend paying stocks is a slow process. Most high dividend payers are mature stable businesses with modest growth prospects. They don't offer the prospect of spectacular short-term gains. With dividend payers, you profit over the long-term through the power of compound growth. That requires patience.

At Young Research my Retirement Compounders list includes only dividend paying equities. Today, the average dividend yield on the RC's exceeds 5%—more than twice the yield on the S&P 500.

Young Research's Retirement Compounders forms the basis for the stocks I recommend in Intelligence Report and the equity portfolios we manage at my family-run investment company.

If you are interested in having a portfolio of global dividend paying equities managed check out younginvestments.com.

The Terror of Outliving Your Money

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The terror of outliving your money has now taken hold for too many investors. It's not hard to see why, given that discerning investors remember like yesterday the 1965-1981 16-year bear market, where the Dow ended up at 875, 10% lower than its 1965 peak of 969. A little closer to home, we all recall with concern the 1999-2008 nine-year bear market, which left the Dow down a frightening 24% from its 11,497 peak of 1999. For all retired and soon-to-be-retired investors, there is a fast and hard lesson to be learned here. Look to dividends and interest and the miracle of compound interest. Let capital appreciation come as it may or, as I have shown, may not. My *Retirement Compounders Program*, outlined monthly in my *Intelligence Report* and at my family investment management company (younginvestments.com), will guide you.