The Final Richard C. Young's Intelligence Report

After meeting monthly strategy report deadlines since 1978, I have decided it's time to switch gears.

The name *Intelligence Report* will survive, but with no contribution from Richard C. Young.

Instead, I am transitioning aggressively to full-time research on behalf of private clients of our family investment management firm, *Richard C. Young & Co. Ltd*.

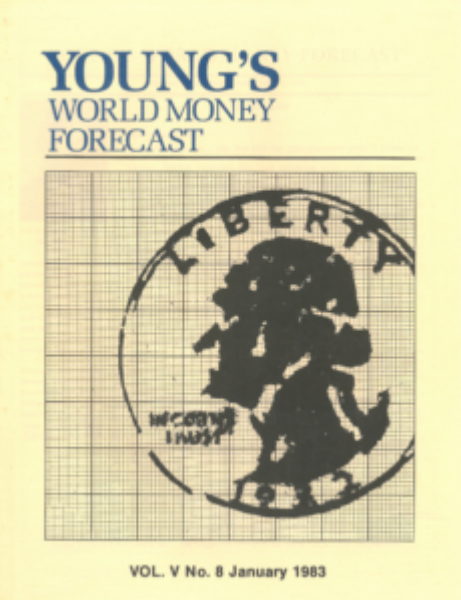
In this expanded venture, I will completely shift away from common stock mutual funds. I will concentrate laser like on ***"Dividends Around the World"*** from domestic and foreign common stocks with track records of increasing dividends for at least the last decade.

The Return of Young's World Money Forecast

Supporting my international intelligence gathering and research efforts will be the return, after nearly a four-decade hiatus, of *Young's World Money Forecast* *(YWMF)*. I will be using ***YWMF*** techniques, gathered on Wall Street in the late sixties and early seventies, to provide breaking trends years

ahead of the crowd. Here I am looking at a mix of inference reading and anecdotal evidence gathering based on my annual over 15,000 domestic miles on the road as well as at least two research forays to Europe each year.

Although I will not be making my portfolio management and specific dividend stock advice available at **youngsworldmoneyforecast.com**, I will be presenting regularly updated and customized information on all the dividend-paying stocks I've advised on over the years as well as input on every stock in the DOW 30. (Check back here regularly for date of site opening.)



A veritable treasure trove of intelligence will be at your fingertips daily—thanks to our unique $30,000/year database. You'll feel as if you have arrived at a private investment club after all the years you have spent with me and the "monthly printed word." Among the plethora of improvements you will experience with YWMF online is an enormous timing advantage. You'll be able to access ongoing regular and actionable dividend stock updates from me in real time, rather than wait for the archaic snail mail. That's one of the forward looking conclusions I came to when deciding to shut down my monthly deadline and dated in-the-mail effort.

My concentration will continue, as it has been over the decades, on strictly dividend-paying, dividend-increasing stocks. I, however, am making a clean break from the common stock mutual fund universe that I have been deeply involved with since the early sixties. Many of my long-time favorites have become too big for their own good or for that matter anyone else's. Many funds have failed to keep up on many fronts, including expenses.

I abhor the stupidity and self-serving interest of multiple portfolio managers. This dreadful and obfuscating transition has everything to do with dinosaur status and size limitations rather than you the investor. I will continue researching fixed-income and balanced portfolios, where I continue to find great value in individual manager input.

Ben Graham (the all-time dividend maven) was fond of stating: "One of the most persuasive tests of high quality is an uninterrupted record of dividend payments for the last 20 years or more. Indeed the defensive investor might be justified in limiting his purchases to those (stocks) meeting this test."

The Road Ahead in Real-Time

Well there you have it—my transformation from delayed and printed monthly copy to a rapid-fire, digital presentation (not in audio or books, of course) is now in the exciting kickoff phase.

As my online dividend intelligence program develops steam, I will be able to refine and improve upon my efforts since I am no longer constrained by a once-per-month communication. What was especially frustrating was the obvious, but perhaps not fully recognized, 10-day delay from the time I finished writing *Intelligence Report* to the time you, as a subscriber, received my finished report.

Today and in the future, any time I have a breaking idea, it will be available for your use immediately at YWMF. That has to have a pretty good sound to you. It sure does to me.

Thank you for your years of loyalty. I have worked diligently for over five decades on behalf of private client investors just like you. It is exciting that we can all transition together to a whole new and powerful world of compounding, (more here on compounding) profiting and sleeping soundly investing in the high-octane power of long term ***"Dividends Around the World."***

Warm regards,

Richard C. Young

P.S. I wrote in the May 2015 issue of *Intelligence Report* about Ronald Read, who despite working as a janitor was able to use the power of compounding to amass an $8 million fortune by the time he passed at the age of 92.

Pumping Gas to the Tune of $8 Million

Hard to even comprehend, but this great story, courtesy the WSJ's Anna Prior, recounts how Ronald Read accumulated an estate valued at almost $8 million. Mr. Read, who passed away at the age of 92, made a modest living pumping gas for many years at a Gulf gas station in Brattleboro, Vermont.

A Five-Inch Stack of Stock Certificates

How did Ronald Read manage to become a multi-millionaire? Mr. Read invested in dividend-paying blue-chip stocks. As Ms. Prior writes, Mr. Read took delivery of the actual stock certificates and "left behind a five-inch-thick stack of stock certificates in a safe-deposit box." At his passing, Mr. Read owned over 90 stocks and had held his positions often for decades. The companies he owned paid longtime dividends. And when his dividend checks came in the mail, Ronald Read reinvested in additional shares. Apparently Mr. Read was the master of the theory of compound interest. Not surprising, his list of stock holdings included such dividend payers as Johnson & Johnson (NYSE: JNJ), Procter & Gamble (NYSE:PG), J.M. Smucker (NYSE: SJM), and CVS Health (NYSE: CVS), all names I write about for you here. No high flyers for Ronald

Read, and certainly no technology names.

Protect, Preserve, Patience, Perspective

Obviously Ronald Read had been a staunch practitioner of my PPPP theme, featuring the basics—Protect, Preserve, Patience, Perspective. This WSJ feature article hit the press at the perfect time for me and you, as I'll now explain. For the first time since I created my Monster Master List—well over a decade ago—I have given the Master List of common stock names a complete overhaul. I have spent weeks in the process with the goal of giving you not only a roster of dividend payers but also a list where every core company has increased its dividend for a minimum of 10 consecutive years. I have rounded out the core list with a handful of special situation dividend payers.

Originally posted on August 14, 2017.

Dividends are Vital. The Reason Why Is Compound Interest

Why are dividends important? Because they allow the power of compound interest to work for you. I was speaking with a client yesterday who is in the process of helping his children establish Roth IRAs. I told him it's amazing how just getting in the game can do wonders for one's financial well-being: Imagine what this will look like in 50-years. Remember, just the process of starting an investment puts you or a loved one light years

ahead of those bogged down and doing nothing at all.

Take a look below at the power of compound interest. An investor who makes eight annual contributions starting at age 25 and then makes no more will end up at age 64 with $227,390 at an assumed growth rate of 9%. Meanwhile, another investor who skips those eight contributions early in life and begins investing later at 33 and makes annual contributions each year until age 64 will end up with only $214,560 that year (assuming the same 9% growth rate). That’s the power of compounding.

Originally posted March 24, 2017.

THE POWER OF COMPOUND INTEREST

Get A Head Start To Retirement!

Assumed growth rate of 9%.

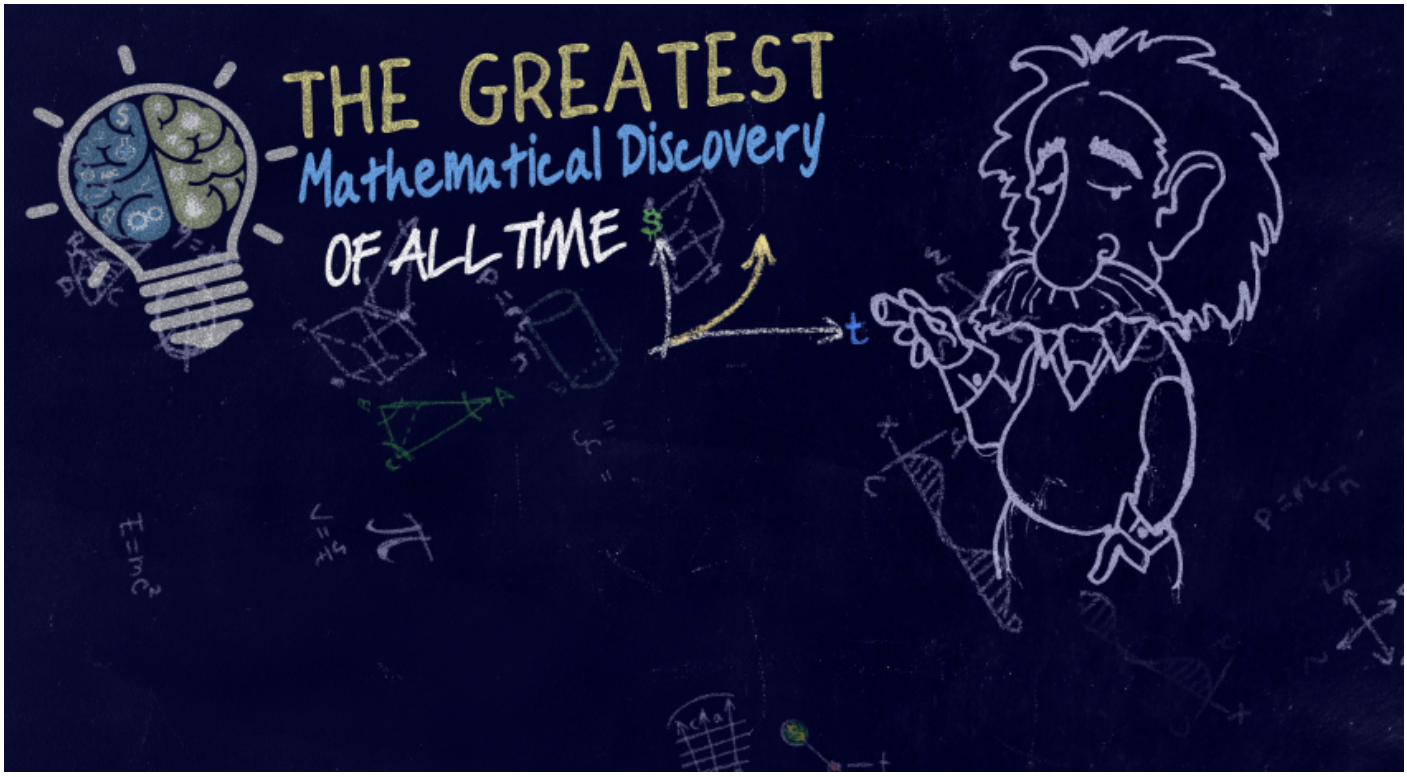
HYPOTHETICAL INVESTOR #1		
AGE	ANNUAL CONTRIBUTION	YEAR-END ACCOUNT BALANCE
25	$1,200	$1,308
26	$1,200	$2,734
27	$1,200	$4,288
28	$1,200	$5,982
29	$1,200	$7,828
30	$1,200	$9,841
31	$1,200	$12,034
32	$1,200	$14,425
33	$0	$15,724
34	$0	$17,139
35	$0	$18,681
36	$0	$20,362
37	$0	$22,195
38	$0	$24,193
39	$0	$26,370
40	$0	$28,743
41	$0	$31,330
42	$0	$34,150
43	$0	$37,223
44	$0	$40,573
45	$0	$44,225
46	$0	$48,205
47	$0	$52,544
48	$0	$57,273
49	$0	$62,427
50	$0	$68,046
51	$0	$74,170
52	$0	$80,845
53	$0	$88,121
54	$0	$96,052
55	$0	$104,697
56	$0	$114,119
57	$0	$124,390
58	$0	$135,585
59	$0	$147,788
60	$0	$161,089
61	$0	$175,587
62	$0	$191,389
63	$0	$208,615
64	$0	$227,390

TOTAL CONTRIBUTIONS:	**$ 9,600**
TOTAL EARNINGS:	**$ 217,790**
FINAL ACCOUNT BALANCE:	**$ 227,390**

HYPOTHETICAL INVESTOR #2		
AGE	ANNUAL CONTRIBUTION	YEAR-END ACCOUNT BALANCE
25	$0	$0
26	$0	$0
27	$0	$0
28	$0	$0
29	$0	$0
30	$0	$0
31	$0	$0
32	$0	$0
33	$1200	$1,308
34	$1200	$2,734
35	$1200	$4,288
36	$1200	$5,982
37	$1200	$7,828
38	$1200	$9,841
39	$1200	$12,034
40	$1200	$14,425
41	$1200	$17,032
42	$1200	$19,872
43	$1200	$22,969
44	$1200	$26,344
45	$1200	$30,023
46	$1200	$34,033
47	$1200	$38,404
48	$1200	$43,168
49	$1200	$48,362
50	$1200	$54,022
51	$1200	$60,192
52	$1200	$66,917
53	$1200	$74,248
54	$1200	$82,238
55	$1200	$90,948
56	$1200	$100,441
57	$1200	$110,789
58	$1200	$122,068
59	$1200	$134,362
60	$1200	$147,762
61	$1200	$162,369
62	$1200	$178,290
63	$1200	$195,644
64	$1200	$214,560

TOTAL CONTRIBUTIONS:	**$ 38,400**
TOTAL EARNINGS:	**$ 176,160**
FINAL ACCOUNT BALANCE:	**$ 214,560**

The Power of a Compound Interest Table



Compound interest was described as the greatest mathematical discovery of all time by Albert Einstein. Compound interest "Tis the stone that will turn all of your lead into gold," according to Benjamin Franklin. The late great Richard Russell explained compound interest as the royal road to riches. Below I'll explain this powerful investment tool and show you how to read a compound interest table.

Compound interest is the heart and soul of investing. Investors lacking a solid grounding in compounding are more likely to suffer from a wandering eye. They can be inclined to favor Hail Mary tactics in their investment portfolios, where the goal of every buy is score big and fast (think options and cash burning startups). The downsides of such an approach are 1.) it rarely

works and 2.) loads of volatility. In contrast, investors who truly understand and appreciate the awesome power of compound interest recognize that the combination of time and modest return is a better path to investment prosperity.

Compound Interest Table Still Best

It may surprise you, but in an industry with massive computing power, where algorithmic trading and quantitative models are now prolific, the best way to truly master the awesome power of compounding is still to study an old fashioned compound interest table.

A compound interest table gives you a sense of just how powerful compounding can be at varying rates of return and over varying time horizons. Sure, you can use a calculator or an Excel spreadsheet to find the future value of an investment, but that single data point doesn’t do compound interest justice. Studying the array of compounding factors and how they increase with respect to time and rate of return leaves an indelible mark on one’s mind.

To emphasize the power of compounding, we have included a compound interest table below.

Reading a Compound Interest Table

Move down each column on the compound interest table to see the effect of time on the multiplier. Move across each row on the compound interest table to see the effects of changing the rate of return. Take a look at the row that starts with the 20-year time-horizon. Now move across to the 5% annual rate of return column. Note the compounding factor of 2.65. If you invested $10,000 at a 5% interest rate for 20 years you would have $26,500.

No
w

st
ay
in
g
in
th
e
sa
me
ro
w,
mo
ve
ac
ro
ss
to
th
e
10
%
re
tu
rn
co
lu
mn
an
d
no
te
th
e
co
mp

ou
nd
in
g
fa
ct
or
of
6.
73
.
Th
at
sa
me
$1
0,
00
0
at
a
10
%
co
mp
ou
nd
ed
an
nu
al
re
tu
rn
wo

ul
d
be
wo
rt
h
$6
7,
30
0
af
te
r
20
ye
ar
s.
Th
e
re
tu
rn
do
ub
le
d,
bu
t
yo
ur
en
di
ng
we
al

th
mo
re
th
an
do
ub
le
d.
No
w
do
ub
le
th
e
re
tu
rn
ag
ai
n.
At
a
20
%
an
nu
al
ra
te
of
re
tu
rn

$10,000 then becomes a whopping $383,400 after 20 years. The returned double

d
ag
ai
n,
bu
t
yo
u’
re
yo
ur
en
di
ng
we
al
th
wo
ul
d
ha
ve
in
cr
ea
se
d
by
a
fa
ct
or
of
al
mo

st
6!

That is profound! And that is the awesome power of compound interest.

For an expanded printer-friendly version of our compound interest table that can be handed out to the kids and/or grand kids click here for a compound interest table.

Compound Interest Table

Future Value of $1 at the end of n periods: FVIF k,i = (1+i) n where n= number of periods, i = rate of return

wdt_ID	Period	5%	7%	10%	16%	20%
1	1	1.0500	1.0700	1.1000	1.1600	1.2000
2	2	1.1000	1.1400	1.2100	1.3500	1.4400
3	3	1.1600	1.2300	1.3300	1.5600	1.7300
4	4	1.2200	1.3100	1.4600	1.8100	2.0700
5	5	1.2800	1.4000	1.6100	2.1000	2.4900
6	6	1.3400	1.5000	1.7700	2.4400	2.9900
7	7	1.4100	1.6100	1.9500	2.8300	3.5800
8	8	1.4800	1.7200	2.1400	3.2800	4.3000
9	9	1.5500	1.8400	2.3600	3.8000	5.1600
10	10	1.6300	1.9700	2.5900	4.4100	6.1900

The Power of Compound Interest

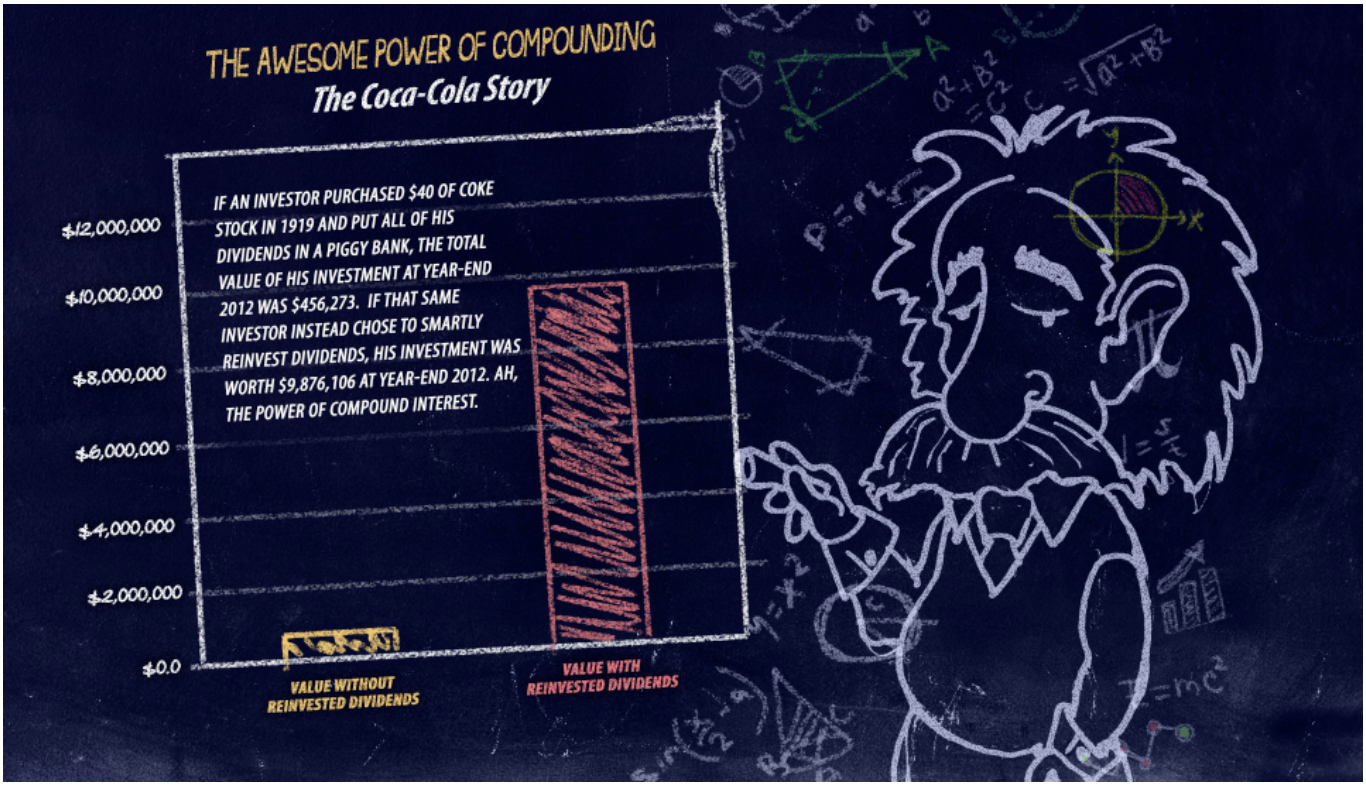


Image Credits: ©Steve Schneider – Youngresearch.com

Making money with your money is a no-brainer. Take a look at the difference in returns between two $40 investments in Coca-Cola in 1919. One had dividends put into a piggy bank. The other had dividends reinvested. Without reinvesting, the initial $40 investment grew to $456,273 by 2012. With dividends reinvested, the value increased to $9,876,106. That’s a difference of over 2060%. That’s the power of compound interest.

A Sleep Well(esley) at Night Fund

Image Credits: © VadimGuzhva – Adobestock.com

You can be sure that 90% of what you read about retirement investing is either (A) not very helpful or (B) confusing. Yet there are some simple solutions and tools to use that are helpful and easy to understand. One of them is a fund to which I recently made a sizable contribution. But first let's look at the dismal reality of the 401(k), which most baby boomers will depend on in retirement.

Your 401(k) isn't worth as much as you think it is. That's because at age 70½ you need to begin making annual withdrawals based on an IRS life expectancy table and pay taxes at your ordinary income rate, not at the lower capital gains rate. What's more, there's a good chance you'll live longer than the IRS life expectancy, ensuring that your entire balance will have been subjected to income taxes well before you die. Isn't that uplifting?

How about giving your money to the government today? That’s what you’ll do by converting to a Roth IRA. If you’re in your prime earning years, you’ll pay taxes at your highest tax bracket. What’s scarier is that after conversion, some investors may think it’s time to get even more aggressive since they’ll never owe taxes on the gains. This is retirement money we’re talking about. You’re no longer a teenager. If you lose it, you don’t have forever to make it back.

You should begin investing for retirement the day you’re born. Most investors start way too late. It’s up to parents and grandparents to get involved with educating children about money. Help them start today. Don’t let them grow up believing the way to riches is playing poker on ESPN.

You need to save until it hurts. How about refinancing to a 15-year mortgage? Or if that isn’t an option due to high closing costs or being too far underwater on your existing 30-year, how about making larger payments? The real-estate market as a supplement to your retirement left the station in 2008.

In 1968, it wasn’t out of the realm of possibilities to be able to buy your home for an amount equivalent to your annual income. Nowadays, in Newport, Rhode Island, for example, even after the crash, it’s difficult to find a home for sale for less than $300,000. If you earn $50,000 per year, that’s six times your income. Why not consider renting and see if you can handle the monthly payments before locking yourself into something you may not be able to afford?

Here’s my number one recommendation for do-it-yourself investors. Keep your investments simple: buy two or three mutual funds and call it a day. Don’t listen to your stockbroker. They’re salesmen, and very good ones at that, but they’re not investors. They may be nice people, but they don’t know how to build your wealth.

I recently bought the Vanguard Wellesley fund for my family because it embodies what investing is all about. It is a balanced fund with roughly 60% in bonds and 40% in equities. It was down only 9.8% in 2008, compared to a loss of 38% in the S&P 500. Investing math is simple: if you lose 9.8%, you only need a gain of 10.9% to get back to square one, whereas if you lose 38%, you need a gain of 61.3%.

At the core of Wellesley is compound interest. Anyone who knows anything about investing understands the importance of compound interest. Warren Buffet's right-hand man, Charlie Munger, sings its praises, and Albert Einstein referred to it as the Eighth Wonder of the World. If you compound $10,000 at 6% for a year, you'll have $10,600; compound that at 6% and at the end of year two you'll have $11,236, and after 60 years it will be $300,000. Do this for a loved one and he or she will *never* forget you.

So where are we today in terms of valuations for bonds and stocks? Add the yield on the three-month T-bill and the Dow Jones Industrial Average yield to find out. Historically, retirees could purchase T-bills with a yield somewhere between 5% and 6% and forget about stocks. They could be comfortable in retirement with the risk-free rate of return and the full-faith-and-credit pledge of the U.S. government. And historically, the Dow yielded between 3% and 4%.

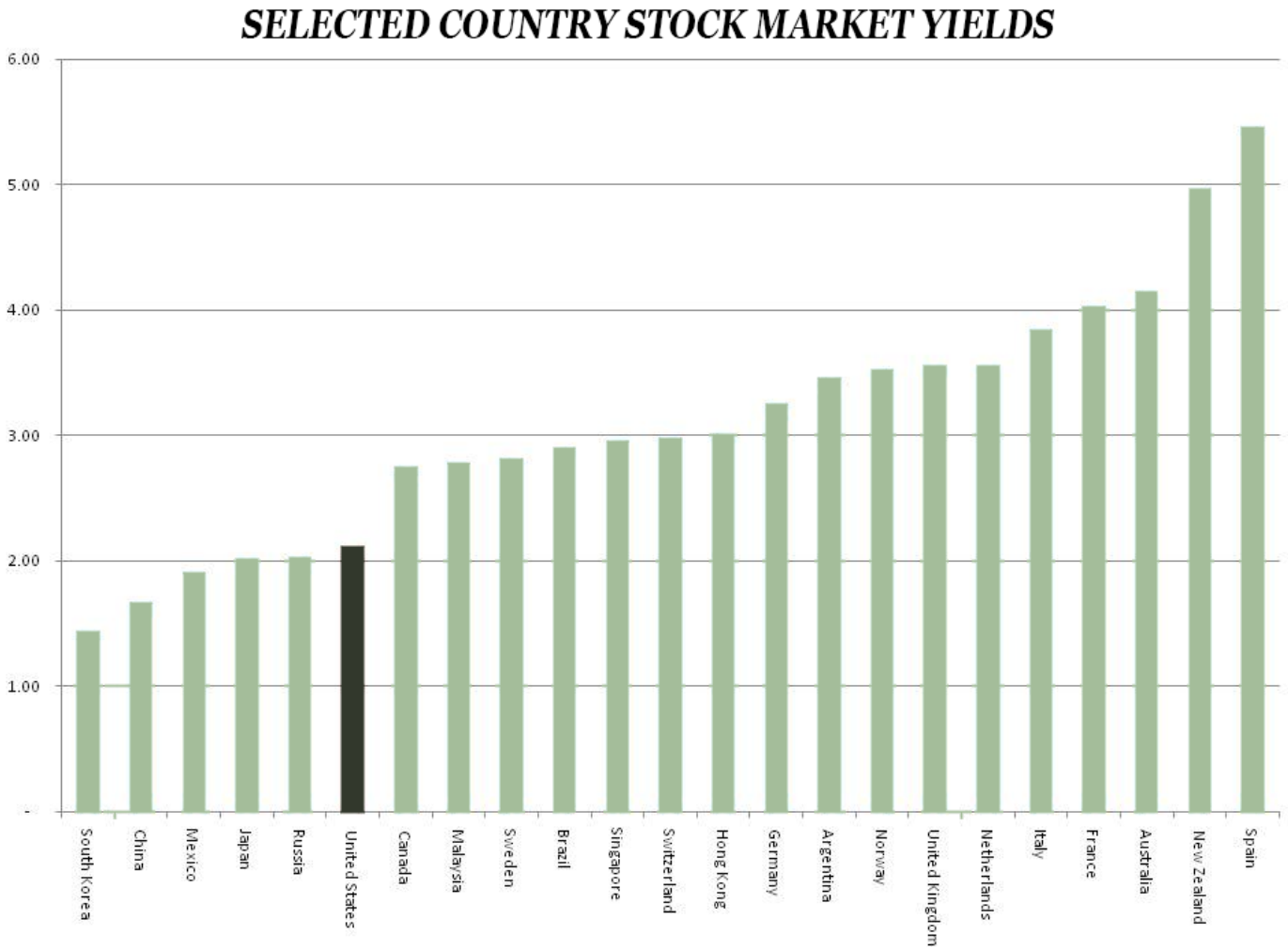
A solid number for the sum of the yields on T-bills and the Dow has been around 9%. Today, with T-bills yielding a pathetic 0.13% and the Dow yielding a measly (post-crash, mind you) 2.41%, you have a sum of 2.54%. Not good at all. Write this number on a stamp and put it on your fridge.

All you need is your postage stamp, the definition of compound interest on a three-by-five card, and the Vanguard Wellesley prospectus. Use the tools I outlined above, open an account for yourself, your kids or your grandkids, and your family will be on the right path to retirement riches.

Need Yield?

Do you invest in stocks for income? Is your portfolio focused primarily on U.S. stocks? If so, you might consider diversifying globally. The dividend yield on the U.S. stock market is one of the lowest yields in the world. In the chart below, I show the yields of 23 of the world's major stock markets. The dividend yield on U.S. stocks is only 2.11%, compared to an average of 3.09% and a high of 5.45% in Spain. The U.S. is the sixth-lowest-yielding stock market in the group. If you invest in stocks for dividends or income, a global approach is advisable.

When you take a global approach to dividend investing it is possible to craft a portfolio that is better diversified across industries than a U.S.-only portfolio. Take the U.S. oil and gas industry as an example. Oil and gas production is a capital-intensive business. In the U.S., the independent oil and gas companies fund their capital expansion projects primarily with internally generated funds. After capital expenditures, there is often not much cash left for dividend payments. But in a country like Canada, there are oil and gas production companies that offer high dividend yields—in some cases yields north of 5%. How do the Canadian oil and gas companies pay such high dividends? Instead of funding capital expansion plans with internally generated funds, they tap the capital markets. For income-oriented investors, the strategy has appeal.



In *Young Research's Global Investment Strategy*, we advise high-yielding international stocks that you're unlikely to find in any other investment strategy report. We also cover special situations, global fixed-income markets, and commodities and currencies. If you are not now a subscriber, please join us.

Stock Valuations are Not Low

Image Credits – © Sergey Nivens – Adobestock.com

How can I say this best? Stock market valuations are not low. If you are retired or saving in hopes of retiring, you must laser focus on having a consistent flow of cold cash to pay the tab for your weekly grass-fed-to-the-end beef, fresh-ground flax, coconut milk loaded with medium-chain fatty acids, and omega-3-loaded Country Hen organic eggs. In other words, you will want to rely on high-dividend yields for compound-interest power. The two most important words in investing are "compound interest." Please don't buy into the jive that trying to buy stocks cheap and then trying to dump them on the suckers has anything to do with a conservative compounding story.

The rubber hits the road with a consistent flow of one item – dividends. In my monthly Intelligence Report and at our private investment management company (www.younginvestments.com), I rely on the historical yield range and the DJIA as a conservative investor's best gauge for assessing dividend value. When the Dow's yield is between 4.5% and 6.5%, I gauge stocks as cheap. When the Dow's yield is between 3.5% and 4.5%, it's neither fish nor fowl. Below 3.5%, I'm not being paid well for investing in

stocks. Well, the yield on the Dow, as I write you with ever-increasing concern, is a paltry 3.1%. No, stocks are not cheap, and values are lacking. And while I'm at it, intelligence in Washington is lacking even more!

WARNING! Avoid the Catastrophic Thinking of Retirement Investing

Ah, retirement. Congratulations. You made it. Whether you got here by selling your business or working your way through corporate America, you've made it and you must feel relieved, excited, and probably a little nervous. Your retirement years should be some of the best in your life. But they are also some of the most nerve-racking, with no job to easily fall back on. With this in mind I've constructed a list of potentially catastrophic thoughts you might have and how to handle them. Picture yourself 10 years from now with the memories you might have of you and your spouse with grandchildren, friends, or relatives, or of trips to places you always dreamed of seeing. Imagine how great you'll feel if you remember that you enjoyed the moment. Secure finances can help you do that. So let's get started.

Catastrophic Thought #1: I'm retired. I have all the time in the world to manage my money.

You will have plenty of free time and access to information when you're retired. Unfortunately, access to more information does not mean more wisdom. Knowing how to achieve long-term investment success is a craft. It is part art and part science

that takes years of seasoning and discipline to do well. Try to spend your time defining your goals and objectives as you construct an investment plan. Don’t seek exciting investment ideas. Keep it simple and don’t worry about your portfolio being boring. You didn’t get here by being foolish with your money, so practice being smart about what you invest in so you can enjoy the time you spend with your loved ones. Imagine how at peace you will feel knowing you’re leaving your spouse in a position of financial strength.

Catastrophic Thought #2: It won’t happen to me.

Everyone thinks they can avoid the next disaster. In reality they can’t, and it’s an expensive lesson. Very few predicted the demise of Long-Term Capital Management, the dot-com bust, 9/11, the war in Iraq, or the subprime-mortgage meltdown. Moral: If CEOs of the major banks didn’t understand the risks they were carrying, how could you?

Expect more disasters in your lifetime and prepare to manage your portfolio unemotionally. In retirement you’re managing more money than ever, making it a daunting task. You may find that you sell too early or inertia sets in. If this is you, then seek help from an advisor. You may question your trusted advisor during the next disaster, but your emotions should not impact his or her decisions. Oftentimes it’s the patient investor who profits when others head for the hills.

Catastrophic Thought #3: I’m not like the rest because I’m a contrarian investor.

By definition not everyone can be a contrarian investor. But that’s exactly how investors described themselves in a recent poll. Rather than investing with the herd, you may want to become an expert in understanding risk in your portfolio. Only you know the level of risk you can stomach. You may find your tolerance for risk is lower than you thought. If so, make the

appropriate changes and sleep better at night.

Catastrophic Thought #4: I paid how much in fees?

Seven of the ten largest equity mutual funds are offered by one company and carry a 5.75% front-end load. You can see this in the Wall Street Journal on page C4 under “How the largest mutual funds did.” Scanning down the page to the largest bond funds, you’ll notice the same company offers a bond fund with a front-end load of 3.75%. A front-end load is an upfront fee a broker receives when selling a mutual fund to a client. Loads are an unnecessary cost if there’s a similar no-load fund available that investors can buy on their own. The fact that seven of the ten largest equity funds carry loads illustrates my belief that investors are sold what they own. I’m not so sure all the advice investors receive is in their best interest.

Catastrophic Thought #5: We need to get to $X to retire comfortably.

A sure recipe for disaster is when you feel you need to be more aggressive to get your portfolio to a certain preretirement level. Being aggressive when you’re 30 is fine because you have time to wait out the market. But when you’re in your late 50s or early 60s, aggressive means a higher probability of losing money in retirement. Now is not the time to lose money. It’s hard to come back from market losses. You don’t want to be deprived of taking a once-in-a-lifetime trip just because the market falls.

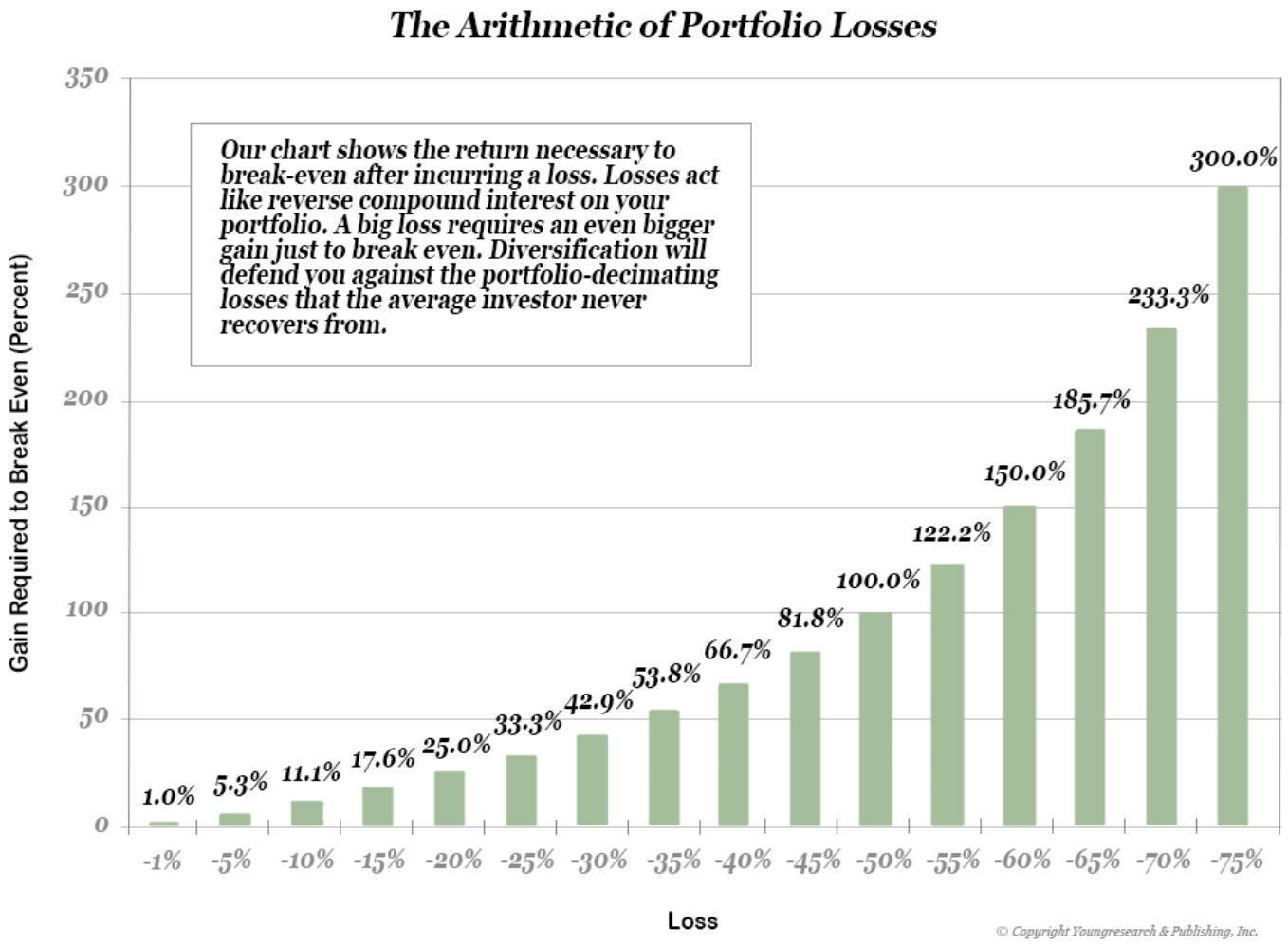
Catastrophic Thought #6: We can spend 8% of our portfolio per year.

At 4% spending, you and your spouse shouldn’t outlive your money. I’d be concerned about the longevity of a portfolio exceeding this annual withdrawal rate. Try to live within your means. You don’t want to be seeking employment in retirement. Your retirement spending should be part of a plan, not an impulse. Imagine how proud you’ll feel being able to share with

your children how smart you have been with your money.

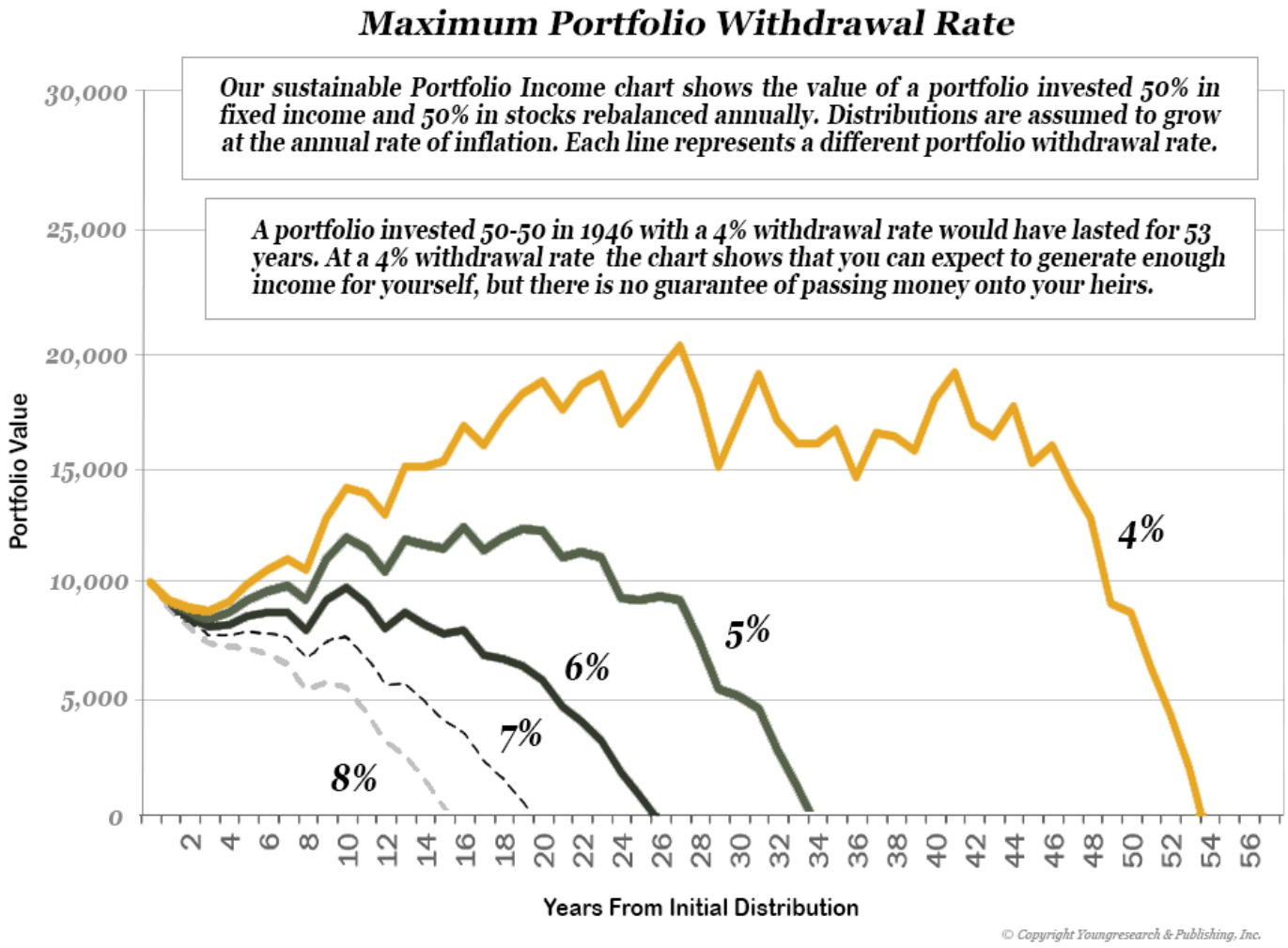
Catastrophic Thought #7: Market volatility is over.

In a recent WSJ article, “Rough Waters Are Market’s Rule,” the low volatility of recent years is discussed:
“In late 2006 and early 2007…[the S&P 500] dropped into the lowest 3% of all periods since 1950,” says Ed Easterling, director of Crestmont Research. “Easterling goes on to say that the smooth sailing seems to have ended. Since the early 1960s the average daily trading range has been around 1.4%. After a stretch from 2003 to mid-2007, when the average range was under 1%, it has increased to more than 2%. The market could now see an average daily swing of +/-2%. Having the right mix of investments helps reduce volatility and puts you in a position of strength by not being forced to sell at the wrong time.



Catastrophic Thought #8: I take out $X per quarter.

If you do your quarterly income planning for the year based on prior year-end values, you may overspend drastically. For example, if at year-end your portfolio is at $3,000,000, you calculate $120,000 as your 4% annual draw. You tell your broker to send you 1% or $30,000 per quarter beginning right away, leaving you $2,970,000. If volatility is here to stay (see “Catastrophic Thought #7”) and you get caught on the wrong side of a 2% swing, your portfolio could be worth $2,910,600 after the first quarter. At the beginning of the second quarter, you take your second quarterly $30,000, leaving you with $2,880,600. Your portfolio declines by $120,000, but you’ve only spent $60,000. At this pace, you’re depleting your portfolio by 8% annually. I recommend a withdrawal rate of 1% or $30,000 per quarter, whichever is less. If you follow this recommendation, you’ll be keeping your promise to not exceed the 4% per year. If you can do this, then chances are you’ll be at peace with your portfolio in old age.



Catastrophic Thought #9: Bonds are boring.

As you approach retirement, you need to make sure you have a solid bond component. I would estimate as much as 50% to be an appropriate starting point. In a front-page Wall Street Journal article, “Stocks Tarnished by ‘Lost Decade,’” E.S. Browning reviews what has been a most disappointing decade for many soon-to-retire or retired investors:

Over the past nine years, the S&P 500 is the worst-performing of nine different investment vehicles tracked by Morningstar, including commodities, real-estate investment trusts, gold and foreign stocks. Big U.S. stocks were outrun even by treasury bonds, which historically perform much less well than stocks. Adjusted for inflation, treasuries are up 4.7% a year over the past nine years, and up 5.8% a year since the March 2000 stock

peak. An index of commodities has shown about twice the annual gains of bonds, as have real-estate investment trusts.

You want to work with someone who can help you craft a balanced portfolio. You don’t want to miss the boat in the next decade.

Catastrophic Thought #10: Compound interest is for younger investors.

You want to gauge your expectations to the market you’re investing in. In the past, stocks returned about 10% per year (6% growth, 4% dividends) on a P/E backdrop of 15. With today’s P/E of 18 and dividend yield of 2%, a 7.5% return is implied. If you invest $1,000,000 and reinvest your dividends over 10 years at an annual compound return of 7.5%, you’ll have turned your $1,000,000 into $2,061,031.56. It’s with the help of compound interest that your money doubles in 10 years. You’re never too old to let interest on interest work for you. I think you’ll agree that making money while doing nothing is a pretty good job description in retirement.

You hopefully found this list to be helpful in getting you thinking about investing in retirement. Do your best to avoid these catastrophic thoughts and you may avoid having to learn the hard way. Share this list with a loved one or a friend and enjoy your retirement. You’ve worked too hard to be deprived of the stress-free retirement you deserve.