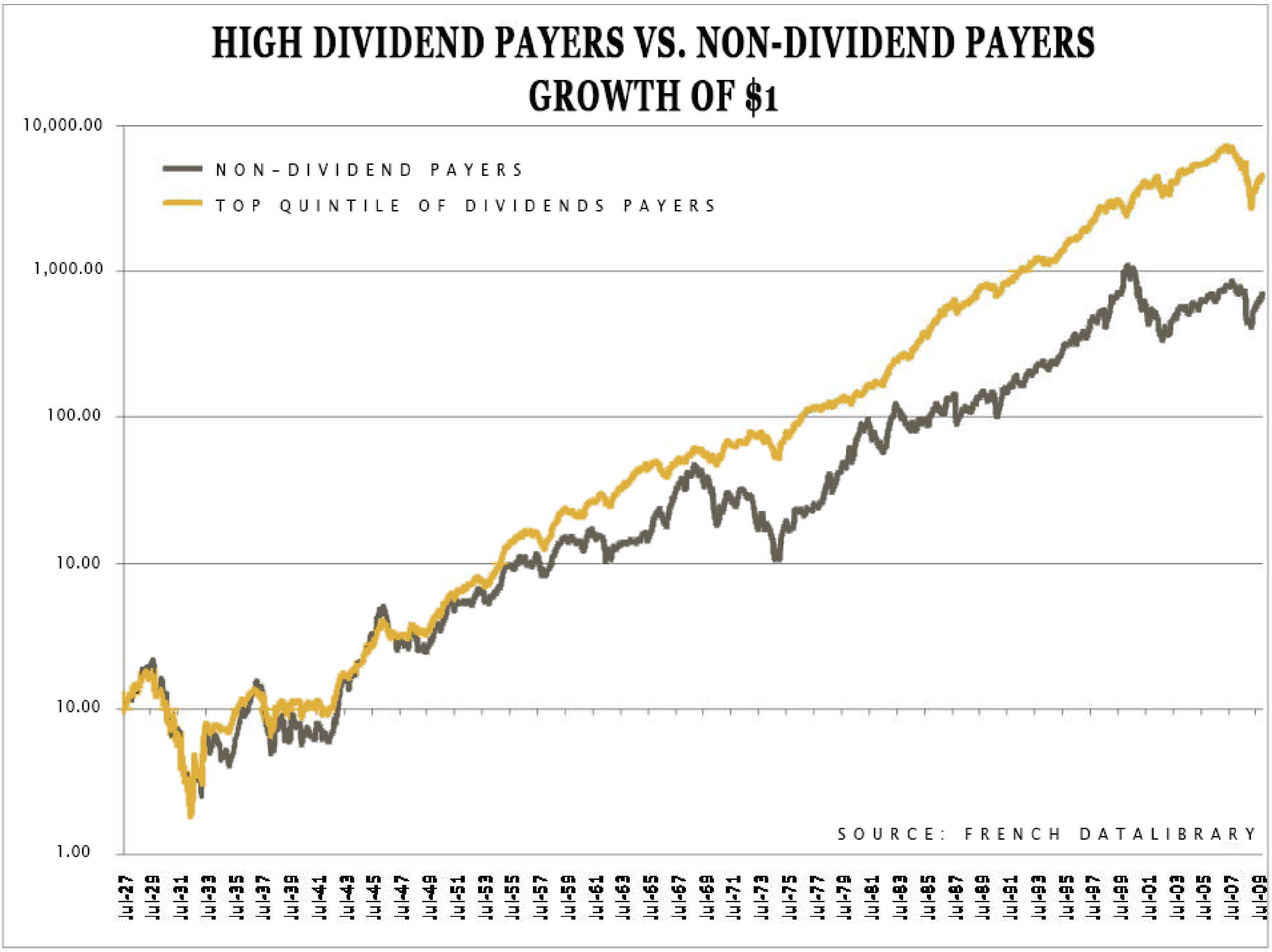
A Simple Strategy for Stock Market Success

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.

Top 10 Investing Mistakes

The #2 item on my list of the ten most common mistakes investors make is discounting the importance of compound interest. Albert Einstein described compound interest as the greatest mathematical discovery of all time. Charlie Munger, Warren Buffett's longtime partner, said: "Understanding the power of compound return and the difficulty getting it is the heart and soul of understanding a lot of things." My son, Matthew Young, puts it this way: “Compound interest is your silent warrior for long-term investing.” The key to compound interest is not interest, but interest on interest. In fixed-income investing over long periods, interest on interest can account for over 60% of your returns. To harness the power of compound interest, you need time and a rate of return. In my monthly strategy reports and at my family-run investment company, I make compound interest a focal point. If you are not already with us, please join us. If you want to study the power of compound interest, spend some time with a compound interest table.

Top 10 Mistakes

#10 Not Recognizing that a Recession is Over
#9 Investors Fail to Make Dividends Their #1 Priority
#8 Overreaching for Yield
#7 Failing to Fortifying Your Financial Future in Turbulent Times
#6 Failing to Focus on the Fed’s Federal Funds Rate Beacon
#5 Focusing on Potential Return Before Risk
#4 Ignoring Cost – A Vital Determinant of Investment Performance
#3 Chasing Performance
#2 Discounting the Importance of Compound Interest
#1 Taking a Casual Go-It-Alone Approach to Investing

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.