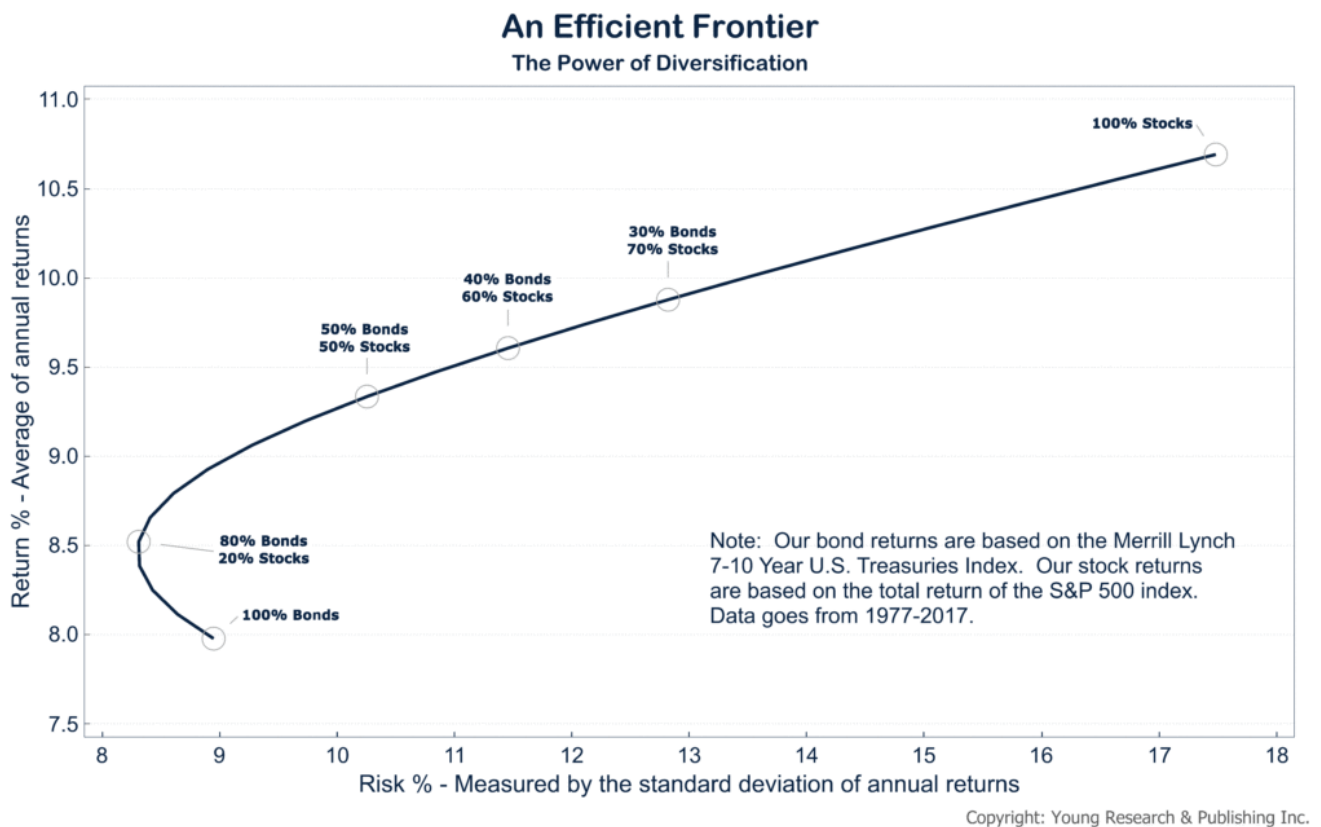


You Have Two Jobs to Do in Record Breaking Markets

The S&P 500 index closed at a record high yesterday, and could do so again today. Back in June of 2004 I was telling readers about how to position their portfolios when stock prices rise well above trend. I told them then that they had two jobs in preparing for such lofty stock prices. I wrote:

So what is your plan during periods when stock prices rise well above trend? You have two jobs. First, be sure your exposure to equities does not exceed what, for you, is a conservative and appropriate level. Second, place more emphasis than normal on dividends. Look to maximize yield. And by all means, confine your list to conservatively managed and financed businesses where you have a margin of safety. Balance sheets with little or no debt have strong appeal during such periods. Cash is king. As my chart on dividend yield shows, most stocks do not offer much in the way of yield. What is proper weighting in stocks for you? Well, take a look at my Efficient Frontier chart. The farther you go to the right, the better your returns with ever-greater risk. The farther you go to the left, the less risk along with lower returns.



Click image to enlarge.

#1 Is Risk Management

I, of course, do not know what your level of comfort is or your time frame of reference. If you are retired or soon to be, your eye toward risk must be intensified. Risk management is the first order of military engagement and, perhaps shockingly, must be the first order of business for investors. In my own case, I spend a lot of time gauging risk and little time appraising upside potential. My upside gains are a product of the time value of money. I rely on patience and the relentless compounding of interest and dividends.[...]By diversifying over a quality list of balance-sheet-strong dividend payers and eschewing trading, long-term results are pretty much baked into the cake.

I was focused then, as I am today, on risk management. Remember your two jobs: 1) achieving proper portfolio balance, and 2)

focusing on dividends. If you need help crafting such a portfolio, request a free consultation with a member of the seasoned investing staff at my family-run investment counsel firm, Richard C. Young & Co., Ltd. by [clicking here](#). Once contacted, you will be guided through a no-obligation review of your portfolio by an experienced professional.