

“E.J., Has Your Phone Been Ringing off the Hook?”

By E.J. Smith

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.



Compound Interest Table

Future Value of \$1 at the end of n periods: $FVIF_{i,n} = (1+i)^n$
 where n = number of periods, i = rate of return

Period	Rate of Return											
	4%	5%	6%	7%	8%	9%	10%	12%	14%	16%	18%	20%
1	1.04	1.05	1.06	1.07	1.08	1.09	1.10	1.12	1.14	1.16	1.18	1.20
2	1.08	1.10	1.12	1.14	1.17	1.19	1.21	1.25	1.30	1.35	1.39	1.44
3	1.12	1.16	1.19	1.23	1.26	1.30	1.33	1.40	1.48	1.56	1.64	1.73
4	1.17	1.22	1.26	1.31	1.36	1.41	1.46	1.57	1.69	1.81	1.94	2.07
5	1.22	1.28	1.34	1.40	1.47	1.54	1.61	1.76	1.93	2.10	2.29	2.49
6	1.27	1.34	1.42	1.50	1.59	1.68	1.77	1.97	2.19	2.44	2.70	2.99
7	1.32	1.41	1.50	1.61	1.71	1.83	1.95	2.21	2.50	2.83	3.19	3.58
8	1.37	1.48	1.59	1.72	1.85	1.99	2.14	2.48	2.85	3.28	3.76	4.30
9	1.42	1.55	1.69	1.84	2.00	2.17	2.36	2.77	3.25	3.80	4.44	5.16
10	1.48	1.63	1.79	1.97	2.16	2.37	2.59	3.11	3.71	4.41	5.23	6.19
11	1.54	1.71	1.90	2.10	2.33	2.58	2.85	3.48	4.23	5.12	6.18	7.43
12	1.60	1.80	2.01	2.25	2.52	2.81	3.14	3.90	4.82	5.94	7.29	8.92
13	1.67	1.89	2.13	2.41	2.72	3.07	3.45	4.36	5.49	6.89	8.60	10.70
14	1.73	1.98	2.26	2.58	2.94	3.34	3.80	4.89	6.26	7.99	10.15	12.84
15	1.80	2.08	2.40	2.76	3.17	3.64	4.18	5.47	7.14	9.27	11.97	15.41
20	2.19	2.65	3.21	3.87	4.66	5.60	6.73	9.65	13.74	19.46	27.39	38.34
25	2.67	3.39	4.29	5.43	6.85	8.62	10.83	17.00	26.46	40.87	62.67	95.40
30	3.24	4.32	5.74	7.61	10.06	13.27	17.45	29.96	50.95	85.85	143.4	237.4
35	3.95	5.52	7.69	10.68	14.79	20.41	28.10	52.80	98.10	180.3	328.0	590.7
40	4.80	7.04	10.29	14.97	21.72	31.41	45.26	93.05	188.9	378.7	750.4	1,470

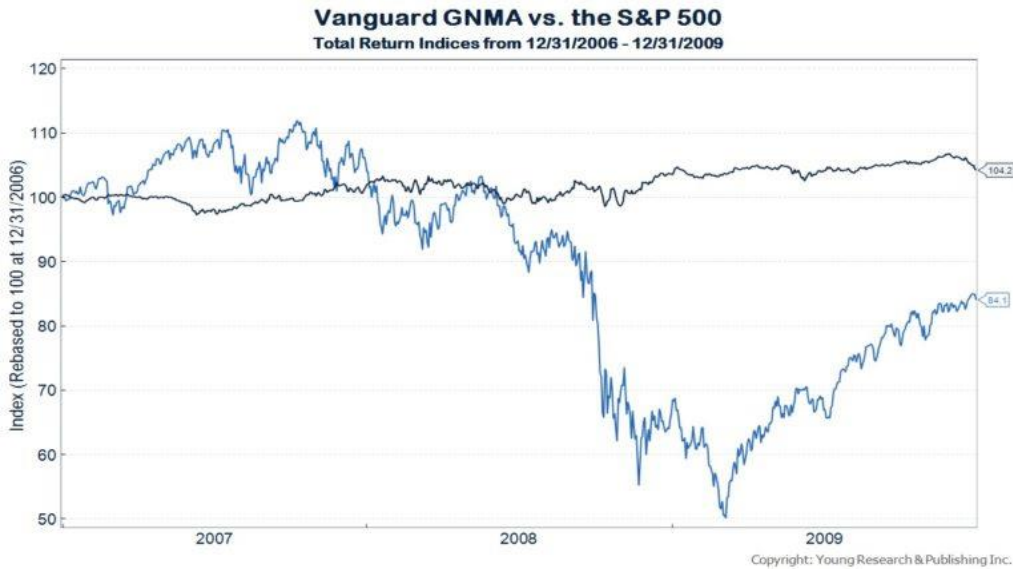
To find the future value of an investment, first find the expected annual rate of return along the top row of the table. Then find the number of years you expect to hold the investment along the first column of the table. Where the return column and the time row cross, you'll find your compound interest multiplier. Next, multiply that figure by your initial investment. By example, the multiplier for 20 years at 7% is 3.87. If you invest \$10,000 and earn a 7% compounded annual return over that 20 year holding period you will have \$38,700.

How can you compound money? Part of the answer is that you need to figure out a way to get in the game. The other part, and no easier mind you, is how to *stay* in the game. I believe February’s pullback is a good reminder that investing is a contact sport. How do you avoid the big hits? You come up with a way to soften the blows, and that’s where the magic of counterbalancing comes into play. Counterbalancing reinforces the defensive side of your portfolio which is where games are won. I know you’re wondering what’s going on with

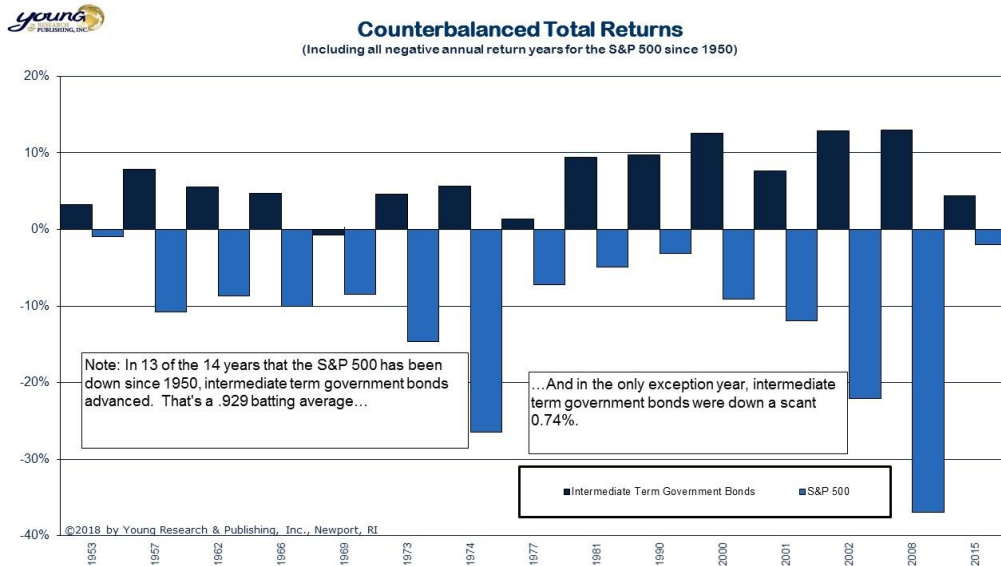
Vanguard GNMA. It's worth reminding you of how the Vanguard Index 500 did in the tech bust and the real estate crash this century and the relative out-performance of GNMA vs. the Index 500.

Fund	2000	2001	2002	2008
Vanguard GNMA	11.22%	7.94%	9.68%	7.22%
Vanguard 500 Index	-9.06%	-12.02%	-22.15%	-37.02%
GNMA vs 500 Index	20.28%	19.96%	31.83%	44.24%

No need to imagine how peaceful it felt to have some GNMA as a counterbalance in those brutal years for the stock market and to see how, once again, it worked this month.



And to remember why you counterbalance your portfolio in the first place.



How much money should you put into GNMA and a diversified fixed income strategy? It depends on your current employment status, your retirement goals, and anything else important to Y-O-U. The smart guys on *CNBC* or so called “experts” don’t know you as well as you do. They don’t know how you feel when the stock market crashes, and they don’t know how much comfort a diversified portfolio may bring to you and your family. It doesn’t cost them a dime to say bonds are in a “bubble,” especially when stocks are marching towards a tenth year of gains. Will they be there when you need help wading through the rubble of a disaster? When you need help surviving?

Because I’ll never forget those who are no longer with me today. Those who have passed away. You never forget the ones you’ve helped. And I’ll tell you, not once, during our time working together did they say “E.J., I wish I were more aggressive or E.J. I wish I spent less time with my family.” No one ever wishes they spent more time watching TV or trading stocks. It just doesn’t happen. Keep that in mind as you preserve your legacy.

What is your legacy? I’ll tell you, there is joy in educating a child or grandchild about the essence of investing—keeping and preserving what you’ve made. It’s just one way that money brings happiness. And yes, it does bring happiness, especially when it makes life easier, or when it provides choices and opportunities you never imagined you’d have. Money is nothing without you. You give money its soul—its meaning—and you give yourself happiness.

Driving through the White Mountain National Forest recently, I thought about the meaning of money and how it has allowed my family to go skiing from Bartlett, New Hampshire where we have a log cabin. I know it’s easy to let a 2,000-point swing in the market ruin a month. But imagine how meaningless it all is if you don’t know why you’re investing in the first place. Your success is important to me. You have the tools to chart your course. And if my phone doesn’t ring, I’ll know it’s you.

Survive and thrive this month.

Warm regards,

E.J.

E.J. Smith

“Your Survival Guy”

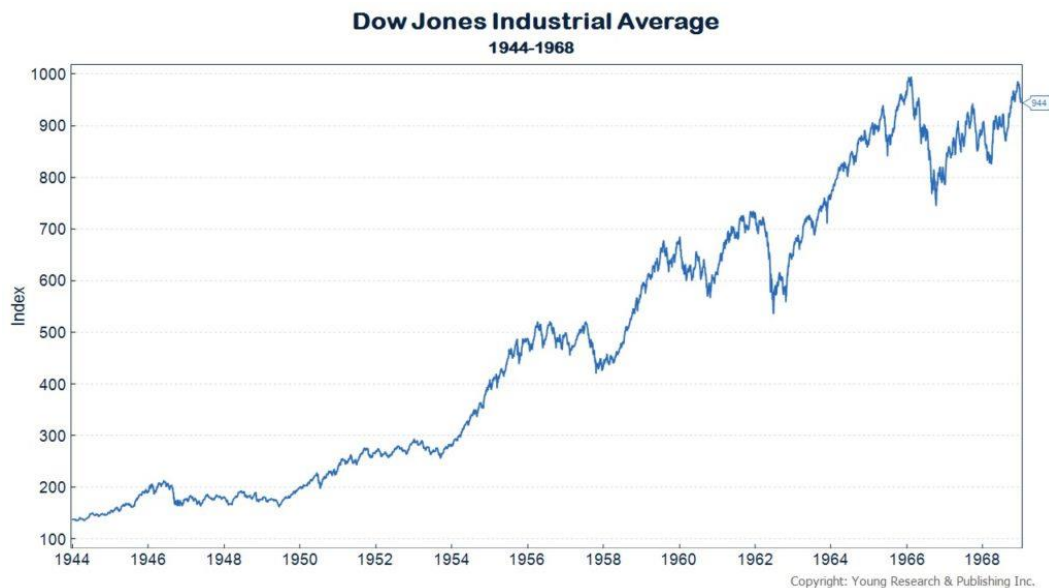
P.S.: Take a Drive with Us to Cannon Mtn. in the Live Free or Die State

Over the President’s Day weekend we hit the slopes of New Hampshire skiing Attitash, Wildcat, Sunday River, and Cannon. In this video, drive with us from Bartlett, where we have a log cabin, through the White Mountain National Forest to ski Cannon Mountain.

It was a typical New England weekend with rain, sleet, snow, and wind, and yet you’d never know it in this video. [Check it out on my YouTube! channel.](#)

The first mountain you see is Mount Willard (I called it Wilber, sorry!) which is in Crawford Notch. It's a great hike in the summer especially when the train passes through the Notch along the side of the mountain.

Next, you'll see us driving through the Notch and passing the visitors center on the left followed by the Mount Washington Hotel on the right. This is where the Bretton Woods agreement was signed in July 1944 where currencies were pegged to gold and the U.S. dollar was seen as a reserve currency linked to the price of gold. You'll note how well the stock market did when there was some stability on the monetary front until the agreement's dissolution between 1968-1973.



Cannon Mountain is home to the first passenger tramway in North America. A little [history](#): “From its construction in 1938 to its 1980 retirement, 6,581,338 passengers made the thrilling 2.1 mile journey up Cannon Mountain. The dedication of Cannon Mountain Aerial Tramway II on May 24, 1980 marked the end of a 42 year era, and the exciting beginning of a bright new future for Cannon Mountain.” The tram fits 70+1 skiers. That +1 is the operator who makes sure you make it to the top.

About E.J. Smith:

E.J. Smith is Managing Director at Richard C. Young & Co., Ltd., a Managing Editor of Richardcyoung.com, and Editor-in-Chief of Youngresearch.com. E.J. graduated from Babson College in Wellesley, Massachusetts, with a B.S. in finance and investments. In 1995, E.J. began his investment career at Fidelity Investments in Boston before joining Richard C. Young & Co., Ltd. in 1998. E.J. has trained at Sig Sauer Academy in Epping, NH. His first drum set was a 5-piece Slingerland with Zildjians. He grew-up worshiping Neil Peart of the band Rush, and loves the song Tom Sawyer—the name of his family’s boat, a Grady-White Canyon 306. He grew up in Mattapoisett, MA, an idyllic small town on the water near Cape Cod. He spends time in Newport, RI and Bartlett, NH—both as far away from Wall Street as one could mentally get. The Newport office is on a quiet, tree lined street not far from the harbor and the log cabin in Bartlett, NH, the “Live Free or Die” state, sits on the edge of the White Mountain National Forest. He enjoys spending time in Key West and Paris.