

# *Survive and Thrive September 2024: It's Time to Evaluate Your Portfolio*

Dear Survivor,

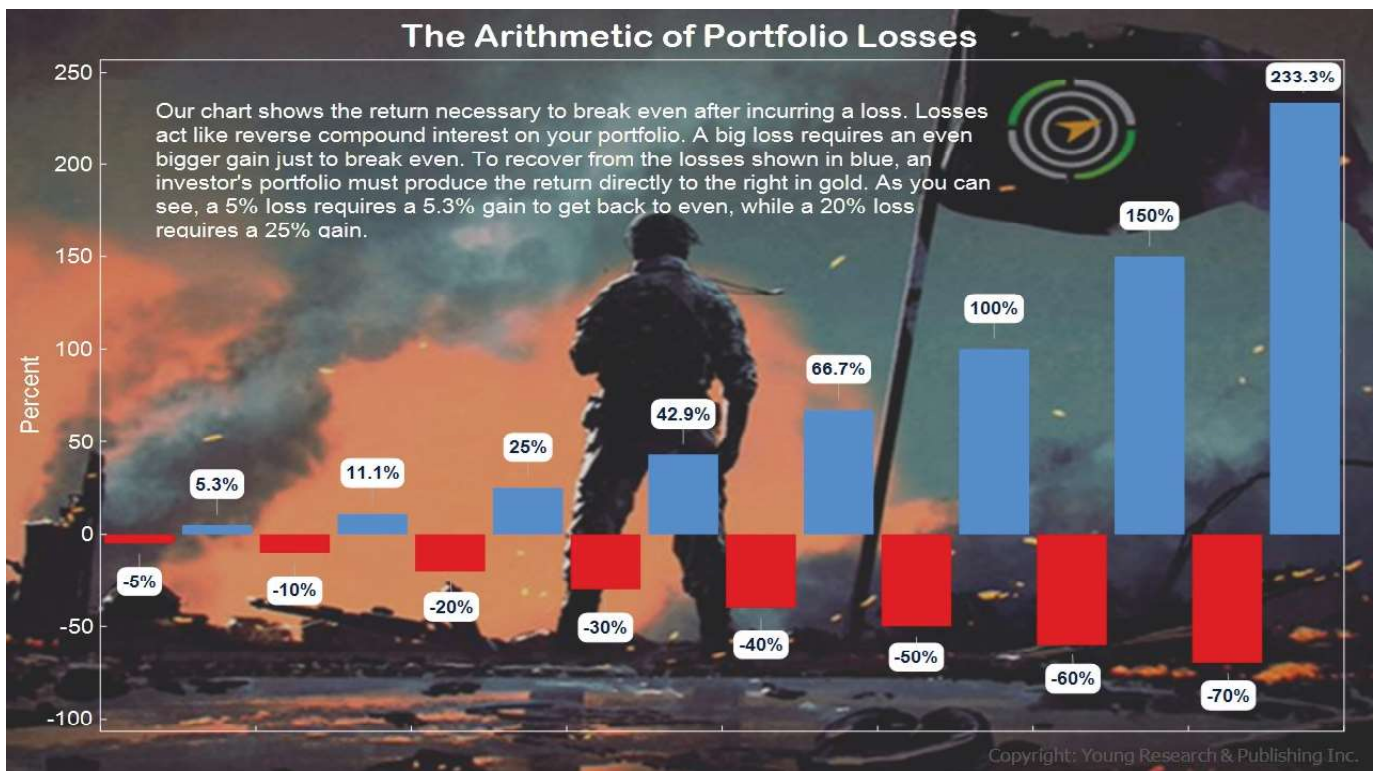
When investors are feeling good about the stock market, like they are now, it's time to evaluate your portfolio. As Warren Buffett said you want "to be fearful when others are greedy and to be greedy only when others are fearful." Remember the big pullbacks in stocks this century (see page 2) and think how you would handle them in your retirement life.



By GOHGAH @ ADOBE STOCK

Portfolio losses are ruinous because long-term investors become focused on short-term issues. It's easy for one to say he is a long-term investor. It's much harder to be one. Losses can happen out of nowhere.

Use your time wisely. Get your portfolio aligned with your risk tolerance. Most investors are risk intolerant, but like with a food allergy, they only realize it after the fact.



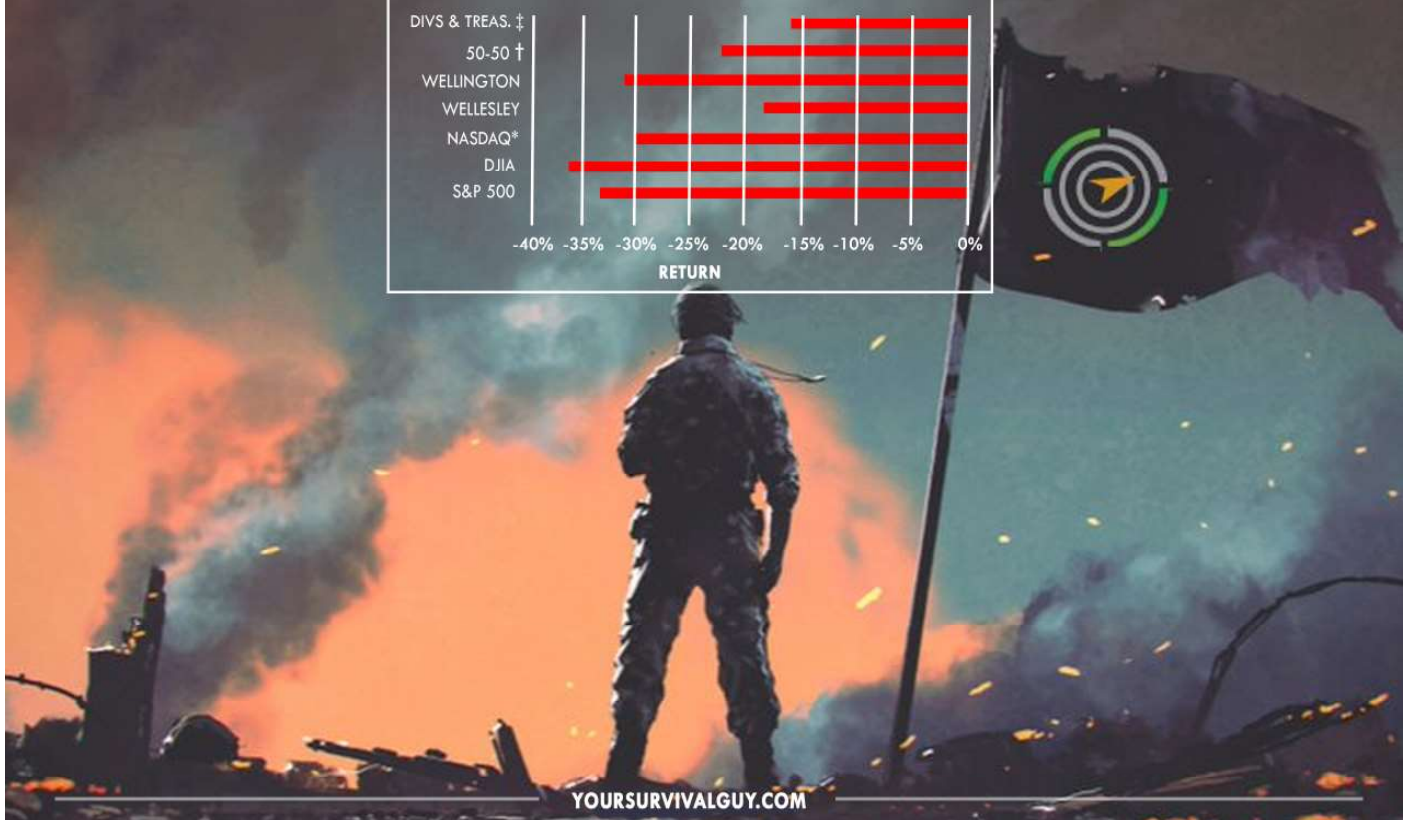
# YOUR SURVIVAL GUY **WARNING:** DEADLIEST MARKETS THIS CENTURY

CRASH	PEAK	TROUGH	S&P 500	DJIA	NASDAQ*	WELLESLEY	WELLINGTON	50-50†	DIVS & TREAS. ‡
DOTCOM	03/24/00	10/09/02	-47.4%	-31.5%	-77.6%	0.9%	-17.1%	-8.1%	18.6%
HOUSING	10/09/07	03/09/09	-55.3%	-51.8%	-54.8%	-28.3%	-41.6%	-34.9%	-16.6%
COVID	02/19/20	03/23/20	-33.8%	-36.5%	-30.0%	-17.9%	-25.8%	-21.9%	-15.8%

\*TOTAL RETURN EXCEPT FOR NASDAQ PRIOR TO 2013, WHICH USES PRICE RETURN DATA.

† A PORTFOLIO MADE UP OF 50% WELLESLEY FUND AND 50% WELLINGTON FUND.

‡ A PORTFOLIO OF 50% S&P 500 DIVIDEND ARISTOCRACTS AND 50% BLOOMBERG BARCLAY'S US INTERMEDIATE-TERM TREASURY



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## Don't Invite Problems into Your Portfolio

When you're looking at dividend-paying stocks, mutual funds, or ETFs, you want to be selective because, historically, it's not the highest payers that have performed the best. And when investors reach for yield and buy those highest payers, they tend to invite avoidable problems into their portfolio. There's a difference between the dividend-centric investor who seeks to buy above-average yields compared to the one who looks to buy to fund a certain lifestyle—because they “need” the money.

Despite the easy appeal of piling into the highest-yielding dividend fund possible when the Fed cuts rates on bonds, there are drawbacks. Jason Zweig reports in *The Wall Street Journal*:

Although funds with big payouts sound safe, high income can lead to a poor outcome. You need to guard against needless tax bills, overexposure to narrow segments of the market and the chance of deep long-term losses.

The appeal is obvious: Because dividend funds pay out high current income, typically monthly, they can be somewhat less risky than the overall market. Unlike the typical interest payments from bonds, dividends can grow over time, helping hedge against inflation.

And, during the long period of near-zero interest rates that began in 2008, many investors got used to the notion that stocks can generate higher income than bonds. (That was, in fact, the historical norm until the late 1950s.)

To see the potential downside of these funds, though, consider Global X SuperDividend, an ETF with \$784 million in assets.

It yields nearly 11%.

That's huge compared to the income returns of roughly 1.3% on the S&P 500, 2.1% on the Dow Jones Industrial Average and 5% on short-term U.S. Treasuries.

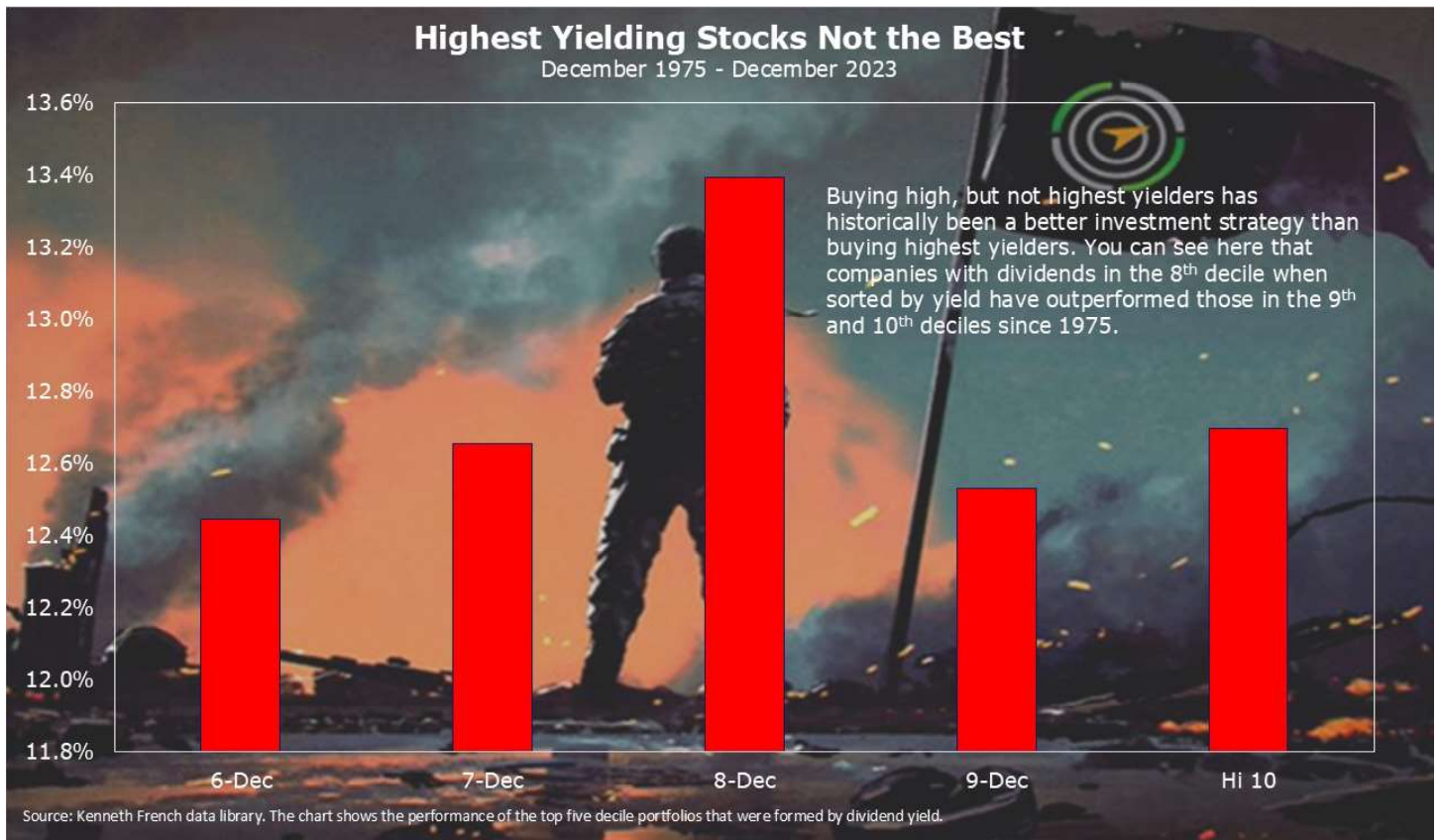
The SuperDividend fund's supersized yield comes at a cost. Launched in June 2011 at \$75, this week the shares traded around \$22. That's a 70% decline.

If you'd bought the ETF at its inception and held continuously through the end of August, you'd have lost 9%—after accounting for all those jumbo dividends along the way. Although the fund slightly outperformed its own benchmark of high-yielding companies, it lagged far behind global small and midsize stocks as a whole.

With such a fund, says Rob Isbitts, a retired financial adviser who blogs about investing, “you're just paying yourself that high yield with your own money.”

The simple reason: A company that pays a steady stream of growing dividends is probably in robust financial health, but one that pays gigantic dividends is probably struggling and may be desperate to attract investors. Put a bunch of those into an ETF, and you get lots of income but even more risk.

Remember, the calculation for dividend yield is dividend/price. The dividend can remain steady, and the price can drop, leading to a dividend yield that looks appealing. The price drop, however, may portend a bad future for the company whose stock is in question. In the chart below, you can see that companies with the highest dividends (those in the ninth and tenth deciles of the market by yield) underperformed those in the eighth decile since 1975.



Be careful when reaching out for yield; your hand might find empty air. Perhaps it's more important to focus on companies with a history of increasing yields and the intent to raise them further, backed by a strong balance sheet.

## A Conversation with Dick Young about Father Time

"Investors are on edge after Tuesday's selloff, with U.S. stock futures falling and markets in Asia and Europe on the retreat," read a recent WSJ.

Are we having fun yet? Now that Labor Day is to our stern, the market seems a bit more serious, don't you think? Can it really continue at this pace for very long?

"How are we doing?" you might ask.

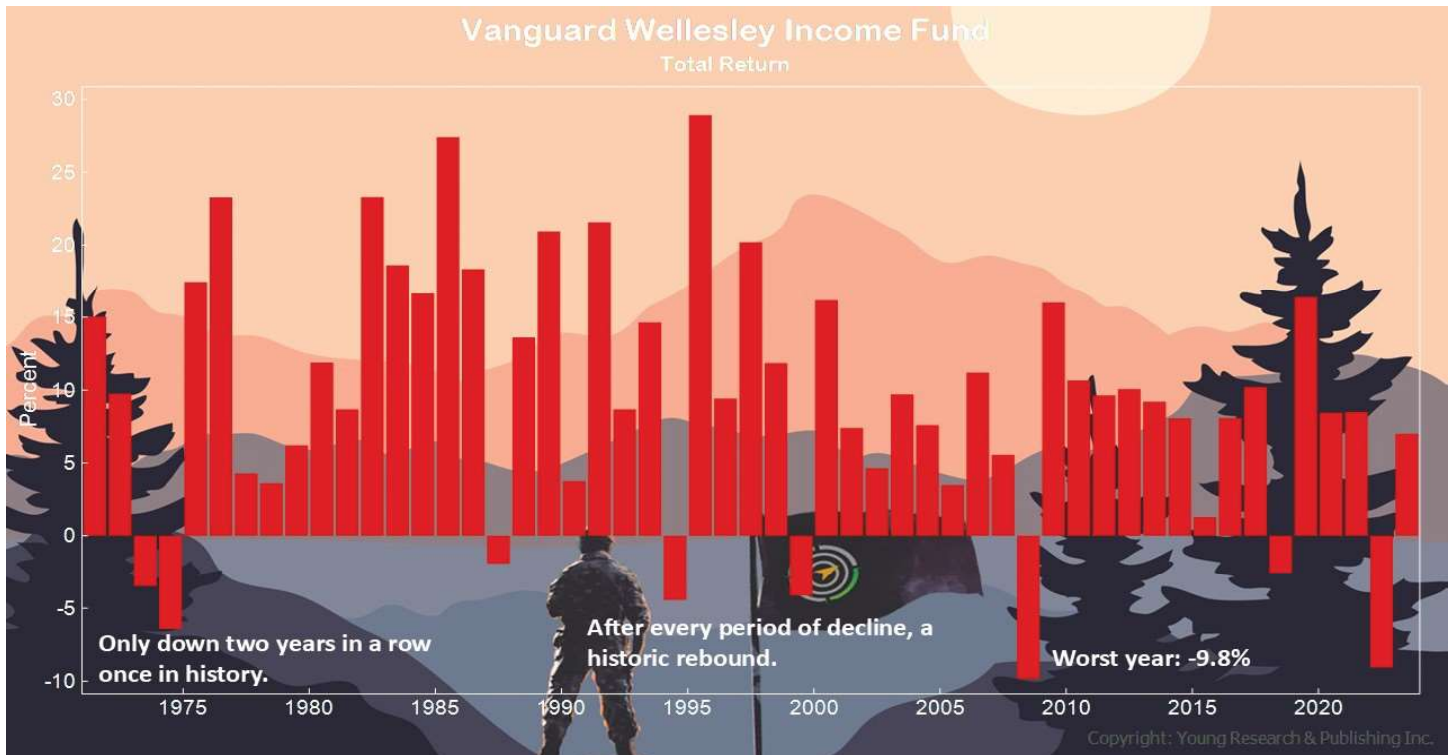
I don't know how "we" are doing, I think to myself. I just know I'm doing fine and don't check my statements more than a couple times a year, typically around tax time.

When you look at how yesterday's market decline impacted bonds, you quickly realize they were up in value and point to the essence of a balanced portfolio.

One trading day does not make a year, but over a lifetime, you can see the benefits of having a steady hand. More fortunes miss the boat because they throw over the anchor and stay put too long.

The success you have in money and in life has more to do with Father Time than anything else. You need to be around to be in the game. Time will not bend to your wishes and desires, but it will be the key element to your long-term success.

I'll never forget a conversation I had with Dick Young 20 years ago when he said, "Survival Guy, I made more money last year and the year before not because of anything I did, though owning good stuff helped, but because of time. Time is the key to the miracle of compound interest. Remember that, and remember to remind your clients."



Consider this a gentle reminder to not chase the market but to be patient and let Father Time do the heavy lifting. When you want to talk about putting time on your side in your portfolio, [I'm here](#).

Survive and Thrive this Month.

Warm regards,

*Your Survival Guy*

"Your Survival Guy"

- If someone forwarded this to you, and you want to learn more about Your Survival Guy, read about me [here](#).
- If you would like to contact me and receive a response, please email me at [ejsmith@yoursurvivalguy.com](mailto:ejsmith@yoursurvivalguy.com).
- Would you like to receive an email alert letting you know when *Survive and Thrive* is published each month? You can subscribe to my free email [here](#).

**P.S.** Your Survival Guy doesn't want you to be in the interest rate prediction business because the talking heads just might end up being wrong.

Sure, the Fed funds rate may come down, but what if the buyers for the rest of the yield curve have a different opinion? Bond prices trade in anticipation of what's to come six to twelve months from today, much like stocks do.

The fact that we need to even talk about the direction of interest rates and the associated guesswork is a shame. A gold standard that sets the value of a dollar with the same certainty that there are twelve inches in a foot and eight ounces in a cup would provide discipline—but that's a politician's worst nightmare. What a disaster it was leaving the gold standard.



Now, with the Fed being the buyer and seller of bonds through its oversized balance sheet, what does that signal to Wall Street? It says don't worry, we've got your back, and keep on doing what you're doing. Meanwhile, there's no bailout for Main Street, the backbone of the country that needs to pay attention to risk.

Just as Main Street finally has some interest rates it can sink its teeth into, the Fed begins going the other way. Wall Street cheers, Main Street jeers, and risk is politicized.

**P.P.S** America's debt load is the highest it's been since the post-WWII era. Look at the interest costs to carry all that debt in the chart below, and imagine you had such a personal debt load. Wouldn't you want to reduce it? Of course, you would.



Now, throw in the fact that the government can print its own money, create it out of thin air, and set its own interest rate level, and it's obvious it benefits from lower rates. It kicks the can down the road for politicians to pretend they're serious, and yet they do nothing about it. Look at the debt being accumulated



A gold standard would be an immediate fix to manipulated monetary policy, but when you're the government, you know that 12 inches make a foot, but such rules don't apply to you. The yellow metal tells the truth about rule breakers.

Most of you know what it's like to carry a mortgage, and many remember when rates were way higher than today. Your goal was to own your home simply to get the bank off your back. Now that most mortgages have been refinanced like the limbo—how low can you go?—the lobby to boost the real estate market is fierce. I'll put it right up there with Wall Street.

There was a time when a loved one would bring a child to the local bank, like our father did for my sister and me, and help them open a savings account. My dad knew seeing interest on interest was the quickest way to teach us about compound interest without spending a minute in the classroom. Now, the game is trading whatever might go up in value today. It's a price dependent gamble, not an interest-bearing plan.

By lowering rates, the Fed is throwing gas on the flames. It is destroying a tried-and-true savings plan to live by and replacing it with nothing worthwhile. We do not know what the consequences will be...yet.

As Your Survival Guy, my goal is to help you avoid disasters, especially manmade ones, which are most often the most painful and avoidable ones.

**P.P.S.** Your Survival Guy recently visited my friend Marc Streisand, owner/proprietor of Marc Allen Fine Clothiers, Custom Suits, and Imported Sportswear, to pick up my handmade, bespoke cashmere sport coat. It's such a beautiful piece, I can't wait to put it on when we hit Paris for three weeks in October.

Every time I leave Marc's, I feel like a million bucks—and almost as poor—but you can't replace the feeling of dressing well and feeling good about it. Yes, it's easier said than done. What Marc brings to the table is irreplaceable service and know-how. He knows all my measurements and calls me when a new product is available that he knows I'll love.

Years ago, when he was living in Manhattan and fitting power players there, he would visit a handful of them every Sunday to lay out their attire for the busy week ahead. Imagine having your personal valet from Downtown Abbey. He laid their clothes out for the week ahead, helping them Monday-Friday mornings be as quiet as possible so as not to wake up the rest of the household. Pretty nice, don't you think?

Marc's store is located right down the street from Brown University in Providence, RI—a much easier city and street to navigate than Newbury in Boston. Plus, lunch at Hemenway's next to your valetted car is a cinch where you can slurp down some oysters and beer to ease the financial pain.

Dressing well is as much about you as it is about the company you keep. When you look and dress nice, you're telling your acquaintances and loved ones how much you care about them without saying a word.

In a world where it's just as easy and acceptable to fall out the front door in the same clothes you went to bed with, it's the little things that matter. The bonus here being that you feel better about you. Making a little effort isn't going to kill you.

You know how [Your Survival Guy feels about spending](#). Many of us don't know how to do it well. We get stuck in our little lives, and that's ok. I understand it's hard to act. I know inertia is tough to overcome. But when you do act, you commit to investing not in some fabric, but in my favorite investment of them all: Y-O-U.

If you're in town, then take some time to head up to Providence to see my friend Marc. Check out what's coming to Marc's by clicking here: [Custom Suits & Imported Sportswear | Marc Allen Fine Clothiers | United States \(marcalleninc.com\)](#). You'll be glad you did.