
MINDS UNDER
CONSTRUCTION


Food
for
Thought

Food for Thought From Psychology –

Composed and edited works of Chowder by Joni Jrepasch

https://seekingalpha.com/instablog/728729-chowder/5051173-

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YOUNG INVESTORS STARTING A PORTFOLIO: BUILD OUT NOT UP

Chowder >> Author's comment » I've had a number of young people ask me what is the best way to establish a portfolio. I realize there are many ways to do so but I think the most prudent way is the one I am about to suggest and the way I establish every new portfolio for young people.

First of all we must be clear, most young people don't have a lot of money to invest and some of the older folks don't have a lot of cash to contribute monthly, so this would apply to them as well.

I suggest buying in $1k lots and I suggest on building the portfolio out and not up. What this means is that you might start with $5k and that means you'll own 5 companies. ***As you start investing more cash, keep adding companies until you have 20 or more (building out).*** You can decide how far out you wish to build your base. My son has 50+ companies but now we are building up.

While you are adding new positions, your old positions are doing what all stocks do, they go up and down in price. If they are going down you only have $1k at risk! If they are going up, those are the companies I start building up in size after your base has been established (building up). This is part of what I mean when I say build on strength. Add to your winners and avoid your losers until they start winning. It's an easy peasy approach to minimizing losses and learning to eliminate fear.

And the best part? You don't need to worry about valuations when you are investing small amounts of money and have lots of time left to invest. Ignore the older folks about price and valuation worrying. Your job is to develop a base of companies you wish to own long term and you are not going to put a lot of money into them until they are successful, and ***it's only when you are investing larger sums of money when valuation worries will be more important.***

Build out to begin with! 05 Oct 2017, 05:17 AM

Chowder >> Author's comment » There is always an objective, always a mission, and it changes from year to year. I was done with building out my son's portfolio and this year the focus was on building up. The objective, the mission for 2017 was to bring all 1/4 sized positions up to 1/2 size. That mission has finally been accomplished.

I had stated earlier this year that 2018 was going to be the year of the Core, where I build all of his Core holdings to full position. I want these companies, companies I have higher conviction with, to be twice as large as other companies, at a minimum. Therefore I will be ignoring valuations and when it comes time to add, I'll add one buy at a time. The next purchase is due to be made the first of next month.

YOUNG INVESTORS STARTING A PORTFOLIO: BUILD OUT NOT UP

At the present time, these are his Core holdings and their position status**.**

Overweight positions:
JNJ .. PM .. D .. GIS .. KO .. KHC .. ADP

The following companies are Full positions:
O .. VZ .. PEP .. SO .. CL .. PG .. KMB

The objective has already been achieved with those companies. Here are the companies that need work.

3/4 sized positions: MMM .. VFC .. T
1/2 sized positions: XOM

I will build those up to full positions before I look at any other companies in his portfolio unless some compelling situation pops up.

I have a very sophisticated and complex strategy for adding to these companies above. I am buying the highest yield first. ... Ha!

So T is the next purchase and then I'll move on to XOM.

Simplicity at its best.   05 Oct 2017, 01:51 PM

Question: @PDavid I am building up all portfolios and have no further company changes in mind.

Chowder >> Author’s reply » We do not collect all dividends in retirement so we do reinvest a portion back into the continued building up of positions. Recently add to KMB and GIS. 05 Oct 2017, 10:51 AM

Question: >>> As you are building out your son's positions do you ever think about the amount of dividends the core stocks are producing and weighting the core positions by yearly payouts? <<<

Chowder >> Author’s reply » No! If the dividend is considered safe, what difference does it make? This is why most Core holdings should be Aristocrats. They have shown they can pay and increase the dividend through multiple recessions. I suppose you can always find an exception but I don't manage based on exceptions, I manage based on high probability of success.   06 Oct 2017, 08:06 AM

FOCUS ON THE INCOME CASH FLOW
IMPORTANT NUMBER IS INCOME NOT PRICE

Chowder >> Author's comment » I read an article earlier this morning that stated income investors were concerned we may get a 10% or 15% correction and they were suggesting ways to insure against it.

First of all, why would an "income" investor be worried about a 10% or 15% correction? The income isn't taking a hit, the share price is.

Secondly, the hit is going to be temporary so why the concern?

Too many income investors still can't focus enough on income! They'll learn after their next BIG ONE! ... Ha! 05 Oct 2017, 06:35 AM

Question: >>> How long to hold out for FV if the dividend profile is adequate right now? <<<

Chowder >> Author's reply » I don't hold out and I've been showing that over and over again the last few years. Until market conditions change, when something meets the right combo, it gets purchased and I don't care what others think with regard to valuations. So far they have been wrong as valuations continue to rise and they usually rise after I already bought, having anticipated that valuations would continue to rise as the company continues to perform.

Why is the price so important today when you are investing small and going to be making additional purchases over the long term? You're going to pay even more later if your company is performing well. Take LMT for example, how many times over the last several years was every fair value price for them ended up being wrong?

You don't know what fair value is, I don't know what fair value is, and neither does anyone else because value is based on forward performance, not historical performance so it's all hog wash. Buffett himself earlier this week on CNBC said the market IS NOT overvalued based on ***"current market conditions."***

If the company meets my criteria of "next man up" I'm buying. I already know what I'm buying the rest of this year in my son's portfolio and I know when I'm going to buy and I'm going to do it regardless of what people think fair value is. Price is not the objective, income is, share count is, and that's what I will continue to follow up on. 05 Oct 2017, 07:22 AM

PORTFOLIO MANAGEMENT

Chowder >> Author's comment » I'll be getting into the psychology of investing more and the managing of a portfolio in the coming days. I'm allowing people to comment and then determining if it requires follow up. 05 Oct 2017, 07:32 AM

Chowder >> Author's comment » A lot of people I have been working with are locking on into this concept of income, it's the only thing we track.

We aren't the hero's we think we are when prices head higher, and we aren't the failures we think we are when prices head lower. We have no control over price. So getting over myself as to thinking I was a great stock picker was the first thing I had to do to get my mind right.

Bill Belichick says, "Do Your Job." ... My job is to buy good companies that share company profits with us and build them up over time. That's my job! If I do my asset allocations properly, and we'll get into that, and I stay focused on buying quality and ignoring the herd who think everything they buy is going up, then the market will reward us in time. All we have to do is build out and up and stay focused on the income.

Many people have listed their mistakes for others to learn from, and if young folks pay attention to what I'm trying to convey, those mistakes won't be made. Most mistakes manifest around people worrying about price fluctuations. Fuh-gedda-bout-it. Buy quality, build slow, add to winners, be patient with losers before tossing more money after them, build out and then up, and stop worrying about trimming shares. If you're going to build, BUILD! 05 Oct 2017, 11:08 AM

Question: @PDavid ... I am building up all portfolios and have no further company changes in mind.

Chowder >> Author's reply » We do not collect all dividends in retirement so we do reinvest a portion back into the continued building up of positions. Recently add to KMB and GIS. 05 Oct 2017, 10:51 AM

Question:@Dirt Farmer ... I think people have a tendency to complicate things. The media doesn't help. Financial advisers don't help. Many people here on SA don't help in keeping things simple. Everyone wants to think you have to be a good stock picker and we aren't it. It's crap.

Chowder >> Author's reply » **I've told the story before and people can't relate because it's too simplified. When I started, I went to the library with a legal pad and pen, looked up Value Line and went through their list of companies rated 1 or 2 for safety. That was my screening process.** When I found a company with a 1 or 2 Safety rating, I made sure they paid a dividend and then decided if it was a business that sold a product or service I could relate to. I can't relate to technology so I crossed all of them off. It was that simple!

PORTFOLIO MANAGEMENT

I just want to own good companies that share their profits with me. I made a determination on how many companies I wanted to own, built that base out and when I had exhausted the watch list I then turned around and started building companies up.

Since the companies that ended up rating 1 or 2 for Safety, I don't need an Index Fund, these companies are part of the Index Fund. If the fund does well, I do well, except I get paid more than the fund would pay me. 06 Oct 2017, 02:22 PM

3 MILLION PROJECT
WHEN DO I KNOW I CAN AFFORD TO RETIRE?

Chowder >> Author's reply » My son's portfolio is at an all-time high this morning and it's fun to look at, but that's not what I care about.

1. **How much do you need?**
2. **When do you need it?**
3. **How sure are you that it will be there?**

My son asked, when do I know I can afford to retire? ... I told him when your assets pay you more to sit at home than your job pays you to show up to work.

It's simple, it's easy, and the best way to do that is to track the annual income levels.

Sept 17 saw his income increase 12.6% over Sept 16. In order to achieve his long-term income objective, he only needs high single digit dividend growth. He's getting more than is necessary to keep him on track.

The market can drop 20% and I say, who cares? He's not selling, I'm not selling, the income won't take a drop, so why worry? We'll stick with the process. 05 Oct 2017, 07:46 AM

Rising Income in a Down Market

PROJECT 3 MILLION -- HOW MUCH DO YOU NEED?

Question: ross922 >> Chowder,

How did you and your son go about answering number 1? What sorts of things led you to the Project 3 Million?

Are there discount rates you used? Say, "In 40 years you'll need X dollars per month to live off of in retirement. So a reasonable yield on $3 million would produce that much dividend dollars."
Thanks, Ross 05 Oct 2017, 09:23 AM

Chowder >> Author's reply » We don't know what inflation will do going forward so we looked at what his portfolio value was, determined how much he could afford to invest monthly, worked with a couple of annualized rate of return numbers to get an idea of portfolio size when he hits retirement age.

He may not need any income from investments, he starts his first pension at age 38 which will represent 50% of his income and the plan is to go to work for someone that still provides pensions and work on another.

We had to have an objective so we settled on $10K per month in dividends, that plus pensions should have him in fine shape.

Others can set their annual income as an objective and as time goes on and inflation rises, they can always adjust the objectives higher. 05 Oct 2017, 10:58 AM

Question: >>> When you say portfolio, you refer to your son's taxable and Roth IRA accounts (wherever he holds his individual stocks), correct? <<<

Chowder >> Author's reply » Yes!

Question:>>> Also, is your son totally 100% equities across all of his accounts including his 401k? <<<

Chowder >> Author's reply » His 401k is called a TSP. His TSP only allows him to invest in Target Date Funds, or a very small number of Index Funds. I have him 60% invested in a Small Cap Index Fund, called the S Fund, and I have him 40% invested in an International Index Fund, called the I Fund.

I haven't decided what to do with those funds when he retires at age 38 and starts drawing a pension. A pension at age 38, ha ha. I love it.

>>> You state that this is the portfolio for a 32 year old. How would you change it for a person who's in the 40's or 50's and it's double or triple the value of your son's portfolio? <<<

The positions would be much larger. Instead of $4k being a full position, $40k would.

PROJECT 3 MILLION -- HOW MUCH DO YOU NEED?

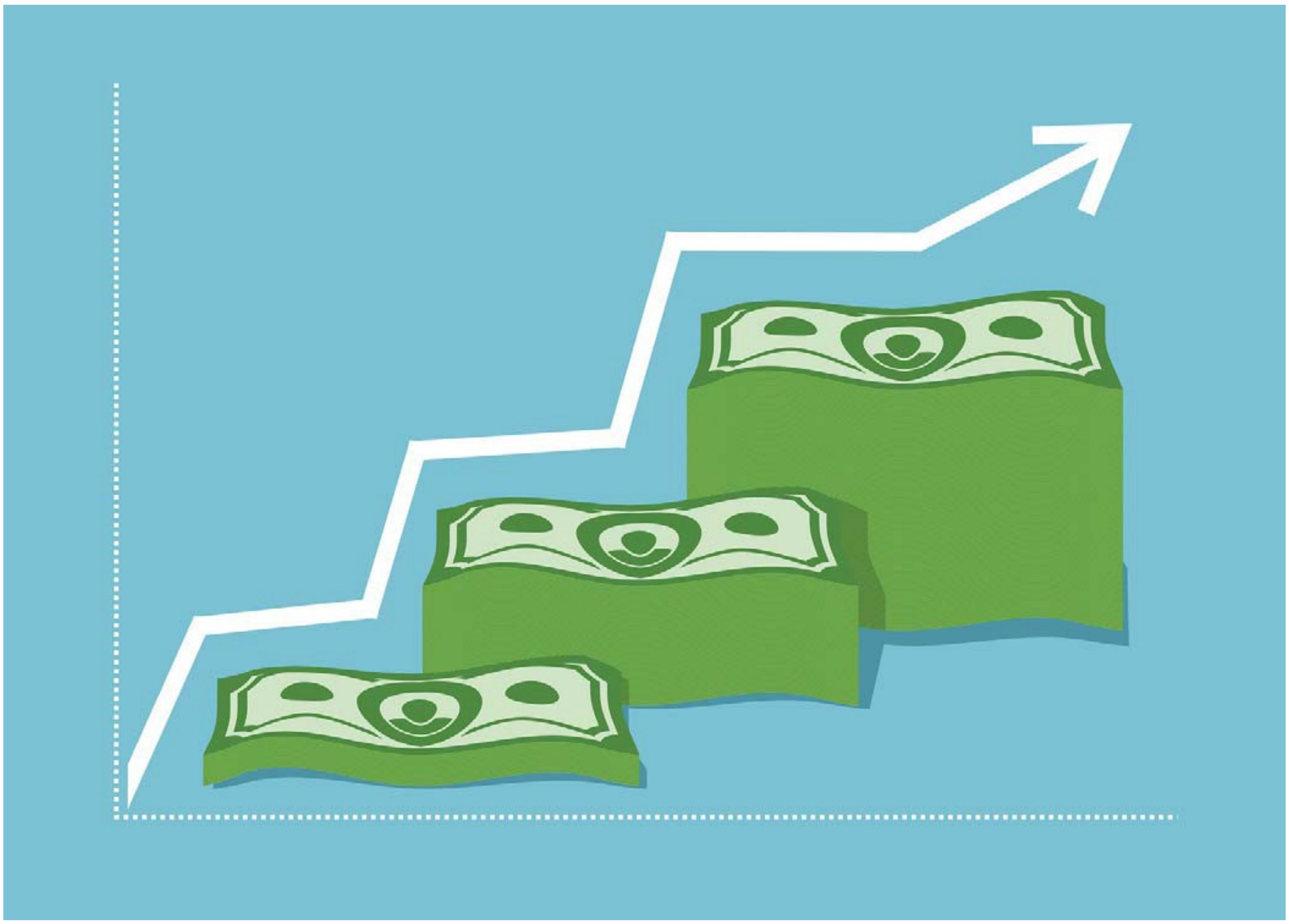
Question: >>> When would you start ***circling the wagons*** for such a person (for a 45-55 year old)? I think that's the term you used when you did it for your own portfolio. <<<

Question: >>> What would the ***circling the wagons*** involve doing? <<<

Chowder >> Author's reply » In his case there won't be a need to circle the wagons, he will have had decades to build income. Decades!

In my case it involved going defensive and I mean defensive. More than 75% of the portfolio in consumer staples, utilities, lots of utilities and lots of JNJ. ... **Ha!**

Defensive doesn't infer these companies can't have steep draw downs, defensive infers these companies usually continue to sell their product or service regardless of economic conditions and thus increased the odds of a safe dividend. When one doesn't have that employment check to fall back on, you realize how important the safety of the dividend is. 13 Oct 2017, 09:40 AM



PROJECT 3 MILLION -- YEAR OF THE CORE

Chowder >> Author's comment » My son's taxable account holds 35 positions and the yield on those 35 positions comes out to 2.6%.

His Roth Ira holds 21 positions and the yield for those 21 positions comes out to 3.3%. I'm assuming that combined, the yield will probably be around 2.9% give or take and the annualized rate of dividend growth for his portfolio over the last 5 years has been 12.2%. I think that's pretty good.

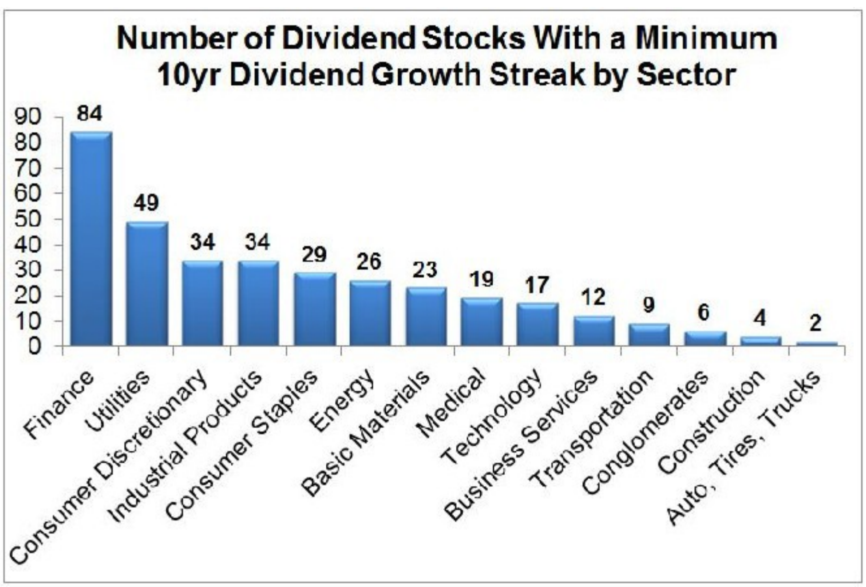
He should have enough cash in his Roth next week to make his next purchase and it will be used to bring T up to a full position. He'll be raising his cost basis when he does but that's all in the game. I'll be able to put that one to rest for awhile as I go after other pursuits.

This will be the Year of The Core for him and the objective will be to make sure all Core holdings are full positions at a minimum. 11 Oct 2017, 04:41 PM

Chowder >> Author's comment » RE: ULTA
The impetus was the portfolio objective and reviewing results. I saw that the portfolio is still ahead of schedule by more than 2 years and there is no need to speculate.

The 5 year dividend growth rate came in at 12.2% annualized and it simply reminded me to stay on course, and the portfolio objective for the next year was to build the Core, so I used the money to build the Core.

My continued reading on the psychology of the market reminded me that smart money turns into dumb money when they wander off the reservation and taking on spec plays is wandering. I decided to leave those to the experts of the world since I'm not one of them. I'm going to stay within my circle of confidence, knowledge and experience. 12 Oct 2017, 04:35 PM



CHOWDER'S STOCK PICKING STRATEGY

Dirt Farmer >> Thanks for doing this Chowder. I relate with 15 miles and his reluctance to add and instead start new positions. I am learning and would like to get out of this habit. I am now forcing myself to add to 2 core positions before starting with a new companies. Is this the kind of discipline needed to stay focused and stop chasing new ideas? Or is ok at as a beginner to pick more companies, observe, and then add/delete? 06 Oct 2017, 10:37 AM

Chowder >> Author's reply » @Dirt Farmer ... I think people have a tendency to complicate things. The media doesn't help. Financial advisers don't help. Many people here on SA don't help in keeping things simple. Everyone wants to think you have to be a good stock picker and we aren't it. It's crap.

I've told the story before and people can't relate because it's too simplified. When I started, I went to the library with a legal pad and pen, looked up Value Line and went through their list of companies rated 1 or 2 for safety. That was my screening process. When I found a company with a 1 or 2 Safety rating, I made sure they paid a dividend and then decided if it was a business that sold a product or service I could relate to. I can't relate to technology so I crossed all of them off. It was that simple!

I just want to own good companies that share their profits with me. I made a determination on how many companies I wanted to own, built that base out and when I had exhausted the watch list I then turned around and started building companies up.

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IT is ALL About The INCOME, Especially during Down Markets or Recessions

ASSET ALLOCATIONS: SUPER SECTORS

Chowder >> Author's Comment » Young people, here is how I manage my son's portfolio and the portfolio of other young folks that have asked for help. I try to come up with a balance between growth and income. The older folks are more income oriented in how I set up their portfolios.

I break the portfolios down into 3 sectors, using the Morningstar model. ***The sectors are defined as Defensive, Sensitive and Cyclical.*** I want 50% of the portfolio in the Defensive sector and 25% each in Sensitive and Cyclical. The model calls for 50-25-25.

Defensive positions include consumer staples, utilities and healthcare. ***[telecoms]***

Sensitive (to the economy) positions include industrial, energy and technology.

Cyclical positions include consumer discretionary, financial's and REIT's. ***[basic materials]***

Most of my son's Core holdings are Defensive. The goal is to have all Core and Defensive holdings at a full position or more, other positions just a 1/2 sized position. These 1/2 sized positions have to grow into full positions hence the term growth. ... **Ha!**

When investing small amounts of money as you build your positions, you don't know where price performance is going to come from. It was unexpected that CAT and DE would perform as well as they have the past year and a half, but then who expected DIS or SCG to show negative returns over the same time frame. So I don't try to guess, I only try to insure that all positions are properly sized so that when that surprising price explosion that CAT and DE have provided, it helps impact performance and makes up for those who haven't performed as well.

I will place V or MA in a young folks portfolio for growth, but I recommend against it in an older folks portfolio because it lacks income. So know your goals.

Now here comes the important part, straighten up!

Asset allocation is an investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance and investment horizon.

I try to manage an equity portfolio based on the asset allocation concept among the equities to be owned. I look at how I want a portfolio established, where I want our income replacement to come from.

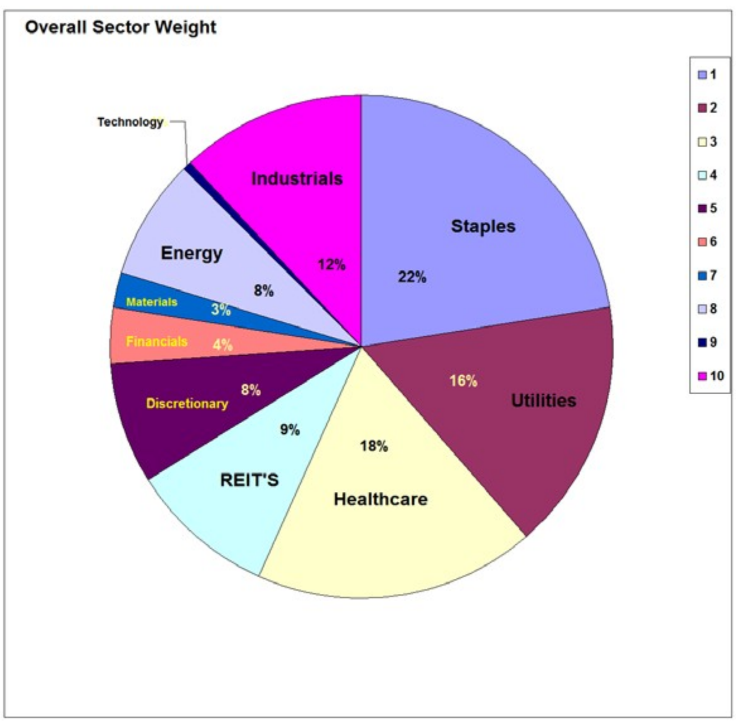
When I consider a risk vs reward ratio, while trying to be reasonably conservative, I look to set up the portfolio with a sector weighting of Defensive 50%, Sensitive 25% and Cyclical 25%. **(More defensive for older folks!)**

ASSET ALLOCATIONS: SUPER SECTORS

Where I see articles and comments asking, what should I buy next, SBUX, BDX or V, what we have is people trying to predict what is going to perform better in the near future and that is not a question I ask myself in managing a portfolio. I look at my sector allocations to see what is lacking the proper weightings, and if it's discretionary, I buy SBUX. If I can use a little more defense, I buy BDX. If I can use some financial exposure it's V. I'm not chasing results, I'm focusing on proper sector allocations and will patiently wait for the market to come to me since I don't know where the best returns are coming from next year or the year after. Thus, I focus on companies and sectors being properly sized and get paid to wait via the dividend stream.

If cash is available, and I can use all 3 then I'd buy all 3 but in talking about folks like my son, who can only buy one company at a time, I have to make choices.

If, for some reason, I needed to upgrade all 3 sectors and only had the cash to make one purchase, I'd go with defense first and add to BDX as long as it was reasonably valued. If BDX had a valuation so high I was unwilling to pay it, then I would look to see what had the best forward guidance on earnings. This company, if not purchased now, might see its valuations rise due to good performance and I'd rather be on board when it does. Most people would select the best valued company and the definition of best value meaning best discount. ***Best discount under current market conditions means company performance is lacking.*** If a company is under-performing, it's price isn't going anywhere soon and I can come back to this later, so I do not necessarily jump on what appears to be the best value available, as price does not determine future value of a company and I'm looking forward. Always an objective, always a mission, stick with the plan. 07 Oct 2017, 08:57 AM



DUMB MONEY – SMART MONEY

Chowder >> Author's comment » Those of you new to investing, and especially you young people, listen up.

One of my requirements in managing portfolios for myself and others is that I have to be in touch with what's going on between the markets and myself. I have to stay focused on the psychology of investing because if I self-implode, the dreams of others implode as well, so I take this stuff seriously, it's not a game to me. Just because I don't do this for a living do not underestimate my commitment to it.

In reviewing my books on the psychology of investing I came across the term "dumb money." I didn't know what that term meant initially years ago and I didn't realize I was part of the dumb money crowd. And I was!

The manifestation of dumb money comes from having success during market conditions that you had nothing to do with. You simply benefited from your timing of the market. Anyone who started an equity portfolio from 2009 and beyond has benefited from a bull market and in doing so it has provided a lot of people a certain level of invincibility, or perhaps a level of confidence that they can continue to be successful. This success can cause one to start thinking irrationally believe it or not.

Here's what dumb money does, they are willing to shoulder higher levels of risk because they no longer fear the odds of failure. The risks they are willing to accept would never be taken in most market conditions but the longer the bull rides, the more invincible they begin to feel.

Dumb money forgets the law of gravity and they don't realize that the higher the market goes, the harder it will fall. Dumb money takes on speculative positions at a time when they should be building defensive positions.

Ask dumb money why they risk and they will tell you because my goals and objectives will be achieved as it is. My question then is then why take the risk? Ego? Self-importance? Need to impress? Need some excitement in your life? Something has to drive dumb money to become dumb and if we don't do an honest self-analysis of our behavior, our dumb money moves may just end up putting us behind schedule and we start the process of building all over again. Been there, done that too many times!

Smart money seeks diversification, stop listening to those that tell you that you dilute returns over a certain number of holdings. It might be true but then you'd have to own the right holdings and you don't know what they are yet.

DUMB MONEY – SMART MONEY

Smart money builds positions in REIT's and utilities regardless of higher interest rates and most people won't tell you why. They will continue to do better because in higher interest environments you have economic growth. It may cost more to borrow but you're not borrowing if there's no growth potential ... duh!

Smart money gains exposure to dividend growth companies because when the market is declining, dividends are positive wealth enhancers. Your portfolio value may see a temporary drop in value but your income level won't. In fact you should continue to see it grow and when it does you can reinvest those dividends and benefit from the upside that always follows a downside. If you didn't believe that would happen you wouldn't be investing, so then it simply becomes a matter of managing the pain during down cycles.

Play it smart. Stay conservative, invest small, build out and then up. Avoid risks you don't need to take other than trying to feel cool. If you are on schedule, stay on schedule, no sense in sabotaging your progress. 10 Oct 2017, 01:54 PM

ACHIEVING ATTACHMENT DISEASE

Chowder >> Author's comment » One of the diseases that inflict investors is called Achieving Attachment. There is a Buddhist principle that states that suffering comes from one's attachment to the things of this world. As soon as you need something to occur, it gains control over you. For investors, a most deadly scenario results when they need investing results to bolster their self-esteem.

Successful investors immerse themselves in the process, while detaching themselves from the results. You have no control over price action. You can not predict the future and it does no good to rely on past performance. You can only look forward and stick with the process. The process consists of knowing the objective before buying and in doing so you increase the odds of success through your forward looking research, formulate a plan on when you buy and add, and trust in the process. These are the things I have been discussing and sharing with the various tactics used in building and managing a portfolio.

The line for achievement detachment shots is to my right. Single file please. 11 Oct 2017, 01:31 AM

STOCK PICKERS: VALUATIONS

Chowder >> Author's comment » Food For Thought ...

Have you heard the pundits talk about being stock pickers and as stock pickers our chances of beating the market were slim? Have you really listened to some of the comments by others in this comment stream and elsewhere? People are trying to be good stock pickers. People are also showing their lack of understanding on what it takes to build a long-term portfolio in my opinion.

Ask anyone here today where they are investing their money and the first thing they are going to look at is valuations. Many of you are holding back on putting money to work because you bought into what I call the valuation scam.

Long-term investing isn't about picking good stocks, it's about partnering with good companies, companies that are still going to be in business in 30-40 years and earn a profit over that period of time.

Stock picking is for traders. Value Line and other rating firms that provide buy, sell or hold ratings are for traders and those who can't see further out than 6 to 12 months.

***Valuations are based on what short term traders think a company is worth today based on some wild-assed guess about what the company is going to do over the next quarter or two, and those numbers and valuations they base their decisions on change all the time*.** If they are going to continuously change in the short term, what's it going to be like long term? And if they are going to change so often, why should I treat them as the Holy Grail of investing?

***Long term investing is about investing in good companies with good financials and have a high probability of being around in 30 years or more selling the same product or service. They may have different ways of bringing it to market over the years, but it's still basically the same product or service*.**

This is why you don't see me giving valuations the respect too many of you give them. All they have done is kept companies you wanted to add to at smaller positions than you wish you had. You still haven't learned how to build the dream instead of chasing it. You are still seeking that short term ego gratification in knowing your small position has a nice gain but the market is going to snatch it away at some point and that's why I stay focused on the income. That doesn't get snatched away.

If you are that sold on capital gains or try to tell me you are a total return investor (aren't all people that with dividend growth investing?) perhaps you should take up trading. That's where your short term tactics will work best. All you are doing when you apply them to dividend investing is holding yourself back from building positions of size which enhances the income you are going to need one day. But hey! It's your money**.**

STOCK PICKERS: VALUATIONS

Young folks, take note of the comments here from the older folks who are still trying to adjust mentally about building a portfolio that generates income. Listen to the concerns they have while trying to make that transition. It ain't easy folks! Especially when the pressure is on to build income to live off of. This is why I have my son building an income stream now. There will be no period of adjustment, no concern over what the market will or won't do, no mental adjustments necessary. All of that is being overcome now, well before it is ever needed!

Think about it! 13 Oct 2017, 04:23 PM

CORE HOLDINGS: PORTFOLIO MANAGEMENT

Question: @user ... >>> I meant DUK FV @75.5, MMM FV@195, right?so they seem expansive. <<<

Chowder >> Author's comment »This is the kind of stuff I love! ... This is where we can get some perspective on portfolio management.

Let's begin with the idea that MMM is a Core holding, which it is. If it's a core holding, and the person building the position has 40 years or more of investing ahead of them, and assuming a core holding is to be held all of those many years, then why is today's price that important? If there are going to be many more purchases over the years, and we have to assume there will be since it is core and considering the quality of the company, I would venture to say most of those purchases a number of years from now are going to cost more then than they do now.

I refuse to adopt the short term views of others as they continue to use short term tactics for a long term strategy. It ain't gonna happen on my watch.

Let's take it a step further, and this is better, I just brought MMM up to a full position ... FULL POSITION ... not some 1/4 or 1/2, but full, and his new cost basis? ... $185 per share on a full position, some $10 below fair value and 17% below today's cost ... **budda-bing, budda-boom!** ... Man I love this stuff.

I've said it over and over and over again, you will not hear me say a company has done real well for me, I wish I owned more of it. I own it. There won't be any trains leaving the station without me on board.

As far as I'm concerned, and since I am dealing with a young person's portfolio, nothing is too expensive today based on where I expect it to be a couple of decades from now, and if I don't buy now, when do I do so? Some of the staunchest of value investors have had to capitulate and pay more than they would have had to pay a year or two ago.

No need for a young person to wait, you got cash, you invest, you build, you look at the big picture! 12 Oct 2017, 02:40 PM

DEFENSIVE STOCKS: HAS TO DO WITH THE DIVIDEND, NOT THE SHARE PRICE

Comment from reader >>> Defensive has often been talked about here in terms the level of draw down in price that a stock suffered during past corrections or bear markets, which is talking about price, among other metrics. <<<

Chowder >> Author's reply » And that is what I call a failure to communicate. Defensive has nothing, absolutely nothing to do with price draw downs and that's why these discussions get off topic. We can't even agree on a simple definition.

New investors, listen up.

When I discuss Defensive positions, it has nothing to do with how much a company saw its price draw down during the last recession. Defensive has nothing to do with share price. Defensive has everything to do with whether a company can sell it's product or service regardless of economic conditions. Those revenues are what will help generate the dividend, and it's the dividend you want protected during recessionary times.

A company like O and MMM for example have recessionary resistant aspects to their business and that is why I am willing to consider them Core holdings even though they are not listed in the Defensive sector. O had one hell of a draw down during the last recession but that dividend was as solid as gold because their occupancy rates stood so high. Other REIT's saw their dividend in jeopardy because they couldn't maintain a certain level of revenues.

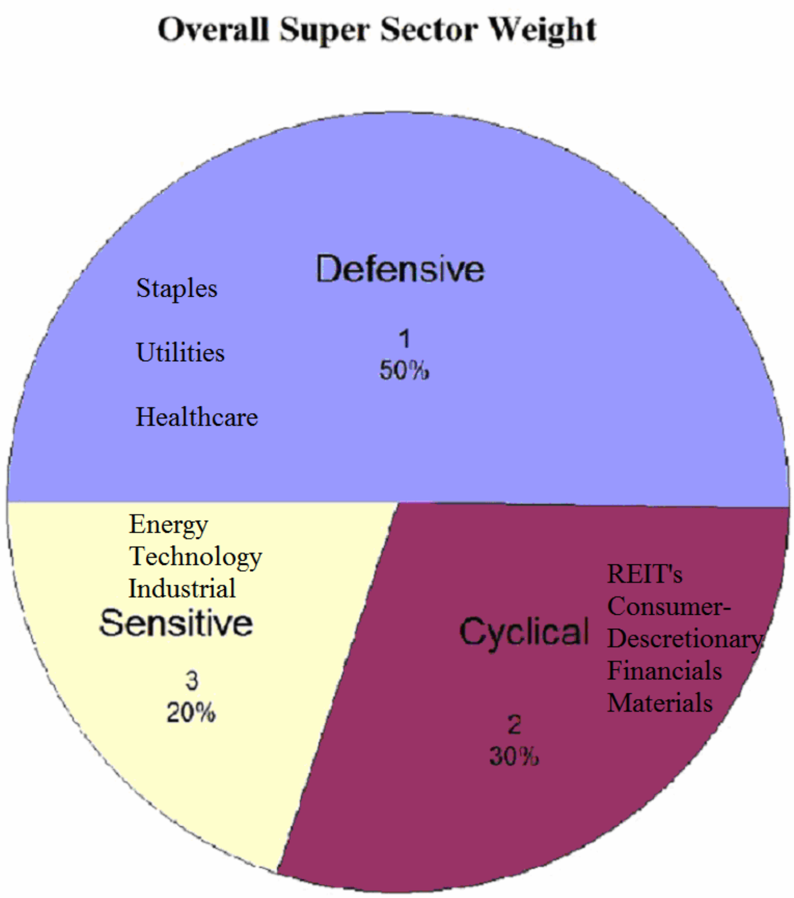
Defensive has to do with the dividend, not the share price. After all, this is called the "dividend growth income" strategy and part of that strategy is trying to determine where the safest dividends come from. There are many exceptions of non-defensive companies having a safe dividend, MMM and O just being a couple, but most of the dividend cuts that came in the last recession were from companies outside what I refer to as the Defensive sector. So keep that in mind newbies, and perhaps that will provide some peace of mind as we go along while most around us are scattering on ideas how to protect their portfolios. **... Ha!** 16 Oct 2017, 08:23 AM

RULES VS GUIDELINES

Chowder >> Author's comment » Some of you people don't know the difference between rules and guidelines, between blue prints and a track to run on. Some of you forget what it's like to be a new investor and all they want is an idea on how to go about getting started on building a portfolio. You use your years of expertise and expect newbies to fully understand what you are talking about and they don't.

A term as simple as "a flight to quality" will have many of you providing different definitions and different perspectives when a newbie simply wants a simple explanation and why it's important.

Quite a few of you still don't understand the significance of breaking positions down into the 3 sectors I talk about and it's okay that you don't need to define it, but the new people I talk to sure do appreciate the value of it. It's almost a must need in starting out a portfolio for them in instilling confidence and putting their minds to rest. I continue to get feedback on the concept all the time from newbies and I will continue with that process here. 16 Oct 2017, 08:13 PM



HOW TO MANAGE LOSING POSITIONS

Chowder >> Author’s reply to Top Of The World Ma »

Actually Top, this past week I have been talking about how to manage losing positions. I thought I clearly stated that a new person start small and build out the number of holdings they wish to own. If the number is 30, 40 or 60 it doesn't matter but a person should have a general idea of how many companies they are willing to hold.

Once you have those positions in place, I thought I was clear that you go back and start building up the positions that are showing a profit, what I refer to as building your winners.

I know I have been very clear about saying I only allow myself to average down one time and one time only while still keeping the position at no more than a 1/2 sized position on losing positions. This is what I refer to as minimizing losses.

Just this past week I talked about a losing position in my son's portfolio, KMI which is less than a 1/2 sized position, and I gave the scenario where I would consider adding to it while it is still down, and that scenario is that management said they would raise the dividend in 2018. If they do that I believe it may allow others to feel free to start investing in them and I'm not talking about those who were burned. There are many others who weren't and I believe a rising dividend will attract them. Fund managers may not have any other choice.

If KMI refuses to raise the dividend in 2018, then they have provided the catalyst for me to sell the position, take the loss, and then move on.

The point is, I did not continue adding to KMI while it has been an under-performer. I did not allow myself to be in a position where it became a 2 to 3 times a normal sized position. That's poor portfolio management. The people who tell you that if you loved it at $35, you should really love it at $20 are fools if they don't consider the condition of the company at the time they regurgitate that crap.

GE is widely expected to cut the dividend again. I don't know that it is the end of the world if they do. They are under new leadership now and there are those who are predicting a cut that think this new guy will be in a better position to turn the company around than the last guy. I don't know if he will or not, but we are going to find out. 17 Oct 2017, 03:19 PM

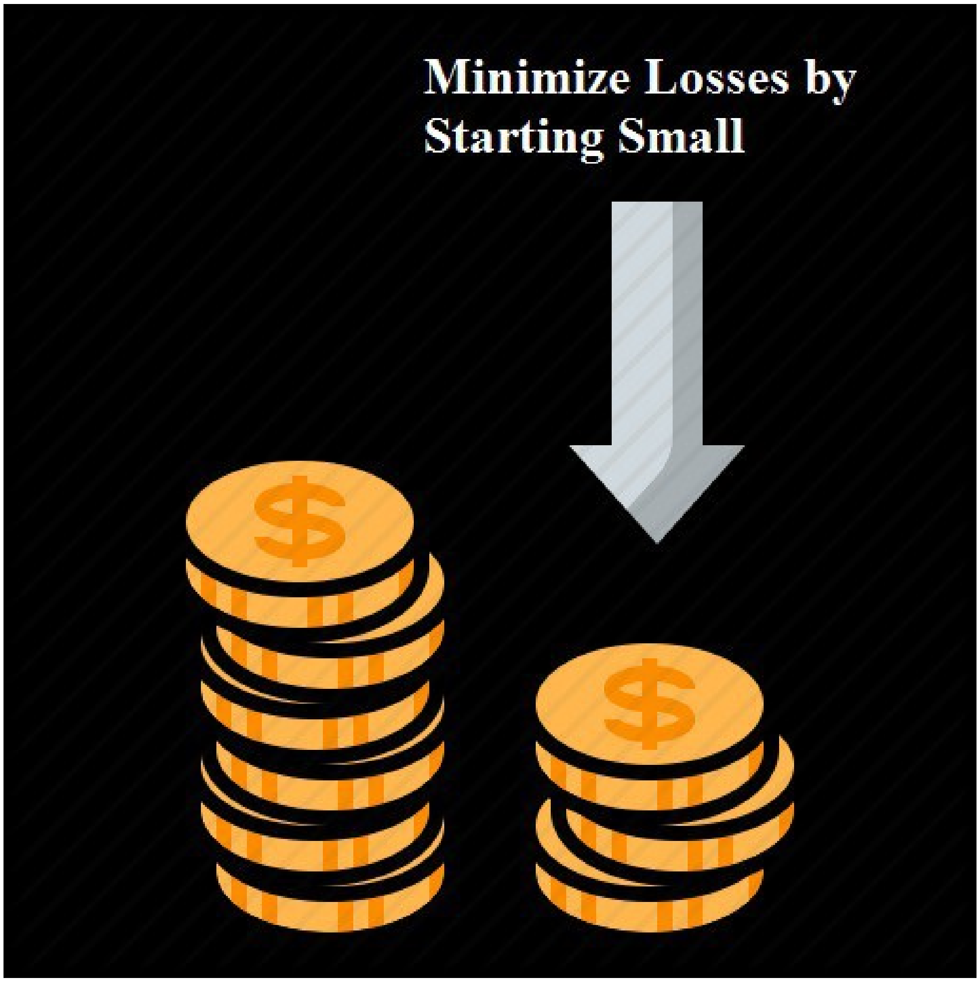
LOSERS ARE NEVER ALLOWED TO GET LARGE

Comment from reader >>> Yes, I remember reading that several times and it made perfect sense at the time, it's not core, it's not defensive, it's grown to 2 – 3 times normal positions size, why not trim. The only thing was I had assumed you were talking about winners. >>> Chowder >> Author's reply »

Losers are NEVER allowed to get that large. I would rather a winner stay that large even if it's a non-core, non-defensive position but never a loser.

I had KMI as an overweight position at one time and it's the only company I had that large that failed me. I trimmed that puppy down to a 1/2 sized position in my son's account ricky-tick like and I got rid of it all in my personal account. ... Losers don't get to hang around in size.

There are ways to manage yourself out of this position but I don't have enough info to do so here and I would need personal contact in order to do so. 17 Oct 2017, 12:03 PM



IMPORTANCE OF CLASSIFYING STOCKS INTO SECTORS

Chowder >>   Author's reply » Top?
I know others don't like the concept of breaking down companies into classifications like Defensive, etc. but examples like yours are good reasons why people should.

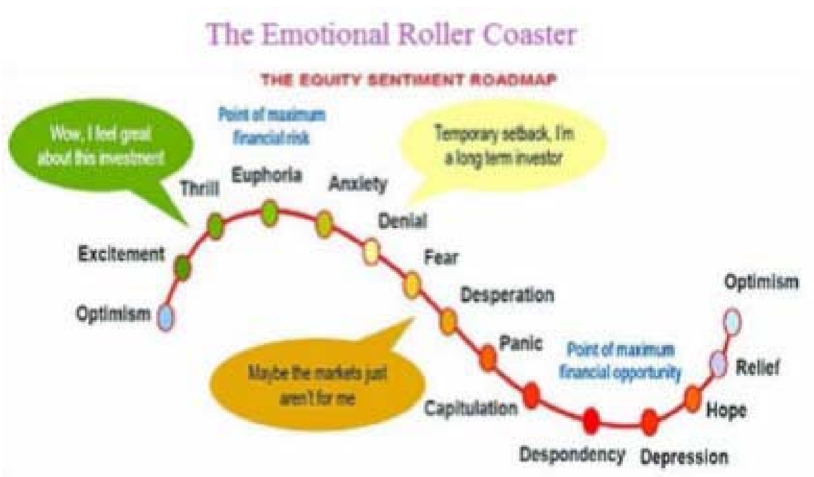
GE is an industrial and in being so is in a sector considered ***sensitive to the economy. I don't want positions sensitive to the economy to grow to two times a full position,*** I want to trim them, lock in the profits, and get the position down to a more manageable size.

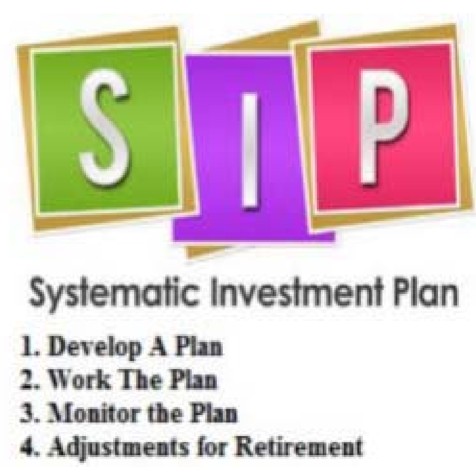
A consumer staple or utility? I'll let them grow because they are recession resistant. I didn't say recession proof, I said recession resistant. Their products or services are required regardless of economic conditions, most industrial's don't benefit from similar circumstances. Some will hold up better than others, maybe MMM for example because they have a sizable retail division, but at some point a person needs to have some guidelines in place where they trim sensitive companies back.

If your position had always been profitable it would have been different, and this is what I am trying to convey to new investors, don't add to losers. This way they don't get a position of size on an under-performing company.

Every once in a while you'll get a company like Kinder who did well for investors for 15-20 years, allowing them to build up a position of size, but again KMI was not considered Defensive and should have been managed better by people including myself.

It might have been kolpin who said it, and I certainly agree with her comment, you probably went in too large to start with and kept adding to it. You need to establish some guidelines for yourself where you say enough is enough and stop throwing money at it. Only you can determine what that comfort level might be. 18 Oct 2017, 09:46 AM





MARKET PSYCHOLOGY

Chowder >> Author's comment » Market psychology ... listen up folks, especially those of you who are new to managing an equity portfolio.

There was research done by Amos Tversky and Daniel Kahneman that showed most investors are risk-avoiders in handling gains, but risk-takers in handling losses. Now think about that concept for a minute and when you are thinking clearly ***you will see that most people sell winners too soon and hold losers too long.*** There is something about our psychological makeup that doesn't allow us to admit mistakes very easily. We hang on to losers in an attempt to show we were right all along when we actually weren't.

You will see people all the time telling you that they don't like a company for one reason or the other, and this is the part that kills me, there are better opportunities elsewhere. ... Really? ... Then why are they still holding their losers? A new company starts out even and there are better opportunities elsewhere, but apparently not good enough for them to take their loss and pursue those better opportunities. Does that scan?

These folks are protecting their psyche and not their portfolio according to Dr Steenbarger, and I would have to agree with that.

As an income investor who doesn't pay much attention to capital gains because I trust they will be there in the long run, my focus is on building income. As long as that dividend growth stays intact, it's just a matter of time before share price catches up. I look at a company like TGT with its 4.1% yield and its 50 consecutive years of raising the dividend and I think as long as they are able to continue increasing the dividend, the share price is going to catch up eventually. It may take a few years, I don't know, but what I think is a high probability play is that they have to be doing better than what a lot of people expected them to do if they are able to continue raising that dividend, so that's what I focus on.

I look at IBM with its 4.1% dividend with its 22 years of consecutive dividend increases and I can't help but think that is going to continue and allow them to become an Aristocrat. I know people want to harp on the 22 qtrs in a row of lower revenues but I'm looking forward, not backward. Can you imagine what IBM does when it starts growing revenues? People won't buy because it'll be too expensive by then for them to take a position.

As an income investor those 4.1% yields and growing dividend rates have an impact on the amount of dollars entering our accounts, dollars that can be reinvested elsewhere. Where some sell one thing to buy another, they give up an income stream to buy another income stream while I keep both income streams. The difference is, I don't worry about share price and they do. It's not the share price that is my focus, it's the income stream and income will keep you in your winners a lot easier than price movement will. So far the share price crowd hasn't been hit with a meaningful correction. Their anxiety level is going to be much higher than mine because our income flows will not be taking a hit with share prices.

MARKET PSYCHOLOGY

To me, the greater risk is price worry. The peace of mind is the income flows.

I've said it many times folks, you can get growth and income during some market environments but at some point they go in opposite directions and you can not achieve both. You better know what your priority is because growth and income will require different tactics going forward.

Think about it!

Me? There's nothing to think about, it's income all the way! And boy that puppy continues to grow nicely. 18 Oct 2017, 11:27 AM

NEW INVESTORS: LISTEN UP!

Chowder >>   Author's comment » **New investors listen up!**

You are going to hear a lot of talk about better opportunities elsewhere. You need to put that out of your mind or you'll become a slave to the herd. The herd is not always right. Every company we buy we think it is a better investment at the time we buy it or we wouldn't be buying it. It doesn't always turn out to be the better investment.

People can say what they want about IBM or TGT or any other company for that matter but whether it turns out to be a better investment or not depends on when did you buy and how did you manage it?

Case in point. When COST dropped AXP and went with V the herd has said V was the better opportunity and the herd to this day thinks V is the better opportunity. I have a portfolio where I built up a full position in AXP back around March 1 of 2016, following the COST debacle, AXP is up 65% for us, V just 45%. Now you tell me, what was the better investment?

Did I know AXP would outperform? No. Did I think it would be a better total return investment? No. I had no way of knowing in advance. It was a better income investment and in return AXP rewarded me with a better investment than V from the time I built AXP up to a full position, and make no mistake about it, the gains on a full position sure do beat those of smaller positions.

I will be adding more to AXP in the morning. They announced a beat and raise. AXP will be an overweight position.   18 Oct 2017, 05:52 PM

Build the Winners and Trim the Others to Buildout Positions When the Need Arises

INVESTMENT RISKS

Chowder >> Author's comment » People define risks in many ways, and there are too many risks in investing for me to be able to overcome them all and insure that none come my way. Most people define price volatility as a major risk, and young people, you're going to learn that's one risk you are going to have to ignore. ***You can not control price volatility*****.** You can not maintain the capital gains you may show in a bull market when the market turns and corrects unless you go to all cash, and by the time you realize that might be a good idea, much of the gains will have been taken away.

If you want to benefit from the long-term gains that stocks do provide, putting up with price volatility is the toll you have to pay. ... **Get your mind right!**

There are only two risks that I had to overcome based on my personality and risk tolerance level. One is that, as a long term investor, I don't want any of my companies to go bankrupt. I've held a handful of those over the years and that wasn't any fun. The other major risk to me is not having enough income to live off of in retirement, and it is that number one risk to me that started off the article above.

How much do you need? ... When do you need it? ... How sure are you that it will be there?

Those 3 questions pretty much are centered around what I consider to be the most important risks to take on.

By focusing on companies with high financial strength ratings, I minimize the possibility of companies going bankrupt. My initial purchase of a company usually requires a BBB+ or better rating according to S&P and with this rating as a baseline, it does allow room for a company I own to drop 2 ratings and still be investment grade. As a long-term investor, who wants to buy, hold and build positions over the long term, I know that some of the companies we own are going to face headwinds at some point and it may cause their ratings to drop. The higher the rating, the longer the period for me to be patient in the event I don't want to give up on a company too soon.

As to how much do I need, and when do I need it, it's the income flows of every portfolio that I monitor and not the portfolio value. I do not report how much a portfolio is up or down quarter over quarter or year over year. It's the income results that reported, as it's the income that has priority in answering the 3 most important questions about investing. How much did the income grow this year? That's our number one concern.

How much do you need? ... When do you need it? ... How sure are you that it will be there?

I gave a couple of examples above on why I thought IBM and TGT were good investments for our portfolio. ... How much do you need? ... These companies have been terrific income producers for us, both yielding above 4%. I don't have minimum yield requirements in selecting companies for most of our portfolios, if I did V and MA certainly wouldn't be in the portfolios. But when I can get a 4% yield on an A [credit] rated company with a long history of raising the dividend, I'm all over it. That's a good investment in managing the risks of greatest concern to me. Income and safety. I don't have to be concerned with IBM or TGT going bankrupt, not even close at this time. And the dividend is solid for both, they both have announced raises, and they both are generating more than 2 times the income the S&P 500 Index would. This is why I consider them good investments for reaching our long-term objective of having enough when the time comes. ***We can't spend percentage, we spend dollars,*** and both of these companies are generating generous amounts of dollars in the form of dividend yields which then gets reinvested elsewhere to generate more income dollars.

Everything you own can't be your top total return producer. You don't know which of your companies are going to produce the greater total return over the next year or two. There isn't much that most of you can do in building those positions if price does indeed start to take off because most of you won't pay the higher price to keep adding. I can manage for income a lot easier than I can manage to obtain ... and maintain ... portfolio value. The bull market provides us with a false sense of security where we think we can continue to duplicate the success of the previous 6-7 years. As we move forward, annualized rate of return is going to be more difficult to achieve, but I can continue to get high single digit income growth, even low double digit income growth in declining markets, and I can maintain that growth through all market conditions.

How much has your income grown year over year? That's the risk that concerns me most.

Food for thought folks! 19 Oct 2017, 04:24 AM

INCOME STREAM: ESTABLISH BEFORE NEEDED

Chowder >> Author's comment » I'm not sure that people who are not retired, or close to retirement, understand the importance of having that income stream in place long before it is needed. Knucklehead analysis has them thinking I can always buy income when the time comes. Look around folks! Are you actually listening to the adjustments people are trying to make late in life adjusting to buying income? It ain't that easy!

If you were facing retirement now, where are you putting your money? If you think the market is overvalued now and you're not adding to shares consistently now when you still have time, how do you think you are going to do it when you've run out of time?

There is a lot of anxiety out there over price volatility. You need income, you're facing retirement, most companies are overvalued, what are you going to do?

How about the other side of the coin? What if you are getting ready to retire, you want to start building income and a recession hits, your portfolio is dropping 30% or 40% in value, how's that income building going for you?

My son is only 32, has years to go, but I'm teaching him to manage his portfolio now the way he will have to manage it then. Have the income in place long before you need it and it won't matter what the market is doing, it won't impact your income stream. You can go sailing, planting in the garden, go shopping or travel and you won't have to be glued to the computer or phone screen checking market action or price charts on a regular basis. You can do all of those things with peace of mind because you won't be worried about switching to defense, worried about safety scores, or worry about whether you have enough income to meet your needs.

Don't underestimate the anxiety you see here from some of the older folks who are making those adjustments later in life. Their concerns are real. I know what it's like, I'm in the distribution phase myself and I know others won't believe me but I check my personal portfolio once a month. I look to see how much over and above what I draw that I can reinvest and it gets reinvested.

I have one person close to retirement now, I already have a very handsome income flow built up for him and he asked what adjustments need to be made when he gives his notice at work. I told him he'll have to notify Fidelity and let them know how much he wants to draw every month. **Hard work! ... Ha!**
20 Oct 2017, 08:22 AM

THE NEXT MARKET CRASH

Comment from reader>>> How do we rationalize being down 10% on most of our staples? <<<

Chowder >> Author's reply » You don't rationalize! You put your big boy pants on and take the pain or you tuck tail and run. How do you rationalize insanity or chaos? I sure don't know, I simply take the pain, stay the course, and move forward.
The HRL, CVS, NKE and some of the GIS positions I have purchased are not in the green, they are all in the red just like everyone else. It don't mean nuthin' to me, it's just a few positions, it's temporary in my opinion. **... Pffft!**

Wait until the big one hits again when every single company you own draws down 20%, 30% and more at the same time. That's fun! That's what happened to me during the Great Recession.

I'm laughing because a lot of folks don't know what pain really is yet. **Better get your mind right!** 20 Oct 2017, 10:20 PM

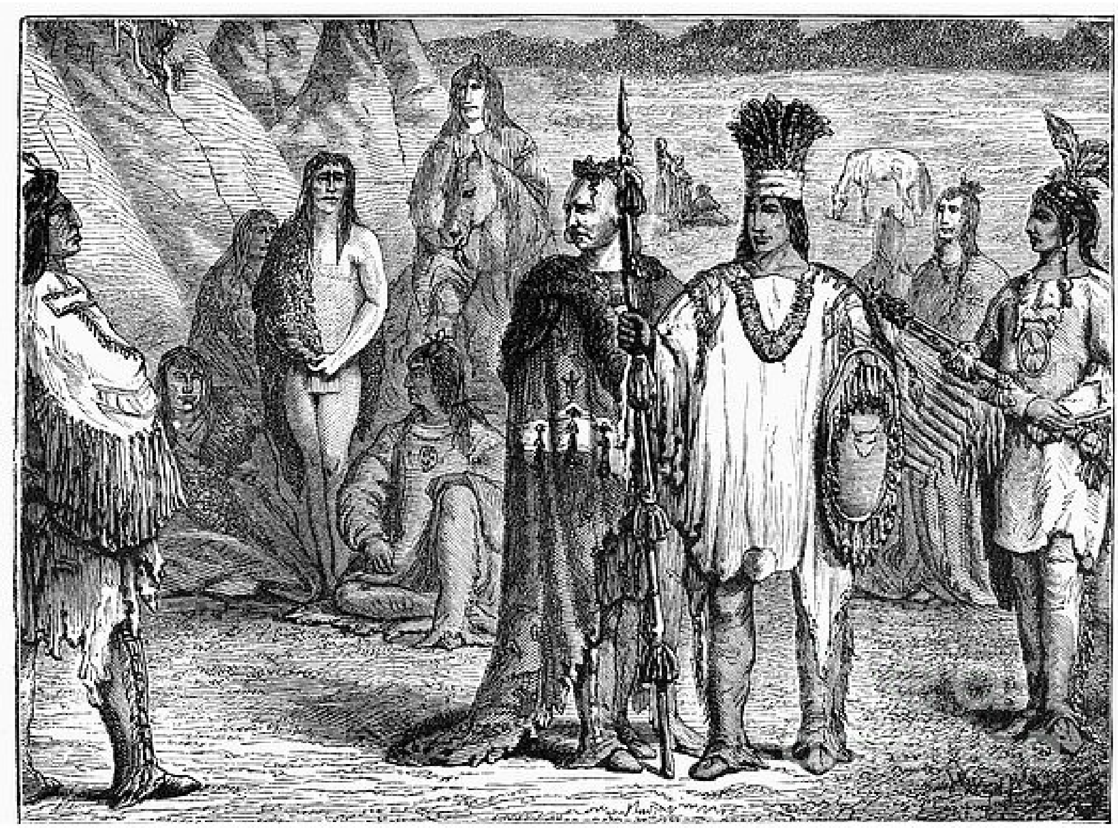
STAY FOCUSED

Chowder >> Author's reply » Dan, the temptation is always there to wander off the reservation, it's difficult not to become full of yourself when you see that the market has been kind to you, it has a way of making you feel invincible at times, or causes you to think every decision you make is going to work.

I have to remind myself before every purchase what the objective is, what the mission statement is. When I forget that, that is when most of my mistakes occur.

I can't control who provides capital gains and who doesn't. I can't control whether the market should realize the value I see in a company, the market is going to do what the market wants to do. Some people seem to think they had something to do with a position doubling in size and they had nothing to do with it. They did control position size though and often times they did a sucky job of it and that's why they say my company is up 100% I wish I owned more of it.

Building share count and building income flows is something I do have control over so that's where my focus is. I'll leave the rest to the dreamers. **... Ha!** 23 Oct 2017, 05:19 PM



Don't Wander Off The Reservation

GROWTH: **DEFINITION OF**

Chowder >> Author's comment » I'm not even sure we can agree on the definition of growth.

I do know this, for me there is a difference in how I react to price volatility, market conditions and economic conditions with growth companies that pay a dividend and those that don't.

People can use hindsight all they want to prove a point, AAPL having been a good long-term investment. Pick the right company and you make a killing. Pick the right lottery number and you can win $100 million or more.

AAPL didn't do anything for a number of years and I recall them having to get Jobs back. How many comments have we read around here where people dropped a company because it didn't do anything for a couple of years. They sell because it wasn't going anywhere. Most people just don't have that level of patience to wait it out.

FB and GOOGL may go on forever and become the next AAPL, but didn't we think the same thing of World Com and Nortel? I could provide dozens of examples of can't miss companies that missed after looking like great investments initially and providing very good results as well.

I had one can't miss company that jumped 80% in one day and I was dreaming of the things I would do with all the money I was going to make from it and it eventually went bankrupt, my profits with it.

Anyone familiar with that voice technology associated with Onstar? Voice technology, it's the future, a can't miss investment. I invested in the company that designed it, General Magic, went bust and someone else took over the technology.

To me there is a huge difference between owning V for a growth investment than it would be to own FB, but then you'd have to be able to define the word growth. And there is the thought that a growth company that can pay a dividend is a real growth company. It shows they can still grow the company while sharing in the profits. Some of you may disagree with that and have your own opinions but I'm basing my process on how money managers look at it, the fund managers and Institutional Investors because they are the ones that drive the market and I got that idea about real growth companies from what I have read many of them say.

I'm sure all of us feel pretty good about the growth companies we own, we felt the same way about WCOM, NT and KMI, did we not? We feel good about them until we don't. **... Ha!**
27 Oct 2017, 08:48 AM

BUY WHAT 'S NEXT ON THE LIST

Chowder >> Author's comment » >>> "Buy what 's next on the list"...and XEL is next.... <<<

Look, some people need to attach themselves to performance in order to satisfy ego concerns. There is nothing wrong with ego under the right circumstances but the fact of the matter is, we don't affect what price does once we buy something. We can hoot and holler over getting a good price, hoot and holler over setting new portfolio highs, all of these things are fun to experience but everything I read on the psychology of investing tells me that most successful long-term investors detach themselves from the results.

Most successful long-term investors simply put a plan together and follow the plan through hell or high water, what I call the process. If the process calls for me to buy what's next on the list, I buy it. Easy peasy, no muss, no fuss, ***don't need the ego gratification of percentage gains*.** I need the income to grow period, and if the company that is due to be bought next helps support that goal and is considered safe, it gets bought. Oddly enough, at the end of this month XEL was next man up for purchase in my personal portfolio so now you know what my next purchase is.

As the barber says ... NEXT! 19 Oct 2017, 06:01 PM