Young Folk Portfolio

Composed and edited works of Chowder by Joni Jrepasch

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Dec. 16, 2017 10:50 AM ET

Summary

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

The following portfolio belongs to my 32 year old son. He owns 55 companies, total portfolio value just above $200K, he invests $500 per month to his account so in order to speed up investments, I do have him collecting dividends in cash from most companies. I will note some companies as Core with an ***** and all of those companies have dividends reinvested. About 2/3 of the portfolio is in a taxable account, the rest in a Roth.

A full position at this time represents a 2.1% sized position, so anything above that is considered overweight. The portfolio yields about 2.8% and I'm looking to bring that up a little. I have allowed for some growth companies in the portfolio and will look to increase their position size in time, there's only so much you can do with $500 per month.

His sector breakdown is:

Defensive: 56.8%
Cyclical: 20.4%
Sensitive: 22.6%

I like this breakdown as I wanted it 60-20-20 but the market keeps pushing his Industrial's higher. Yes, it is conservative for a young investor, but that's the beauty of it. We think we can achieve the long-term objective by still remaining conservative. **The Mission Statement is to build an income stream that is reliable, predictable and increasing.** The goal is to generate $10K per month in dividends at age 65. In order to achieve that goal he needs to grow his income stream at an annual rate of return of 10%. That goal is currently being achieved. The year to year rate of return is of no concern. Year to year capital gains are also are of no concern. We will stay focused on growing the income by double digits and trust that in time, the market will catch up to us as opposed to us chasing the market.

Here is his portfolio breakdown: Company and percentage of portfolio value.

Considered overweight or a full position:
*JNJ 3.7%
LMT 3.6%
MCD 3.6%
MO 3.3%
*D 3.1%
*KO 3.0%
*PM 3.0%
SYY 3.0%
*ADP ... 2.7%
*VZ 2.7%
*GIS 2.6%
*KMB ... 2.5%

*KHC ...   2.4%
*MMM .. 2.4%
*O 2.3%
*PEP 2.3%
CVX 2.2%
*SO 2.2%
*T 2.2%
*CL 2.1%

Considered up to a 2/3 sized position:
*PG 2.0%
HCN 1.9%
DE 1.8%
GPC 1.7%
AMGN ..   1.6%
DG 1.6%
*VFC ...   1.6%
HD 1.5%
ABT 1.4%
CAT 1.4%
DUK 1.4%
MKC 1.4%
NSC 1.4%
UL 1.4%
UNP 1.4%
COST ...   1.3%
LOW 1.3%
MA 1.3%
NKE 1.3%
SBUX ...   1.3%

Considered 1/2 sized positions:
V 1.3%
*XOM ... 1.2%
CBRL 1.1%
HRL 1.1%
SWK 1.1%
BDX 1.0%
IBM 1.0%
TGT 1.0%
DEO 0.9%
KMI 0.8%

Chowder >> Author’s comment » TGT is in his taxable account and I will be adding a few more shares to this position just after Christmas. I think it's business is improving and I want access to that 4.0% yield that seems safe. O is in his Roth Ira and he won't have enough cash in that account until February, but the leading candidate at this time for purchase is O. It will take some market moving event to prevent O from being purchased at that time.
16 Dec 2017, 10:52 AM

Reader Question: **>>>@joshvegas--** Two questions- how old is this portfolio and how much of it is from capital appreciation and dividends? I am asking because of 500$ a month.
17 Dec 2017, 01:35 AM

Chowder >> Author's reply » He started investing when he was 10 years old. So that's how old the portfolio is. I took 20% of his allowance every month to invest. I took 20% of his Xmas money, birthday money, and any money he made from odd jobs and selling aluminum cans back to the recycling plant. His very first investment was a birthday gift on his 10th birthday. I bought him 10 shares in the Boston Celtics at a time when they were a public company. From that point on, 20% of his allowance was about $10 per month. ... **Ha!** I found a company sponsored DRIP with the company Dial Soap and they allowed a minimum investment of $10 per month.

Anyway, by 2008 his portfolio had grown to $42k and since then has grown to a little over $200k. I haven't got a clue how much of it is capital gains or income produced and I wouldn't even know how to determine that. I think it would be dangerous to think the market will provide the same returns over the next 9 years that it has over the last 9. As crazy as this is going to sound to people, I hope that it doesn't. Since we are not selling shares to lock in capital gains, we don't need prices to keep heading higher while at the same time lowering yields. His objective is to grow his income at a 10% annualized rate, and the lower the yields, the tougher that task is going to be. I don't mind the capital gains showing up 30 or 40 years from now, but this early in his investment career, when compounding is the most beneficial piece of criteria, I want the share count and income to grow at a faster rate, not the share prices.

At some point the market is going to take a chunk of capital gains away anyway, so it's not something I focus on in the short to intermediate term. The S&P 500 has returned less than a 7% annualized rate of return over the last 20 years. I can make more income in that kind of market environment than the last 9 years which has shown just under a 14% annualized rate of return, but most people can't grasp that concept. ... **Ha!**

Older folks can use the capital gains but younger folks can't build large positions with huge capital gains of 700%, 800%, 1000% and more if they are selling from year to year. It's a slow process, it's frustrating at times if you allow it to be, especially when others are talking about the moves they are making, it seems like everyone but you is moving ahead. Some things you just need to let go and simply focus on doing the best you can with what you have.

Time is your ally not your foe. Time is a foe for a lot of older people, they don't have enough of it, so be thankful. You will have more years to work with than they have and almost every older folk wishes they could change place with you. Don't let that go, embrace it and work with it. Show some patience and simply stick with your plan.

I need to share another perspective with you because it's an important concept to understand. We keep referring to dividends as income and we need to stop doing that. Dividends can provide an income for people but until they do, they are portfolio cash flows, cash that can be used and should be used for investment purposes.

Where my son is investing $500 per month out of his paycheck, he's also receiving about $500 per month in portfolio cash flows to invest. So in essence, the amount of cash he is investing every month is now $1,000. That's what's making the portfolio grow faster.

One thing lead to another

I have declared 2018 as The Year of the Dividend for him which means I will be looking for yields of 3% or better to invest in first in an attempt to increase his monthly cash flows for further investment opportunities. As time moves on and his monthly portfolio cash flows grow to $1,000 per month, he'll still be investing $ 500 of his paycheck money but $1,500 every month is going to be invested due to the dividend growth his portfolio is seeing. This is part of the reason I established a dividend growth objective as opposed to a portfolio value objective.

The market can take away portfolio value but the market isn't going to take away the cash flow the portfolio generates every month from dividends. I'm the only one that can do that by selling off shares. Sell off shares and you cut out a cash flow generating asset. When we sat down back in 2008 and ran a compounding table to determine what it would take to generate a $3 million portfolio investing no more than $500 per month until age 65 which was a 40 year time frame for him, we found that the portfolio had to generate an annualized rate of return of 8.25%. You would never think you could get to that point with only $500 per month, but that's what compounding over time does for you. I decided I could get close to half of that annualized rate of return with dividends and then invest them, thus taking pressure off of chasing market performance.

As time goes on, and he earns higher wages, he'll add more cash to his investing but for now, he's ahead of schedule for that $3 million portfolio.
17 Dec 2017, 09:18 AM

I helped another young person set up a portfolio, age 30, only has $10k to start with, looking for safety plus some growth, so I gave him a growth element.
He is going to start each position with $1k and every month add to a company using the **"next man up"** concept as he builds the positions up in size.
Here is his portfolio:
D .. VZ .. JNJ .. O .. PEP .. MMM .. V .. DIS .. HD .. XOM
20 Dec 2017, 09:18 AM

Comment from reader >>> **@maybenot--** Interesting you did VZ versus T. And PEP versus KO. Nothing more. Just interesting. Potentially more growth with VZ & PEP. Nice 10.

Chowder >> **Author's reply »** I think there is a line between growth and income as opposed to income and growth. If he stressed income, it would have been KO over PEP and T over VZ, but he wanted a little more growth so I think VZ and PEP will provide a little more of that going forward than the other two.
I wanted to go with MA but he uses V and sometimes you have to allow that comfort level. ... **Ha!**

What would be your 10 if a youngin' asked you where to invest today?

Comment from reader >>> **@rnsmth--** AAPL, MSFT, D, LMT, JNJ, VFC, GIS, UL, PG, and O

20 Dec 2017, 03:02 PM

Comment from reader >>> **@krspacurn--** D, NEE, BDX, SYK, V, GD, VFC, PEP, MMM, LOW 20 Dec 2017, 06:01 PM

Comment from reader >>> **@Top Of The World Ma--** PM, GIS, D, HD, CSCO, PEP, O, KMB, MCD, JNJ,
20 Dec 2017, 05:07 PM

Comment from reader >>> **@Luis,G--** AAPL, DIS, D, VZ, XOM, GIS, JNJ, PEP, V, O. 20 Dec 2017, 05:17 PM

Comment from reader >>> **@Fanshul--** AAPL, PEP, NKE, UL, GIS, QCOM, DIS, D, V, CVS, SBUX and SCHD. They are in my children's portfolio. I know that is actually 12 positions. Sorry for breaking the rule of 10!
20 Dec 2017, 06:58 PM

Chowder >> Author's comment » @Fanshui-- Which 2 do you cut if you have to cut?
20 Dec 2017, 07:04 PM

Comment from reader >>> **@Fanshul--** If I have to cut 2, it will probably be QCOM and SCHD. QCOM for the somewhat unclear future due to possible takeover by AVGO. I got SCHD early on for them as a way to "diversify" what was a 2/3 position portfolio at that time. One can argue that CVS is also facing a somewhat uncertain future. However, they are more proactive in dealing with the challenge, while QCOM seems to be more reactive. I still like QCOM though and will hold it whether they get taken over by AVGO or not.
20 Dec 2017, 08:12 PM

Chowder >> Author's comment » When we talk about valuations, I have a tendency to ignore them when building positions up in size. I have seen too many portfolios where peoples best performers were small in size and they didn't take advantage of the company's out- performance. Ask them why and they say the company was always overvalued. No it wasn't! It was selling at a premium, a premium that was justified due to the company's performance. If the company were overvalued, the price would have declined. If you want quality, often times you have to pay for it unless we are in a recession, and we aren't in a recession.
People have to consider the condition of the market.

I added to BDX in my son's portfolio today. If I look at the current valuation, I would apply a 20% premium to fair value. It ain't cheap! It is a quality company and it is one of my favorite medical supply companies, so I certainly want to build it up in size.

I added another 1/4 sized position to BDX taking it up to a 3/4 sized position, and in doing so, I also increased the cost basis. The new cost basis is $174.58 and that's well below the current $219.94 price it trades for as I type. Even though I paid a premium for BDX, I still have a margin of safety for those of you who are concerned about those things. To me, I increased the dividend cash flows BDX provides and the new shares will benefit from the last dividend increase as well.

I still plan on adding to his TGT shares right after Christmas. That's a different account and I am waiting on the cash to hit it. The market obviously knows I am interested as it keeps running the price up. **Sheesh!**
21 Dec 2017, 09:46 AM

One of the fears of young investors is the fear of losing money, not knowing how to manage positions they thought would rise but instead went into the red. **This comment is for you.**

Although people say they are investing for dividend growth, a lot of these same folks worry far too much about price action, and that's okay if you are one of those people, I've been there, I've done that, and I finally learned a way to manage those positions over the years.


I have been talking about young and new investors to build out their positions in small amounts and then after achieving the number of companies you wish to own, to build your winners up in size. I usually buy in 1/4 lots. I know what I determine a full position to be and I work with 1/4 lots.
When I open a position with a 1/4 sized position, let's use TGT for this example, I then watch and see which way the position goes before adding more. When my son's position in TGT started to show a loss, I averaged down one time, and one time only, he then had a 1/2 sized position.

I will not throw good money after bad so I will not continue to average down and show the market that my ego is more important than what the market is telling me. TGT doesn't get added to until it becomes a profitable position. Again, this concept is for those of you who don't like seeing red in your portfolio and I don't want you to compound that red out of spite or opinion.

Let the market tell you when to add more or decide to sell altogether. Limit your loss exposure! My son's position in TGT did eventually turn profitable, and because it is profitable, I added a few more shares. All of this comes under the concept of building your winners up in size as opposed to buying more of your losers. I don't know if TGT will hold these levels, but I don't know that any company we own will hold their current levels. What I do know is that when I look at my son's taxable account, where TGT resides, and so does 2/3's of his holdings, everything is green, and for those who don't like to see red, I have been providing real time examples on how to manage those positions. TGT was just one more example that was done in real time.
26 Dec 2017, 10:12 AM

As I look forward to 2018, we may see the market adjust to anticipated interest rate hikes, and if that were to occur, we might see the market correct. I have no idea how far the market drops, but in the event it does, it changes nothing as to how I manage the young folk portfolios. If prices drop I'll be getting better yields which is important, and that will help to generate even more dividend cash flows to invest down the road, but what I like about the young folk portfolio management (small investments protect against large losses) is that they don't have a lot of cash to invest at once and a lot of them are investing in $1,000 or $500 lots. When investing small, you have to remember that there are going to be many more small purchases made over time, so don't make today's decision as though it's the most important investment decision of your lifetime.
I am going to stick with the process, my son's first purchase in 2018 isn't due until mid-January and that investment will be adding to his position in O.

It won't matter to me whether the market is up or down, what the valuation will be at the time (on a small amount of money it doesn't matter), I will simply stick with the plan. The plan calls for investing cash as soon as $1,000 accumulates, and when it accumulates, it's going to work somewhere. I am going to continue focusing on building share count in the young folks portfolio so that I can insure double digit dividend cash flows again in 2018.
27 Dec 2017, 08:03 AM

Today I want to talk to you about "knucklehead analysis." There's some crazy stuff out there folks and you have to be able to filter the noise and stay focused on your objectives. There is this concept that young people are too young for dividend investing. These same folks might even tell you to invest in an S&P 500 Index Fund and what they may not realize is that 70% of those companies pay a dividend. A younger person was talking about their dividend growth and here was a response:

>>> Thanks Eric, to each his own for sure. But wondering why you'd worry about income that you won't need to spend, perhaps, for decades. <<<

Now think about that for a minute. Why are you worried about dividends that you won't need to spend for decades? ... Excuse me but why should I be worried about capital gains either that won't be spent for decades? I say why worry at all! I say manage those dividends to your advantage, which this person who provided the knucklehead analysis obviously doesn't get. My son has plenty of capital gains but all they are doing is sitting there and looking pretty. He won't be spending them for decades, so why should he worry about capital gains?

He also has a respectable amount of dividends coming in too but those dividends aren't income, they are cash payments that are used to invest and help his portfolio grow. Think about your 401k matches, those are funds coming from another source, used to invest and grow your portfolio. That's what dividends are! They are cash payments from other sources to help you invest even more back into your portfolio, and the best part of it is, you do not have to sell something in order to generate cash which is what you have to do if you realize capital gains.

People can come up with any ole crap they wish, but when all is said and done, there are only 3 things that truly matter.

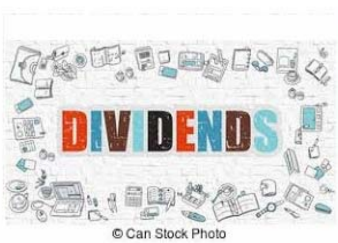
1. **How much do you need?**
2. **When do you need it?**
3. **And most important, how sure are you that it will be there when the time comes?**

Dividends are what help to insure those needs are met.
10 Jan 2018, 02:13 PM

Comment from reader >>> **@aida2003 --** Hi Chowder . greetings from Israel. I've been following you for some time now, and just started my portfolio last September. Thank you for the time you invest in this community, and all the real time advice you give here, its priceless, and educating, and will give us, I'm sure, some Peace of mind when we are older. I have one question. I have 2 or 3 stocks that are +30% now. should I sell a little from each one and buy more stocks (new stocks or existing)? Is this a good rule to follow?
20 Jan 2018, 05:55 AM

Chowder >> Author's reply » Why in the world would you want to sell what's working for you? You should be focused on building share count, not taking capital gains at this point in your investing career. You can't build large positions (think share count) over a couple of decades if you continue to trim share count.

When the time comes to start drawing income to support your quality of life, it's the share count that is going to be important to you because dividends are based on share count, not what percentage of gain you have in a position. Old folks may need to trim if they need the cash to live on, but you should be focused on building your positions up in size, not trimming them. What good does a 100% gain in a company do you if the position isn't a position of size? When you are patient and allow your companies to grow, everything you own should be up more than 30%, are you going to trim them all?



My son is 32, and when I look at his portfolio I see companies that are up 100% and 200% and I have no intention of trimming them, in fact when their turn comes, I plan on adding to them. It's not the percentage gain I track, that goes up and down all the time. It's the share count I want to continue building.

What started out initially as 25 shares with companies, I expect one day to exceed 1,000. He can't do that if he keeps trimming shares. Short term investors need to focus on capital gains and secure them. Long term investors need to focus on share count and continue to build it. Those that failed to understand this very simple concept are the ones who found themselves scattering in later life trying to salvage their portfolio and if they didn't luck out by having the greatest bull market of our generation, they would have been screwed, and a lot of them don't realize it was luck that bailed them out. Stay invested, focus on building share count. A 30% gain is too small for a long term investor to worry about. In 20 years you should expect to see 400% gains, 600% gains and 1,000% gains but those gains will have a much larger impact if you build your share count up in size.
20 Jan 2018, 08:02 AM

One of the concepts you young folks should be taking advantage of is adding to companies that continue to beat earnings and revenue expectations. **Buy strength in a bull market.**

MKC and MMM both came out with an earnings and revenue beat today and they have said they expect to do even better. If a company says they expect to do better, isn't that something you want to own more of? You are not going to see the share price of companies performing better than expected drop unless there is a market correction, so put share price out of your mind. Buy quality and let time be your ally. I'll be adding to MKC and MMM today.
25 Jan 2018, 09:17 AM

I want you young folks to understand this concept I am about to explain. On many occasions I have talked about investing smaller amounts of cash and build out the number of companies you want to own. Once to have built your portfolio out, you should have quite a few profitable companies but you didn't know who would be profitable and who wouldn't initially. You hoped they all would be. Anyway, the concept that is important to you, since you have so much time for your assets to grow, you need to understand and utilize the concept of averaging up on your cost basis.

I had a full position in MMM and most people are afraid to build a position up too much in size and I suppose it's because they are afraid of a price correction. I like to buy companies that beat on their earnings and revenue growth numbers and raise guidance going forward. I want more of a company outperforming not less. I don't think anyone would disagree that MMM is richly valued and they allow that to prevent them from adding more shares. Not me! I added to MMM today, it's now an overweight position, and the new cost basis is only $165. The company is trading at $250 as I type.

If MMM were to drop to $165 everyone would be saying, back up the truck. They would be buying larger amounts. So, I already own larger amounts, will continue to add more shares and still have the cost basis well below the current market price. You'd be surprised how many people don't grasp that concept.

Oh by the way, MMM announced a 16% dividend increase and I'll also be getting that income growth on an even larger position now. I want more of a good thing, not limit myself or avoid it. ... **Heh, heh.**

Think about it.
25 Jan 2018, 10:10 AM

Comment from reader >>> **@harish7447--** Wow! I need to think about it. I have small positions in quite few companies (it's getting messy), but always wanted to average down and not up. Just couldn't do it and the good ones keep going up and i double down on the not so good ones. Now I may have to change my strategy. Thank you kind sire again :)
25 Jan 2018, 10:17 AM

Chowder >> Author's comment »If you are going to hold companies for the long term, how are you going to average down years from now? What if you bought MMM under $ 50 back in March of 2009, what are the odds of you getting an opportunity to average down? And what good does it do you if you held just a small position, never averaged up, and MMM has risen 500% in that time frame? How do you get to take advantage of that move if you don't keep adding shares?

In a bull market, averaging down means you are adding to companies in trouble. In a bull market, averaging up has you buying companies performing better than expected. Instead of focusing on the share price, I focus on whether the company is performing well or not. As long as it's performing well, my investment will remain profitable and I want to own more of profitable companies, not less.
25 Jan 2018, 10:42 AM

Chowder >> Author's comment » I want you young people to learn not to allow others to dissuade you from buying, holding and building companies of quality. I don't want you to adopt their insecurities, fears and concerns, you'll have enough of your own that you will need to manage.

It was just over a year ago when we had a huge debate about MCD. The general consensus was that MCD was no longer a growth company, MCD would lose the millennials, people were more conscious of eating healthy food, blah, blah, blah. This debate was going on at a time when MCD was around $106-$ 110 and today it's at $176. Today MCD beat on earnings and revenue expectations, have shown increased traffic (does that sound like losing customers to you) and they announced they will open another 1000 stores worldwide.

Don't allow others to convince you that American buying habits have priority when dealing with international companies as the US represents less than 10% of the world's population.

Think about it.
30 Jan 2018, 08:42 AM

I have a Young Folk Portfolio I am working with that when we started, a full position was $1,000. After we built out his portfolio with the number of companies owned, we raised the value of a full position up to $2k, then we eventually had to raise to $3k, and then $4k. As time goes on, we continue to add $1k to each position, building them up over time. He is at the point where we will now be raising the value of a full position to $5k and today I will be purchasing O in his portfolio, taking it up to a full position.
31 Jan 2018, 07:43 AM

Pay attention here folks!

Buying stocks at the 3 worst times in the past 30 years still proved the best place to invest. "These kinds of opportunities are opportunities," Bespoke co-founder Paul Hickey says.

The pullback is a chance to buy stocks off the sale rack, he says.
History shows that even buying at three past market tops has proven profitable over time, he says. "If you look back historically, at the top in 1987 since then the annualized returns in the S&P 500 have been 9.6 percent. If you go back to March of 2000, if you bought at the top, the annualized return since then is 5.7 percent. And if you bought at the top in October 2007, annualized returns are 7.5 percent," he said.

The three tops he was referring to were right before the 1987 crash, the top of dot-com bubble before it burst in early 2000, and the high before the 2008 financial crisis.

"At the worst times to buy in the last 30 years, the stock market has been the best generator of wealth than any asset class," he said. So imagine the gains if investors were to have bought on the way down after those events, he added.
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Let the older folks try to show each other how smart they are, thinking they can outperform in the long term. You don't have to over-think it. You don't have to try and time the market or worry about a lot of the market activity that older folks worry about. You have decades ahead of you and time is on your side. Stick with the plan of building out your portfolio until you reach the desired number of holdings you wish to own and once that's done, start building up. Nothing happening this week, this month or this year will have any great impact on your long term results other than you not doing anything. **Instead of chasing the dream, build it.** Stay invested and continue your regularly scheduled buying plan, just like you do with your 401k.

Food for thought!
06 Feb 2018, 10:19 AM

Chowder >> Author's comment » Last month, when the market was off to a good start and up for the month, my son's portfolio, a Young Folk Portfolio, saw his cash flow inflows from dividends up 10% year over year. This month, with some very hectic down days, and uncertainty still ahead, will see his cash flows from dividends up at least 10% year over year. They continue to grow! It doesn't matter if the market is up or down, the focus is on dividend cash flows and meeting that 10% objective. Those dividend cash flows allow him to buy even more shares that will create even more dividend cash flows, cash flows that someday will provide a very large monthly income benefit.

I do not focus on what the market is doing, I focus on what our companies are doing. It's the companies that provide those dividend cash flows, not the market, and when the market drops and creates panic for others, the market is not taking our dividends away, those will continue to swarm into the account on a monthly basis.

Think about it.
07 Feb 2018, 08:51 AM

Young people, we older folks all probably have companies we wish we bought 10 or 15 years ago and didn't, and we all probably have companies we wish we didn't sell a number of years ago when we allowed the market, critics, or valuations to scare us out of those positions. Many people continue to talk about the concept of waiting to pick up one extra share and for what? Are you willing to miss out on a good investment for one extra share? They don't talk about the many buys they missed waiting for that one share or how they ended up buying anyway and got two or three less shares.

People will try to beat you over the head about valuations, and for a lot of you, valuations should not be a primary concern because you are investing smaller amounts of money. There's a difference between putting $1k to work as opposed to $50k. There's a difference between buying at one price and looking to sell at another and investing. Buy low and sell high is speculating. Speculating requires you to get a cheap price. Investing allows you to buy at many price points over the years and today's price won't even be a blip on the radar 20 years from now.

You young investors with your smaller investment amounts are not speculating, you are investing. What seems expensive today will seem minuscule in the grand scheme of things 15 to 20 years from now. It won't be what you paid that you will regret at that point in time, it will be what you didn't buy and wish you did. Own what you want to own and build your positions over time. Time is the ally of the young, foe of the old. Know where you are in your investment time frame and invest accordingly. Most of what is going on today and commented on today doesn't pertain to you, you have a ways to go in the accumulation phase, so accumulate.
10 Feb 2018, 05:41 PM

Comment from reader >>> **@Dirt Farmer-** 1000 bucks at a time has made the process much easier. Slowly building. That is some good advice for us beginners.
10 Feb 2018, 10:16 PM

Chowder >> **Author's comment »** If you young folks have been waiting for an opportunity to add JNJ and/or MMM to your portfolio, your opportunity is here. There is nothing wrong with these companies and they are giving you an opportunity to buy at a better valuation. You young folks don't need to be fussy, you've got decades ahead of you, don't be one of those folks who looked for excuses not to own something and then 10 years down the road say I wish I bought back when chowder and others said to buy. I get tired of hearing people say I wish I followed you back in 2009. This is your 2009 as far as putting in the time for your investments to work.

Add to quality on market corrections and if the market continues to correct, you can buy even more. You're going to buy more anyway at some point, you're not going to buy today and never add to it again. So get started.
12 Feb 2018, 07:52 AM

Comment from reader/Contributor >>> **@Ted Fischer-** While this is hardly a new message, I believe it bears repeating...

You've achieved financial freedom when the income on your assets is sufficient to cover the cost of your lifestyle. Paradoxically, it may be **HARDER** for a high-income household to achieve financial freedom than for somebody with a more moderate income.

Picture a household supported by a $200k job (perhaps a lower base salary but fat bonuses each year). Drives a **BMW**. Lives in a large house in a prestigious community. Just got back from Aspen, and is looking forward to spending a week in the Caribbean. Let's assume that they aren't total spendthrifts, that they "pay themselves first"? Yet that might be just a 6% payroll deduction with 6% employer match -- on the BASE salary, not the bonuses. This family might be paying $50k in income taxes, saving $15k for retirement, and spending $135k to support their lifestyle...

Now do the math on that. The lifestyle costs 9x their annual savings, and (at a 4% draw) they need to accumulate 25x their expenses to retire. Even with fat investment gains, it can take a **LONG** time to accumulate 225 years of savings!!! This family will never be financially free. They will be tied to that high-income high -stress job until their employer discards them like a used washrag in favor of somebody younger and cheaper -- and they will then need to drastically downsize their lifestyle to make ends meet. Know anybody like that? My wife and I chose a different path. Neither of us has ever held a job paying more than $100k. I've never held a job paying more than $60k and have averaged $40k over the last 20 years.

These are good incomes, but I know many people who make much more -- and are much farther from achieving financial freedom. The key is that our core household spending for a family of four has averaged around $60k/year (excluding income and payroll taxes, charitable contributions, and tuition). We don't need to replace $135k of income to retire. We need to replace $60k of income! Moreover, that income we aren't spending falls straight to our investments. We've been saving $30k-$40k per year, twice as much as the high-income individual might be able to sock away. Twice the savings. Half the needs. Our job is four times easier.

I'm not moralizing. It is your life, your money, and your choices. You can choose the high-income path, which may lead you to live in a high-cost area (Boston is expensive but it isn't Silicon Valley), and ultimately force you onto that path. But I am offering an alternative that young people might consider and some might be able to choose.

* Job stability and security are in some ways more important than salary. Earning a decent salary (with benefits) for decades without interruption makes it easier to plan.

* Spend what you need, not what you can afford. That $450k house is really nice, but the smaller/older $300k house down the street will keep the rain off your heads, and once you consider maintenance and financing costs may effectively be half the lifetime cost. Consider the location? If you live on a commuter line, perhaps you can dispense with the second car? And perhaps get a little reading/work done on the train?

* Look for opportunities. You don't need to limit yourself to a 9-5 job. If there is something you enjoy doing on the side, consider ways to turn that into a steady income stream on the weekends? While $20k/year from a sideline might not sound like much, that is ON TOP of the base salaries. Moreover, the more time you spend working, the less you spend on spending. Less need for cable or Netflix if your hours are filled being productive.

* Demonetize your lifestyle. You can work hard, earn money, and pay somebody to cook your food, clean your house, and mow your lawn. Yet the government taxes every transaction. Maybe cut out the middleman? Work a little less hard, but cook your own food, clean your own house, and mow your own lawn. Might generate enough activity that you can cut out that $20/month gym membership.

* Spending is the one aspect of your finances that you can most effectively control. Boosting your income is a slow process (and may involve additional education or extra effort on the job). Investment markets are fickle. If you focus on spending less, saving more, then the rest will take care of itself.
12 Feb 2018, 10:18 AM

Chowder >> Author’s comment » There was an article in this weekend's Wall Street Journal saying investors have to rethink their investment process. Those who suggest you go for growth say you need at least 6 times your annual earnings and then withdraw just 4% per year. That method has proven to be unreliable and the new withdrawal rate is 3% but forcing yourself to take a pay cut during down years. And that sounds like a plan?

With dividends I can form a relatively safe portfolio generating 3% yields and that income flow can increase annually as opposed to taking a pay cut, and you don't have to sell any assets like you do with MPT Theory or other growth strategies. You still have that option but it is not a requirement. Then you have to pray to the stock gods that the growth you seek materializes. What if it doesn't? What if another recession hits at the time you are ready to retire? I've seen how that plays out back in 2008. People were up the creek without a paddle.

A person may not generate as much dividend income as they would like due to starting late, but that doesn't mean you can't do the best you can with what you have and at least be able to count on it being there and growing. Half of something is better than all of nothing.
12 Feb 2018, 11:11 AM

Chowder >> Author’s comment » I read a comment yesterday that pretty much wraps up my investing philosophy. Anything we do in life, if we wish to be successful over the long term requires discipline. John Henry, current owner of the Boston Red Sox made a lot of his money as a trader and he had this to say about discipline.

"Well, you create discipline by having a strategy you really believe in. If you really believe in your strategy, that brings about discipline. If you don't believe in it, in other words, if you haven't done your homework properly, and haven't made assumptions that you can really live with when you're faced with difficult periods, then it won't work. It really doesn't take much discipline, if you have tremendous confidence in what you're doing."

I know from studying the markets over the years, and from personal experience, that buying high quality companies, reinvesting the dividends, and buying more as you go along is a successful way of securing financial security in retirement. I am not suggesting that dividend growth investing is the only way because it isn't. It is the easiest way though for a young person to start while they don't have a lot of cash to invest.

Nobody will step up and say that dollar cost averaging over several decades won't work or prevent you from succeeding ... nobody will say that. So, why are some so afraid of applying it? ... They haven't studied the market, they haven't done their homework, that's why. Many times the most simplest of strategies is the best strategy and that's what I continue to try and impress upon you younger folks. Most of us older folks wish we could go back and start over doing exactly what it is today I suggest to you to follow. I hope you are paying attention and following through as opposed to listening to the whining of the older folks who have come up short. ... **Ha!**
25 Feb 2018, 10:17 PM

I am posting this here because you young folks are most affected.
You are going to hear a lot about Warren Buffett in the coming days and his latest shareholder advice. You are going to hear all about how important valuations are and how Buffett has a ton of money to put to use but can't find anything cheap enough. You are going to have to ignore it. ... You are not Warren Buffett and you can't invest like Warren Buffett.

When Buffett gets his price he doesn't ease into a position, he buys the company outright. Most people who wait for their price don't go all in either, they ease into a position and then they don't add to it because they don't want to pay more for any shares over and above their initial price, they won't average up on their cost basis. ... Stupid is a stupid does! The best course of action, for those wishing to invest in equities, is to stick with the leaders of each industry, build your portfolio out first as to the number of companies you wish to own and then start building them up one company at a time, taking turns on who looks like the next best potential prospect going forward.

You probably are not in a position to sit and wait and then buy in size when the time comes, so stop pretending you are that person. You have decades of investing ahead of you, compounding is your ally, but only if you take advantage of it.

Be smart. Get going!
25 Feb 2018, 10:55 PM

Young investors, listen up.

We are in a market stage where there is a lot of volatility, it can be distressing to sit and watch the market take 200, 400 and 1,000 point drops over short periods of time. It's all noise. Market reactions have nothing to do with company performance and their ability to earn a profit, and it's those profits that I want the companies we own to share with us.
When you see quality companies miss by a few cents on a quarterly earnings report, and then see that company drop 10% on the news, if you have cash available, most of the time that's a buying opportunity.

When the market has had a run like this current market has, people have a tendency to overreact to everything. If they don't have something to worry about, they will invent something. You have to ignore that noise and stay the course. I used to have to tape a post-it note to the monitor with the mantra ... This too shall pass!

My son's next scheduled purchase is late next week, and I don't care what the market is doing, I will be adding to his next man up. The events we are experiencing now will be long forgotten years from now, but what won't be forgotten are those shares we plan on adding next week. I'll let others moan and groan about portfolio values dropping, I'll let others whine and cry about short term earnings reports, I'll ignore their fears and insecurities and stick with the process. The process calls for me to build positions of size in quality companies for the long term and in order to do that, I need to keep adding shares, so adding shares I will do, and so should you.
08 Mar 2018, 09:15 AM

I love working with young people if they are smart and willing to learn, young enough do not have the fears of the older folks unless they decide to adopt them, and if you do, don't whine to me. ... **Ha!**

There is a lot of talk about valuations and how long this bull market has run, but one of the best pieces of advice I think I have ever received is this ... Bull markets don't die of old age, they die of fright ... and most of that fear comes in the form of recessions.

This is why companies that are recession resistant are the foundation of our portfolios. Consumer Staples, Utilities and some healthcare are where we start, what we build, and what we will always continue to add to as the years go by. We don't have any sign of a near term recession from what I see. I don't see anything impeding global economic expansion nor impede near term corporate profits. We haven't even seen the first quarter of earnings in the new year from tax reform. We will continue to hear the worry warts whine about their short term concerns and if there was nothing to worry about in the near term, they would create something.

Ignore the noise! ... Continue to grow your portfolio the same way you do your 401k . ... I don't hear anyone complaining about how we should hold back on 401k investments, so why hold back on your overall portfolio investments?
Buy quality, be patient, ignore the short term noise and continue to add to your portfolio on a regular basis. ...You've got to think long term and that means shelving your short term fears.

Get over them!
15 Mar 2018, 11:05 AM

Comment from reader >>>**@sdobbers-** When determining whether something is a "full position" or not, if someone has multiple accounts (retirement and taxable), do you aggregate across all types of accounts? Or would you for example consider it "full" in one account, but not in another?
Ex. $5000 is a full position
IRA: $2000 in JNJ
Taxable: $3000 in JNJ
Would you consider JNJ to be "full" in this case? Or would you consider bringing each of them up to $5000 to be full? I assume the former, but figured I would ask anyways
15 Mar 2018, 10:58 PM

Comment from reader/ Contributor >>> **@Kiisu Buraun**- sdobbers, "Would you consider JNJ to be 'full' in this case?"
=> I'm obviously not Chowder, but my question for you is ... are you viewing your different accounts as a single combined portfolio ... or are you running (at least) two different portfolios (with potentially different goals and targets)?

Best wishes,
Kiisu
16 Mar 2018, 07:16 AM

Chowder >> Author's comment » I combine the accounts as one for position sizing, and that includes combining the portfolio of a spouse. I know people don't like having the same company across various portfolios but I don't know how you do that when investing more than you are allowed into an Ira and both you and a spouse also have separate Ira's on top of your joint account.

So the answer is $ 5k total is your full position but there's no rule saying you can't own more that a full position, and at some point as the portfolio grows in value, you'll be raising the value of a full position anyway.
16 Mar 2018, 08:19 AM

Comment from reader >>> **@sdobbers-** Awesome thanks! That's what I've been doing, glad to hear that's how you go about it as well.

Kiisu, I view the accounts as a single portfolio. I recently rolled over my 401k(s), split between a Traditional and Roth. So that's two accounts, plus our Joint account, a tiny Individual account from before marriage, my wife's Roth, and then some random DRIP accounts. I really need to get around to combining a bunch of them...becoming way too much of a hassle to track. Oof!
16 Mar 2018, 08:05 PM

Chowder >> Author's comment » Young people, I think it is important to keep pounding the table about price volatility. Those who have started investing in equities since about 2010 have known only one thing up until recently, the market has done nothing but head higher. What you need to remember is this, when the market does have a significant correction, and we haven't seen that yet, it's only the price of quality companies that will decline with the rest of the market, but the company fundamentals may not have changed at all, thus the drop in price will be temporary and not permanent. If you are not selling assets for living expenses, but accumulating shares for the long term, then a temporary drop in price doesn't mean anything other than allowing you the opportunity to buy more shares for the same dollar amount you are accustomed to investing.

I think most people would consider Berkshire Hathaway - BRK, a high quality investment and Warren Buffett in his latest letter to shareowners talked about the many times BRK has taken a significant cut in value due to recessions, etc. Buffett stated that one correction saw BRK lose 59% of its value. ... Now think about that for a minute, and then note where BRK is today. The difference between BRK and most of us though is that we get paid to wait via dividends, and those dividends are going back to work buying more shares. BRK had nothing going for them other than quality management and a lot of patience, so stay focused on quality companies that pay dividends and use those dividends for investment purposes. Understand the difference between a broken stock and a broken company. The market heals broken stocks if you are patient enough to let it.
18 Mar 2018, 08:29 AM

Comment from reader/Contributor >>> **@Ted Fischer-** The BRK holdings continue to generate cash in a recession which are reinvested into new shares and new holdings for the company book. Just because it doesn't show at the BRK shareholder level does not mean the dividends aren't having their impact. They didn't get where they are today without taking full advantage of reinvested cash flows!!!

More precisely, those cash flows will **EVENTUALLY** be reinvested. Buffett is sitting on a massive cash hoard right now because he can't find opportunities he finds attractive to put that money to use. If a recession comes along, he will make a mint by doling that cash out to desperate companies that got overextended. Just as he did in the last recession.
18 Mar 2018, 06:55 PM

Chowder >> Author's comment » MO was an overweight position in my son's portfolio. I have trimmed it back to a full position today. I have used the proceeds of that sale to overweight his position in SO. I don't have a great deal of confidence in MO and will be looking to sell off portions over the next couple of years since this is in a taxable account.

He still has an overweight position in PM which I intend on keeping for now, but I do want to take down his exposure in MO. I still think that shorter term MO is okay, but I don't think I want it as part of a portfolio looking out 40 years. MO simply isn't the company it was 15-20 years ago, so that's where I'm coming from, right or wrong.
20 Mar 2018, 09:47 AM

Comment from reader >>> **@ Brooklyn we go Hard-** Hey Chowder,

Why do you not think MO is a solid long-term investment? Hasn't the general public been anti-tobacco for decades now? And MO is still chugging along? Any thoughts as to their entry into the cannabis industry upon (the theoretical) federal approval and regulation? I am recently long MO and PM, and would appreciate your input.
Cheers,
Brooklyn
20 Mar 2018, 09:56 AM

Chowder >> Author's reply » I think MO is too limited with regard to their customer base. MO has the USA as a customer base, PM has the rest of the world. I'd prefer to hold PM as a larger position. At some point loss of pricing power combined with political correctness laws are a risk I'm not willing to accept for a long term portfolio. Again, I'm not adjusting my personal position in MO, but then I'm not expecting to be around in 20 years, my son has that and many more to look forward to so that's how I wish to set his portfolio up. 20 Mar 2018, 10:02 AM

Comment from reader >>> **@** Luis, G**--** Hi Chowder,

Could be the MO future to be acquired by PM? I think you wrote that once.In that case MO will continue bringing dividends and in the right time some PM stocks. Of course, this could not happen.22 Mar 2018, 08:11 AM

Chowder >> Author's reply » It might. If it does, I doubt there will be a double dividend. If PM were to acquire MO, I'd be fine with that, in fact I'd be delighted. Most people who own tobacco companies own both MO and PM. I know we do, I know my son does, and in owning both, he had a very large position in comparison to his other companies.
If you'll scroll back up to the article, you'll see the position sizes for MO and PM. ... MO represented 3.3% of the portfolio value, PM represented 3.0% and a full position is 2.1%. So, you can see how much more over-weighted MO and PM is when you combine both companies. I don't wish to keep building both companies up in value when they are essentially the same company.

Therefore, I am going to focus on PM. It will take several years for me to pare MO back because of the tax consequences. It is in a taxable account, the gains are triple digit, and I don't want him to take a larger tax hit than necessary. The idea that PM might one day acquire MO is an indication to me that PM is the company to own and build. **Build is the key word behind my motivation.** I asked myself, which company would I prefer to build since they sell the same product? I came up with PM based on my comment above, not past numbers which is what a lot of people do. 22 Mar 2018, 08:31 AM

Chowder >> Author's comment » In closing out this month's dividend cash flows in my son's portfolio, it's interesting to see the impact in the various tactics used the last couple of years. The first quarter dividend cash flows for 2017 were up only 3.1% over the dividend cash flows for the first quarter of 2016. The reason for that was that I was focused on buying lower yielding companies like V, MA, HD, DG, NKE and others. The lower initial yield held down the overall quarterly cash flows with the hope of getting larger increases later down the road due to their normally higher dividend growth rates.

The first quarter of 2018 has seen some of the effect of that, including my switch over to focusing on yields of 3% or more over the last couple of quarters and the result of that has shown an impressive dividend cash flow growth rate of 14.5% year over year for the first quarter. Our objective is to show 10% dividend cash flow growth every year. Last year he came in at 9.3% due to the purchasing of the lower yielding companies. So, with a 14.5% growth rate the first quarter of 2018, he's off to a good start.
30 Mar 2018, 09:15 AM

Chowder >> Author's comment » I am tracking the dollars and cents received via dividends and that's what I am referring to when I say cash flow growth via dividends. When MA has a yield of 0.56 and T has a yield of 5%, when I add more T vs MA, our cash flow growth is much higher. MA will have a higher dividend growth rate on a percentage basis, but I don't focus on per-cent, I focus on the dollars and cents actually hitting the account every month. 50% of nothing is still nothing. As I reviewed many portfolios, I saw where people had some nice percentage gains but the gains were on smaller investments. I'd rather have a smaller percentage gain on a much larger position because in the end, it's the dollars and cents actually being realized on a monthly basis that counts. 02 Apr 2018, 07:12 AM

Chowder >> Author's comment » You young folks should be experiencing the effects of long term investing. Prices and dividend cash flow growth don't always go in the same direction, we now see how share prices are falling, but your dividend cash flows should at least be steady, and most certainly increasing, I know my son's portfolio continues to see his dividend cash flows growing quarter over quarter, and I can assure you, share price increase isn't achieving that goal. ... **Ha!**

Where many people will be freaking out over falling prices, this price action is agnostic to me other than I'm able to pick up shares for the same dollar investment than before when prices were higher, and more shares means I'm increasing the dividend cash flows that will be hitting the account month after month after month. You need to learn to ignore price action other than allowing you to purchase more shares at more reasonable valuations. My focus has been, and will continue to be on the dividend cash flows and the growth of those cash flows. You do that by accumulating shares. While the market is down year to date, and looking to go lower, my son established a new dividend cash flow record for March and his dividend cash flow growth, first quarter of 2018 over first quarter of 2017, is up 14%. Dividend reinvesting now has him picking up shares in every company he owns at lower prices. His monthly cash contributions will be picking up more shares at lower prices as well, so I expect to see a very good dividend growth performance this year because yields are rising. Take advantage of them, you have a long way to go and this current market condition too shall pass and be forgotten years from now, so no need to be anxious about it. Continue investing according to your plan. I know I will be, nothing changes.
04 Apr 2018, 09:43 AM

When I say the objective is to grow an income stream that is reliable, predictable and increasing, that's exactly what I mean. I focus on the dividends, not the share prices. Those dividends can be used by us older folks as income, but for you younger folks, those dividends represent cash to be invested. I think of it like an employer matching part of your investment in a 401K, your employer's contribution is like a dividend. You don't use it as income, you use it to buy more shares in the funds you own. That's how I look at dividends for you younger folks. Having said that, the recent market volatility has presented some decent looking yields and yield is where I get to grow that income/cash flow every quarter.

Today will be the day of the 5% yield for me in the portfolios I help manage and have cash available, I will be adding to T, O and SO, all with yields above 5%.
05 Apr 2018, 06:27 AM

Comment from reader >>> **@happo--**Chowder:

1) How do I establish the value of a position when I start my portfolio? Do I set the cash value of a position?(I think I do).
2) How do I determine what a full size position is after I've opened a position, at any given time in the future? On page 1 of this post you say "a full position, AT THIS TIME, represents a 2.1% sized position." How do you calculate that 2.1%? 2.1% of what? The references to a position in dollar terms becomes confusing when I see a reference to it as a portfolio percentage. I've gone thru most of your blogs to see if I overlooked something that was in one of them, and I can't find anything about this. Please connect the dots for me. Thanks and thanks for the help your posts have been to me.
16 Apr 2018, 08:06 PM

Reply from reader >>> **@gabby1945--** 'm not Chowder, but I can state what I do with the kid's portfolios. A full position starts at some figure and grows as the portfolio number of positions and the build up of positions occurs. It may take 15 years to get it totally built out and cores built up.

Let's say you are a young squirt just starting out with a limited salary and thus limited contributions to a 401K, IRA, or Roth account. You might have none of those so you open a taxable account. Under this scenario I'll use $500 a month that you can contribute. It could be $100 a month. In both cases you have limited buying power to where even small brokerage fees will dent your buys. I wait until I have at least a minimum of $1000 dollars (2 months of $500). Depending where you start (cost of share price) you will build slowly, but methodically.

Timing is everything when it comes to the market. You should make a watchlist of the 15 stocks you absolutely want as either cores or defensive. PG costs you about $80 a share, where KO costs you about $ 45 a share. You can buy more KO shares than PG shares and both are low priced at this time...comparatively speaking from a low cost to a high cost basis. You could make $1000 a full position, then move on to stock #2 on the watchlist.

Here is what I would tell you to do as one of my kids just starting out. Come hell or high water you are buying something every two months. The low cost stocks that are defensive in nature are KO, T, VZ, HRL, GIS, LNT, ABT, PFE, O, and VFC. In some case $1000 will buy you 6 shares and in other cases over 20 shares. That's 18 months of buys at $1000 (2 x $500).

As you build up and out you may say PG will be a half position so one month you buy 12 shares. Eventually, you will have all the companies you want, the more risky at lower size (1/8th, 1/4th. 1/2, 3/4 positions) . Once you have 20 to 25 companies you can pick the strongest candidates that will survive a recession and at worse freeze the dividend and at best raise during the downturn in the economy. Now you can elevate a full position to $2000. Looking at what you have and determining the best value at that time. They get another $1000 of stock. Bring the strong ones up to $2000, the promising 1/4 or 1/2 position to $500, or $1000. One thousand is the new half position of a full $2000 position.

With comfort and some success, your confidence will grow along with your experience and knowledge. You may want a few of those full positions to be oversized--such as with one reporting a beat and raise quarter. Spend the $ 1000 that month on that stock. Even if you are buying 20 shares, at a $5 higher price, means you spent an extra $100 for 20 shares which means nothing 2 or three decades out. You could just call it a rounding error.

I think I have explained it well enough to make the picture clearer for you. If not, ask questions. There are a lot of experienced young and old timers that can help you. In my case the younger are the 50 somethings and anything younger is a kid. ;-) It is all about the reference point and what the perspective is from that view.
16 Apr 2018, 09:11 PM

Comment from reader >>> **@happo--** Thanks for your reply, Gabby 1945. From your explanation I find that I, the investor, set the dollar amount of a position at the start, and I decide thereafter when the value of a position should be raised and to what amount. That answers question 1.

For question 2, using percentage tells me I'm dividing, so to get the percentage of a position I divide the dollar cost of a position by the current dollar value of the portfolio. And to get the percentage of a company stock in the portfolio, I divide its dollar cost by the current dollar value of the portfolio. I think the "of what" I mentioned, was the current dollar value of the portfolio. Is all this correct?

It makes it pretty easy to see the relationship of each position to the whole by converting data to percentages. And its a neat way to diversify a portfolio. Your most informative reply to my questions makes me understand how this method offers flexibility that lets an investor tweak it to his liking.

You had good suggestions in your comments.
Again, many thanks for your empathy. It's the willingness of SA's members to help, like this, that make it a website second to none. I'm a still learning octogenarian that's trying to get my son started "in the right direction" - he's skittish, it's hard to kill his traders instinct, but inch by inch it's getting done and he's calming down!
16 Apr 2018, 11:58 PM

Comment from reader/ Contributor >>> **@Kiisu Buraun**-- Happo,

Some folks measure the "size" of a company in a portfolio by its current market value; others by the number of dollars spent to buy shares of that company. There are pros and cons for each method.

I've used ... and continue to use ... both methods[1] simultaneously as each method tells me a different story. I run multiple portfolios, but use a technique very similar to that described by Gabby for determining (and periodically increasing) position size.
Best wishes,
Kiisu

1. Once a spreadsheet is configured, the computed results are automatic. For a simplified example of such, see on pg 34 the "Holdings" table of my DGP-1 monthly report for March, available on my SA blog.
17 Apr 2018, 12:13 AM

Comment from reader >>> **@unclepool--**Kiisu, Happo,

There are others, still, who measure the "size" by the dividend cash generated. I do not. Kiisu does not[1]. But there are a few here who do. My portfolio started when I ended up with a decent chunk of change in hands--enough to start executing a DGI plan. I decided that I would have 20 full positions. That way anyone of them crashing out would only results in a 5% hit on the initial investment. I was OK with that. It ended up that I split 2 of those positions and ended up with 22 companies. 18 full positions and 4 half positions.

Over the last four years I have been adding more companies (now 35) and growing them all to my previous full position. I have quite a number that are significantly larger than full. I am going to let those run. I am not really interested in having too many more. Since I like the easy math, 20 positions means 5% (of the portfolio value) is full, 33 positions means 3% is full, 40 means 2.5%. I am likely to end up at no more than 40.

At some point I may change my dollar value of a full position, but for now it is still where I set it originally. All of the half positions I originally had have grown or added to such that they are now full.
Good Luck
UP

[1] you can read Kiisu's very thorough March 2018 portfolio review here https://seekingalpha.c...
17 Apr 2018, 09:55 AM

Comment from reader >>> **@gabby1945--** Happo,

You got some good answers here and you can see the variations that people consider important. I determine a position size by real numbers, not by market value in all spreadsheets I send the kids quarterly. If the portfolio has 15K of real dollars of investment and one position is 2K they spent to get it (brokerage fees not included), then the percentage is 2/15.

The other portfolio spreadsheet is composed of pie graphs showing the slice each sector (11 sectors) represents of the whole, plus what percent (different pie chart) that is total defense, total sensitive, and total cyclical. They can see at a glance where the risk is at during a recession, and where the strength lies (defense).

Page two of that spreadsheet goes further by showing actual income, by position (stock) for that month and is transfer back to page 1 for two bar charts showing year over year growth, and individual month over month comparisons for 10 years or more. A glance shows the status quo of how well or badly one is doing. Some people don't like the constant changes for increasing share count or increases in dividend payments, plus freezing past months numbers so they don't change with the new increases and decreases, but it is the only way to keep things accurate, otherwise it is merely an estimate that you can get from a brokerage statement.

I wish I could say I developed the whole thing, but I didn't. Someone posted this process using variables that changed daily and I copied and reworked it for my benefit. The only way to update it daily was a portfolio on an active website (Goggle Finance before they made the changes rendering the finance page useless for me and others).

The major problem for me was price was the key value that changed from close to close and changed multiple metrics in the spreadsheet process. There is a software(Pearl) that one can use to grab updated values and put them in your computer spreadsheet, but it is complicated to set up. I found the free site of M* great for classifying stocks into the three major categories (custom view for columns) and placing all new additions in the proper category. Stocks don't usually move in and out of a sector. That being said, T and VZ moved to telecommunications from technology. Screw them, it is a utility to me and they are in that category on our spreadsheets. LOL!
I hope that helps in showing how everybody is an individual that make adjustments for their particular goals.
17 Apr 2018, 11:09 AM

Chowder >> Author's comment » In my earlier investing days, market conditions that we are currently experiencing caused me a lot of uncertainty. The market being up big one day, down another day, and companies announcing better than expected results seeing prices drop immediately would undermine my confidence in how I was investing. As time moved on and I gained experience, I learned to focus on simply building monthly cash flows from dividends. It's those dividends, like your company match in your 401K, that will be used for further investment. When I see profits from unrealized gains diminishing, I don't focus on share price, I focus on the quality of the company and try to determine if the drop in prices are temporary or the beginning of something permanent. I think a lot of what we are seeing is temporary, so I continue to focus on building share count which creates more dividend cash flows for reinvestment.

With this in mind, this week I have added to GPC with its 3.3% yield, KHC with its 4.2% yield, KMI with its 3.0% yield and 60% increase in the dividend, and UL with its 3.3% yield and 8% increase in the dividend. By focusing on companies with yields north of 3%, I expect to build a double digit gain in dividend cash flows year over year for reinvestment.

There is a great deal more peace of mind in knowing that as prices fall, the cash flows from dividends are rising and its those dividends that people will be living off of in retirement. So, I continue to focus on building share count to build dividend cash flows to buy more shares.
20 Apr 2018, 10:19 AM

Comment from reader >>> **@celine1--**Thank you, Chowder. Sometimes we just need to hear your calm, reassuring words. Those of us who haven't been at this for a long time need a reminder during these turbulent times. .
20 Apr 2018, 10:56 AM

Comment from reader >>> **@Luis,G --**Thank you chowder for your guide.

I think this is a confusing time with exaggerated drops in excellent companies. The result is a better yield at these prices and an opportunity to increase our cash flow.
21 Apr 2018, 10:55 AM

Chowder >> Author's comment » It was very difficult during the Great Recession in seeing prices drop week after week, month after month, and all you heard at the time was doom and gloom. I simply turned off the business news channel, as I have done now, and went about my life and not worry about the market.

Share prices may drop 20%, 30%, or even 50% but I had to remind myself that company performance wasn't off that much and it would simply be a matter of time before the market brought companies back to their true value. What I did at the time was to pull up a 20 year chart of each company we owned and I saw the many ups and downs that share price went through, but in the end, the market always headed higher, so I forced myself then, as I am now, to simply keep adding shares to the companies we own.

This too shall pass and I will be thankful once again that I stuck with my plan of building something, adding to something, every month. This week is a big earnings week and I can promise you, I will be adding

to companies regardless of whether the market is up or down, and I will remain focused on building the dividend cash flows hitting the accounts every month. The market might be down, but our dividend cash flows continue to rise quarter over quarter. The market may correct share price but it doesn't correct share count, and it's those shares that generate cash to reinvest or spend.

I'm gonna git some more shares this week.
22 Apr 2018, 06:39 AM

Comment from reader >>> **@cal77 -** >> It was very difficult during the Great Recession in seeing prices drop week after week, month after month, and all you heard at the time was doom and gloom. I simply turned off the business news channel, as I have done now, and went about my life and not worry about the market.<<
Smartest thing I did during that time was stop opening my statements. Buying quality and defense as you preach allows such a luxury.
23 Apr 2018, 01:47 PM

Comment from reader >>> **@Mr ATM --** Thanks for sharing Chowder.

Half of my utility and REIT positions are in red right now. I still want to add to them as there is nothing wrong with these companies. Thinking about just turning-off the columns in my spreadsheet that show profit/loss (out of sight, out of mind) and just paying attention to the current yield when adding more shares. 22 Apr 2018, 12:23 PM

Comment from reader >>> **@kwnovice --** For a 32 year old still building up and needing a consumer defensive for sector diversity (currently have UL as a full position & no other Consumer Defensive), I have narrowed to either McCormick, or KHC, do you have a preference? For the 32 year old's mom (me), I have half positions in GIS & MO, and note you haven't added to these even though they yield > 3%, and have had significant share price declines. Do you see company specific issues facing these 2? thanks,
22 Apr 2018, 02:59 PM

Chowder >> Author's reply » @kwnovice ... In looking at a young folk portfolio, my son owns KHC, GIS, MO and MKC. He also owns Ron's suggestion, UL. MKC is going to be his next purchase I think because I want to bring it up in value to the other three. He has to build enough cash to make a purchase and that happens every two months, so there's only so much he can add to. He added to KMI this month and his next two purchases are going to be MKC and then VFC.

All of the companies above are set up on dividend reinvestment, all add on purchases are made with his monthly cash contributions.

In my personal portfolio, I added to KHC last week. As to whether I would have to make a choice between KHC and MKC today, it depends on whether you want yield or which company is presently performing better. KHC for yield, MKC for performance.
23 Apr 2018, 04:51 AM

Chowder >> Author's comment »

These are some strange market conditions. Companies coming out with better than expected earnings are seeing their share prices drop on the announcement as opposed to rising, this is opposite of what happened last year. Nothing changes for me though, I continue to add to companies doing well whether the price rises or falls, the market may punish them short term, but companies performing well will be rewarded longer term and it's the long term I am looking at. With this in mind, I added to positions in PG and KMB this week and looking to add to VZ today or tomorrow.

Our primary objective is to **build an income stream that is reliable**, **predictable and increasing**, and that's exactly what these purchases are doing. My goal is not to worry about price action, I leave that to traders and worry warts. As long as I continue to add shares to companies performing well, long term goals and objectives will be achieved, the key is to ignore the short term noise.
24 Apr 2018, 10:32 AM

Comment from reader >>> **@MaxMillie --** Hi Chowder,

What about D? Should we young investors adding more D? I'm under -14% now and the shares prices have been holding around $65-$66 the last 2 weeks. I want to add more for future income but not sure when to pull the trigger because it is already one of my largest holdings and don't want to see it keeps going down. I've been very discipline adding 10 shares when prices go down $3 or more. So far, cash on hand has served me well but still the portfolio negative values by 7%. Still have 23% cash ready to pounce!
Thanks!
24 Apr 2018, 12:05 PM

Comment from reader >>> **@Mr ATM --** I am down about 15% in D, but would buy more. As market nose dives and fears of recession creeps up, utilities become a safe heaven.
24 Apr 2018, 02:14 PM

Chowder >> Author's reply » >>>I want to add more for future income but not sure when to pull the trigger because it is already one of my largest holdings and don't want to see it keeps going down. <<<

Almost everything is going down and we have no control over that. If you don't want to see it going down, stop looking. ... I'm serious! What has changed with the company that has caused it to lose 20% of its value? ... The uncertainty over the SCG merger? - That will pass in time. ... Market sentiment where investors are afraid higher yields on bonds will cause people to switch from equities to bonds? - The market will adjust to that when it's ready.

So far, according to Fact Set, this earnings season has seen about 80% of the companies beating earnings expectations. Are we to assume that as these companies continue to do well, their value won't increase as we go along? One of the hardest things to do is to watch a fearful market take prices down on companies that are performing well, but as long term investors, we have to take the pain, ignore the fear of others, and adjust our mindset that this is a temporary market move. I don't know how long the market will continue to drop, but I do know that at some point it will turn around and I want to be in a position where I continued to build my positions up in size.

I don't know whether you should add to D or not, was it your next man up or are you simply reacting to price action? I added to D in the past few days for folks where D could be brought up in size to other positions. Those who already had D as one of their larger positions I ignored and added something else that needed to be brought up in size, my next man up concept.

Did you know that Berkshire Hathaway saw its value drop more than 50% in a year once? Do you think a 50% drop in BRK was a result of poor portfolio management by Buffett or simply market sentiment? Market sentiment drives the short term, and is what traders base moves on. Long term investors need to ignore the short term noise, focus on the quality of the companies they own, and continue to add to them even though they are dropping in price, especially if they are dropping in price, because when the market turns, and it will in time, this is where your growth is going to come from.
25 Apr 2018, 09:42 AM

Dominion Energy℠

Comment from reader >>> **@MaxMillie --** Thank you, Chowder for your guidance and keep us in the game. I'll stick with what I think work for me. Buy 10 shares if prices go down and keep buying this year until I run out of cash or when it is available from the incomes. I made some money from playing with some risky stocks like BABA, YY, and QD last month and put those money in quality ones like D, PSA, PG, KMB. Just bought 10 shares of MMM yesterday. I've been waiting for that stocks to go down. Will continue to build up in size. Thanks!
25 Apr 2018, 10:02 AM

Comment from reader >>> **@aida2003 --** Hi Chowder,

That's exactly my thought that consumer (and other good blue chip) stocks are being punished for showing better results, e.g. KMB. It feels as if the traders expect them to grow as fast as the startups or FANG type stocks. I added a bit to PM, MO, and UL yesterday. I'm hoping to have some $ to add to KMB next week.

Now, OTOH, makes me wonder if other people who have lots of dry powder are adding to blue chips or because the prices are going down they become a bit more greedier ("maybe prices will drop further and I'll get a better yield") or more fearful ("I should wait longer because maybe it's the beginning of the bear and prices haven't bottomed out yet"). If you look at the basket of blue chips and you're a value investor, you feel greedier seeking for a better yield, but if you're a TR investor then perhaps you say "let's wait for the market to fall another 10-20% before I spend money".

I like that you, Chowder, ignore both camps, but how would you respond to the above thinking? I don't think that my assumptions are not totally off the mark here.

Do you get a lot of calls from people whose portfolios you set up at the high prices? How do you manage their angst now? I clearly remember when you bought some very expensive stocks (e.g. $125 for PM, $85 for D, etc.) when creating new portfolios or adding. I'm not blaming you here at all. You were dealing with the cards you were given at the time, but I'm sure other people would say he should have relied on Fast Graphs more...blue chips were crazily overpriced. They used to post on your comment streams but I don't notice them anymore....maybe they got fed up teaching your otherwise. Anyway I'm curious how you handle people's whose portfolios you manage psychology in this roller coaster market.

OTOH, we're back to normal stock market conditions, not? Last year was probably the only year that was abnormal with every stock going up and up with no fluctuations at all.
24 Apr 2018, 11:21 AM

Comment from reader >>> **@gabby1945--**Max & aida,

I'll answer both questions with an example, that I have done numerous times as a trader and a long term holder.

<<What about D? Should we young investors adding more D? I'm under -14% now and the shares prices have been holding around $65-$66 the last 2 weeks. I want to add more for future income but not sure when to pull the trigger because it is already one of my largest holdings and don't want to see it keeps going down.>>

I look at going down, an opportunity to buy at a discount. It has to do with getting your mind off of losing and thinking positively.

Background: Container company paying good dividend for its size, gets hammered by the slowdown in Europe/Asia. They cut the dividend by $1.00, still paying $ 1.80. Behind the scenes, they were negotiating with a private company to purchase and become the largest company of that type in the world. That came out in later quarters. The stock dropped 65%, not 14%. I liked their business and their position in the world as far as margins.

Obviously, when it went through the $20 range, I wasn't sure where the bottom would end up being. If one likes the company, the management team is on the ball, and its just an economic situation like a recession, then it is short term in relationship to decades.

Our country was recovering from 2008 & 2009. The rest of the world hadn't started yet. This is 2015, not 2009. 2016 is when oil and commodities fell daily. How does one know where the bottom is or will be? That will not be known until it happens and moves positive. Are there false positives--ha, look at Valeant Pharma for that answer.

My process is usually 10% off the bottom before I buy, skipping the dead-cat bounces. During a recession, I extend that positive movement to 15%-20% before buying more at reduced prices. The "when" is now set.

Did I get the lowest price---nope? Did I get a really good price if and when things turn around--you betcha? The buyout was announced and the rise started, surpassed their previous price before the sinking started, and excelled to $6 above the previous highs(2017). The kids added 80 shares to their positions just from the low price and reinvesting. The same dividend was buying twice as many shares quarterly until close to the pre-fall price, then it tapered off. This doesn't happen with every company. Some take years to recover to previous norms. But if there is value in that company, it will surface like the cream it is, exceeding their peers in results and sales. In a falling environment I don't think about buying until the bottom is in and the turn-around has started and showed it has more momentum than a bounce or two. I watch the volume numbers to see the trend. It isn't smooth, but jagged with two steps forward one step back during the recovery phase. The dropping phase is the opposite, a beat down, a little positive life, still trending down.
24 Apr 2018, 02:35 PM

Chowder >> Author's reply » @ aida ... >>> Do you get a lot of calls from people whose portfolios you set up at the high prices? <<<

I don't get a lot, but I've had a few.

>>> How do you manage their angst now? <<<

I'm very direct, I don't believe in hand holding. If they don't like it, they can manage their own portfolio. I ask them what makes them so special that the market won't take their prices down at some point, look at a 20 year chart and see what happens. ... So then the first question I ask them is ... what was the objective when we set the portfolio up? The objective was, and is, **to build an income stream that is reliable, predictable and increasing**. ... Is that objective being achieved? In every case the answer is yes, and if it's yes, stop bugging me. I will not switch goals after the fact because people have a hard time controlling their emotions.

Rely on FAST Graphs? For what? Does it tell you when the market will turn? Am I supposed to be impressed when one line drops below another? I know one person that waited 5 or 6 years to get a good price on PM because it's finally undervalued. Really? I bought it at even lower prices 5 or 6 years ago and it was considered overvalued at the time, plus I now have 5 or 6 years worth of dividends as well.

Every single person that invests for the long term is going to have positions that drop in value at some point. You can't control pricing, but you can manage your positions. If D is down 20%, I have no problem adding here and lowering the cost basis, that's part of the long term investing strategy.
The only way I have been able to calm their fears is to question them about the companies they own. Are they quality or not? Quality companies rebound, always. We simply have to be patient and wait for it. I force them to think as opposed to reacting emotionally, and I'm not pleasant about it. ... **Ha!**
25 Apr 2018, 10:01 AM

Comment from reader >>> **@aida2003 --** Thank you, Chowder, for your answer. I expected you to be direct (as usual). I like that you don't mince words and tell what you think in a very straightforward way. Sometimes it feels/sounds tough reading your answers, but it's better to hear an honest reply than a sweet lie ;-).
25 Apr 2018, 02:35 PM

Comment from reader/Contributor >>> **@Ted Fischer --** Hi Aida, I'm not changing much at all. A few trades around the periphery of the portfolio, but nothing major. Restored my position in MMM this week, at essentially the same price I sold in August (with gains since then on the alternatives), but even that is essentially a circular trade, just reversing something done earlier.

My goals are phrased in decades, so what do I care whether the market is up or down? I will reposition slightly to take advantage of bargains or avoid extreme overvaluation, but even that is relative to the overall market levels. A rise or fall of the market has minimal impact on my strategy. And honestly, haven't even been paying all that much attention recently. Is that necessary? Helpful? I own companies that I believe in long term, so no need to watch them daily.
26 Apr 2018, 06:55 AM

Comment from reader >>> **@Mr ATM --** I'll be adding to VZ later today or tomorrow. Waiting to see how low it would go if market continues to tank..... Well couldn't wait any longer, added VZ at $49.37. Stock is still up over a % despite the broader market sell off. That says something about the strength of VZ's earnings.
24 Apr 2018, 06:38 PM

Chowder >> Author's comment » I want you young folks to stop and think, you need to find a way to separate yourself from how too many older folks think. Older folks don't have the time you do for your decisions to play out, thus they must manage their positions differently.

I was asked above about buying a couple of positions at higher prices in new portfolios set up about a year ago, and some of those positions have seen their price decline in the 20% range, but by the same token, other positions purchased at that time are up 20% or more. In hindsight one can say you could have gotten a better price for D or MO, but in real time, how do you determine who will do well and who won't? ... You can't do it with accuracy or any amount of consistency. ... That's the whole purpose behind building your portfolio out in the number of companies you own first, to get some diversity, and then a year or two later, you get to see who is doing well, who isn't, and you are in a position to build on to the companies you have confidence in. Not all of the companies down in price should be ignored, you have to look at their performance and determine if the price drop is from market sentiment or under-performance of the company.

I always find it interesting how so many people focus on the companies in the red and I like to focus on the companies in the green. I prefer to build on strength, but if a company like D is down in price, I'm still confident enough to add to it where I'm not confident enough to add to MO. So, you have to make decisions based on your research. What are you comfortable with, what are you not. You then add to your comfort positions. Easy peasy.

Some companies may take several years to hit new highs again, but so what. You have time. We older folks may only have a few years to rebound, you younger folks have decades. You aren't investing large enough amounts to worry about short term price movement. You don't need the income to live off of. All you need to do is keep building share count in the companies you have confidence in, and then put off investing into those you lack confidence in until they show improvement. This isn't that difficult, **what is difficult is controlling your emotions**, and the best way to manage them is to have a plan and stick with it, like I do with my **"next man up"** concept. I explained that in another blog for those of you unfamiliar with it. 25 Apr 2018, 10:53 AM

>>> **Comment from reader** **>>> @kwnovice --** >>>Do you still have confidence in adding to GIS? <<< 25 Apr 2018, 11:47 AM

>>> **Chowder >> Author's reply »** >>> The question should be, do you have confidence in GIS. <<< When its turn comes, I'll add but other companies we own need to be brought up in size to our current GIS positions first.

Do I think GIS is at risk of freezing the dividend? ... I think it could happen.

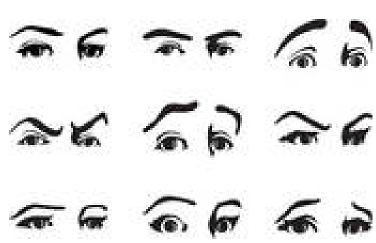
Do I think it could cut the dividend? ... If they did, it would be the first time in over 115 years, but I suppose anything is possible, it's why they invented the word risk.

I look at position size, especially in a young persons portfolio to where all positions are equally weighted. The reason I do this is because I don't know who will be the top performers going forward and I want to be sure that whoever it is, the position wasn't so small it didn't have an impact. So in my son's case, I already know the next two purchases and it won't matter what the market is doing at the time, when cash is available, it goes to work. His next man up for his next two purchases are MKC and VFC. Book it! They are currently smaller sized positions than GIS and is the reason I am ignoring GIS currently.
25 Apr 2018, 12:00 PM

Question from reader >>> **@harish7447 --** I have room for 1 more purchase (purchased PG today). Chowder, please help in picking one for a long term portfolio..
PEP, MO, BTI, KHC, KMB, CLX, VTR, SPG

I understand they are not in the same sector/industry but looking for good dividend growth. Thanks so much.

Long term hold (20+), good dividend growth, medium capital & company growth. Hope these objectives are not too generic. Also Adding 3 more to the list as I'm unable to edit: CL, BMY, MMM Thanks
25 Apr 2018, 12:19 PM



Chowder >> Author's reply » @harish ... I don't know what your sector allocation looks like, but I do add to positions based on where I need to add to specific sectors. As an example, if I were light in industrial's and wanted more exposure, I would look to adding MMM. If I were looking to consumer staples, I look to what sort of diversity I have in that sector. I want to balance personal hygiene products vs food products, so based on how my portfolio was set up, if I needed more food, I might go with GIS. If I needed more personal hygiene, I might add KMB. If I were looking to lock in the highest yields, then I might have a different choice, or if I wanted the better dividend growth potential, I would make another choice. You have to decide "specifically" what is most important right now and then purchase the company that supports that objective best. It's that simple.

Just this week I added to KHC, PG, D, KMB, VZ and GPC in various portfolios based on how I wanted to diversify our exposure and based on our objective of investing for yield, not near term price growth.. I know consumer staples are out of favor, and I have no desire to back up the truck on anything we own right now, but I don't mind adding small amounts to anything we own, hell I added to KMI last week. ...
Ha!
25 Apr 2018, 01:45 PM

Chowder >> Author's comment » As I stated at the beginning of the week, I was going to ignore the market noise, stick with our plan of adding to companies and I did just that. Across the various portfolios I help manage I purchased KHC .. PG .. D .. KMB .. VZ .. GPC .. PEP. We focused on yields that were 3% or higher and will continue to do so going forward.

We have 16 companies reporting next week, not all of them qualify yield wise, but I'm sure I'll be adding to something, I don't sit on cash for long. At some point the market will focus on earnings, it always does, we just have to let the market sort it out when it's ready, I have no control over that. What I do have control over is adding to companies that are doing better than expected, or are expected to do better going forward, and be sure that I am building those positions up in size in order to take advantage of longer term performance.

When I report year end dividend cash flow numbers, people are going to be surprised, they are going to second guess the results or ask, how did you do that. I will have done that because I am taking advantage of what I think are accidental high yielder because the market has sold off on fear. I do not freeze in the face of fear. In overcoming fear, the mind is not always subject to logic, but it always subject to action, so I take action. I will continue to build share count on what I consider to be good companies.
27 Apr 2018, 11:20 AM

Chowder >> Author's comment » I haven't made a fuss about it in any comment stream and only intend to talk about it here, but I have stopped adding to tobacco in all accounts including the young folks. That includes both MO and PM. I think there's a point where not only government intervention and higher excise taxes will harm the industry, and thus our investment in them, but more and more people are trying to quit smoking and less are taking it up. I don't plan on trimming or selling out of MO or PM, but I have no intention of adding to them either. I came across an article this morning that supports my view on the industry going forward. This article explains how these companies must diverse, like MO did at one time, or they must enter the marijuana market and PM is better suited for that than MO, hence why I favor PM over MO. >>>

This is simply my opinion and I'm not pounding the table on this, I'm merely sharing my thoughts and providing food for thought. If others disagree, that's fine by me. You do what you think is in your own best interests.
http://bit.ly/2FpSp6v
28 Apr 2018, 07:31 AM

Comment from reader >>> **@kwnovice --** Thanks for sharing the article, and more importantly (to me) your opinion. As I mentioned above I have a half position in MO (in the red with a basis cost of $ 63)and have been on the fence on whether to add at this "discount". My gut has been saying no because of > taxes resulting in decreased sales, as evidenced in CA.
The FDA interest in < allowed nicotine also gives me pause. With limited cash I am comfortable adding to others at this time.
28 Apr 2018, 11:26 AM

Comment from reader/ Contributor >>> **@Kiisu Buraun**--Maybenot,

"As young professionals they have zero friends, work partners, or acquaintances who smoke tobacco."
=> Wish I had more of those folks in my extended family ...
One of the reasons I bought BTI, LO, MO, PM, RAI, VGR, etc is 'cause so many members of my extended family smoke[1]. Those investments have over the years helped defray my costs in dealing with my extended family.
"Cultures change."

=> Unfortunately, not fast enough.

Chowder,
Thank you for the link ... and I agree with your logic.

Here in the US, Senator Chuck Schumer introduced a bill to remove pot from the list of controlled substances[2]. While I think federal decriminalization of pot will (eventually) happen, I've no idea when it might occur. From my skewed point of view, decriminalization is a good thing (for among other reasons) 'cause it would make many of the criminal enterprises in which (some) members of my extended family engage, much less profitable.
Best wishes,

Kiisu

1. Most of those individuals use actual tobacco. Based on their comments, they regard _all_ alternate forms of tobacco as "wimpy" ... and that seems to be true for the youngest of that group (he's 16), the oldest (she's pushing 65), and everyone in between ... but then none of that group are professionals (even the criminals in the group are brazenly klutzy and unskilled)
2. (slate) https://slate.me/2jdiQ6R (npr) https://n.pr/2JinNGC (wku) http://bit.ly/2I4ANT0 See also https://stjr.nl/2vVgpij
29 Apr 2018, 01:49 AM

Comment from reader >>> **@gabby1945--**Historically, there have been many articles about the demise of the tobacco companies. Somehow, they re-engineer a barrier to slow the frontal attack, and add income streams to tide them over financially. later they spin off different business segments to fill their coffers waiting for the next shot across the bow.

Whether it is wine, Vodka (some alcohol), or marijuana, they will side step the tip of the spear once again and rework what ever damage occurs. That's what they do and have done for decades. If you have doubts, stay clear.

That is a prudent move because even if you hold for a while longer as the price drops, you'll end up selling for a price much lower than today. Holding something through up and down cycles has to be something you believe will overcome the adversity, eventually.

With decades before you, and the future means to recover from being on the wrong side of a trade, your small position means little to nothing. Older people with larger positions, have to balance the risk to reward. If you have doubts, you will not sleep well at night.
30 Apr 2018, 08:43 PM

Question from reader >>> @Good1 -- @Chowder - I'd be interested in your thoughts on human fright on a stock (fleeing it on news) vs good news rises (in price $) based on good news. How do you size these things up? What are your thought on 'herd' movement.
29 Apr 2018, 12:27 PM

Chowder >> Author's reply » >>> >>> What are your thought on 'herd' movement. <<<

Most of it I ignore. I have done very little selling and continue to do a good bit of buying. I continue to make purchases every month using my next man up concept, I usually know in advance of cash hitting the account on who gets purchased next. The herd can do what they wish, I could care less.
30 Apr 2018, 05:09 AM

Chowder >> Author's comment » >>> I am very pleased with the dividend cash flow growth the young folk portfolio is showing for 2018. The first 4 months of 2018 is showing 16.1% dividend growth over the first 4 months of 2017. ... The objective every year is to show at least 10% growth. The reason I am impressed with this year's dividend growth is because most of it is coming from the companies themselves raising the dividend and in us reinvesting the dividends, very little is coming from new cash.

Why is dividend growth so important for a young folk portfolio? ... Because those dividends represent cash that is being reinvested. With the market down to flat for the year, and with a lot of the companies we own actually seeing a retreat in share prices, those dividends are able to purchase more shares for the same dollar amount than they did last year. This increase in share count increases the amount of dividend cash flows. With the market under-performing, I'm looking at a 16% pay raise. ... How bout that!
01 May 2018, 06:12 AM

Question from reader >>> @Good1 -- @Chowder - excellent. Do you have favorites is the 3-4% yield class? I'm obsessing on that area.
Spending a lot of time in study.
01 May 2018, 11:43 AM

Chowder >> Author's reply » >>> >>> Since I don't obsess over short to intermediate term share prices, it's easier for me to stay focused on good companies that I think will still be good companies 20-30 years from now. I recently added to GPC, PEP, KMB, D, WEC, PG, just to name a few and I plan on adding SO in two weeks in my personal portfolio which saw me add to KHC and XEL most recently. It's easy now to find 3% to 4% yields, you simply have to have the patience to allow prices to catch up to recent highs and beyond. The young portfolio listed up above in the article section of this blog is now yielding more than 3% for the entire 50 position portfolio. I think that's rather impressive considering he has some low yielding, higher growth companies.
01 May 2018, 01:47 PM

Chowder >> Author's comment » >>> One of the things I look at when building an income/cash flow stream that is reliable, predictable and increasing is to take advantage of companies announcing very handsome dividend increases.

PEP is a company with a current yield of 3.2%, so it meets the 3% yield requirement I'm looking for this year, and it just announced a 15% increase in the dividend yesterday. I will take advantage of that today and add some more PEP. I'll not only get the increase on the shares already owned (a full position), but I will also get the increase on the new shares as well. This will take the forward yield up above 3.7% which I believe is the highest yield ever for PEP. I can't imagine not taking advantage of this for a company the quality of PEP. I won't worry about the current market conditions but will instead build for the future.
02 May 2018, 04:23 AM

PEP ... git some!

Chowder >> Author’s comment » >>> I know it is frustrating for some people to look at their portfolio and feel some angst and question what it is they are doing when they see a company like D correct 25%, T correct 20%, or KHC down 35%. Keep this is mind, during 2008-2009 the entire S&P 500 was down 57% and with it everyone's equity portfolio value took big hits. Back then the 401K became a 201K and that's all that was discussed on the business news channels. ... This correction is nothing. Some sectors are getting hit harder than others but when we came out of the Great Recession, companies and portfolio values went on to set new highs. Those who continued to buy when the market was falling came out a little better in the following years due to the fact that they continued to build share count. There have been many corrections over the years, some worse than others, but the market always rebounds at some point and as long as you focus on adding to quality companies, this correction won't even show up as a blip on the radar years from now. You have plenty of time to overcome any short term adversity we currently face.

Stay focused, ignore the noise, follow the process.

I expect I'll be adding more D in the coming days in some portfolios.
Market fears always cause an overreaction with price both to the upside and downside. What the market doesn't affect is the dividend. Nobody has seriously considered the dividend at risk, they raised it 10% last time, expect to raise it 10% next time, and after that I look for them to maintain at least a 6% to 8% dividend growth rate. It's hard for people to stay focused on the income growth if all they do is watch price action. D can rise 30% from here, fall 30% from here and it wouldn't cause me to sell shares in either situation. I own D for it's quality and it's ability to generate income for me, so that's what I focus on.
09 May 2018, 11:54 AM

Chowder >> Author’s comment » >>> **A word about losses!** ... I often see people who lose confidence in a company, are showing a loss on that position, and refuse to sell until they can get even. This is not only a rookie mistake, it's crazy thinking. You should hear the excuses. The position is so small now I don't see any sense in selling. I'm afraid the minute I sell the company will come out with something new and skyrocket. It's in a Roth and I can't write the loss off. It's one excuse after another to prevent them from having to admit they made a mistake. Folks, you are going to make mistakes and if you ever want to invest on a more professional level, then you must learn to take a little pain and do what's right.

Case in point. My son used to own a position in GILD. GILD lost its pricing power and with it the stock price started to tank. On 5/20/16 the position was down 21.8% and I decided to cut my losses and invest the cash elsewhere. I wasn't going to hang on and try to make it back. We keep hearing there are better investments elsewhere and that's what I decided to do.

GILD was in a Roth yet I still took the loss and moved the cash into CAT.
Since 5/20/16, GILD has dropped another 14% on top of the 21% loss I took with GILD. CAT is up 132.9% since I moved the cash over. I didn't allow the excuses others have for hanging on, I knew I made a mistake in my timing of owning GILD, lost confidence in them as an investment, admitted my mistake and found something better which more than made up for the loss I took. That's how experienced investors manage a portfolio. If you don't have confidence in a company, get rid of it and buy one you do have confidence in. Don't allow your mistakes to undermine your progress.
30 May 2018, 08:17 AM

Chowder >> Author’s comment » >>> **Re: Dead Money ...**
I want to talk to you folks about a concept called "dead money." If you read enough comments, or listen to enough CNBC, you'll hear people talking about avoiding companies that are dead money.

Investopedia definition:

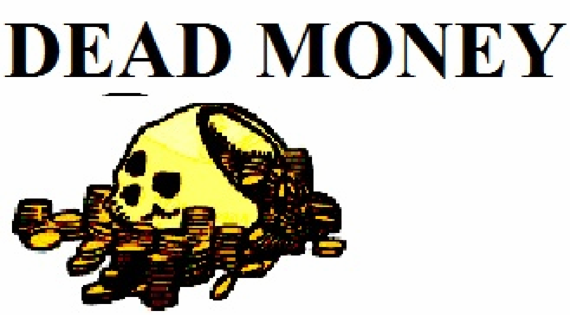
Dead money is a common term used on Wall Street to describe money that does not earn a return for an investor. It could be money stashed in a mattress, non-interest yielding checking account or a security that does not yield returns. Any money or investment that does not grow or yield gains for the investor is usually referred to as "dead money".
When an investor invests in securities, the expectation is that the security or investment will yield some profitable returns. When an investment is not expected to yield any returns for the investor, the investment is referred to as a 'dead money investment'. Examples of dead money investments are shares or stocks of companies that are not expected to improve or appreciate past their current price. Like everything else, what an investment a trader or investor considers dead money might be considered profitable by another trader or investor depending on whether they want the stock to go up or down. --------

If the share price doesn't appreciate much over a certain time frame, a lot of people use 5 years, they consider it a bad investment. I don't know why some people use 5 years, especially since we actually had a 10 year period back in 2000 that was considered dead money for 10 years. It is referred to as the "Lost Decade." The S&P 500 was at the same place on both ends of that 10 year period. I don't know how folks managed their portfolios when they had 10 years of dead money, but those using 5 year time frames must have lost their minds, and perhaps money too. I want you to think about this. Forget about dead money, forget about worrying how much your positions are up or down. You are in a building phase where you are investing small amounts of money at a time, and you should actually like the idea that price isn't getting away from you as you continue to add more shares in the years to come. I'm not saying you should ignore nice cap gains, but those gains are on small positions and make it tougher to build share count, so I'm saying don't make price appreciation your major focus.

The goal in the young folk portfolios I work with is to buy small amounts in the companies we wish to own, and once we hit the number of companies we had in mind, we started building each of them up. I do not get concerned with price action, I get concerned with building up positions of size that I hope will be held in each portfolio for decades, so today's price action will mean nothing in the long run. Leave the "dead money" concept to the traders, you are investing for the long term which requires a different frame of mind.
04 Jun 2018, 06:40 PM

Chowder >> Author’s comment » >>>

My son is 33 so he has a long way to go, yet even though I have high yield, slow growth companies as his foundation, he has quite a few low yield, high growth companies as well. The important thing for me, as a dividend growth investor, is to be sure the total portfolio yield is at 3% or better.



His Roth holds 19 companies and has a yield of 3.64%. His taxable account has 31 companies and has a yield of 2.95%. Combined it's above 3% so I'm good to go. Since dividends are being reinvested, I want to make sure the dividends he does receive can do its work in buying more shares. I am not into the per -cent game when one is impressed with how much their position is up. I'm into the dollars and cents game where if the share count keeps rising, the total dollars and cents will be more. For example, his position in CAT is up 67.0% and his position in O is up only 27.3% yet they both have produced the same dollar amount of profit (total dollar gains) and O pays much more in dividends. It's funny how that works. Some people would look at CAT and say it is a better investment than O due to its percentage gain, but in total dollars and cents, which is what counts in the end, they are equal investments in total dollars gained. This is why I don't get too impressed when people want to tell me how much their position is up because most of the time the position is too small to make a difference when it comes to dollars and cents earned.
07 Jun 2018, 06:32 AM

Question from reader >>> @kolpin -- chowder--

Interesting--I didn't know you had a minimum average portfolio yield requirement for your son, since he's a young folk.
Do you have the same 3% average yield requirement for all young portfolios you manage? I think mine is around 2.6% or so.

If gabby/maybe/mike or others who manage young portfolios could chime in, I'd be curious what their young folk average portfolio yields are...
07 Jun 2018, 02:02 PM

Chowder >> Author's comment » >>> In reading the Single Best Investment, which is all about dividend growth investing, one of the main guidelines is to buy companies with a yield 50% above that of the S&P 500. The S&P usually offers close to a 2% yield so that means 3% is the "go to" objective.

Even though my son owns low yielding companies like MA and V, as well as a few others, portfolio weightings have the portfolio yield above 3%.
Why wouldn't I have a minimum yield objective when the primary objective, basically only objective, is to grow his total dividend annual payout at double digits every year?
07 Jun 2018, 02:35 PM

Comment from reader >>> @kolpin -- I agree, one should have a portfolio yield objective. was just wondering how you came up with 3%. I have thought of my portfolio yield average to be more of a range rather than a specific number, between 2.5-3%, but in recent history my portfolio as tended towards the bottom end of that range, as the market seems to have favored my largest positions, AAPL, MSFT, BRK.B, TXN, and the like. I'm presently adding to some of my utility positions to build the average yield up a bit more, but one can only move the needle so much.
07 Jun 2018, 02:50 PM

Chowder >> Author's comment » >>> I don't see anything wrong with your approach kolpin, but in my son's case, he can only invest $500 per month so the more dividends he can receive, the more money he will have for reinvestment purposes. This is where a good bit of his long term performance is going to come from, the investments made from collecting dividends. So, I wanted a 3% yield or better in an effort to create more investable money.
07 Jun 2018, 02:56 PM

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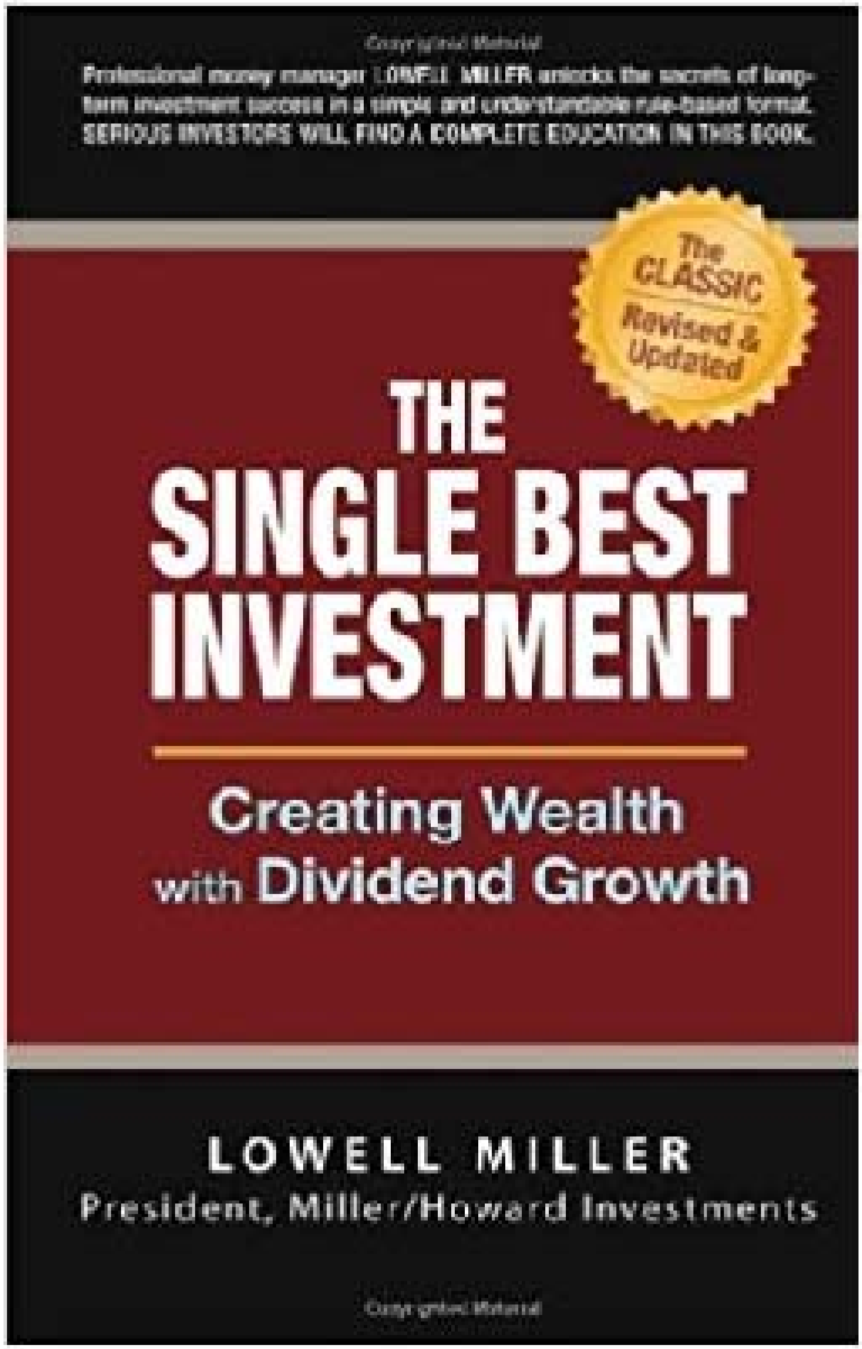

Living life One Day at a Time