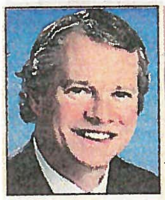
INVESTORS EDGE

Leave your short game at home in 2019



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As I sit writing this in late December, it appears to be shaping up to be a subpar year for the stock market, with the S&P 500 Index 14 percent off the September highs and down about 6 percent for the year.

And, as anyone who follows the market on a day-to-day basis knows, the back half of 2018 was incredibly volatile, with days when the market would be up 350 points in the morning only to finish down over 400 points by the day's end.

So, with a disappointing year behind us, how should local investors move forward and properly position their portfolios for long-term success?

As we start 2019, I want to focus on two pillars that I know are essential to successful investing: first, compounding your dividend yield (with three specific investment recommendations), and second, extending your time horizon.

COMPOUND YOUR DIVIDEND YIELD

"Compound interest is the most powerful force in the universe." — Albert Einstein

As a money manager, I have noticed that most investors, when looking for portfolio income, invest in companies (or mutual funds) with the highest current yield.

However, I believe a much better approach to generating income is to buy investments that grow their dividend yields consistently over time. While the initial dividend payment may be smaller at first, the company's payout over a five-, 10-, or 15-year period will be much higher — and the overall investment worth a lot more.

I have written many times that emotions are the enemy of successful long-term investing.

Compounding your dividends also provides a consistent stream of cash, allowing you to continually reinvest in the stock market or use for personal purposes.

So, for 2019, I confidently recommend the Vanguard Dividend Growth Fund (ticker symbol: VIG), which has averaged a robust 10 percent-plus annualized growth in its dividend payout over the last five years.

For individual stocks, both Becton Dickinson (ticket symbol: BDX) and Abbott Labs (ticker symbol: ABT) are great dividend

SEE EDGE, D3

FROM D1

growers, having each raised their dividends for more than 40 consecutive years.

EXTENDING YOUR TIME HORIZON

"The single greatest edge an investor can have is a long-term orientation." — Seth Klarman, legendary value investor

Stocks have been the best wealth-creating investment known to man. In fact, over the last 40 or so years, stocks, as measured by the S&P 500 Index, have compounded at a powerful 11.5 percent annualized return.

However, the costs of these superior returns are volatility and corrections.

Corrections and bear markets are to be expected and to think, or worse yet, act otherwise is to practically guarantee disappointment.

Indeed, I have written many times that emotions are the enemy of successful long-term investing. Keeping cool when you are losing money is not easy, but again, it is the price of admission to success in the stock market.

Warren Buffett has written extensively on the negative effects that the stock market's daily price movements have on investors' psyches — encouraging otherwise rational people to act irrational because of market price swings.

The fact is, if you owned a fine, private company whose earnings and cash payouts went up year after year, but you didn't have access to daily pricing, you wouldn't sell it just because some economists were predicting a slower economy. Yet that is the equivalent of what many investors do.

At the beginning of each month, when I get my statements, I don't become much happier when it is up a lot, or more discouraged when it goes down. I know it is simply a snapshot in time of what investors are willing to pay for the businesses in my portfolio.

Okay then, what is my outlook for 2019? I truly believe that the current market sell-off is quite overdone, especially considering the relatively healthy underlying fundamentals of the overall economy. In fact, at this time, I would consider many stocks to be relatively inexpensive.

My best guess is for stocks to have a solid return in 2019 in the 7 to 8 percent range. I know this is contrary to what many investors currently believe, but if you follow my advice above, this short-term prediction shouldn't sway you either way.

Readers, in 2019, be cool.

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com.