Bottomline PERSONAL
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Shrewd Investor

Investing Without Risk?

Some analysts are predicting a "lost decade" for stocks—meaning that by 2033, the market could wind up well below its current levels. But there is a simple and clever strategy to invest in the market for the next 10 years without risking your money.

Say you start with $100,000 in an IRA. Use the Zero-Risk Investment Calculator at Calculator.net/investment-calculator.html to figure how to split your money between a 10-year FDIC-insured certificate of deposit (CD) and a fund that tracks the S&P 500 index. A recent 10-year CD from Discover.com paid a 4.25% annual percentage yield (APY), so an investment of $65,953.73 in the CD would accrue to $100,000 in 10 years. Put the remaining $34,046.27 in the fund. Three scenarios…

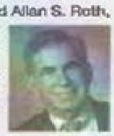
Even if you lost every penny in your stock fund, you'd still wind up with your original $100,000 after a decade.

If total stock returns are flat, you'd have $134,046.27—the $100,000 from the appreciated CD plus the original $34,046.27 in the stock fund.

If stocks returned an average of 8% annually, you would have $173,503.34.

But perhaps you don't want to be this risk-averse—after all, protecting your downside from a stock loss limits your upside. And is the entire S&P 500 really going to become worthless?

Alternative: Plug a 20% loss worst-case scenario into the calculator. Investing $27,924.60 in the CD and $72,075.40 in the stock market guarantees the safety of your $100,000. And if the stock market is flat over 10 years, you would get back $114,415.08. But with an 8% annualized gain, you'd nearly double your portfolio to $197,945.08.



Bottom Line Personal interviewed Alan S. Roth, CFP, CPA, president of Wealth Logic, LLC, a financial advisory firm in Colorado Springs, and author of *How a Second Grader Beats Wall Street.* DareToBeDull.com

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IMPORTANT **– A CHANGE TO OUR SITE'S PREVIOUS INVESTMENT RECOMMENDATIONS:**

Since our site's inception in June of 2015, we have encouraged you to keep 50% of your investable funds in "cash-equivalents" (i.e., savings accounts, CDs, and U.S. Treasury bonds). The Federal Reserve had artificially kept savings and bond interest rates very low since 2009. "Cash-equivalents" were "safe" in an FDIC (or equivalent) insurance protected account. Unfortunately, we didn't take into account the decrease in the value of "cash-equivalents" caused by inflation over longer periods, at the Federal Reserve's (continuing and current) modest annual inflation target of 2%. The average annual 2% inflation for ten years (i.e., 2009-19) resulted in an average 20% increase in consumer prices! Whereas the average annual interest earnings of 0.25% for the ten years only resulted in an average 2.5% increase in your "cash-equivalents" savings. **In hindsight the "cash-equivalents" portion of your portfolio should have been invested in individual U.S. Treasury Inflation Protected Securities (i.e., TIPS) bonds.**

We are now **CHANGING** our recommendation **regarding the size of the "cash-equivalents" portion of your portfolio**, and how it should be invested – to approximately accomplish the recommendation in Alan S. Roth's "**Investing Without Risk**?" article to the left – we've already used the calculator for you, and "done the math"! ***We recommend the "cash-equivalents" portion of your portfolio be at least 75% (for 10 yr. maturity TIPS) or 85% (for 5 yr. maturity TIPS) of your total portfolio.*** We are recommending your "cash-equivalents" be invested in only purchases of ***individual*** TIPS bonds – ***recently issued within the most recent 10 months***, with duration to maturity of no more than 10 years. **Caution:** only purchase **individual TIPS bonds** – not ETFs!, and not Mutual Funds! **All bonds purchased should be held to maturity!! If the account involved is subject to an annual RMD, "ladder" some of your maturities to provide the amount of cash required for each year's RMD!!** (See David Enna's excellent free resource: www.tipswatch.com)

We recommend the other part of your portfolio be invested in only dividend-paying common stocks – in a well-diversified mix of companies. Equal-dollar-amounts (i.e., equal-weight) investing in an equal number of dividend-paying companies, at least two from each of the ten major sectors of the economy – **from our Buy List.**

Our reasons for the above changed recommendation are:

1) ***Most importantly***, **publicly held companies are increasing the use of stock buybacks** (i.e., where a company purchases shares of its stock, from management and usually very large shareholders, and then removes those shares from publicly held "issued" status – instead of those shares continuing to be traded with "Mr. Market" (i.e., other investors)). **Stock buybacks are resulting in a significant depletion of discretionary Cash Equity!**

Thirty-five years ago, stock buybacks <u>ceased to be an illegal form</u> of "stock manipulation".
Over the past twenty-plus years, ***<u>they now cumulatively represent trillions-of-dollars gone from publicly traded corporations' Cash assets</u>*** by payments out of their bank accounts which, at managements discretion, only went to a few select, large shareholders and: **a.** which didn't purchase any new assets or pay any bills/liabilities/debts; **b.** which didn't pay any costs of operations; **c.** which didn't benefit all stockholders, only a few very large stockholders were beneficiaries; and, **d.** which are no longer available for emergencies!

2) ***<u>The related accounting entries in every case resulted in a dollar-for-dollar reduction to the corporations' Equity (i.e., Book Value) owned by the remaining stockholders. Consequently, even though the remaining shareholders own a larger percentage of the remaining Equity, when that larger percentage is multiplied times the lower amount of Equity, the dollars of Equity owned by each share have usually decreased!!</u>*** The only way the decrease would not occur is to assume an unusually favorable Price to Book Ratio of 1/1 or less; see https://www.fool.com/investing/how-to-invest/stocks/price-to-book-ratio/). **Normally a stock buyback results in *<u>the remaining</u>* stockholders having a loss (i.e., a decrease) of their Book Value (i.e., Equity) per share**, for example, if the Price to Book Ratio was equal to that of the S&P500's current average P/B Ratio – which is in the range of 4/1.

3) The audited financial statements of most types of publicly traded companies include a "Statement of Shareholders Equity" exhibit. It reflects the details chronologically of the changes in the company's Equity over the past three years. The significant accounting entries which are directly posted to, and affect, Equity are: **1.** annual profits increase Equity, and annual Loses decrease Equity; **2. dividends, *<u>which go to all stockholders proportionately to their share ownership</u>***, <u>paid out of corporate Cash decrease Equity</u>; **3. stock buybacks, *<u>to only those management chooses</u>*** <u>paid out of corporate Cash decrease Equity</u>; **4.** the issuance of additional stock increases Equity by the amount received for the newly issued stock.

Increasingly, this three-year disclosure of matters effecting a company's Equity shows a decrease in Equity from the beginning amount three years ago – even though the company was profitable for all three years and, on average, it paid out dividends which each year were approximately 50% of the annual profits. Stock buybacks were the reason for the decrease in total Equity over the three years of profitability!

[For example, consider The Proctor & Gamble Company (ticker PG). Over the three years June 30, 2019 to June 30, 2022, its profits totaled $42.3 billion increasing Equity, with dividends paid out of $24.9 billion decreasing Equity, however, stock buybacks caused its June 30, 2022 ending Equity *<u>to have decreased</u>* by $0.7 billion, from the June 30, 2019 beginning Equity!]

Consequently, <u>accumulated corporate Earnings accruing to the benefit of shareholders</u>, unfortunately, <u>have effectively become a myth</u> – as well as making Price Earnings (i.e., P/E) Ratios meaningless! All any common stockholder owns is the right to receive a dividend per share if one is paid, and the liquidation value per share of a corporation's Equity (i.e., what remains ***<u>in Cash</u>***, after all the assets are sold and all of the debts are paid), if a corporation terminates doing business. Both dividends and stock buybacks decrease corporate Equity! <u>The only difference between dividends and stock buybacks is</u> **the buybacks didn't benefit all stockholders**, only members of management and a few very large stockholders were beneficiaries (they walked away with a significant amount of corporate earnings), and the value they received for their shares wasn't subject to "Mr. Market's" scrutiny and due diligence!

4) **In our opinion, the current accumulated effect of stock buybacks has resulted in the most overvalued market in the past 100 years, with the potential for a catastrophic collapse equivalent to 1929-30, and a subsequent world economic depression for the next 10+ years.** And, it represents a monumental error: the SEC and its subsidiary organization FINRA failed their primary responsibility to the "common" stockholder, when in the mid-1980s stock buybacks ceased to be regarded as an illegal form of stock manipulation!!

5) <u>Also, even a return to the Federal Reserve's modest annual inflation target of 2% eventually adds up to a significant dollar impact</u> (e.g., what costs $1.00 today will cost $1.10 in five years, and $1.20 in ten years, and $1.50 in 20 years).

6) Although not all investors have another 20 years! This was encouraging: **"The good news is that if history continues to repeat itself, long-term-minded investors have absolutely nothing to worry about,"** because for the 104 consecutive 20 year periods beginning in 1900, the ending value for the equivalent of the S&P500 was higher at the end than at the beginning. This is from a recent article: "This Investment Strategy Has Been Foolproof Since 1900 -- 104 for 104 -- and It's the Closest Thing to a Wall Street Guarantee – By Sean Williams – May 25, 2023.
https://www.fool.com/investing/2023/05/25/investment-strategy-foolproof-since-1900-guarantee/
especially see the Crestmont Research information – **and be sure to note the importance of the receipt of dividends!**

7) Finally, remember: Never, never, NEVER BUY an ETF or MUTUAL FUND holding TIPS. Because none of them work the same as if you owned the individual bonds!! **Only individual ownership gives you control over "holding-to-maturity"** (the key factor producing **a TIPS issue's inflation adjusted Yield-to-Maturity (YTM)** interest rate). The brokerage quoted **YTM is required to be calculated "assuming no future inflation"**, ***<u>so, remember to add 2% to it, to conservatively estimate your "real", minimum likely average annual, inflation adjusted YTM</u>*****!** Also, only individual ownership guarantees that every 6 months when a TIPS interest payment occurs you will get an immediate distribution in-full.

   For an example of the problems with buying TIPS through ETFs or Mutual Funds, consider that the SCHP Schwab TIPS fund reserves the right to withhold distributing as a dividend, and instead reinvest TIPS interest payments, however, and whenever, they see fit, and make distributions of dividends only when they see fit – they also reserve the right to sell all TIPS they hold whenever they choose.

Whether or not you decide to utilize this "**CHANGE TO OUR SITE'S PREVIOUS INVESTMENT RECOMMENDATIONS**", we would like to remind you that since inception we have implied you should not invest more than 50% in common stocks, of your total investable funds – so that you can **easily be a "Buy & Hold" investor** during troubled markets – **and have significant cash to invest when there has been a significant drop in stock prices**. (See further down on our Home Page: "**Investment Calculator ONLY INVEST WHEN THE RESULT IS POSITIVE**", and, "'**P**', the first input, is always a "percentage", ***<u>where the default has always been 50%</u>***. **"P" is the "% of Cash in your portfolio which allows you to sleep well during market 'downtrends'"**)