

Bogle's Convictions

September 2016 Client Letter

Jack Bogle did not invent the mutual fund, but he certainly turned the industry on its back. In 1974 Bogle founded the Vanguard Group based on his conviction that an investment company should first and foremost manage in a way that serves the best interest of the individual and seeks to avoid conflicts of interest. Bogle spearheaded changes within the mutual fund industry, allowing investors the option of creating a diversified



At Richard C. Young & Co., Ltd., we are committed to helping our clients achieve long-term investment success with confidence. We are not traders or speculators and do not offer leverage or other options. Our primary focus is to invest in securities that pay interest and dividends.

Matthew A. Young, President & Chief Executive Officer | 

RICHARD C. YOUNG & CO., LTD.
NAPLES, FLORIDA NEWPORT, RI
3100 Tamiami Trail, Suite 200 60 Westview Street
Naples, FL 34103 Newport, RI 02840

(800) 843-7273

portfolio without the traditional sales loads, 12b-1 fees, and high annual expense ratios that dominated the industry.

The investment industry's layers of high expenses and abundance of marketing has always been a bone of contention for Bogle. While Bogle surrendered his role as Vanguard CEO in 1996, he remains quite active in the investment community—frequently speaking, publishing, and encouraging mutual fund managers to behave as responsible corporate citizens. By example, in April 2000 Bogle wrote:

My long-standing view (is) that the central principle view of the mutual fund business



At Richard C. Young & Co., Ltd., we are committed to helping our clients achieve long-term investment success with confidence. We are not traders or speculators and do not offer leverage or other derivatives. Our primary focus is to invest in securities that pay interest and dividends.

Matthew A. Young, President & Chief Executive Officer | www.rcy.com

RICHARD C. YOUNG & CO., LTD.
NAPLES, FLORIDA NEWPORT, RI
2100 Tamiami Trail, Suite 200 600 Middleway Street
Naples, FL 34103 Newport, RI 02840
(800) 843-7273

should be, not the marketing of financial products to customers, but the stewardship of investment services for clients. Marketing has displaced management as the industry's chief principle, and expenditures on investment advisory services are today dwarfed by expenditures on advertising and sales promotion, with boxcar past returns advertised as if they would recur into eternity.

Not only has the industry become a "cash cow" for fund sponsors and managers as well as Wall Street brokers and bankers, it has increasingly become a vehicle for short-term



At Richard C. Young & Co., Ltd., we are committed to helping our clients achieve long-term investment success with confidence. We are not traders or speculators and do not offer leverage for other investors. See always. Focus is to invest in securities that pay interest and dividends.

Matthew A. Young, President & Chief Executive Officer | www.rcy.com

RICHARD C. YOUNG & CO., LTD.
NAPLES, FLORIDA NEWPORT, RI
3100 Tamiami Trail, Suite 200 600 Bellevue Avenue
Naples, FL 34102 Newport, RI 02840

(800) 843-7273

speculation, a trend fostered in part by the industry's focus on marketing.

I imagine early originators of mutual funds did not expect a day where funds would be used for speculation. And now, with the proliferation of exchange-traded funds, speculative investing and trading has become even easier. My dad, who entered the securities business around the same time as Bogle, recalls that many of the old-line Boston investment houses were referred to as investment counsel firms. These conservative firms welcomed families, forming decades-long associations emphasizing how dividends and interest



At Richard C. Young & Co., Ltd., we are committed to helping our clients achieve long-term investment success with confidence. We are not traders or speculators and do not offer leverage for active investors. Our primary focus is to invest in securities that pay interest and dividends.

Matthew A. Young, President & Chief Executive Officer | 

RICHARD C. YOUNG & CO., LTD.
NAPLES, FLORIDA NEWPORT, RI
2100 Tenthon Road, Suite 200 600 Middlesex Street
Naples, FL 34102 Newport, RI 02840

(800) 843-7273

were at the core of most investment programs.

Persuasive Tests of High Quality

Back in those days, according to my dad, the words speculation or performance rarely—if ever—came up. Boston’s counsel firms were fashioned much like bank trust departments, where the utmost in privacy and prudence were practiced. Investment strategies included Ben Graham’s theories on the importance of dividends. In the *Intelligent Investor*, Graham wrote, “One of the most persuasive tests of high quality is an uninterrupted record of dividend payments for the last 20 years or more.



At Richard C. Young & Co., Ltd., we are committed to helping our clients achieve long-term investment success with confidence. We are not traders or speculators and do not offer leverage for active investors. We always focus on the fundamentals that pay interest and dividends.

Matthew A. Young, President & Chief Executive Officer | Fidelity

RICHARD C. YOUNG & CO., LTD.
NAFLEX, FLORIDA NEWPORT, RI
2100 Tenthredin Road, Suite 200
Naples, FL 34103 Newport, RI 02840


(800) 843-7273

Indeed, the defensive investor might be justified in limiting his purchases to those meeting this test.”

Albert Einstein is said to have described compound interest as the greatest mathematical discovery of all time. Charlie Munger, longtime partner to Warren Buffett, wrote, “Understanding both the power of compound return and the difficulty getting it is the heart and soul of understanding a lot of things.” Burton Malkiel, noted Princeton economics professor, wrote, “Historically, high-dividend yields have meant better returns. Since a fat yield implies that a stock is fairly low relative to those of other stocks, looking for above-average yields is



At Richard C. Young & Co., Ltd., we are committed to helping our clients achieve long-term investment success with confidence. We are not traders or speculators and do not offer leverage or other options. See always. There is no reward in securities that pay interest and dividends.

Matthew A. Young, President & Chief Executive Officer | 

RICHARD C. YOUNG & CO., LTD.
NAPLES, FLORIDA NEWPORT, RI
3100 Tamiami Trail, Suite 200 60 Wall Street
Naples, FL 34103 Newport, RI 02840

(800) 843-7273

itself a contrarian strategy... Investing in high-dividend stocks, therefore, is likely to lead to attractive issues.”

As you are more than aware, it’s been a miserable environment for yield investors. Crafting an equity portfolio with a decent dividend yield while trying not to take on too much risk is a tall order. Overly aggressive monetary policy from the world’s biggest central banks has pushed rates down onto the floor. T-bill yields are still only a few ticks away from zero, and in many countries, interest rates are negative. Long-term bonds don’t offer much of an income boost, either. Even in the U.S., where the Fed hasn’t yet



At Richard C. Young & Co., Ltd., we are committed to helping our clients achieve long-term investment success with confidence. We are not traders or speculators and do not offer leverage to our clients. Our primary focus is to invest in securities that pay interest and dividends.

Matthew A. Young, President & Chief Executive Officer | 

RICHARD C. YOUNG & CO., LTD.
NAPLES, FLORIDA NEWPORT, RI
3100 Tamiami Trail, Suite 200 600 Middle Street
Naples, FL 34103 Newport, RI 02840
(800) 843-7273

driven us into a negative interest rate hole, 10-year Treasury bonds offer a low yield of 1.59%.

Retired investors who diligently socked away money for years in the hope of generating a steady retirement income from full-faith-and-credit-pledge U.S. Treasury securities have had a tough go.

The disappointing reality is that long-term Treasuries offer little in the way of income, and they no longer deliver adequate return to protect principal from inflation. In this environment, bonds must be viewed first as a counterbalance and only secondarily as a source of income. That doesn't mean one should abandon their



At Richard C. Young & Co., Ltd., we are committed to helping our clients achieve long-term investment success with careful, but not undue, risk. We are not insurers of performance and do not offer insurance for future investment. See prospectus for more information on our services and offerings.

Matthew A. Young, President & Chief Executive Officer | 

RICHARD C. YOUNG & CO., LTD.
NAPLES, FLORIDA NEWPORT, RI
2100 Tamiami Trail, Suite 2000 600 Westview Drive
Naples, FL 34103 Newport, RI 02840

(800) 843-7273

bond allocation, but it may require one to boost income in other parts of the investment portfolio.

A Wealth of Income

Stocks are the logical place to look for additional income, but the pickings are slim in the traditional high-yield sectors of the stock market. Utilities and real estate investment trusts—two of the highest-yielding sectors in the market—may now be overbought and slightly overpriced. Many of our favored utility stocks yield less than 3%, and you only get another half of a percent in REITS. Both yields are near historic lows. Should interest rise, investors are likely to head



At Richard C. Young & Co., Ltd., we are committed to helping our clients achieve long-term investment success with confidence. We are not traders or speculators and do not offer leverage for active investors. We always focus on the sound investments that pay interest and dividends.

Matthew A. Young, President & Chief Executive Officer | 

RICHARD C. YOUNG & CO., LTD.
NAPLES, FLORIDA NEWPORT, RI
3100 Tamiami Trail, Suite 200 60 Wall Street
Naples, FL 34103 Newport, RI 02840

(800) 843-7273

for the exits, potentially wiping out years of dividend income in the process.

As I wrote last month, European stocks can offer promise for dividend seekers. European companies tend to favor dividends over stock buybacks, and some European shares have not kept pace with U.S. equities offering potential upside in capital appreciation.

Pipeline MLPs are another area of the market for income opportunities. Most pipeline MLPS are really nice businesses. The barriers to entry are high, as right-of-way must be secured. Pipeline companies usually lock in their revenue with long-



At Richard C. Young & Co., Ltd., we are committed to helping our clients achieve long-term investment success with confidence. We are not fiduciaries of investments and do not offer customized tax advice. However, our primary focus is to invest in securities that pay interest and dividends.

Matthew A. Young, President & Chief Executive Officer | www.rcy.com

RICHARD C. YOUNG & CO., LTD.
NAPLES, FLORIDA NEWPORT, RI
3100 Tamiami Trail, Suite 2000 600 Middlesex Street
Naples, FL 34103 Newport, RI 02840

(800) 843-7273

term, fixed-rate contracts, so their income isn't heavily dependent on oil and gas prices.

Even after a monster rally from their February lows, pipeline MLPs still offer a wealth of income. Some of our favored positions, including JPMorgan Alerian MLP ETN (AMJ), Holly Energy (HEP), and TC Pipelines (TCP), still offer current yields at 6.5% and higher.

Jack Bogle's Outlook

This month, *The Wall Street Journal's* Holman W. Jenkins profiled Mr. Bogle, now 87, recognizing his 65th year as an industry leader. Among other topics covered was Bogle's



At Richard C. Young & Co., Ltd., we are committed to meeting our clients' individual long-term investment objectives with care and skill. We are not insurers of performance and do not offer insurance for future investment. See prospectus for more information on our investment objectives and strategies.

Matthew A. Young, President & Chief Executive Officer | 

RICHARD C. YOUNG & CO., LTD.
NAPLES, FLORIDA NEWPORT, RI
2100 Tamiami Trail, Suite 200 600 Middle Street
Naples, FL 34102 Newport, RI 02840

(800) 843-7273

outlook for the stock market.

Don't imagine a revisitation of the '80s or '90s, when stocks returned 18% a year and investors, after the industry's rake-off, imagined they "had the greatest manager in the world" because they got 14%. Those planning on a comfy retirement or putting a kid through college will have to save more, work to keep costs low, and—above all—stick to the plan.

Mr. Bogle finds today's stock scene puzzling. Shares are highly priced in historical terms; earnings and economic growth he expects to disappoint for at least the next decade (he sees



At Richard C. Young & Co., Ltd., we are committed to meeting your needs without long-term investment contracts with penalties. We are not subject to sales quotas and do not offer commissions for future deposits. See advisory disclosures in the prospectus that may contain our disclosures.

Matthew A. Young, President & Chief Executive Officer | 

RICHARD C. YOUNG & CO., LTD.
NAPLES, FLORIDA NEWPORT, RI
2100 Tamiami Trail, Suite 2000 600 Bellevue Avenue
Naples, FL 34102 Newport, RI 02840

(800) 843-7273

no point in trying to forecast further). And yet he advises investors to stay invested and weather the storm: “If we’re going to have lower returns, well, the worst thing you can do is reach for more yield. You just have to save more.”

Mr. Bogle relies on a forecasting model he published 25 years ago, which tells him that investors over the next decade, thanks largely to a reversion to the mean in valuations, will be lucky to clear 2% annually after costs. Yuck.

Mr. Bogle’s own portfolio consists of 50% stocks and 50% bonds, the latter tilted toward short- and medium-



At Richard C. Young & Co., Ltd., we are committed to meeting our clients' investment long-term investment needs with expertise. We are not subject to any securities laws and do not offer securities for sale. Please see the prospectus for more information. Please see the prospectus for more information. Please see the prospectus for more information.

Matthew A. Young, President & Chief Executive Officer | www.rcy.com

RICHARD C. YOUNG & CO., LTD.
NAPLES, FLORIDA NEWPORT, RI
3100 Tamiami Trail, Suite 2000 600 Westview Drive
Naples, FL 34103 Newport, RI 02840
(800) 843-7273

term.”

Congratulations !

In a foreword written in Jack Bogle’s *Bogle on Mutual Funds*, my dad congratulates readers for purchasing the book. My dad writes, “My personal copy of Bogle on Mutual Funds, sent to me by Jack back in October 1993, is now dog-eared and frayed—underlined, circled and recircled in red ink. This book has been a workhorse for me both personally and professionally, and I am sure your copy will become an instant cornerstone of your investment library.”

The congratulations offered by my dad could



At Richard C. Young & Co., Ltd., we are committed to helping our clients achieve long-term investment success with confidence. We are not traders or speculators and do not offer leverage or other options. Our primary focus is to invest in securities that pay interest and dividends.

Matthew A. Young, President & Chief Executive Officer | 

RICHARD C. YOUNG & CO., LTD.
NAPLES, FLORIDA NEWPORT, RI
3100 Tamiami Trail, Suite 200 60 Westinghouse Street
Naples, FL 34102 Newport, RI 02840

(800) 843-7273

not have been more sincere. As Richard C. Young & Co., Ltd. was beginning to grow in the early 1990s, we used many of Bogle's bedrock principles in our own strategy for clients. Like Bogle we believe investment success can be had by keeping the strategy simple—focus on the long term, forget trying to outguess the market, and be aware of the negative impact of high expenses.

And, of course, investing in companies with a history of making regular annual dividend increases is the foundation of our equity strategy. When investing in companies with a history of annual dividend increases, we are putting the odds in



At Richard C. Young & Co., Ltd., we are committed to helping our clients achieve long-term investment success with confidence. We are not traders or speculators and do not offer leverage or other options. Our primary focus is to invest in securities that pay interest and dividends.

Matthew A. Young, President & Chief Executive Officer | www.rcy.com

RICHARD C. YOUNG & CO., LTD.
NAPLES, FLORIDA NEWPORT, RI
3100 Tamiami Trail, Suite 200 600 Middle Street
Naples, FL 34103 Newport, RI 02840

(800) 843-7273

our favor of not only getting a pay raise each year, but also helping us keep pace with the nasty effects of inflation.

Have a good month. As always, please call us at (888) 456-5444 if your financial situation has changed or if you have questions about your investment portfolio.

Warm regards,



Matthew A. Young

President and Chief
Executive Officer



At Richard C. Young & Co., Ltd., we are committed to meeting our clients' needs and providing long-term investment solutions with expertise. We are not fiduciaries of any securities and do not offer investment advice. Our primary focus is to invest in securities that pay interest and dividends.

Matthew A. Young, President & Chief Executive Officer | 

RICHARD C. YOUNG & CO., LTD.
NAPLES, FLORIDA NEWPORT, RI
3100 Tamiami Trail, Suite 200 600 Middle Street
Naples, FL 34103 Newport, RI 02840

(888) 843-7273

P.S. “Profit Slump for S&P 500 Heads for a Sixth Straight Quarter” was the title of a 9/25/16 *Wall Street Journal* article.

The third quarter was supposed to be when earnings growth returned to U.S. companies. Not Anymore.

Companies in the S&P 500 are now expected to report an earnings decline for the sixth consecutive quarter in the coming weeks, according to analysts polled by FactSet.

That slump would be the longest since FactSet began tracking the data in 2008.

For the third quarter,



At Richard C. Young & Co., Ltd., we are committed to meeting our clients' needs long-term. Investment decisions are based on the best interests of our clients and do not take into account the needs of any other party. Please see the full disclaimer on our website.

Matthew A. Young, President & Chief Executive Officer | www.rcy.com

RICHARD C. YOUNG & CO., LTD.
NAPLES, FLORIDA NEWPORT, RI
3100 Tamiami Trail, Suite 200 600 Middle Street
Naples, FL 34102 Newport, RI 02840

(800) 843-7273

the energy sector is projected to yet again report the largest year-over-year earnings decline of all sectors in the S&P 500, with a drop of 66% expected. It would mark the eighth consecutive quarter that energy companies in the index have reported a year-over-year fall in earnings.

Revenue growth, meanwhile, is set to return for companies in the S&P 500 for the first time since the end of 2014, according to analysts polled by FactSet. Nine of the 11 sectors are predicted to report year-over-year sales growth during the third quarter. Consumer-discretionary companies



At Richard C. Young & Co., Ltd., we are committed to helping our clients achieve long-term investment success with confidence. We are not fiduciaries of investments and do not offer investment advice. See prospectus for more information. © 2015 Richard C. Young & Co., Ltd.

Matthew A. Young, President & Chief Executive Officer | www.rcy.com

RICHARD C. YOUNG & CO., LTD.
NAPLES, FLORIDA NEWPORT, RI
3100 Tamiami Trail, Suite 2000 600 Westview Drive
Naples, FL 34103 Newport, RI 02840

(800) 843-7273

lead with a projected rise of 8.7%.

One reason stocks continue to climb even as earnings shrink is easy-money central-bank policies. Some investors are using the resulting low government-bond yields as justification to buy more stocks in a search for yield, pushing up major indexes.

P.P.S. A recent case study section in *Kiplinger's* looked back to 2007 when the magazine profiled an 85-year-old Florida woman. The woman “was sold an annuity with surrender charges that lasted until she was 101 years old, including a 25% surrender charge for the first five years.” Several years later,



At Richard C. Young & Co., Ltd., we are committed to helping our clients achieve long-term investment success with confidence. We are not fiduciaries of investments and do not offer insurance for other investors. See privacy policy in the prospectus for more information and disclosures.

Matthew A. Young, President & Chief Executive Officer | www.rcy.com

RICHARD C. YOUNG & CO., LTD.
NAPLES, FLORIDA NEWPORT, RI
3100 Tamiami Trail, Suite 200 600 Bellevue Street
Naples, FL 34103 Newport, RI 02840

(800) 843-7273

the Florida Department of Financial Services opened 431 annuity investigations and discovered some reported surrender charges of up to 25% of the account value for withdrawals in the first 15 to 20 years. According to Kiplinger's, from 2008 to 2010 the Florida legislature passed a series of laws that established suitability requirements for annuity sales. Even with the legislation, surrender periods can extend out to 10 years and surrender charges as high as 10% for annuity sales buyers who are 65 and older.

P.P.P.S. Pioneering health firm Johnson & Johnson (JNJ) is determined to remain in the vanguard of the health technology



At Richard C. Young & Co., Ltd., we are committed to helping our clients achieve long-term investment success with confidence. We are not fiduciaries of investments and do not offer insurance or other products. See privacy policy in the prospectus that you received and disclose.

Matthew A. Young, President & Chief Executive Officer | Fidelity Investments

RICHARD C. YOUNG & CO., LTD.
NAFLEX, FLORIDA NEWPORT, RI
2100 Tenthredin Road, Suite 200 600 Washington Street
Naples, FL 34102 Newport, RI 02840
(800) 843-7273

revolution. JNJ has partnered with Google on robot-assisted surgery, with IBM on improving pre-and post-operative patient care using machine learning from Watson Health Cloud, and with HP on 3D printing medical solutions. Now JNJ has hired Silicon Valley veteran Marc Leibowitz (formerly of Google, StumbleUpon, and Dropbox) to scour the landscape for more opportunities to advance with technology. JNJ, a longtime holding at Richard C. Young & Co., Ltd., is an old company with one of the longest records of dividend payments and increases on record, but is operating like a growth-hungry startup.



At Richard C. Young & Co., Ltd., we are committed to helping our clients achieve long-term investment success with confidence. We are not traders or speculators and do not offer leverage or other options. See always. There is no fraud in securities that pay interest and dividends.

Matthew A. Young, President & Chief Executive Officer | www.rcy.com

RICHARD C. YOUNG & CO., LTD.
NAPLES, FLORIDA NEWPORT, RI
3100 Tamiami Trail, Suite 2000 600 Middle Street
Naples, FL 34103 Newport, RI 02840
(800) 843-7273