

Five Prudent Tips for Investors

Thursday, September 26, 2019



In today's investment landscape, with endless choices and ceaseless noise on the next trending product, investing can be overwhelming for the budding novice.

However, if we cut through the noise and look at history, a time-tested approach to investing emerges. By employing what most would consider "boring" high-dividend-yielding-stocks, we can mitigate the stress of equity volatility. By reinvesting dividends, investors purchase more shares (leading to more dividends), thus creating a portfolio that is a 'compounding machine.'

Compounding is alien to the human mind because we want to think that everything is linear. But it's important for young investors to learn about compounding—both its power to build wealth as well as the destructive potential of snowballing debt.

Jason Hartman of *Authority Magazine* recently interviewed Miller/Howard's **Deputy Chief Investment Officer Greg Powell** and asked, "If you had to advise your adult child about 5 nonintuitive essentials for smart Investing, what would you say?"

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- 1) **First and foremost, invest early.** My adult daughter is a math whiz but she looked utterly puzzled when I asked her why her mother's 401K was so large. After all, my wife left the workforce when our kids were still in diapers. We then built a spreadsheet together so that she could understand how modest savings left alone for decades can mushroom into something significant.
- 2) **Invest in equities.** The drop in interest rates since the early 80s has been spectacular, but here we are. For long-term savings, it's hard to see bonds beating stocks.
- 3) **Stay invested.** Making calls on the overall market is very difficult, whether you are a seasoned or new investor. One may read or hear about someone leaping in or out just ahead of a big market move. Unfortunately, a much more common story is ordinary people going to cash because the market makes them nervous. I met a guy about a year ago who stated, without any embarrassment, that he had gone to cash in 2012, meaning that he had missed out on the tremendous growth in the market since then. I didn't know what to say — that's a mistake you cannot undo.
- 4) **Mind taxes.** Everyone should take maximum advantage of tax deferred vehicles such as a 401K. The idea is very simple — you get to earn a return using your pretax contribution and then pay taxes only when you make a withdrawal many decades later. It's one of the few "no-brainers" in finance.
- 5) **Be careful with controversy.** A good long-term investment portfolio should elicit a shrug, not a "wow." A diversified portfolio of equities will lead to good results. A portfolio that suggests a provocative view of the future could very likely lead to a disappointing outcome. Buying equities in companies that earn a profit, make prudent internal investments and pay out good dividends is a recipe that works. Most of these firms will adjust and prosper in a variety of environments. Reinvested dividends and internal investments will generate earnings that compound over time. That's a better bet than thinking you know the one technology, business model, or sector that will dominate the future.

Though these concepts may seem simple, exercising patience in the face of volatility and excitement over the next big investment theme takes enduring discipline. By employing this approach from the beginning of your investment journey, young investors may ease the stress of unpredictable markets. Why take a path filled with distraction when you can march to the steady beat of a compounding machine?

For more of Greg Powell's interview on financial literacy and the power of compounding, please visit Authority Magazine.



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Gregory Powell, PhD, Deputy Chief Investment Officer, focuses on the firm's Income-Equity portfolios. Greg joined Miller/Howard after a distinguished 19-year career as a portfolio manager and director of research at AllianceBernstein. At AB he managed a team of 12 analysts and a suite of products with \$11 billion in AUM, including equity income, long-only value, diversified value, and long/short hedge funds. He also served as head of fundamental value research there, redesigning the analyst role with an emphasis on investment success and training analysts in all aspects of the position. Prior to AB, Greg worked for 12 years at General Motors in Detroit and São Paulo, Brazil. He began his career as a senior economist and became general director of market research and forecasting. Greg holds a BA in Economics/Mathematics from the University of California, Santa Barbara, and a PhD and MA in Economics from Northwestern University.

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