Wealth Management

The Crescent Group

RBC Wealth Management
The Crescent Group

Carsten Frederiksen, CFP®
Senior Vice President
Financial Advisor
Senior Portfolio Manager
Portfolio Focus
Direct: 214-775-6401
NMLS#: 1321563 City National Bank
The Crescent Group website

Paul Hendershot
Senior Vice President
Financial Advisor
Senior Portfolio Manager
Portfolio Focus
NMLS # 1370978 City National Bank

Nick Weege
Financial Advisor
214-775-6408

Lindsey Vickers, MBA
Client Service Associate
214-775-6458

Andrew Ielmini
Client Service Associate
214-775-6448

July 2020 Monthly Commentary

When many people think of what it takes to build a multi million dollar retirement nest egg, they think of a high income professional career, and possibly some high flying investments. In this month's commentary, we discuss the powerful investment takeaways from the life of remarkable janitor and philanthropist Ronald Read. Despite a modest career as a gas station attendant and J.C. Penney janitor, Read shocked his Vermont community when he died in 2014 at the age of 92 with a net worth in excess of $8 million, most of which he left to charity. Read built his fortune over the decades by following the same investment principals for which our Group advocates: the consistent buying and holding of quality companies over time, while avoiding the influence of high flying stocks and market gyrations(1).

The first takeaway from Read is to only invest in solid businesses that are easy to understand, fulfill a basic need of human civilization, and are unlikely to be replaced by new technology. Because of this mindset, Read avoided technology companies. According to The Wall Street Journal, his largest holdings included Wells Fargo, Proctor & Gamble, and Colgate Palmolive. Looking at just the past twenty years shows the challenge of investing in fast-changing industries. In just one decade, the internet search crown passed from AOL to Yahoo to Google. What's next? Over two decades, the mobile phone crown passed from Nokia to Motorola to Apple. Kodak used have a virtual monopoly on film and was one of America's great companies. But the very technology they invented (digital film) replaced the need for their product and destroyed the company(2).

The second major takeaway from Read is he bought and held his investments for the long term, generally decades. In fact, many of Read's stocks were held in certificate form at a local bank, which made it impossible for him to actively trade. Holding stock certificates also made it impossible for Read to check his account balance over the short term. While much of modern society values electronic apps and the ability to log in and check their account balances all the time, our Group has found that this actually works against investors. It encourages people to seek instant gratification and react to short-term stock price movements and temporary market corrections, rather than staying focused on the long term. Take this past March, for example. U.S. stocks reached a peak decline of 35% in the middle of the month –

the worst decline for U.S. stocks in eleven years. But by the end of the month, U.S. stocks had already increased 18% from their low level. Investors who checked their account balances every day or every week were far more likely to panic and sell stocks at their lows. Investors who only checked their account balances when they received their March statement at the beginning of April instead saw a stock market decline that looked like a normal correction, and were far less likely to panic and sell. And as we now know, U.S. stocks have staged a strong recovery since March, so selling was the wrong thing to do. The inability to sit still with one's investments is a great destroyer of wealth(3).

A third major takeaway from Read is that he bought companies that paid generous dividends, and reinvested the dividends in additional stocks. One of the obvious benefits of dividends is they provide a stream of income to live off of during retirement. For those investors still saving for retirement, even during periods when an investor can't save money from their salary, dividends provide a regular source of funds that allows them to invest in more stocks. A third and lesser known benefit from owning dividend paying stocks is that over the long term, they outperform stocks that don't pay dividends. University researchers Eugene Fama and Kenneth French compiled data from 1927 to 2014 and found that dividend paying stocks as a whole earned an annual return of 10.4% over that time period, whereas stocks that didn't pay dividends earned an annual return of 8.5%(4).

A final takeaway from Read is to appreciate how blessed we all are to live in a country where we have the ability to invest in great companies that increase in value over time. It ranges from very difficult to impossible for citizens of other countries to invest in U.S. stocks. It's nice to set aside the negativity put forth by news headlines and take a moment to appreciate how lucky we are. The opportunities afforded by America allow us to dream and think big, and make progress towards our financial goals. Whether you view your wealth strictly as a means to a particular retirement lifestyle, or want to use it as a force for good in society, our Group will help you incorporate Read's investment principles to help you achieve your financial goals.

Best Regards,

The Crescent Group
Carsten Frederiksen, CFP® | Paul Hendershot | Nick Weege | Andrew Ielmini | Lindsey Vickers, MBA

Sources:

(1) CNBC
(2) The Wall Street Journal
(3) The Washington Post
(4) The Motley Fool

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