# Dividends Grow at a Snail's Pace, But So Do Escargots

## Strategic Insight - Fall 2016

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Dear Friends,

Eating snails? Yep, the French consider the escargot (sea snail) a delicacy. Flavored with enough garlic, they really aren't too bad. And dividends? You don't have to flavor nor cringe when you hear their name. Given that dividend income and growth forms the core of our investment strategy, we thought you would like to know more about these little building blocks of permanent wealth.

**Getting Rich Slowly**

Common stocks represented by quality indexes like the Standard and Poor's 500 Index (S&P 500) have gained 9% a year or more over 30 successive year periods since 1926 with few exceptions. About half of that return has come from reinvesting dividends paid by component companies. So why does it seem that dividends grow more slowly than their cousins' stock prices? It all has to do with volatility – the rate of up and down movement.

Dividends grow perhaps 5% a year, but they grow steadily year in and year out with about 10% of the volatility of the market as a whole. If the market as a whole consists of dividends plus price changes, then it follows that price changes are super volatile – up 20% in a year and down 15% the next. We have the best of both worlds when we combine solid but volatile price gains with consistent but uneventful dividend growth.

**Getting Rich Inexorably**

By focusing on the dividends and interest our accounts make, we can be bystanders for the most part as our account balances bounce like corks. Stock prices are supposed to represent the value of a long series of earnings by companies, but in practice no one can be sure that their estimate is the correct one – too many unknowns. So stock prices move up and down as perceptions of future earnings adjust when new information presents. The higher quality our companies are, the more sure we are that their earnings will meet our expectations. Hence, they are less volatile than the market as a whole and even better, their dividends have little or no chance of failing us. If not inexorable, our dividend income will grow with far more surety than that of the market as a whole.

**So What?**

Most of us want an income at the end of the rainbow, not a pot. We have to sell nothing to receive the income, but if we only have a pot that does not give us the income we need, we will be forced to sell off some of our holdings - sometimes at less than favorable prices. If we have the income needed at retirement, we can look on our long-term price growth as a bequest present. Just as importantly, we can sleep better at night when our stock prices are down, because we know that our income will continue to grow with little fluctuation even as our portfolio values might temporarily look under the weather. Keep in mind that company Boards of Directors set dividends and investors of all sorts set market prices through an auction mechanism. Company Boards are concerned only with profit sharing while investors are such a mixed lot that it's hard to gauge their overall motivation.

**Check Your Progress**

Each profit snapshot, 12 months, 3 years, 5 years and since you started, gives you the information needed to compare your dividend/interest income with the total amount made. The total gain includes both price growth and dividend/interest income. You can also compare all results with the 12 month period by dividing the metric you want by the number of years covered.