



Dividend and Interest Income Can Temporarily Drop. Here's Why.

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Dear Friends,

Most of us have seen our income from dividends and interest drop in the five years from 2011-2015. We have been touting growing income as a major objective of ours. Have we failed?

An Example

One of our retirees had an account balance of \$918,000 in mid-2011 and has \$981,000 now. She also withdrew \$169,000. Though her account balance grew, her income from dividends and interest dropped from \$76,000 in 2011 to \$50,000 in 2015. She has made no contributions to the account. Why the gain in capital (account balance) and the drop in income?

- Interest rates were higher in 2011 than they are now, providing more interest income
- The high \$76,000 income was one-off, a result of 2009 bargain prices
- Financial markets have advanced between 2011 and 2016

Explanation: Our higher yielding stocks were in such demand that their prices outflanked their earnings, so we sold them in 2012 for lower yielding but faster growing and cheaper stocks. Income has grown steadily since 2013. Are we likely to suffer another income drop? Not likely. When we buy and sell securities, we are paying great attention to the expected income they will give us. We can't fully guarantee that in every year there will be gains in account income from dividends and interest, but we will subject every securities transaction to an income analysis as well as broader concerns such as diversification and valuation.

Is income important to more than retirees?

Absolutely. Most of us are investing for retirement and can measure our progress by noting the annual income we receive from our investment with Gaia. When it reaches our salary, we are financially independent from having to work. Because we are financially dependent, multiple lifestyle choices are open to us.

Why does account income from dividends and interest rise and fall?

Interest from bonds rises and falls with the general level of interest rates. Dividends rise and fall with increases and decreases in company profit. Our account income can rise and fall when we sell a security and buy a replacement with a higher or lower dividend. Sometimes, as in 2012, we'll need to buy a lower yielding security because the one we sold was overvalued to the point of creating risk that its price will drop should bad news be released. In such a case, our capital preserving action of selling will result in a replacement security of higher quality though perhaps a lower yield.

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