**Gaia Capital Management, Inc.**
Registered Investment Advisor

**James C. Pursley**
**Vivian J. Lopez**
Investment Advisor Representatives

# Strategic Insight:  Summer 2015

By Jim Pursley
President and CIO, Gaia Capital Management, Inc.
www.gaiacapital.com
7/14/15

## Get A High Return Without Losing Sleep:  Introducing Dividend Growth

We investors have a problem.  How do we get the high long-term returns stocks offer without the worry they cause when they fall hard every few years?  Furthermore, how can we build a high, sustainable and growing income in our retirement years?   The conventional solution to volatility and retirement income invests portfolios about 60% in stocks and about 40% in the more stable, income-producing bonds.  But bonds have hit or are nearing the end of a 33-year repeating investment cycle in which they have offered capital appreciation beyond the stability and income they generically offer.  Bonds, going forward, may struggle to stay ahead of taxes and inflation.  It may be profitable in coming years to get our investment returns and to build a solid, growing retirement by reducing our bond allocation and populating the stock portfolio with companies that pay predictably growing dividends at a high pace.

Here are a few highlights from a recent study we did comparing a popular dividend growth mutual fund, the Vanguard Dividend Growth Fund (VDIGX), and a popular proxy for the stock market, the S&P 500, represented by the Spyder S&P 500 Index Exchange Traded Fund (SPY) from 2005 through 2014:

- VDIGX dividend grew 6.3% a year on average compared with 6.0% for SPY
- VDIGX returned an average of 9.1% a year, SPY 6.6%
- VDIGX largest dividend drop was 6.5% in 2008, SPY 24.8% in the same year
- VDIGX largest annual loss was 25.6% in 2008, SPY 37.0%
- VDIGX was 18% less volatile than SPY

In our 10-year sample at least, the dividend growth investment (represented by VDIGX) outperformed the stock market in general (represented by SPY).  VDIGX grew more dividend income, dropped less in a rotten year in both dividend income and in overall value, returned half again as much as SPY and was less volatile to boot.  Such a perfect storm of positivity may not happen again, but our study does point to VDIGX utility for people looking to get a solid return while building increasing income for retirement.

We think that a portfolio invested about 80% in a strategy that emphasizes dividend growth in companies with about 20% invested in bonds is the best solution in the current market environment.  This mix offers high returns with acceptable account fluctuation (volatility) and establishes a growing, stable retirement income source.

We have already begun to implement the dividend growth strategy and in the coming weeks will write more about it in our monthly newsletter, *Saturdays With Jim*. For those of you who may gain a substantial advantage through the dividend growth strategy, we will contact you if it creates a material change from the way we manage your account(s) now.

As always, feel free to respond to this note with questions or comments.



Gaia Capital Management, Inc. PO Box 823, Forest Grove, Oregon 97116 USA 800-395-6636