Like The Proverbial Postman, Dividends Work Through All Weather Conditions

Saturday's With Jim

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Dear Friends,

Last week we wrote about Sally, whose IRA gained 4.3% annually over 17 years through two wars, two bear markets that dropped her account 49% and 37% respectively, the worst terrorist attack on the U.S. in a century and the greatest financial crisis since the 1930's Great Depression. Today we discuss how the cash dividends that flowed into her account without cessation helped it retain some equilibrium while providing part of its growth impetus.

The table below shows Sally's actual account balance with cash income from dividends and interest over boom and bust market cycles from 2000 to 2017, a span of 17 years. Sally had a large rollover of $57,610 within days of the March 9, 2009 stock market low point, which accounts for some of the big boost in the balance and the dividend income. She also withdrew $43,921 in required annual payments to her as she turned 70 ½.

Sally deposited a total of $71,940, withdrew $43,921 and still experienced an overall gain of $55,058 over the 17 years.

Sally's Account Performance By Market Cycle: 2000-2017		
	Cumulative Balance	Cumulative Dividends/ Interest
Beginning Cycle Low 5/31/00 :	$14,330	$0
9/30/02 :	$7,292	$1,673
Cycle High 10/31/07 :	$16,218	$3,795
Cycle Low 2/28/09 :	$9,192	$4,909
4/30/2011:	$140,840	$26,117
Cycle Low 9/30/11 :	$111,979	$30,842
Current Level to 2/28/17 :	$126,998	$73,718

Stock Market Volatility and Dividends

Look across the rows of the above table, comparing the change in the balance to the change in dividends as market cycles progress. Dividends continued to gain as the account gained and fell with market action. The dividend proportion of the account balance continued to grow until at the final stop in the market cycle table dividends contributed 58% of the account balance.

So what?

Sally started her account late in life – she's 82 now. But as modest as her experience might seem, her account grew through thick and thin because she did not bail out in fear. The dividend and interest portion of her return never stopped growing, even in the worst financial disaster in 100 years. What's more interesting, its rate of growth increased, too, from a modest beginning in the period 2000-2002 to the present. The longer we invest, the greater our cash income from dividends and interest will be until it becomes large enough to sustain us in retirement, augmented occasionally by dips into the account balance. Dividends and interest, then, form the base of the high, stable and sustainable income we seek at retirement.

But we must start saving/investing as young as we can and as much as we can. Had Sally started investing at age 30 or even 40, her results would have been off the charts due to the compound growth of her account – mostly due to dividend growth.

If you liked this piece, feel free to contact us to discuss your personal situation further.

Getting To the Facts behind Psychological Smokescreens

Link to "The Problem With Facts," by Tim Harford http://timharford.com/2017/03/the-problem-with-facts/

Facts, especially scientific facts, aren't very useful even if they are on your side. The link above takes you to a short discussion of how facts got drowned out by the tobacco industry from the mid 50's to the 90's - a remarkable four decades of big profits and little government interference. How? They knew human psychology and how to manipulate it. Tim Harford, writing as The Undercover Economist, discusses a more effective way to get people to accept scientific fact. Why should we care?

Democracy goes dark when forces of ignorance and falsity assume prominence, when the debate is manipulated by wealth, power, mass ignorance or whatever self-interested force may be desiring prominence.

Thanks for reading today. We really enjoy our work with you.