A Case Study in Dividend Success

At Young Research, when we look for dividend stocks for the Retirement Compounders, we favor companies with strong balance sheets, stable businesses, a healthy dividend yield, and a history of increasing dividends.

What does that look like in practical terms? While the ideal company financial position for the RCs can vary by industry and sector, Procter & Gamble serves as a nice case study in dividend success.

A Strong Balance Sheet

We look for companies with strong balance sheets because financial strength provides flexibility during tumultuous times in the business cycle.

Procter & Gamble (P&G) has one of the strongest balance sheets among large U.S. businesses. Its debt is rated Aa3/AA- by Moody’s and S&P. Only about 2% of firms in the S&P 500 have a credit rating as good as P&G’s.

P&G’s debt after backing out cash on the balance sheet is about equal to the company’s cash flow before taxes and interest. In other words, P&G could theoretically pay off its debt in a little longer than one year if it used all cash for debt reduction.

With a balance sheet that strong, P&G could fund its dividend for several years even if it runs into a rough patch.

How could P&G fund the dividend during a rough patch? For starters, there is $10 billion in cash on the balance sheet. Assuming a rough patch for P&G caused profit margins to go from

19% today to zero, P&G could fully fund a year's worth of dividend payments with cash on the balance sheet. The second line of defense for the dividend would be for P&G to borrow money. P&G could easily borrow 2-3 years' worth of dividend payments without losing its investment-grade rating. Obviously, the definition of a rough patch can vary, but in the scenario outlined above, P&G could have a 3–4-year rough patch without putting the dividend in jeopardy.

Business Stability

P&G's dividend reliability is also bolstered by the nature of its business. Toilet paper, diapers, toothpaste, and cleaning products are staple purchases for most consumers. That is true whether the economy is in boom or bust. Stable businesses tend to be better equipped for long-term dividend payments and dividend growth than cyclical businesses.

Dividend Payout Ratio

When possible, we also favor companies with modest dividend payout ratios. The payout ratio is the percentage of net earnings paid to shareholders in the form of dividends. Firms with lower payout ratios can more easily continue to pay and raise dividends even during a business downturn. If a company has a payout ratio of 100%, any drop in earnings will either require the company to reduce the dividend because the earnings aren't there to support it, use cash on hand, or borrow money.

Procter & Gamble pays out about 60% of its earnings to shareholders in the form of dividends. That means earnings could fall by 40% without requiring alternate means to fund the dividend. In practice, for many industries, we compare the dividend to free cash flow instead of earnings to get a truer picture of the payout ratio. P&G looks even better on that metric.

The Dividend

Next is the dividend and the dividend policy. Everything else equal, higher dividend yields are better than lower dividend yields, and a stronger commitment to the dividend in the form of a long record of dividend payments and a long record of dividend increases is better than a weaker commitment to the dividend.

- P&G shares yield 80% more than the S&P 500
- P&G has paid a dividend every year since 1891
- P&G has increased its dividend for 66 consecutive years

The Model of Dividend Success

With a strong balance sheet, a stable business, a modest dividend payout ratio, and an enviable dividend track record, P&G truly is *the* model of dividend success.

Now Is the Right Time to Make Dividends Your Ally

For over five decades, the underpinning of everything I have written has been a foundation of dividends. It has served me well, and if you have followed my advice, it has served you well too.

Shortly after the dotcom bust, I wrote a segment titled, "Make Dividends Your Ally." In it, I said:

> *Regarding dividends, corporate directors have deluded themselves for many years in two ways. First, they have been too concerned about double taxation. Many investors don't care*

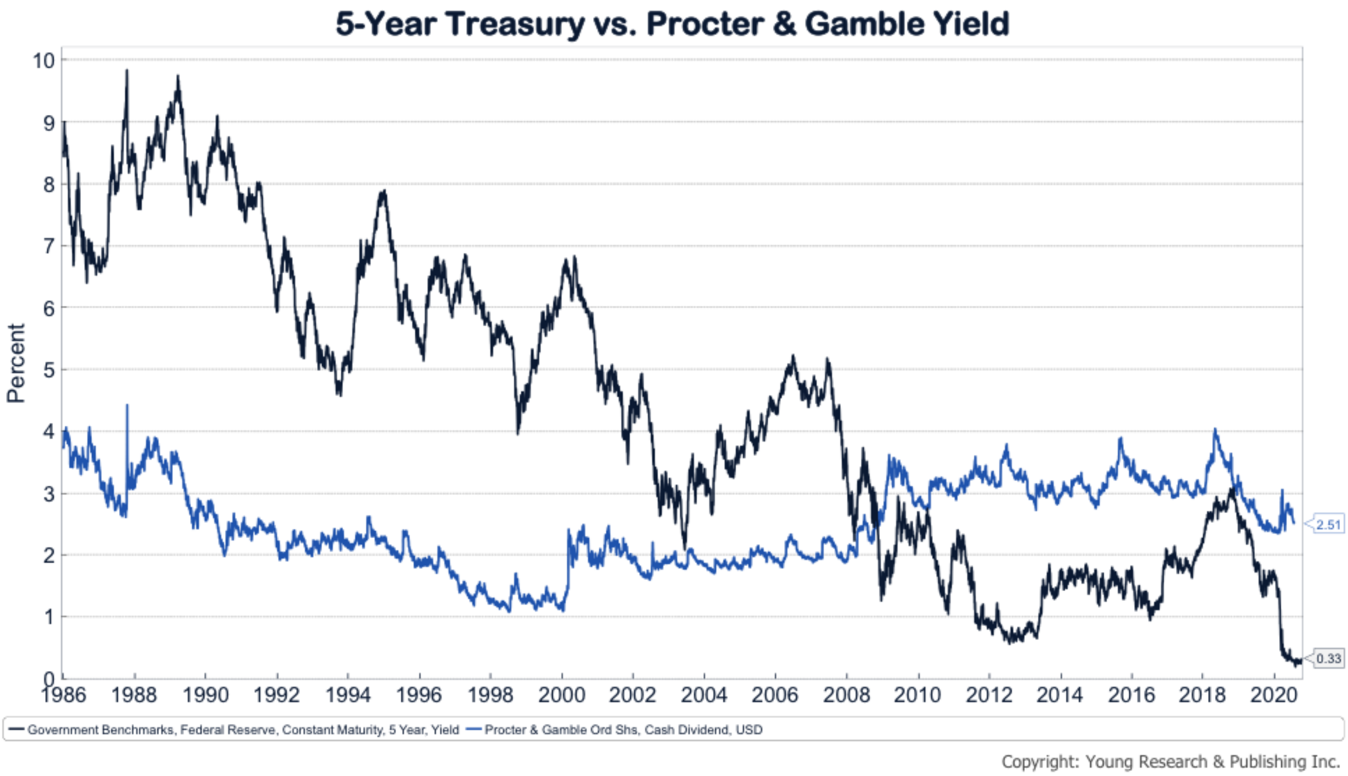
> *about double taxation because they are (1) saving in tax-deferred accounts or (2) need the dividend income in retirement. Second, directors believe that management can reinvest earnings so well that it just does not make good sense to pay out much to shareholders in the form of dividends. Nonsense. The track record of reinvestment just isn't that strong.*

Does that template apply to investors today? Yes. A number of today's biggest companies don't pay any dividends at all.

While many investors own equities paying no dividends, the Federal Reserve has lowered interest rates to near-zero levels, again. The 5-year treasury yield you see in the chart below illustrates the dire situation for America's savers.

Alongside the treasury on the chart is the yield of Procter & Gamble shares. During the last 40 years, P&G has compounded its dividend, on average, 8.5%, and its stock price (not on the chart) by 10.5%. That's the type of strong record retirees can build a portfolio around when they make dividends their ally.

Make dividends your ally today. For more on the benefits of dividend investing, download Dividend Investing: A Primer from Richard C. Young & Co., Ltd.



An Alternative Approach to Investing when Markets are Down

In 2008, when investing seemed like an exercise in futility to many investors, I explained an alternative approach. This approach has worked for me now for over five decades. I learned this method from the teachings of Ben Graham, and have successfully employed it my entire career. Here's what I wrote:

> ***Concentrate on Shares, Not Price…***
>
> *The stocks and funds you own pay you dividends based on the number of shares you own, not on the price of those shares. Unless you are fortunate enough to be Gandalf redux, it is*

> *likely that the price of most of the shares you own in 2008 is down hard, to be kind. I sure know I'm in that boat. The number of shares I own, however, is not down. In fact, the dividends I will be paid in 2008 (despite Depression-era pricing) will be up. And if you have invested along with me, the number of shares you own and your flow of dividend cash will be up as well.*
>
> ***All Pay Interest—No Defaults***
>
> *As for my fixed-income investments (advised for you monthly in these strategy reports), each (100%) continues to pay interest at just the level promised and on time. I own no defaulted issues, nor do you—if you have followed my advice to a T.*
>
> ***Invest for Dividends & Interest***
>
> *I invest—as should you—to receive dividends and interest for compounding. I do not invest to sell my shares to someone else at a higher price, nor should you. If you invest to finance a comfortable retirement cash flow, your 100% concentration must be on dividends and interest, not on price action. My baseline advice for conservative, retired and soon-to-be retired baby boomers is 50% intermediate and short fixed income (investment-grade only), 45% dividend-paying blue-chip equities and/or funds, and 5% gold (NYSE-listed ETF GLD). I do not offer advice for non-conservative investors and those with a trading or speculative mentality.*

Today investors around the world are again facing a struggle to preserve their lifelong accumulated wealth. A dividend-centric portfolio focused on income is still my preferred strategy for conservative, retired, or soon-to-be-retired investors.

In April, I explained that I see some dividend suspensions coming, but that the coronavirus-assisted drop in stock prices may be a great time to accumulate stable long-term dividend payers. I also explained my recent three-week-long investing program.

For those looking for a more in-depth view of some strategies my family-run investment counsel firm is using, I encourage you to read the latest client letter from my son Matt, President and CEO of Richard C. Young & Co., Ltd.

If you would like to receive an alert every time the new Richard C. Young & Co., Ltd. client letter is published, please click here to sign up. Delivery is free, even for non-clients.

Dividend "Suspensions" Not Dividend Cuts Coming Fast

Dick Young, Paris, France

The liberal electronic and print media will shortly be howling – with cartoon-size bold headlines – about dividend cuts.

We just began the second quarter of the year. Third-quarter earnings reports will, thanks to the lying Chinese, be breathtakingly ugly. And the media will be out in full force glomming on to disruption.

Words like *recession* and *depression* will fill the media channels. Greedy and grasping stockbrokers will be out, in full-scale hyena mode, yelling, "*sell, sell, sell*."

Serious, long-term, compound interest focused mavens will follow my lead by engaging in a quiet, month-long reallocation of assets.

Dick Young – a Compound Interest Maven

During the month of March, I positioned myself to accumulate assets others were eschewing or dumping en masse. Included on my watch list are stable long-term dividend payers temporarily placing their dividend payouts on holiday. Makes good sense to me. Business conditions are easily weak enough to make such a short-term stabilizing strategy a wise move.

Make it as good a day as you can.

Thanks to Donald Trump's foresight on the scourge that is China, the folly of open borders, the mathematical *naiveté* of free trade, and the "America Last" fraud of globalization, America will snap back like a catapulted Navy Super Hornet off a carrier deck.

You can count it.

U.S. Navy photo by Mass Communication Specialist Seaman Apprentice Ignacio D. Perez/Released) 130424-N-TC437-663

Can You Live Forever? How about Your Investment Portfolio?

A recent study performed by Australian scientists found that the human genome predicts the species' lifespan to be about 38 years. Modern scientific discoveries and improvements in the standard of living have increased that to about 72 years worldwide and much higher in some developed countries.

It should come as no surprise that the longer you live beyond the day you retire, the more you'll spend during retirement on maintaining your standard of living. How long can you do that? 20 years? 500 years? Here's how I explained the idea of living to 500, and how you can plan your investment portfolio for longevity.

Will You Live Forever? How About 500 Years?

> *In today's brand-driven media cycle, anything promoted with the imprimatur of a trendy company like Google gets a full airing and lots of exposure, no matter how offbeat. Recently, president of Google Ventures (the corporate investment capital arm of Google Inc.) Bill Maris told Bloomberg that he believes humans can live to be 500 years old. Maris is not what you would consider a typical Google employee. He's been trained in neuroscience, and helped develop Google's Calico project to address ageing. No surprise, Silicon Valley's young millionaires and billionaires want to live to enjoy their wealth for a very long time.*
>
> *Maris says he hopes to live long enough not to die. That's probably not going to be the case for most of today's retired or soon-to-be-retired investors. But that doesn't mean you can ignore the thought of outliving your money. There are a number of ways you can prevent portfolio ruin. The first and most obvious is to take a sharp pencil to your budget. For most of the last half-century, I have advocated a 4% draw on your retirement nest egg. Recently, I have advocated a lower draw (when possible) to minimize lasting damage from the Fed's complete destruction of yield over the last seven years.*
>
> *You can see on my Maximum Portfolio Withdrawal Rate chart below that an investor in 1946 with a 50/50 portfolio of*

stocks and bonds, rebalanced annually, would draw down his portfolio quite rapidly by taking 8% per year. Even drawing 7%, 6%, or 5% doesn’t inspire comfort, as each portfolio is depleted in less than 34 years. You may thinking that 34 years is plenty, but take a look at the timeline here. The bulk of this investor’s retirement took place in the ’50s and ’60s, when returns on a 50/50 portfolio were quite strong. In contrast, today’s bond yields are so low, you may not earn 4% on your savings, meaning you’ll have to save even more to live comfortably. Withdrawing 5% could force you to take up residence at the entrance to Wal-Mart greeting customers when you should be enjoying your golden years.

Another way you can protect yourself from drastic moves in the balance of your portfolio is to rely on its income to produce your 4% draw. Investing in companies with high dividend yields can help you achieve that income. Today, you face an investment climate where high dividend yields aren’t abundant. Take a look at the yield of the S&P 500 in my chart below. The average yield shown there (since 1945) is 3.4% for the index. Today, the index yield doesn’t even break 2%. Loose Federal Reserve policies going back to the 1990s have decimated yields by propping stock prices up into bubble territory. To mitigate the effects of low yields overall, you can prepare your portfolio for future income by selecting stocks of companies with policies that favor dividend increases year after year. If dividends increase 5% every year, after five years a stock with an initial yield of 2% will yield 2.6% on your initial dollar invested, and so on.

You can achieve a portfolio that keeps you and your family secure well into your retirement by focusing on buying the stocks of companies that will keep raising their dividends. That's one of the areas we focus on for clients at my family-run investment counsel firm, Richard C. Young & Co., Ltd. If you would like to learn more about the strategies we use, click here to sign up for our monthly client letter (it's free even for non-clients).

Dividends Then and Now Are the Answer

I learned from Ben Graham nearly six decades ago that there's no better way to assess an investment than the cold hard cash it returns to you in the form of dividends or interest. In September of 2012 I wrote:

> *While at Babson College, I studied Ben Graham's Security Analysis. I still return to it regularly. In Chapter 35, Ben Graham writes, "For the vast majority of common stocks, the dividend record and prospects have always been the most important factor controlling investment quality and value…. In the majority of cases, the price of common stocks has been influenced more markedly by the dividend rate than by the reported earnings. In other words, distributed earnings have had a greater weight in determining market prices than have retained and reinvested earnings." Graham concludes with, "Since the market value in most cases has depended primarily upon the dividend rate, the latter could be held responsible for nearly all the gains ultimately realized by investors."*
>
> ***Always Keep It Simple***

Made sense to me in the sixties and continues to make sense to me today. In fact, I attribute most of the success I have had in the investment industry to what I learned from Ben Graham nearly five decades ago.

If you haven't already included dividends and interest as central planks of your investment strategy, I suggest you do so today.

In Wine and Investing, One Must Get the Big Picture Right

There are few subjects studied by so many, but still so little understood as investing and wine. Nearly everyone you meet has an opinion on both, but start getting specific and you realize the pool of knowledge isn't deep. You don't need to be an expert in either, but it helps to get the big picture right. In February of 2011 I wrote:

Medieval Monks

Terroir (teh-RWAHR). Literally "terrain" in French. David Downie in Food Wine Burgundy explains that originally terroir was used to refer to the particular qualities that soil and climate bestow on wine. The French word climat designates a micro-environment, micro-climate, and micro-terroir. Climat can embrace a few rows of vines here, another few rows there, separated by another climat. Michael Broadbent, writing in the foreword of The Great Domaines of Burgundy, tells us that compared to Bordeaux, Burgundy is far more complex: Small vineyards with similar names are in the ownership of several *individual producers. Medieval monks had a special facility for understanding the specific soil and climat of Burgundy. It is this knowledge that eventually would introduce the world-class pinot noir (red) and chardonnay (white) wines of Burgundy to the world.*

Get the Big Picture Right

After spending some time researching the terroir of Burgundy and many of Burgundy's small vineyards, I can tell you that the subject matter is as complex as any I have endeavored to understand. Grapes planted in the most suitable soil under just the right weather conditions produce the classic French white Burgundy found, by example, in Puligny-Montrachet. Successful wine making is a top-down affair. Get the big picture right, and good things can happen.

Diversification & Dividends

It occurred to me on a number of occasions that, just as terroir dominates the study of Burgundy, the same terroir concept dominates my thinking on the stock market. In the proper monetary, economic, and political environment, most quality stocks will offer suitable returns, some, of course, better than others. A well-diversified group of dividend payers is certain to do just fine, as long as the financial terroir is hospitable. Many decades ago in Young's World Money Forecast, I concentrated only on terroir and did not write about individual securities at all. My target was the big picture, period. I felt that if I could get the big picture right for my clients and subscribers, they could deal with individual securities selection. I still devote the bulk of my time as it relates to the financial markets to the big picture. Get the big picture wrong, and your securities portfolio is likely to suffer mightily. Get the big picture right with the view that you will stick with dividend and *interest-paying, blue-chip securities, and you most certainly will do well. A rising tide tends to lift all ships.*

It is with this thinking that I manage my own personal affairs and formulate the global investment strategy for our family investment company.

If you are struggling to get the big picture, it may be time to seek assistance. My family run investment counsel firm, Richard C. Young & Co., Ltd. is dedicated to assisting conservative retired, and soon to be retired, investors and their families in developing a plan for the long-term. If you would like to talk to a seasoned investment professional about your portfolio, please fill out the form below. You will then receive a call for a consultation with absolutely no obligation.

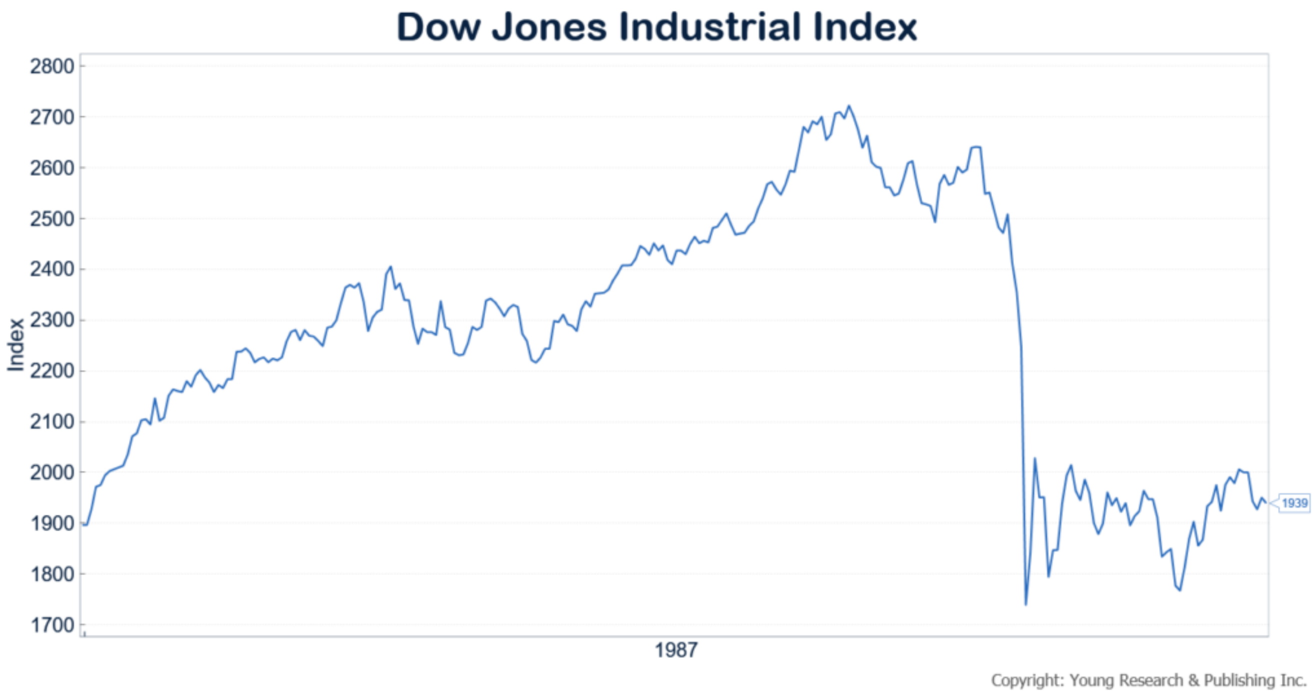
The Dividend Plan

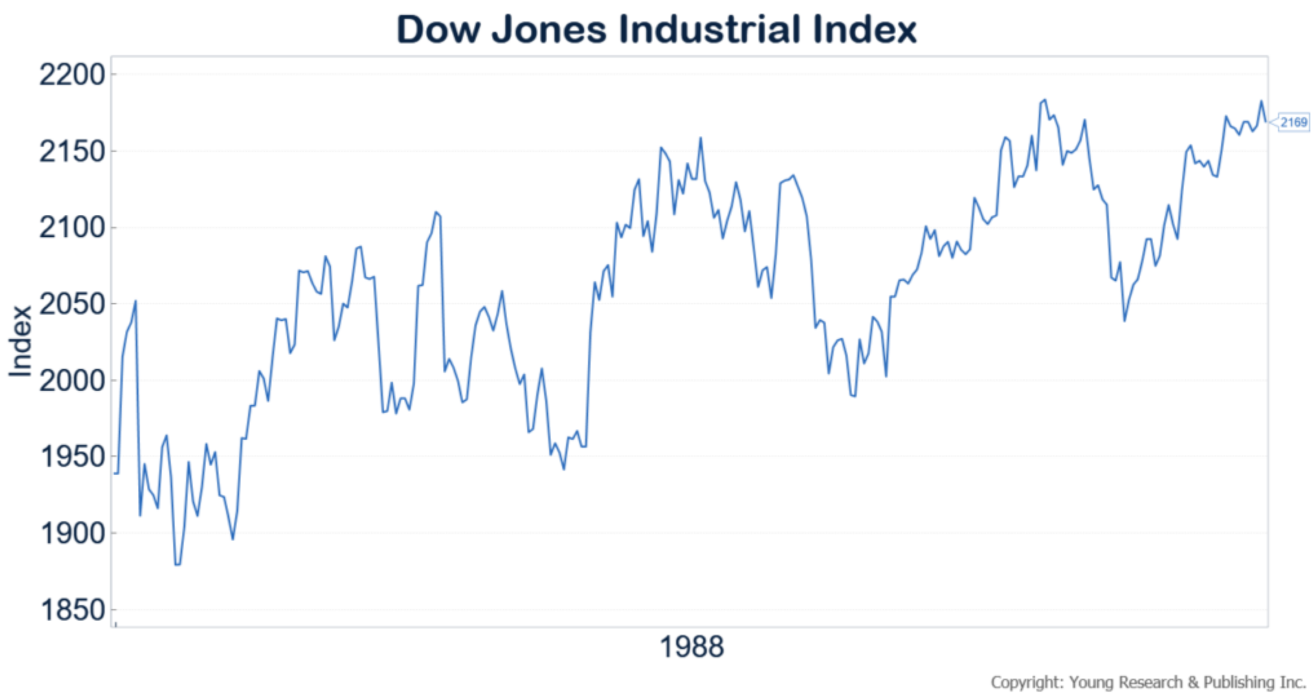
Panic selling during periods of market decline can be devastating to your long-term investment success. In 1987 many investors were frightened out of the market and missed out, not only on the rebound in shares in the following years, but on all the dividends they could have used to buy more shares at depressed prices. I reminded readers of that in February of 2009 when the Great Recession was at its bleakest. Here's what I wrote:

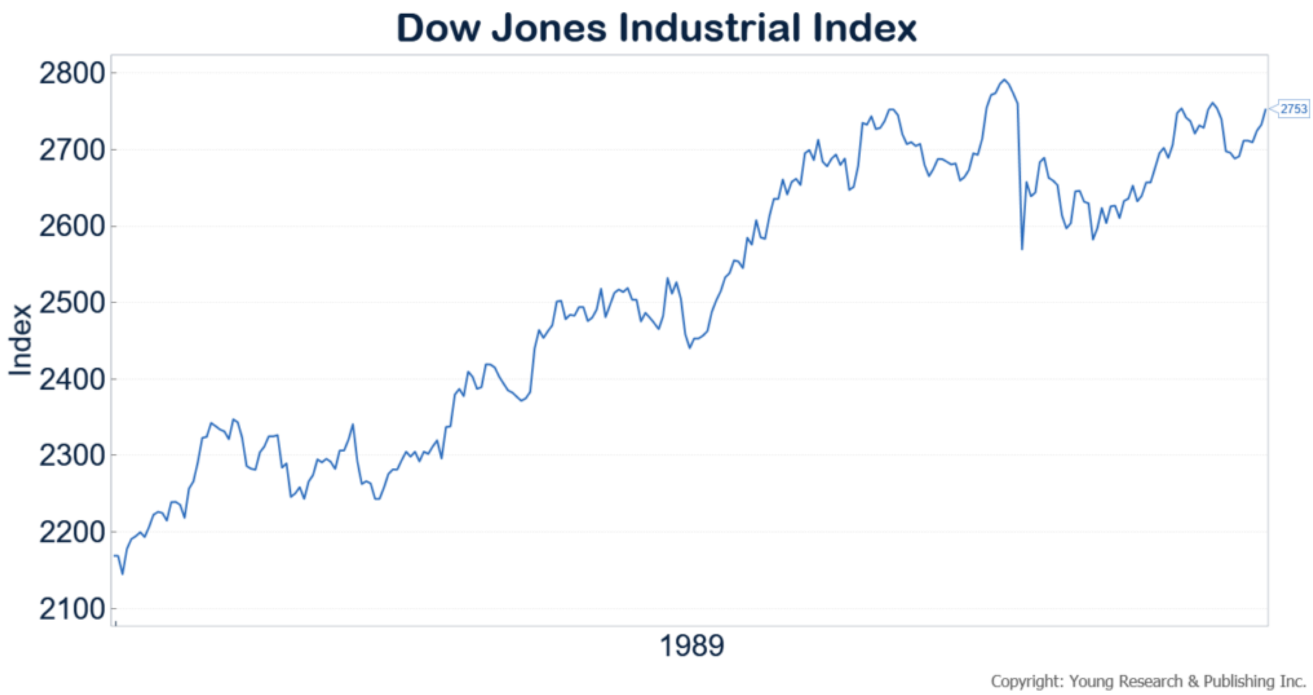
The 1987 Debacle

I remember the crash of September/October 1987 like it was yesterday. Virtually overnight, the Dow collapsed to about

1700 from 2700. Terrified investors fled the stock market, just as they did in 2008. Well, the next two years were gangbusters and, by fall 1989, the Dow was once again back above 2700. My three charts (below) give you a bird's-eye view of each of the three historic years in American stock market history.







Dividends Paid Based on Shares

Recently, I've been driving home the point that what really counts is the shares you own and the dividends you are paid, not the point-in-time value of your shares. Companies pay your dividends based on the number of shares you own, not on the value of those shares on any given day. Picture it this way: You are sitting at your walnut desk with a stack of beautifully engraved stock certificates in front of you. The certificates are embossed with the number of shares each certificate represents. From your bright, sunny window you clearly can see your mailman as he drops off a pile of envelopes that you know from long experience includes your regular dividends (in many instances higher than in previous quarters). You are comforted by sorting through your stack of engraved certificates and excited to once again begin opening your companies' envelopes, each providing you with a dividend check. It's a pleasant scenario to be certain, as dividends are your financial lifeblood.

A Collector of Dividends

> *Look around you! No one has taken away any of your treasured certificates. And no one has altered the number of shares embossed on each of the finely engraved certificates. Furthermore, not one of your companies has failed to send along your dividend check as promised. Nor has your mailman failed to deliver your checks to your mailbox. You do not spend a moment wondering at what price you could sell your certificates to someone else, because, as a collector of dividends, you have no earthly reason to sell. This is certainly so if you have crafted from the start a quality list of 32 discerning blue-chip, dividend-paying companies.*

Mystical-Like Compounding

> *Astute investors invest to accumulate wealth over the long term through dividends, dividend increases, and the mystical-like compounding of dividends. This is compared to flighty speculators who have the misguided goal of selling shares to someone else at a higher price.*

Make a plan, focus it on dividends, and stick to it.

Here’s What You Need to Know about Dividends

In November 1999 tech stocks with no dividends seemed like a sure bet. Despite the hype, I was still doing my best to encourage my readers to stick the principles of dividends and compounding. Here’s what I wrote then:

Historically, Dividends Provide Much of Total Return

What about the base for the economy and the stock market in general? As I've written often, the two are inexorably linked. After all, could stocks on average outrun the performance of all the companies that jointly contribute to our country's gross domestic product? No. and, here's why.

Over seven decades, from 1926 to 1997, U.S. nominal gross domestic product (non-inflation adjusted) grew at a compounded 6.4% per year. Over the same period, the return on stocks due to price appreciation (dividends not considered) was a compounded 6% per year. The fit is almost exact. I know you're thinking that the stock market must have done better than that, but it did not.

Investors, however, did better due to the average annual compounded 4.6% return paid to shareholder from dividends. The total return from (1) price appreciation and (2) dividends was an average compounded 10.6%, but remember, over 43% of total return came from dividends. Sadly, today's investors have almost completely forgotten about dividends. Perhaps with the average yield on stocks about 1.5%, instead of the historical 4.6%, there is some reason not to spend much time on dividends. Nonetheless, most investors are unlikely to see stock price appreciation that outruns nominal GDP growth over time.

You can read more about the benefits of dividends in your portfolio in, [Dividend Investing: A Primer], a white paper on the subject produced by my family run investment counsel firm, [Richard C. Young & Co., Ltd.]

What Are You Getting Paid?

It’s a seemingly simple question, what are you getting paid? Most people can recall their weekly or monthly employment income without hesitation, but do you know what your portfolio is paying you quarterly? If you aren’t focused on generating income from your investment portfolio, you may want to adjust your strategy. In April 2006 I discussed the importance of getting paid, now. I wrote:

> ***Pay Me Now***
>
> *When you invest in portfolio securities, your first question should be, what am I getting paid? I do not want you investing your serious money in securities that pay you neither interest nor dividends. Do not put your hard-earned capital at risk with the view of buying a portfolio security today and selling it to someone else tomorrow at a higher price. To me, this is speculation, not investing. Go with what you know by not only demanding to be paid, but by also holding your taxes and transaction costs to a minimum, as I do. Trust me, over time, the penalty of taxes and transaction costs is a brutal killer for most investors. Think reverse compounding here.*
>
> *OK, so compound interest and dividends must underpin your investment thinking. Albert Einstein described compound interest as “the greatest mathematical discovery of all time.” Ben Franklin wrote on compound interest, “’Tis the stone that will turn all your lead into gold.” Charlie Munger, longtime partner to Warren Buffett, wrote, “Understanding the power of compound return and the difficulty getting it is the heart and soul of understanding a lot of things.”*
>
> ***Ben Graham Speaks***

In almost each of my strategy reports over the decades, I've written about the power of dividends. Mr. Value Investing, Ben Graham, devoted a ton of ink to the subject. In fact, B.G. wrote, "One of the most persuasive tests of high quality is an uninterrupted record of dividend payments going back over many years." Graham believed that "the defensive investor might be justified in limiting his purchases to those meeting this test."