CBDCs Not "Just Another Form of Money"

At the Cato Institute, Norbert Michel and Nicholas Anthony explain that a "CBDC (central bank digital currency) is *not* 'just another form of money,' as some of its supporters have claimed." No other form of money gives governments the ability to control what you spend your money on, how much you spend, or even to take money back out of your account at a moment's notice. Michel and Anthony slam the recent defense of CBDCs by Paul Krugman. They write:

> *This April Forbes column describes why central bank digital currencies (CBDCs) are a fundamental issue related to Americans' freedom and much bigger than just politics. It argues that New York Times columnist Paul Krugman, famous for being wrong about the Internet, was wrong for claiming presidential hopeful Ron DeSantis was merely playing politics with CBDCs.*
>
> *Nonetheless, Krugman has doubled down. As Crowdfund Insider explains, now he's taken to Twitter to re-promote his original opinion piece and to liken DeSantis's warnings about CBDCs to former presidential candidate Rick Santorum's fight against the National Weather Service.*
>
> *Contrary to Krugman's framing, DeSantis's claims about the risks of CBDCs have merit. As the Forbes piece demonstrated, proponents of CBDCs, even some government officials who would be in charge of implementing CBDCs, have openly discussed using CBDCs for exactly the purposes DeSantis claimed. (Nick and I have a longer list here.)*
>
> *A CBDC is not "just another form of money," as some of its supporters have claimed. A fully implemented CBDC is*

a complete government takeover of money and payments. As the experience in China and [Nigeria](#) have shown, the introduction of a CBDC comes with the removal of people's freedom to choose their methods of payment.

CBDCs mark a fundamental threat to both economic and political freedom. But it should surprise no one that Krugman is wrong on this issue.

Successful Investing Is a Mindset

By maxsattana @ Shutterstock.com

I wrote in the October 2015 issue of *Intelligence Report*:

> *As you know, I do not check the prices of my investments daily, weekly, or even monthly. I do an annual checkup only at tax time. When I make a significant investment, I have no intention of liquidation anytime soon. I am in for the long haul. Thus, short- or even medium-term volatility is of zero concern to me, beyond keeping an eye out for a name on my watch list that may have taken a temporary beating due to no particular fault of its own. So, then, successful investing is a mindset based upon a master plan that allows an investor to find comfort through thick or thin.*

June Is Retirement Compounders Month

I designed the Retirement Compounders (RCs) using the dividend and interest model explained in Ben Graham's books while still a student at Babson College. The RCs went on to form the basis of my two decades long *Young's World Money Forecast* and *Richard C. Young's Intelligence Report*. Using my research, I spoke around the country at investment management conferences. In 1978, in Newport, RI, I started what became the award-winning Richard C. Young & Co. Ltd. (*Barron's* (2012-2022) and *CNBC* (2019-2022) Disclosure). My son Matt has now run our family business for nearly three decades, and Debbie's and my daughter, Becky, is CFO.

Our son-in-law, E.J. Smith, has become known in the investment community as Your Survival Guy and has staked out a position as our face with investing families and small business organizations around America. Debbie and I still research and write seven days a week for our clients and multiple websites, and this June, as I headed above, we will be concentrating on the dividends and interest-centric Retirement Compounders.

Young Research's Retirement Compounders® Investment Program

When we developed Young Research's Retirement Compounders® investment program, our goal was to help investors like you achieve investment success especially during bad times. Our strategy was to accept underperformance during speculative market runs, with the potential trade-off of better results during down markets.

The idea was never to beat the market over time or on a consistent basis. Rather, we fully expected the Retirement Compounders® program (both price risk and business risk) to trail the major market averages.

Why would we design a program to underperform?

The ugly reality of investing that nobody likes to talk about is that the average equity investor vastly underperforms the market and the funds he invests in. This is true even for investors who own market-beating mutual funds.

Dalbar, an investment analytics firm, is the authority here. Dalbar's data shows that the average equity investor regularly underperforms the S&P 500 by 3-5% over long periods of time.

Volatility and Emotionalism

High volatility and emotionalism are to blame. When stock market volatility rises, many investors panic and sell near the lows, only to add to their stock positions once again in the dying days of a bull market.

Young Research's Retirement Compounders® program is comprised of dividend paying common stocks selected from the over 40,000 global publicly traded companies. The Retirement Compounders® program favors high dividend payers, those with a history of dividend payments, and companies with a long record of consecutive dividend increases.

Some of the companies included in Young Research's Retirement Compounders® program have paid a dividend every year for over a century. Others can boast a more than five decade record of annual dividend increases. The combination of high dividend payments today and dividend growth tomorrow can help you become a more confident, comfortable, successful long-term investor.

Retirement Compounders® Investment Program Helps You Stay the Course

Young Research’s Retirement Compounders® seeks to help investors avoid the emotionally charged investment decisions that can sabotage returns. Investing in high-quality businesses with long records of regular dividend payments may offer the comfort necessary to stay the course when financial and economic stress arise.

For investors looking to pass on the burden of daily portfolio management, Richard C. Young & Co., Ltd. crafts dividend-focused common stock portfolios that are based on Young Research’s Retirement Compounders® program. You can sign up for Richard C. Young & Co., Ltd.’s monthly client letter (free, even for non-clients) here.

Smaller Airports Soaking Up Freight Traffic

By Dushlik @ Shutterstock.com

With air travel once again growing rapidly, air freight companies are looking to avoid clogged major airports by flying into smaller regional airports. Paul Berger reports for *The Wall Street Journal*:

> *Freight forwarders are increasingly looking to fly around America's congested air hubs.*
>
> *A combination of shifting manufacturing supply chains and bottlenecks at big airports is leading the freight middlemen to hire their own aircraft and seek alternative gateways, establishing operations that are boosting business at smaller, regional sites like Greenville-Spartanburg International Airport in South Carolina and Chicago Rockford International Airport.*
>
> *Forwarders say they can move cargo through the smaller airports more quickly, cheaply and reliably than they can*

through the big gateways that handle millions of tons of freight a year.

To do so, the logistics operators are departing from their traditional strategy of booking space in the bellies of passenger planes or on scheduled freighters, and instead chartering aircraft to run routes through alternate sites, often on schedules that suit their customers. In some cases they bring in their own equipment and take control of loading and unloading operations that are usually managed by third-party ground handlers at major airports.

Dave Edwards, the chief executive at Greenville-Spartanburg, said just over a decade ago his airport had no international air cargo operations. It spent about $1.5 million to install its own cargo-handling equipment and lured German luxury car maker BMW AG , which has a large plant nearby, as a first customer.

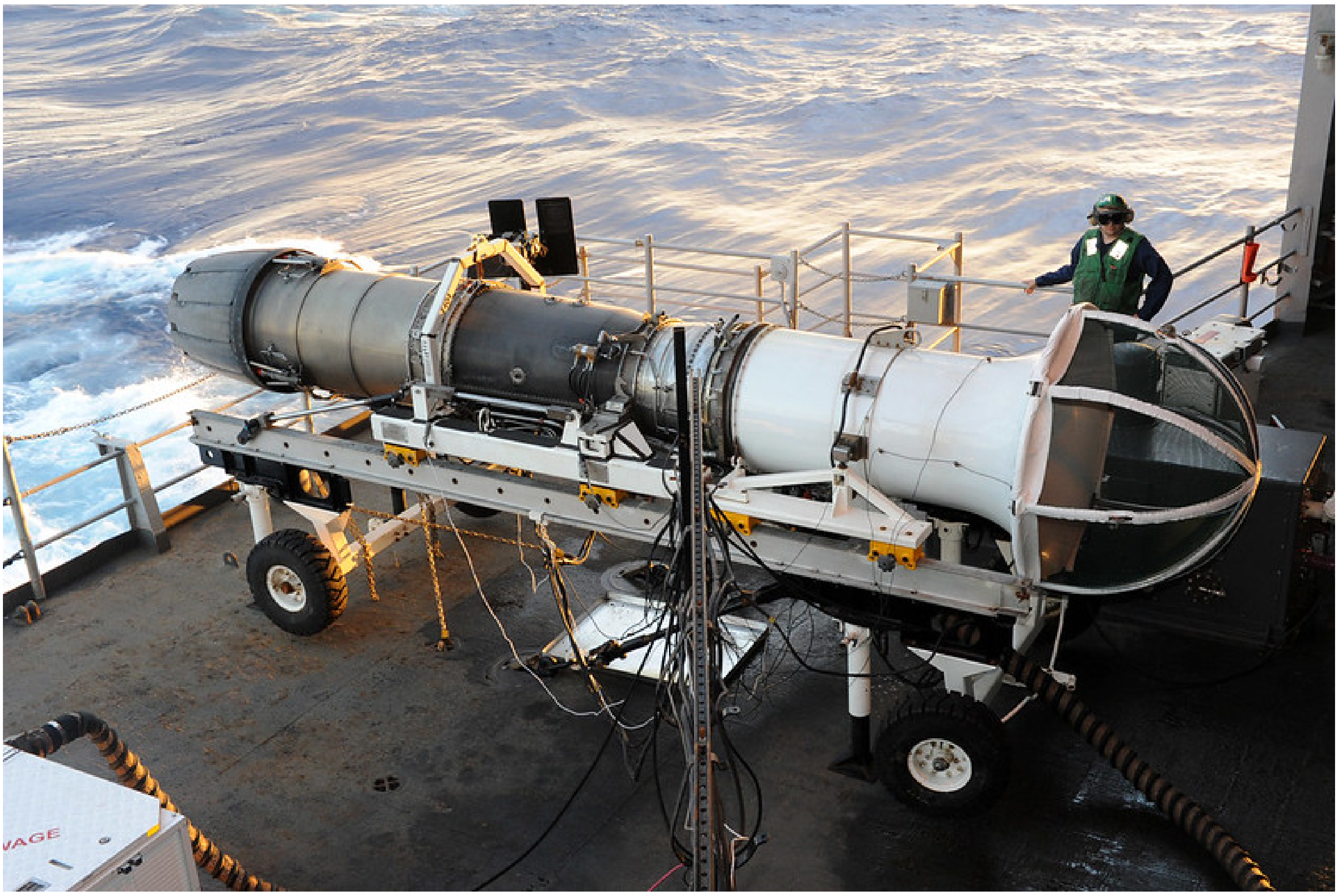
BMW today accounts for about a quarter of Greenville-Spartanburg's roughly 15 international cargo flights a week. Mr. Edwards said other companies such as Volvo Car AB, Volkswagen AG and Siemens AG , which also have plants within trucking distance, are regular users of the airport.

"The efficiency of the operation has really caught the attention of many freight forwarders, and some of the manufacturers as well who like the fact the product is coming into an airport nearby," Mr. Edwards said.

Air cargo volumes fell through most of last year as manufacturers and retailers pulled back on orders because of slowing consumer spending. Falling freight demand doesn't appear to be dampening enthusiasm for secondary hubs, said consultant Doug Bañez, managing director at Charlotte, N.C.-based Hubpoint Strategic Advisors.

Supply-chain disruptions during the pandemic led many companies “to consider alternatives and they learned that these alternatives work,” Mr. Bañez said.

GE Continues Spinoffs as Profits Rise



ATLANTIC OCEAN (July 16, 2011) Aviation Machinist’s Mate Airman Matthew Kephart observes an F404-GE-402 jet engine on a test cell as it is fired up on the fantail aboard the aircraft carrier USS Dwight D. Eisenhower (CVN 69). Dwight D. Eisenhower is underway conducting carrier qualifications.(U.S. Navy photo by Mass Communication Specialist 3rd Class Nathan Parde/Released) 110716-N-AU622-029

Profits are rising at GE as demand for its jet engines and power equipment remain strong. The company's CEO Larry Culp, has planned a number of spinoffs to what was once America's most renowned conglomerate. Thomas Gryta reports in *The Wall Street Journal*:

> *General Electric Co. GE 0.52%increase; green up pointing triangle reported strong demand for its jet engines and power equipment in the fourth quarter, lifting the manufacturer to a quarterly profit and higher revenue than a year ago.*
>
> *The final quarter of the year is typically the strongest for the company, which generated cash flow of $4.3 billion in the period, bringing its total to $4.8 billion for the year. The latest results include GE HealthCare Technologies Inc., GEHC 0.52%increase; green up pointing triangle which it spun off in early January.*
>
> *The company had a fourth-quarter profit of $2.1 billion on a 7% increase in total revenue to $21.8 billion. The earnings results topped Wall Street's expectations. GE forecast higher revenue for 2023 but set a cash flow target for the year below some expectations after the healthcare spinoff. GE shares ended Tuesday up 1.2% at $80.70.*
>
> *Inflation continues to be a challenge across the businesses, Chief Executive Larry Culp said in an interview, and isn't expected to go away in 2023. Pricing has caught up to cost increases, he said, and will be about neutral for the year. "That is more of a function of us doing a better job of combating it than inflation going away," he said.*
>
> *The company is laying off about 2,000 workers from its onshore wind business, it has previously said, but is hiring elsewhere*

in the company. The aerospace division cut 25% of its workforce in 2020 as pandemic lockdowns hit the aviation industry but is now searching for workers as growth increases.

"If you know any welders or machinists, send them my way," said Mr. Culp, who is also the CEO of the aerospace division.

GE began the year by splitting off its healthcare unit, completing a key step in the breakup of the American icon which is now focused on GE Aerospace, its jet engine division, and a portfolio of energy businesses that will become a separate company called GE Vernova in 2024.

GE projected free cash flow between $3.4 billion to $4.2 billion for 2023, an estimate that may adjust over the year. In the middle of 2022, GE cut its projections by about $1 billion from the $5.5 billion to $6.5 billion it had previously predicted.

The company expects operating profit of $5.3 billion to $5.7 billion for GE Aerospace for the year and an operating loss of $600 million to $200 million for GE Vernova.

The spinoffs are designed to simplify GE's operations and make the assets more attractive to investors. Mr. Culp has said the breakup will bring more focus and accountability to the business he has revamped since 2018.

What You'll Hear When You Call

My Office

When you call the office of Richard C. Young & Co., Ltd. during business hours, what you'll hear first is the voice of a real human being working at an American small business that values its clients. You won't hear a recorded phone tree directing you to a no man's land of extensions and recordings. You won't be answered by someone in a far-off place. Whoever answers the phone will pick up in either of our Naples, Florida, or Newport, Rhode Island offices. The personal touch you get from the folks you'll talk to is part of what has earned Richard C. Young & Co., Ltd. a ranking in the top 5 of *CNBC's* 100 Financial Advisors (2021), and what has earned my son, Matt Young, President and CEO of Richard C. Young & Co., Ltd., an induction into the *Barron's Hall of Fame Advisors* (2021). Disclosure

While you are being transferred to your advisor by the helpful reception staff, you may be put on hold for a brief moment. That's when you'll be treated to something I have picked out for you personally. The hold music you'll hear is a recording of Booker T. and the MGs playing "Green Onions." Booker T. Jones, recorded his first version of "Green Onions" with the MGs in 1962 after he began composing it two years earlier while still attending high school. "Green Onions" peaked at number 3 on the Billboard Hot 100 in August of 1962 and spent four nonconsecutive weeks at the top of the R&B singles chart.

The first MGs consisted of Lewie Steinberg on bass, Steve Cropper on guitar (a Telecaster), and Al Jackson Jr. on drums. Jones played a Hammond M3 organ on the track. Many will tell you he played a B3, but I have seen the organ with my own eyes at the Stax Museum of American Soul Music in Memphis and can assure you it's an M3 in the building. This point confuses many because Jones is so well known as a B3 player.

I have followed Booker T. Jones's career for decades, and I have met him multiple times at venues around the country. When he was inducted into the Musicians Hall of Fame in Nashville in 2008, I was there in the center of the eighth row. I own all of Jones's original 45s, including multiple versions of "Green Onions," and play them regularly on my Wurlitzer jukebox at home. The various versions include;

- The original on Stax's sister label, Volt, released in May 1962, on which Green Onions was the B-side to Behave Yourself.
- A September 1962 release on Stax, with Behave Yourself as the B-side
- And a March 1967 UK-only release on Atlantic Records that included Boot-Leg on the B-Side

The song you hear while you briefly hold during a call to Richard C. Young & Co., Ltd. is not some random muzak assigned to such moments by the telephone company. I picked it out specifically for clients in order to connect them to my lifelong interest in jazz, instrumental R&B, and Southern soul music. There are many versions of "Green Onions," both by Booker T. himself and others, including an outstanding version by Mike Bloomfield and Al Kooper live at the Fillmore West in 1968. Harry James also recorded a respectable version in 1965.

If you're looking for investment advice, please call in at 888-456-5444. Enjoy the service you'll receive, and if you do find yourself on hold, please know that I personally selected the music for you.

Dick Young

P.S. When markets get hit by a hurricane, *Young's World Money Forecast* is your port in a storm. Click here to sign up for my free email alert. I'll never share your information with anyone.

My Battle-Hardened Stock Market Strategy for the Worst of Times

UPDATE 7.26.22: Have the worst of times come? It's hard to say, but many investors who were feeling great about the market only six months ago are now terrified. If investors had employed the Ben Graham-inspired, battle-hardened strategy of conservation of principal and a defensive portfolio, they may not be so unsure of themselves today.

Originally posted on August 14, 2019.

In September of 2014, I explained to readers my battle-hardened strategy for dealing with the worst of times in the stock market. My strategy was inspired by Ben Graham, and I have used it throughout my 55-year career in investing. Here's how it goes:

> *Ben Graham's The Intelligent Investor was first published in 1949. I came in a little late in the game with my 1973 edition, which I have in front of me as I write. It is important to me that you and all of our management clients are able to sleep well, even during the periodic stock market*

busts that we all have to ride through from time to time. I never get out of the market; thus, I require a battle-hardened strategy to stay the course during even the worst of times. Ben Graham wrote, "An investment operation is one which, upon thorough analysis, promises safety of principal and an adequate return. Operations not meeting these requirements are speculative." From day one, I have stuck to Ben's foundation principle to the benefit of all our subs and clients.

Primary Concern: Conserve Principal

Ben built on his foundation principle by writing that truly professional investment advisors are quite modest in their promises and pretensions. As he noted, "The leading investment-counsel firms make no claim to being brilliant, but they do pride themselves on being careful, conservative, and competent. The primary aim is to conserve the principal value over the years and to produce a conservatively acceptable rate of return. Any accomplishment beyond that—and they do strive to better the goal— they regard in the nature of extra service rendered. Perhaps the chief value to clients lies in shielding them from costly mistakes."

The Defensive Investor

I like to think that it is just this approach that allows our subscribers and clients to sleep well and remain comfortable that we are all on the same team. Part of the complete program is your portfolio balance. Ben Graham wrote, "We have already outlined in briefest form the portfolio policy of the defensive investor. He should divide his funds between high-grade bonds and high-grade common stocks. We have suggested as a fundamental guiding rule that the investor should never have less than 25% or more than 75% of his funds in common stocks, with a consequent inverse range of between 75% and 25% in bonds."

With market volatility increasing, it’s time you reviewed your own strategy. You should consider a battle-hardened strategy that will protect you in the “worst of times.”

A Cashless Society Is A Debacle for Americans

UPDATE 6/30/22: Alarm bells should be going off for Americans who want a dependable currency. The push for a “digital dollar” is intensifying, and now Congressman Jim Himes (D-CT), the chairman of Congress’s Select Committee on Economic Disparity, is pushing hard for digitizing your dollars. Why is it important that he’s the chairman of the Select Committee on Economic Disparity? A digital dollar will make manipulation of your money via negative interest rates a snap. And if all your money is digitized, wealth taxation becomes easy as the push of a button.

Of course, Himes isn’t advertising digital dollars that way. Instead, he’s using the troubles of cryptocurrencies to set up a digital dollar as a White Knight that can Americans from them. Though most Americans have never owned the speculative assets.

Himes recently released a document laying out his vision of a central bank digital currency for America. You can read his entire proposal paper here. He sets up the digitalization of the dollar as a race the U.S. must win or else, what? Or else the country maintain the strength of its currency and savers and investors maintain their independence from wealth taxation? A cashless society would be a debacle for Americans. No thanks.

Originally posted on May 2, 2022.

A cashless society will allow the elites of society to "monitor, control and tax every transaction," explains Lewellyn H. Rockwell at *LewRockwell.com*. The aim, explains Rockwell, is the ability to "cut [Americans] off entirely," if they resist. He writes (abridged):

> *The elites have been aiming to eliminate hand-to-hand cash for decades, as it will allow them to monitor, control and tax every transaction.*
>
> *A story in The New York Times exposes what brain-dead Biden and the gang of neo-cons that controls him have in store for us.*
>
> *According to an item that was published April 26, "When Defense Secretary Lloyd J. Austin III declared Monday at the end of a stealth visit to Ukraine that America's goal is to see Russia so 'weakened' that it would no longer have the power to invade a neighboring state, he was acknowledging a transformation of the conflict, from a battle over control of Ukraine to one that pits Washington more directly against Moscow. . . in word and deed, the United States has been gradually pushing in the direction of undercutting the Russian military.*
>
> *Why is the US following this policy? Dr. Ron Paul has an important part of the answer. Just as in World War I, the "merchants of death" have a lot to gain financially. "One group of special interests profiting massively on the war is the US military-industrial complex. Raytheon CEO Greg Hayes recently told a meeting of shareholders that, 'Everything that's being shipped into Ukraine today, of course, is coming out of stockpiles, either at DOD or from our NATO allies, and that's all great news. Eventually we'll have to replenish it and we will see a benefit to the business'."*
>
> *The advocates of a New World Order don't care about risking*

> *nuclear war. They aim to control us all so that there is no escape for anybody. This is a vast subject, but let's look at just one more issue. Our "masters" in Washington want to take away our cash so they can keep tabs on all our transactions and, if we resist, cut us off entirely.*
>
> *We don't have much time left. Let's do all we can to protest against the New World Order.*
>
> *Llewellyn H. Rockwell, Jr. former editorial assistant to Ludwig von Mises and congressional chief of staff to Ron Paul, is founder and chairman of the Mises Institute, executor for the estate of Murray N. Rothbard, and editor of LewRockwell.com. He is the author of Against the State and Against the Left.*

Read more here.

The Best Investment Strategy is Simple, Like Analog Music

UPDATE 6.28.22: In the last week, cryptocurrency funds have recorded record-breaking outflows over twice as large as any week ever before. This comes after speculators began fleeing from crypto in response to Federal Reserve monetary tightening and other events in markets. Forbes reports:

> *Cryptocurrency funds posted net outflows of $423 million last week, eclipsing the prior record of $198 million set as crypto markets tumbled in January and bringing total assets down to $36.2 billion, according to a Monday report by CoinShares.*

> *Cash transferred out of bitcoin funds drove the record activity, with net outflows of $453 million—virtually erasing all inflows this year and pushing assets in such funds down to $24.5 billion, the lowest level since the beginning of last year, CoinShares reported.*

> *CoinShares' James Butterfill notes the selling occurred on June 17 (but was reflected in last week's figures due to trade-reporting lags) and was likely responsible for bitcoin's steep plunge that weekend, when prices fell below $18,000 as the crypto market grappled with a wave of job cuts, rumors about impending insolvency at major firms and a steep interest rate hike by the U.S. Federal Reserve.*

Investors keeping things simple will appreciate not being subject to the whims of the wild gyrations in prices for cryptocurrencies.

UPDATE 5.17.22: Since I wrote the post below back in 2018. Since then, investors have watched as millions of people across the globe piled into speculative cryptocurrency trades. For some that has worked out well, but for many, it has turned into a bloodbath. In light of the recent cryptocurrency collapse, it's a good time to reread the post below on the value of simplicity.

Originally posted on November 7, 2018.

Four years ago, I told readers the story of David L. Stone, the manager of Beacon Hill Fund. The point of my story then, as it is now, was to encourage investors like you to avoid speculation, and instead to be patient with your money. Use simple strategies you can stick to in good times and in bad. Here's what I wrote then:

> *As I write to you, I am listening to 1960s "Soul Station" by Hank Mobley, Wynton Kelly, Paul Chambers, and Art Blakey. It is an excellent remastered LP edition of the original on a stereo system that includes a Denon quartz lock turntable from the mid-'80s, a real basic NAD receiver that must be 20 years*

old, and a set of more than 10-year-old EPOS desktop speakers. Strictly low tech. Nonetheless, the sound in my office is quite pleasing. And vinyl records and their associated LP dust jackets offer a listening experience that CDs could never capture. In the case of Soul Station, the cover design by Reid Miles and Francis Wolfe are part of the Blue Note legend. Downloading? No thanks.

Complexity Destroying Value

So I am enjoying a musical experience today that I duplicated decades ago. And the foundation of this enjoyment is simplicity. On the investment front, the same simplicity prevails today as it has for decades. Jack Bogle, Vanguard's founder, wrote in the WSJ recently that "hyperactive trading strategies offer incomprehensible complexity that ultimately destroys value."

A Decision to Do Nothing

Over two decades ago, I read a Forbes article that I have kept and often refer to investors. The article was about the manager of the tiny Beacon Hill Fund. "David L. Stone, the 70-year-old manager of the Beacon Hill Mutual Fund, arrives early at his Federal Street office in Boston every day. He reads the newspapers, opens his mail and waits for a call from State Street Bank, the fund's custodian, with the previous day's closing price and cash position. He scribbles those down. Than he reads some more. Then he packs his briefcase and leaves." Talk about simplicity. Stone commented, "People ask me what I do all day. Well a decision to do nothing is still a decision. It takes effort, psychological effort mainly. People get itchy. They trade too much, enriching their brokers and the tax collector in the process."

Allowing Interest & Dividends to Work

> *Most investors do not have the patience of David L. Stone, and it is a pity, as investors would be well ahead of the game by holding costs and transaction activity to the minimum while allowing interest and dividends to work for them through the mathematical miracle of compounding. In my own accounts, I have not recorded a sale this year, nor did I record a sale for investment reasons last year. Thus, I have not turned over one red cent, due to trading, to the profligate government in Washington.*

When Bigger *Is* Better

Originally posted October 22, 2021.

Supply chain disruptions and rising raw materials costs are eating into profitability and resulting in shortages of products for many firms. Procter and Gamble is not immune to rising prices and supply chain disruptions, but strong brand value and impressive scale have enabled the company to navigate the environment better than some. Price hikes are being passed onto consumers and P&G is finding a way to keep its products in stock by leveraging its scale. Sharon Terlep writes in *The Wall Street Journal*:

> *Procter & Gamble Co. said that it expects solid sales and profit growth over the next nine months, even as costs for everything from warehouse space to raw materials rise faster than the consumer-products company expected.*

> *From furniture makers to grocers, the world's biggest companies are using their deep pockets, sprawling global operations and commanding market share to insulate themselves*

> *from the global supply-chain meltdown.*
>
> *They are also flexing their pricing power, taking advantage of consumers' willingness to pay up for higher-end products.*
>
> *P&G, maker of Tide detergent and Crest toothpaste, said Tuesday it will start charging more for razors and certain beauty and oral care products, price increases that come in addition to earlier moves to start charging more for staples from diapers to toilet paper.*
>
> *The company said its sales and profit goals for the year remain intact, as it has managed to keep products in stock.*
>
> *"To the consumer, it looks like we're in good supply," P&G Finance Chief Andre Schulten said in an interview.*

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.