

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."