FRIDAY, MARCH 10, 2023

Well, hello and welcome to the Dividend Cafe. I am the host of Dividend Cafe each and every week. This is my final day in New York City after what I think has been an 11 day trip out here and excited to get back to California and bring you all kinds of new things next week. Lots going on in markets, but we're going to skip all of that.

And as a matter of fact, we're skipping all of that because it is directly tied into what we're going to talk about today. One of the things I do, a fair amount of media appearances. When those first began, there were a lot of questions that people would ask and different networks and different anchors related to "What is your view of markets?" and what they would generally mean is "What is the market up to?", “What's it going to do?” Sometimes they would say next week, sometimes they would say next month, and there were times I kid you not where they would be like, “How do you think the market will close today and what do you think we'll be looking at with the markets tomorrow?” This highly short term kind of view of it. And I'm blessed in the sense that over time I really did get invited back. Not on every show I did. I'm sure that there's, first of all, I'm sure there's plenty of viewers that don't like me, but there were different shows or anchors or networks that may not have liked me too, but the ones who did and routinely call me back I at some point got past this notion of just talking about what a market guy thinks the market's going to do tomorrow or next month or even next quarter. And like Varney on Fox Business refers to me as their 'Dividend Guy' and I go on, Charles Payne a lot to talk about the Fed and the energy sector. And there's different shows and anchors that kind of have a different subject matter expertise or area of passion and interest that they may choose to talk to me about. And that's what I prefer. That's the only media I would do. Anytime they do call and want something related to that kind of generic, what's the market up to right now thing, we make real clear, we have no interest in talking about it, answering. We're not what they're looking for.

So my journey with the media has gone well for me in that sense, but I refuse to take the bait even now it, it's possible it can come up and even from well-meaning type anchors, but I generally have a way of not answering the question saying something to the effect of that I don't know. Well the market's going to do next week and neither does anybody else that they may ask that question to. Now there is a difference, I suppose, between the media wanting to get down to what is the market going to do in a week or a month. When I considered an unknowable and unhelpful and irrelevant question and this other kind of issue I like to address I joke that I'm going to write a book in 30 years or so of stories of all the times, either people or clients or guest or just folks that would say to us would say like, "oh yeah, I called X, Y, Z", I knew this stock was going to crash and so forth and I will or I knew it was going to rally and look at I bought this and it did so well. And I always say, show me the confirms, which is kind of our shorthand of saying the trade confirmations which is a sort of legal requirement and our business friend, you buy or sell transaction that takes place. A confirm is generated either digitally or print. And the reason I say show me the confirm is that you do have a fair amount of fair amount of people that maybe talking about having called something that they didn't actually put money into. It's one thing to say at a cocktail party, oh yeah, I really called this or I always knew such and such was going to happen, but to have put real dollars in it and to size the trade and have timed an entry and timed an exit, it's just say not quite as easy as some people who may have a funky relationship with the truth like to claim. But of course the other fun part about saying show me the con firms is then you'd get to see not only perhaps the truthful trade like, oh yeah, I really did call something. I really did buy it, sell it. I knew it, I made a bunch of money. But then you get to see the other firms too. Usually one winning trade is accompanied by a few others. And so as I always say, unless someone believes that that city of Las Vegas has somehow stood up despite all the people that have gone and won and never lost, there may be some people that don't tell you the whole story. So that's the issue with 'short termism' you know, don't hear it all. Big picture a market outlook. It isn't particularly relevant and we I think are pretty clear and consistent what our messaging is around those issues.

But there's another issue that I want to bring up today. When people push for a short term market outlook, and I mean short term next year I think is short term. I mean I don't want to be invested in risk assets for somebody for 12 months. We have longer term goals as investors than that, and so certainly the next day and next week and then hopefully next month, that is clearly preposterous to you. But we would add the same exact logic around next quarter and next year. And so our belief is that the short term problem is one thing, but then this presumption of a binary answer is another that you're looking either that you think it's going to be going up or going to be going down, it's either good or it's bad. The fact of the matter is that history is filled with directionless markets with a kind of flattish type outcome, and that is just far too often ignored.

And so when I say it's ignored I think it's devoid of history and I'm going to put a little chart up right now and I want you to pay attention to, first of all, at the left side of it, you can see the Great Depression. I mean that drop in the early 1930s kind of sticks out there. It's nice, easy enough to identify a big drop, but then there was a big upswing, it kind of rebounded and you see that there as well. Roughly 1934 to 1937, you had a big rebound. But notice 1938 to 1948, which in the middle of that of course included World War II that was a very long period of a flat market. And by flat I simply mean the same start and the same end started at a certain number, ended at the same number and all on the way there was some ups and downs, but you had this kind of directionlessness in the market. But where I have it marked as number one there, I want you to notice it's roughly 1949, 1950, up through 1966, a massive bull market. What looks like with the gift of a hundred years of history just a straight line up covering roughly 16, 17 years, the market went up by the way four times in that time period on a price move. And yet again, look following that number one bull market, the period 1966 to 1981, which was a very prolonged flat market big up and down movements along the way, anyone who lived through the bear market of 1974 knows it was not by no means boring, but again, directionless meaning a kind of similar start date and a similar end date over what was about a 15 year period of time. But then where it's marked number two there, you see the bull market that many of us grew up with that you should be very familiar with historically, the bull market of both the 1980s and 1990s. Now of course you had "Black Monday" in there in 1987. There were certain periods it felt like downside, but clearly it was just secular in terms of its bullish upward moving forces. That then was followed by what the last decade from 2000 where you had the tech bubble blow up all the way to 2009 where it ended with the housing bubble blow up in '07, '08, '09, great financial crisis. And again, markets basically flat over that 10 year period. And what I have it marked as number three is the bull market that some of you entered your investing lives, as many of you were part of the number two bull market but no, 2009 to 2021. It's obviously known in that period for the low interest rates for the Great Financial Crisis Recovery for quantitative easing. And then I've added there on the chart a question mark past 2021 as kind of suggesting what now, where do we go from here?

The point I wanted to make from that chart, and we don't need to put it back up on the screen anymore, but I hope you got to see that periods of directionlessness and flattish are very common in history, particularly after big secular bull markets and often leading up to a new secular bull market. Now, there's one thing that's missing on that chart. We had shown one thing missing when I described these various periods of flat markets because we're looking at flat markets in terms of a price return. But what I'm ignoring is of course dividends that actually the flat market may have been flat from price, but to the extent there were dividends paying, reinvesting, compounding, being received on the way that changes things a little. Now for an index investor today, there's a little problem and that is at the dividend yield of the S&P 500 currently is 1.7%. But nevertheless, dividends added in even to the kind of not so attractive period of a flat market change things quite a bit. I will say that I'm not making a call that we're going to a flatter directionless market. I happen to believe it's incredibly probable. I happen to think it's incumbent upon me to do a Dividend Cafe like this to reinforce the historical reality of it. But could a bull case scenario where the bull market of 2009 to 2021 continues? I think it could. I wouldn't be betting on it personally and yet I don't think it could for the same reasons it happened before. If it did, it would have to be catalyzed I think by something new. But the zero bound interest rate where we were for over 90% of that bull market, an incredible Fed liquidity impetus obviously going from 13 times earnings in the S&P up to 22, 23 times, we're not going to get that same multiple expansion starting right now where we are 19 times and where we started 2000, the end of 2021 at 22 23 times. So multiple expansions, we're not going to 30 times earnings then I believe, we're not going to get the earnings growth. We were at $70 a share in the S&P at after financial crisis, we got up to over 200. I don't think you're going to see the 200ish we have now going to 600ish. So you're looking at some things being a lot different.

But could there be a CapEx supercycle, which is going to be a subject of a future Dividend Cafe? Are there other potential catalysts that drive a big bull market extension? Maybe, but I'm trying to put this in the context of certain probabilistic assumptions. What about a massive bear case? Well, first of all, the NASDAQ already went down 35%, the S&P went down over 20, so perhaps there is more downside, but is it a whole nother leg down? My impression of this market period has been that really bad stuff got wiped out 70, 80, 90% down and decent stuff got repriced 20 30%, but not 50, 60, 70 for the most part. So it was sort of a quality versus not quality situation and all of it came down. But there was a big difference between what the level of repricing was and that may have mostly kind of worked its way through the wash at this point. So again, you could have a extended bear market and yet it doesn't feel like that with current conditions. You could have an extended bull market. But I would just want to bring up the possibility that historically and fundamentally one could make an argument for an extended period of a flattish market. You're going to get big runs up.

In the last 10 days, by the way, market went up a thousand points and down a thousand points that's in 10 days. We're no worse off than were 10 days ago, but you rallies and sell-offs. It could be much more than that. Certainly from 1966 to '81, we had a lot more in that flat market than just a thousand points of equivalent to two or 3%. We had a lot more than two or 3% up and two or 3% down. But do I think we could very well wake up in 4, 5, 6 years where the markets haven't moved a whole lot on a price basis at the index? I most certainly do think it's possible. And in fact, historically probable, or excuse me, historically precedent I should say.

So this is where I think my dividend conclusion comes up. I can think of very few things that do better in a kind of flattest directional period than a high dividend and high dividend growth portfolio that's reinvesting those dividends along the way. And generally what follows these types of periods is a secular bull market. So you get a lot of dividends reinvesting and you're getting a much higher percentage of total return from something that's positive in that kind of a period where price and index investors are not. But then at the end of it, you really are benefiting from the fact that you're going to go into another price expansion across the whole market while your portfolio itself did not take on the water that a non-dividend area portfolio would. And if there's a lot of price volatility in your dividend area portfolio, you have all these dividends that are pretty good size dividends paying and hopefully being reinvested in those prices through the period of flattish and directionlessness. So I do believe that if I am asked what I think will happen in the market next month, that I have the ability now in media environments to not take the bait, answer a dumb question with a dumb answer. And I also think that I have a investment philosophy that tells me I have a view of history that tells me and I have an outlook and perspective that tells me that we may not be looking at a binary outcome of a bull or a bear of an up or a down, but some flattish directionlessness that like so many of these other outcomes as some of these other scenarios, the monetary and fiscal and geopolitical instabilities I refer to all the time lend themselves to high quality portfolios of cash flow, generative investments that help investors meet their needs. It's what we do at the Bahnsen Group.

I love this subject. I hope it's been helpful. I appreciate all of you watching and listening to the Dividend Cafe. Look please do read Dividend Cafe. There's some great charts and even a couple photos in there might be fun for you. And then in the meantime, we'll be back with you next week with another Dividend Cafe. Thanks so much.
