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Welcome to the Dividend Cafe Weekly market commentary focused on dividends in your portfolio and dividends in your understanding of economic life.

Well, hello and welcome to what I hope will be a very special Dividend Cafe. I decided because this week was my son's graduation from high school, my firstborn son Mitchell, that it may be a nice time of year to deliver a letter to high school graduates all over the country. Now of course, some of you listening or watching right now are not high school graduates are probably, as I am quite far removed from that glorious moment in time and yet high school graduates. You have high school graduates in your family, in your life soon to be graduates, and really it could apply very easily to college graduates, other people in their young twenties or whatever that period of time is that someone kind of enters a young adult phase of life. Candidly, and I don't want anyone to have to admit this, but it may even be that people much, much older than that find this information useful just because there's been some mistakes made or perspective lacking and that there's a kind of desire for a reset or a renewed understanding of financial wisdom and navigating the current economic conditions that may be useful for people.

But what I tried to do is craft a letter at dividendcafe.com that would sort of serve as this comprehensive letter to the millions of 2023 graduating class members looking for some degree of financial wisdom, financial understanding, best practices. The things that I think would be most important based on what has now been several decades of observation, of seeing mistakes made, of seeing blown chances and opportunities, and also just my sort of view on a go forward basis about where we are in the economic cycle and where I think economic reality lies. The things I believe would be most applicable and most useful in this period of time. I hope that for most people today, high school is still a very memorable and certainly formative period of time. That is my underlying thesis. One of the reasons that I had a very strong passion, I began working on it 10 years ago to found a Christian high school in Orange County, California, but my passion for it went back even further than that.

I just didn't have the resources time and commitment and to kind of begin making it happen until 10 years ago. But I've been passionate about this idea for a long time because it was somewhat biographical for me. I found high school to be a very memorable and definitely formative period intellectually, spiritually, socially, a lot of the categories of our life that most matter. And when I think about a young person leaving high school, I think there's sort of this rite of passage and really whether they're going on to college or not there, there's this entrance that's becomes somewhat form formal at the graduation process of entering adulthood. And I think our society right now has a tendency to infantalize young adults to a much older age. This, I believe it's David Brooks refers to this as extended adolescence, the odyssey phase where people will try to delay adult realities until they're well into their thirties.

I don't think it's sustainable. I don't think it's particularly healthy and ultimately it's a little bit outside. I think of the natural design as people are turning 18, 19, going into college, beginning to find work facing some degree of financial burden or responsibility. This is what we ought to be referring to as adulthood, and so I hope that the friendships that made can be sustained. I hope that there can be this really positive look back on what the experience represented, but when you start thinking about adulthood and responsibilities, of course I could sit here and lecture young people about finding a spouse and raising kids and so forth, but nobody wants to hear about that stuff from me. I don't want to hear about it from me, and it's outside of my lane of expertise. But also I've done this long enough now in the wealth management world and financial planning, I have seen some things and I hope that some of a lot of them are negative.

A lot of them are kind of lessons learned from a negative model, and my earnest hope would be that a lot of these mistakes can be avoided, that people could not repeat some of the mistakes that maybe have been made before them, whether by people in their direct family lineage or just others. There's certain habits and decisions and whatnot that have become kind of commonplace in the society, and some of those I think are very unhealthy. So I'll do this. I'll start with a bit of a dive into financial practicality, and it may seem for a lot of you that are very investment minded, lot of the clientele of the Bondon group is not necessarily in a need to hear about the evils of credit card debt generally as people have a balance sheet and have a great deal of cash flows and are in some position in life to require tax and estate planning.

This is kind of the normal profile of the clients that we work with, and therefore they're usually not trying to struggle with more remedial decisions about paying off their visa card every month. However, many of our clients have kids that are now young adults or grandkids that, and many know people and many of you may not be clients of ours, and yet you still come to the dividend cafe, try to get some financially practical wisdom week in, week out. So I am going to start with what I think is the lowest hanging fruit of what young people ought to hear because I think it is utterly fatal for some people to not heed this advice. There is no question in my mind it is the number one biggest challenge that young people make face financially when we talk about various things of how they could do a household budget, their student loan debt, whether to rent or buy a car, whether to rent or a lease or buy a car, rent or buy a house.

There's a lot of things that various young people deal with often related to just starting off their jobs a career, things like that. But no, financially the most grave and significant issue is indeed credit card debt. And it's a tough thing to talk about because very candidly, you're often saying the right things to people that want to hear it, that intend to follow it, and it just through time will end up having fallen on deaf ears. It is easier said than done, but I will not understate the gravity of what I'm suggesting. For those of you at a stage of life where this ought to be heard and understood, you should avoid credit card debt like it is the plague that if you use a credit card to pay your monthly expenses, or excuse me, may for various spending needs throughout the month, as most of us do that you're spending money you have so that when the bill comes, you're paying it in full.

And the temptation to use the card and say, I'll get to it the next month or I'll pay it off over the next six months, is virtually always where almost insurmountable large credit card balances come from is that over time it's just too all alerting to be able to pay for something down the line but receive it right away. That instant gratification thing, once that snowball starts forming, it snowballs quite quickly. So the temptation is strong, it takes willpower, it takes discipline, but fundamentally it takes also an understanding of what can happen. And I think most of the time people are guiding against credit card balances. They're unfortunately focusing on real problems, but not the biggest problem. So I think that we focus on how much interest you're going to pay over time, that you may buy something for $2,000 and it ends up costing you $5,000 because you take 10 years to pay it down at 18% interest or whatever the math is.

I think that's a great argument. It's generally very true, that high interest that accumulates and people are making minimum payments that barely touch principle. I think it's a disaster, but it's not my number one argument to be honest with you. I think the fact that you can enter into a relationship and one person doesn't have credit card debt, someone else does that, that can create potential strain in a romantic relationship. I think that's a legitimate factor. But even that I would not say is the biggest deal. I think that it makes people hate their jobs, that they could have a career. They otherwise, like they're making good decent money and they're growing in it, but they don't really get to ever feel any joy from it or see the rewards of it because so much money that they're earning in the future is going to credit card debt they accumulated in the past and it creates this emotional negative feedback loop where you feel like you're paying, you're working today to pay off things that you already got the enjoyment from previously, and the reason you feel that way is because it's true.

And so there is almost nothing that can be done about it once one has that very high debt lingering over them, having to work through it really takes away from future enjoyment. So therefore, in the present, it's best to realize that in the future, the present will be the past. And that's kind of the issue with credit card debt. So don't run up credit card debt period. If that's all you remember from anything I say right now in this podcast, that's fine by me. Now I'm going to go a little bit into the college discussion, but of course, presumably since I'm writing it to high school graduates, I'd like to think that the real high school graduates hearing this message have already made a decision and hopefully collaborated with parents and the parents and student together decided that yes, this college made sense or the particular college decision to do it or to not do it.

I think that there could be various benefits and pros and cons that parents and students have to work through together, but to the extent that at the end of the day somebody says, yeah, I really believe college is the right thing for me, all I want to say is that I hope you will not allow that to get in the way of you doing what a you love and B, you're good at. And I will add C where those doors open, and that's one of the challenges in someone going away to college early is if they believe they need to do so for their future, they're wrong. And if they believe that in doing so, it will guarantee them a certain future. They're most definitely wrong. But what I prefer is that if someone's going away to college, they're obtaining a certain experience, a maturity, new memories, friendships, relationships, processes, habits, disciplines, what all these things.

And then on the career side of things, I don't want to say just chase what you love and I do, Scott Gal, I stole this from Scott Galloway, a professor at nyu, well-known kind of media guy, smart, smart pundit. I disagree with him a lot of things, but I've been, I learned from him every week, Scott Galloway says, the only people who say that you ought to go chase your dreams, do what you love are rich people. Because once you have the luxury of saying it, then you can say it. And I think there's something true about that. It's easy for me to say it at this stage in my life, but 25 and certainly 30 plus years ago when I was graduating high school, it wouldn't have been such an easy thing to say. But look, I think that it's kind of untrue that there's a whole lot of people out there.

There may be some, but I think it's very rare that there's someone who's really, really good at something and there's people that want to pay them a bunch of money to do this thing they're really good at, and yet they just don't love it. I think people have a real funny way of loving what they're good at and what people want to pay them well to do. But ideally, I'm in Arthur Brooks's camp that one of the beauties of a market economy is that you with division of labor, with specialization in the workforce ought to have the ability to marry your passions to your skills. I just would not recommend looking at that as if the passion trumps the skills. I think oftentimes we have to have a sort of general basic kind of a landscape of what we enjoy and what we're good at, but then a broader openness to what doors and opportunities may open and allow things to guide us organically that way.

Okay, now another big category of a young adult's life financially is housing people that want to make a decision about do I rent? Do I buy? Do you know, you hear all these little idioms about what to do with real estate. And so I have, I'm going to do 'em pretty quickly. Five things that I have sort of formed as David Manson's. Five principles of home ownership. And for most people, literally right out of high school, they're not in a financial position to get a loan or have a down payment or be buying a home anyways. But I want young people to start thinking about this, whether they're 10 years, five years, or one year away from buying a home. Number one is do not buy a home condo any form of residential real estate. Don't do it without a minimum of 20% down, and I really think 25 or 30 is a better number.

I think we'd have a more economically stable society, more satisfied and committed homeowners if you were had everyone buying with 30% down. Now, I don't need a regulation for that. I don't need the government involved. Mortgages, lenders, banks, they're going to have their own risk reward metrics by which they go about lending, and I'm all okay with all of that, whatever they want to do to facilitate their own business model fee, revenue lending products, that's for them. I'm referring to what's best for you for the consumer side. I truly believe that if you have 25 to 30% down, your mindset is different that you don't view it just merely as a trading card. You view it as a great place to live to raise your family, but not something you're trying to flip for a quick buck. This is where I think people just simply have been lied to for long, long, for a long, long time.

That is this idea that you can make so much money buying a home, and then you hear the stories of my parents buy their home for $300,000 in 1988. Now it's worth 2 million. You'll see they made 1.7 million. And I always have to say, well, first of all, that's 35 years, and if you want to do the math on what that return looks like over 35 years, you're not going to be that impressed. The compounded annual growth rate of these various things over enough time is usually four, five, 6%. Nothing to write home about it. It's not never bad. It's a lot of dollars, but it's absolutely not what people kind of think it to be once they actually apply a calculator. But here's the problem. Even that massively misses what was really paid for the home because they're going from sticker price, buy to sticker, price sell, and forgetting about this little thing along the way.

I don't know, taxes, annual property taxes, homeowners insurance, property casualty, fire, earthquake insurance, various renovations, repairs and maintenance. Of course, to the extent that they didn't pay cash, borrowed money, all of the interests that went into servicing the debt along the way, if people ever plugged all those numbers in over a period of time, it would just be utterly unimpressive what the actual returns are and doing so if you want to buy home, fine, but number one, just simply don't do it without really good protective equity because so much of the reason people say doing so without protective equity is based on a lie of easy, large returns that one can generate. It is not true. Number two, excuse me, I blended one and two there. So number one was 25% down payment, a minimum 20 I really liked 25, 30. Number two was to do the math and understand what the real return and opportunity set is.

Number three is do not buy a home that you can't afford because of what other people are doing. Keep up with the Jones' mentality is an awful idea. And we had our whole society kind of doing it 20 years ago and it almost brought down the world, and none of those people ever have actually said they're sorry. We're still kind of in a mode of different people blaming various folks for the government did it or the

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Fed did it or Wall Street did it. They're, I still have not heard those who actually did it ever say anything, but I digress. Do not let your motivation be what other people are doing. It leads to bad decisions that you'll regret later. Number four, amortize your mortgage. So it's not just, I want you to have 20 to 30% down, but be paying principle down from your mortgage as long as you believe you're going to be in the house for more than two to three years.

If you know you're buying for a short period of time, first of all, I'd question why one's buying anyways, but in a shorter period of time, the small amount of principle reduction from amortization is probably not particularly helpful, but it's just too easy to get really seduced by the lower monthly payment that an interest only payment represents. And then what you effectively are doing is just renting your home from a bank instead of from a landlord with the right to pay property taxes instead of not paying property taxes. So you can call yourself a homeowner, but you're not really owning a home when you're just paying interest only to a bank. Take an amortized loan, and if you can't afford the payment with amortization, then you should not be buying that house. It's really that simple. Number five, I said this before about the house being a home, not a trading card.

Live in the home and make memories in the home and play sports in the backyard and watch your streaming and movies in your living room and read your books and what all the different things people do in a home and have a life. That's what a home is for. But this idea that it is a vehicle for financial speculation is just totally untrue and very, very dangerous. Okay, now the next category is investing, and it's obviously what we talk about here in the dividend cafe week in and week out. But the easiest thing I can say at a young age where I don't have to get in a lot of the granularity about alternatives and about non-correlated assets and even the bread and butter, what we love talking about in dividend growth, fundamentally, I will say that most young people get in trouble, and most young people need to learn how older people get in trouble around one of two primary behavioral mistakes that I would love for you to understand ahead of time, be on the watch for ahead of time, know of your own propensity to fall into these traps.

And that is number one, euphoria. Naively chasing some shiny object, falling in love with an investment, divorcing yourself from fundamental disciplined analysis and simply believing in a hype machine. And I think that euphoria is fatal for so many people. And then number two is the exact inverses of it, which is panic driven, of course, from fear. Euphoria is of course driven from greed, but it's a fear, a weakness that causes one to panic out of it, otherwise intelligent and useful investment plan just simply because predictive, predictable, expected volatility comes up. We know these things are part of being a long-term investor, but they abandon a plan under the arrogant assumption that one can time their way in and back out. And all these things is just totally crazy. It is very important that people understand the behavioral mistakes of euphoria and panic at a very young age and the bad behaviors that can come out of these really understandable parts of human nature.

But on the same token as this euphoria side is when I talk about shiny objects, we go back hundreds and hundreds of years for the precedent about what back in the 17th century in Holland was called tulip mania. But over the years, and I always want to use my own adult lifetime, I couldn't make a list for you of all the.com stocks I owned and speculated on from 1995 to 1999, probably more 96 to 99 in my case, but be that as it may, I don't think a single one of 'em is still in business. I'm pretty sure everyone has been out of business for over 20 years. I mean, this was a crazy period of time. Now, I remember the

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Japan boom when I was in high school and all these high yield bonds coming out of the milk and era, and some of this over leverage that people were doing brought down a lot of savings in loan banks.

That was sort of my era, but I didn't have any money to invest as I started having money. Definitely going into the.com era, you had people acting utterly insane, but that was not because of.com. It was because they were human beings and human beings doing insane things. And I'm asking you not to avoiding, what was that? Japan boom, the.com boom. And then one of the greatest travesties in my adult lifetime will always be that just before the paint could dry after the.com funeral, people were back at it again with real estate speculation, flipping condos, and a lot of the housing craze that became so detrimental and ultimately combined with massive banking system leverage brought the world economy to its knees. So whether it's housing crisis.com, and then of course the more recent years, trillions of dollars, trillions of dollars of losses in the newest manifestation of this shiny object dynamic of human nature, from cryptocurrencies to just various delusions and fantasies that came out of the covid moment.

There's no shortage of shiny ob shiny objects. And I think your ability to think like an investor and not a gambler and not one who emotionally lies to themself or intellectually lies to themself to justify doing something that really isn't very sensible to do, I cannot recommend enough that you put on a real protective guard against that type of deal. What is the type of deal you want? How do you want to invest? If you're not going to chase Bitcoin and plant-based meat investments and other such things, how does capital really grow? Will it compounds? And you need to invest in a way that compounds capital in a sustainable way. And for capital to compound, there has to be an activity that creates growth. The capital grows because there is in real organic growth. And that's, when I say activity, it's what we call a market.

It's what we call humans acting, and it really amounts to nothing much more complicated than that. And obviously people creating goods and services that meet the needs of humanity, they might need debt and equity in their business. And at a large public company, there's the bond market and there's the stock market. There's smaller businesses. There could be venture capital funded private equity. You go to public markets. But at the end of the day, any investment plan, probably for most people, they're in publicly traded stocks for liquidity and diversification. You're still just dealing with humans acting towards meeting the needs of humanity through the production of goods and services. And you could factor in real sophisticated production, really clever marketing. There's different elements of sales and distribution that come into what a comprehensive business looks like, and equity investors, when there's a profitable bottom line, get to share in that distribution of profits.

But I think that ongoing innovation savvy, you want there to be the right incentives. This is what we mean by compounding capital. And yet it doesn't come from luck. It doesn't come from betting on numbers, it doesn't come from formulas, it doesn't come from magic. It doesn't come from some poorly defined concept of momentum. Wealth is created when goods and services are profitably produced, period. That's what a market is. And we personally participate in the wealth building of that process when our capital is invested in that process. And of course, it's a fractional participation and oftentimes a very, very minute one. But nevertheless, that's what we do at the Bons group and we love it. We are trying to create participation and wealth building activities for the purpose of generating wealth within one's own personal portfolio, preserving their capital, growing their capital, and of course generating income from their capital.

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So dividend growth is the way we go about doing it. But all I want you to remember as a high school graduate right now is you need sustainable compounding of capital, which is removed from various voodoo forms of investing money. Now, you might be investing money in a period of time in which the economy is very questionable. I could argue that we've had questionable economic conditions for a long time, and I think I would be right. I think that whether it was the Cold War and various elements of public policy and past periods of high inflation, past periods of high tax rates, there's all kinds of difficulties we've gone through that could have made for a bad time to invest. It happened to in hindsight, ended up always been good times. But my comment to you about the economy around you is that I think the unique challenge that this generation will face is excessive indebtedness and more particularly the excessive indebtedness having an impact on future growth.

And so this kind of unification process that I refer to all the time is what I think your graduating class will most have to deal with. And yet, there is one thing that has to be said. You can personally neutralize that headwind of growth and productivity with your own tenacity. Those who produce and create and grow will be immune on a personal basis from the nefarious reality of unification. The more that they insulate themselves by being above and beyond, by going over, by going beyond the call of duty, their your own innovative and creative work is the best defense you have against these macroeconomic unfortunate realities. So I think I've gone on long enough, I think whether it's college, housing, credit card debt, compounding capital, being aware of what is really needed of you in your own careers to overcome economic challenge, I think that at a high level, we've covered a lot of the major categories.

I want everyone hearing this and watching this to live a life that will be satisfying and rewarding to them. My fundamental objective in stewarding client's wealth in advocating for a free society is this concept of human flourishing. I think there is a good life to be had and that good life can be significantly impeded by bad financial decisions, and I hope you won't let that happen. I'm going to leave it there. I hope that this unique dividend cafe has been beneficial to all of you of all stripes and ages and stages of life. Please do send it if you think it's valuable to other folks in your role at X that you think could benefit from it. People are welcome to reach out. questions@thebostongroup.com will try to be as practical advise given good advice and helpful as we can. And in the meantime, just know that the journey of financial decision making that for many of us start after high school.

It goes in decades and there's plenty of opportunity to make mistakes. There's plenty of opportunity to write the wrongs and to do the good things that can help result in human flourishing. That's the end to which we work. Thanks for listening, watching Reading the Dividend Cafe. We'll look forward to come back to you next week.
