FRIDAY, APRIL 5, 2024

Well, hello and welcome to another edition of the Dividend Cafe, the first Dividend Cafe of the second quarter. And it comes as markets have hit a batch of volatility this week. Now I wrote the Dividend Cafe this morning, Friday, April the 5th, and markets were down about 1200 points on the week. A big portion of that coming from a down 500 point day on Thursday. I'm now recording in the middle of the market day on Friday and markets are up 400 points today. And so who knows, you know, we're going to end up down a lot on the week. It may end up being quite a bit less than it had been, but the point is all still the same, that this was a week in which we entered the second quarter of the year with a lot of momentum from markets from the first quarter, the Dow was up over 2 percent in March, the S&P was up over 3 percent in March.

The Dow was up over 6 percent in Q1, the S&P was up over 10 percent in Q1, and so literally four days ago, the narrative was, “Oh, is this rally going to continue? Can all these good things keep going? How high can we go?”

And then after a couple days of being down a couple hundred points here, 300 points there, and then, you know, it was a few days in a row, it got to be down 1,200 and right now down couple hundred as I'm recording, but it's immaterial.

I don't care where it ends up when I'm done recording or where it ends up when you're listening to this, the point being that there's all this up and down movement in a very short period of time that people are asking what it means in a future context. And so even though I had about 14 other subjects, I considered writing about today.

What a wonderful opportunity to mock a lot of other people. So that's what I'm going to do is mock an idea that deserves to be mocked. This absurdity that there is something that is happening or just got done happening in markets that tells you what's about to happen in markets. And there isn't, and there never has been.

And that is a fine thing because as we're about to discuss, it's totally immaterial. Yeah. To what a good investor and the proper achievement of actual financial goals represents, let me start with the obvious anytime that the narrative goes from a Monday to how high can we go to Thursday?

How low are we going to go? should already answer for you that no one has any idea what the heck they're talking about. That the sentiment could shift this much. Even just from me writing this morning, the recording this afternoon, you have this kind of up and down movement. Now, in hindsight, the retroactive, I had a little bit of a debate with a friend of mine at Fox yesterday, I was in the green room, to record Kudlow, and I don’t want to say her name actually because I adore this person, but she was saying, don't you think markets churned yesterday? Cause at the time it was that day. Cause of this. And I said, well, it could have been, but we don't know. And she said, no, I think it was. And I talk about this a lot that nobody ever really knows for sure, but there are certain things that are more obvious than others and, you know, like you have a nine 11 event and markets dropped, right?

Yeah. I think it was probably because of nine 11, you know, that, that was okay. That's true. In a given day markets up a few hundred down a few hundred, there's not only the possibility. Multiple multi causal explanation, but there's also certain self fulfilling prophecies that fold like, Oh, because this thing happened, it led to more of this happening.

There's all kinds of stuff like that goes on. It's armchair Monday morning quarterbacking. It's very fallible as are all things in life. That are not falsifiable. If you can't disprove the theory of the case, then you can't prove it. And you are kind of wasting your time other than banter and banter sort of, you know, it, it occupies a lot of people's time.

That's fine. Predictively though. I mean, dear Lord, who possibly believes that what happened yesterday tells us something about what's going to happen the next day. And in fact, if it did, if I wanted to look at historical pattern recognition, I would say 80 percent or more of the time, Over the last 16 years that you add two, three, four days in a row of markets dropping, it was predictive or excuse me, not predictive, but it ended up being proceeding a market rally higher three, four, six months later.

And so most of the time actually buying those dips has been efficacious, not indicative of, Oh, because we went down 400 points today, it means we're going down 4, 000 points tomorrow. It doesn't mean we're not, And this is why I jokingly say one, if someone were to say, Hey, the markets are down a lot this week, what's it mean for the future?

And that the type of person who would answer that question with, well, I think it means that our model says we're going to be potentially going down 11 and a half percent, you know, before we, this is I used a theme of kind of a psychic and tarot card reader and this sort of mystic, you know, person.

That I make an analogy between that and someone who would dare to answer that question or answer it that way. And in a lot of ways, I don't think it's fair what I'm doing because I'm not being totally fair to the psychic. But it is just rank grift, charlatans. That would dare answer that question is if they have any authority on which to answer it.

Now, what would I say? Cause I get asked it all the time. You can ask me right now in your mind, David, the markets are down at X number of hundreds of points this week. What's it mean for the future? And the right answer is we might go down a lot in the short term, we might go down a little, we might go up a little, we might go up a lot, and we might not really move at all.

Those are five outcomes. And that's my answer. And the reason is not because I'm avoiding it. And it's not because these other people are smarter than I am. They might be by the way, but this is not proof of it. It's because I don't know. And no one has ever known. And there's nothing embedded in the information that would cause anyone to know that, well, you know, a trend starts and then no, it doesn't.

You don't know what trend became a trend until you have the gift of hindsight. It, the prophetic ability is not there descriptively. I agree that I can look back and say, Oh, when this happened, it ended up leading to this. And so I'm able to read a history book as well as anyone else or look at a chart and tell what line is up and what line is down and you're able to do it.

We're all able to do it. That part's not really rocket science. What is impossible to do. Is predict from a short term movement, what it means longer term. Now you say, David, you do macroeconomic analysis. Are you saying you can't formulate a view as to where things are going? And I say, first of all, that's not what we're talking about.

I have very strongly held views about macroeconomic conditions. I can describe what's happening in short term scenarios, and I can look at a longer term belief about what might be happening in the fiscal side of policy. Governmental spending and growth and tax and regulation in the monetary side, which is monetary economics has been a big study of mine and focus of mine for much of my adult life.

And I have a view as to what challenges get presented by monetary policy over long periods of time. And then the geopolitical side, I do chime in on it a lot, but it's usually to chime in to point out the only thing that's changing are the characters and the colors of the uniforms. If the broad statement is there's some bad things going on in the world and they continue to go on, then that's just pick a decade and it's true.

And then, you know, one year it's Russia invading Ukraine and it's Hamas horrific attack on Israel. And another year, you know, or another decade, it was cold war and it was in Iran or this or that I don't I've written about this before. So I don't want to beat the dead horse. The world's not going to become a safe place on this side of glory.

Okay. I believe geopolitically that there's a part of the risk premium in markets that comes from the fact that we live in a reasonably unsafe world and that there are on the margin times, you know, I think the end of the cold war, I think an expansion of the liberal order, democratic societies. I think these things can marginally move the needle, all things being equal.

I think markets would rather that China and the U. S. had a good relationship or that Russia quit invading Ukraine and trying to expand its turf in, in Eastern Europe. I mean, all of those things on the margin can get better and get worse, but no, like there's not this moment coming. In which we are dealing with a worse world, excuse me, a better world overall, that geopolitical risk will be there.

So my long term view that is informed by a certain macroeconomic framework, that's not going to change, but it has nothing to do with me saying what will happen. In markets next week or next quarter or whatnot, the investment executional or doing is all rooted to that former hypothesis that things could go down a lot, down a little, up a little, up a lot or somewhere in between.

And yet I want to achieve a return that's appropriate, extract risk premium from this world in which we live, where there are profit making activities going on that I think we can use financial markets to access and drive a result. Now I do that, of course, through our belief in dividend growth, equity and companies that have the stability and cash flows to continue rewarding us as shareholders from their profits with this piece of fruit they give us from the tree every quarter or what have you this episode of Dividend Cafe is not specifically focused on dividend growth, but what I'm getting at is.

There is no part of that investment strategy that is looking to figure out what one down week means. And to the extent that a down week could mean a much more down month, quarter, year. That's baked in. I accept that all the time. I've studied a lot of history on it and I've been doing this for a long time and I've seen it all.

And you say, well, I mean, how can you be so just a cavalier about it? Because there's a part of me that has done the hardest work to prepare for it. I don't want clients and investor outcome to suffer from market downturns. And where possible, I want client outcomes to benefit, meaning that a reinvestment is accumulating a higher return and investment outcome for them over time.

And for those who were drawing capital, I want to be able to insulate them from those realities. So I talk about that all the time, that embedded defensiveness and sort of anti fragility is in place. And then you use the asset allocation. To control the temperament of the investor, to make sure that the up and down movements are not so severe that somebody abandons a high quality portfolio.

That's why we use alternatives or fixed income or other pieces to try to stay within a range of acceptability because of psychology and emotion and just human temperament, that's the basic philosophy, but. I believe that those who are right now trying to formulate an investment policy out of short term movements and predictions are going to be so bad at it.

It's embarrassing. They're trying to do something that shouldn't be done, and they're trying to do something that can't be done because there isn't any information. And what happened in the market yesterday or this week about what's going to happen in the market tomorrow or next week. And there isn't any information in the market about what's going to happen later in the year.

And you go, I disagree. I think you can really look at it. And it just isn't true that if all of a sudden there is some trend being formed that tells us something different, that trend is true until it isn't. Then all anybody's doing is reporting on what happens, not predicting what happens. And I accept there's a lot of people good at reporting that would just happen.

But calling reporting predictingis a real perversion of the English language and it can lead to very dangerous things when it comes to investment finance. So I just thought this would be a good week to reinforce that lesson, to reiterate what we're doing, how we're doing it, what we're capable of doing at the Bahnsen Group, what we're not capable of doing and how we proudly accept all of that.

Resist the charlatans, resist the mystic psychic. That is really selling snake oil. And focus on the deep fundamentals, the investment philosophy that is far more important to your success than some fake prediction. Thank you for listening. Thank you for watching and thank you for reading the Dividend Cafe.

We will see you next Friday and I will be at our office in Oregon visiting the Pacific Northwest location of the Bahnsen Group. And I'll be bringing you Dividend Cafe from up there. Thanks and have a good weekend.