FRIDAY, MAY 31, 2024

Well, hello and welcome to this week's Dividend Cafe. I have very rarely enjoyed writing a Dividend Cafe as much as I enjoyed writing this week's. We're actually recording a little bit later than normal here on Friday morning in Newport beach because the writing was a little bit more elaborate than normal. I'm going to do my very best to capture things. Here, for those of you listening to the podcast and those watching the video, the way that I did in the writing, but I will say besides what I constantly reiterate about my own personal preference of the written word, I do think that this week's Dividend Cafe maybe is more captured, the essence of it and the intent of it might be more captured, written that I'm going to be able to do here in this audio, but I'll do my best.

Why do I think this week's was a little bit different? Well, what I tried to do was create a retrospective of the last 50 years of investing what's gone on in the economy, what's gone on our markets, what's gone on in the world. And applied that of course, to investors because that's what the Dividend Cafe is for.

But I tried to do so by dovetailing it to my own life. And the reason for this is because this is the week in which I turned 50 years of age. And when I don't really think much about my birthdays ever. I think the rule of thumb most people know is around the time that a guy turns 20 and certainly 30, You really just start celebrating birthdays every ten years when they end in zero. And, so that's the case, but look, the this isn't midlife crisis territory. It's just a bit of, you know, there's contemplation that comes with hitting age 50. It's all been very positive. And yet, as I was thinking about some of those things and going through the various Reflections and projections and whatnot, just personally and biographically that go around this 50 year milestone.

It occurred to me that there's an awful lot that could be said, should be said in the same vein about, about markets, about investing. And I hope that in this Dividend Cafe I have captured some form of lesson that could be useful and very candidly not just useful right now, next week, next month, next year, but for the next 50 years.

And so that, that's the intent anyways. You can do the math, I hope. If I turned 50 this week, I was born in 1974 and I want to give you the exact numbers because I think they're fascinating, but there's going to be a caveat that comes with it. The S&P 500 was I want to give you this number because it's surreal. Eighty nine. I'm not talking about eighty nine percent. I'm not talking about you know, anything, a dividend. I'm just talking about the absolute number. The index aggregate value was eighty nine when I was born. The Dow was 8.03, and that 8.03 is a little deceiving because just a few months after I was born, it was at 5.77, you know, I was born into a very brutal bear market where both the S&P and Dow were down over 40 percent in a two year period, 1973 and 74. But you're talking about over 50 years. That's 18,262 days. It's 438,000 hours. It's 26.3 million minutes. And in that 50 year period, the S&P is up over 20, 000%. A hundred dollars would currently be worth 20,753. And you say, okay, well, I guess it would have been a very good idea to put a hundred bucks in the S&P 500 50 years ago. That's very true. My, I was born in Los Angeles very specifically at Torrance Memorial Hospital. My parents lived in Manhattan Beach.

They already had one other kid who was about to turn three when I was born. And I was the second born. because I ended up having a younger brother a year and a half later. But my father was finishing up his doctoral studies. He got his Ph.D. from USC. This is where my love of the University of Southern California came from. My dad finished his Ph.D. under the great Dallas Willard in 1974, 75, as I was born. And I joke that they couldn't, my parents couldn't have put a hundred bucks in the S&P 500 to turn into 20,000 for me if they want to do since the the salary of a grad student working in a part time staff position at a church wasn't great.

But you know, at least he was going to graduate from USC where everyone goes on and makes a whole bunch of money. Unless of course, when you graduated from USC. with is a philosophy degree, and you are going to be an ethics and apologetics professor at a reformed theological seminary in Jackson, Mississippi for a couple of years.

Now, that did not allow for further S&P 500 contributions. To my knowledge, my 1995, never owned a stock, and I know he never owned The S&P 500. I believe my grandparents gifted him some shares of IBM at some point. My grandmother had worked at IBM. But my dad was never in the stock market. And, you know, had chosen a life as a Christian intellectual that wasn't going to produce the type of disposable income that would allow for investing in financial markets.

But The 1970s were a painful period in a lot of ways. Economically the phrase stagflation came from the combination of high inflation and economic stagnation that was prevalent at the time. Very high oil prices very painful. Energy markets worldwide, OPEC holding a lot of leverage on the energy front, very poor policy decisions in price and wage controls and very poor monetary response creating conditions that were quite the opposite of what we became used to throughout most of what would then become my childhood and into my young adult years.

Then we'll get there in a second. I joke, well, I guess it's kind of serious, but I'm going to pretend I'm joking that one of the advantages of my dad's professional decisions, not producing on disposable income is it didn't give him the access to go buy a bunch of gold in the late 1970s, which is what a lot of people in his orbit were recommending.

And various newsletter writers would have encouraged one to do at that time just in advance of what would become an over

20 year period of dropping 75%, and really on an inflation adjusted basis, you could argue far worse. So, he didn't get to make money. from the stock market throughout his life and he didn't get to lose money which is probably more likely what would have happened in gold either.

But be that as it may we came back to Los Angeles, which is where my dad was from after what I think was about a three year period in Mississippi where my dad was a professor and returned to Southern California in time for me to begin kindergarten. And so my whole childhood was spent in Orange County.

And my father was teaching and preaching and other things and so forth. And I began elementary school roughly around the period that Ronald Reagan took office. Jimmy Carter had talked about economic malaise, and while we double dipped in recession in the early 80s, there is, you know, a very strong correlation between a period of economic recovery and my, you know, school age childhood starting.

And I may not have been the coolest kid who ever lived, but I was very intellectually curious. And the eighties were just an incredible period of economic growth. I'm going to give you the exact numbers, but just consider What it would be like to live in a period in which net of inflation, real GDP growth was 4.

58 percent in 1983, 7.24 percent in 1984, 4.17 percent in 1985. I mean, just absolutely thriving. And then behind a flying

economy, a soaring stock market you know, me going through all those years, you get into the late 80s. And while I don't think I was necessarily understanding this, in all of my Alex P. Keaton attempts at the time a very important lesson became ingrained in American economics and American economic life in that time period. And that is the vitality of capital markets the vitality and free enterprise that is made possible by capital markets. Michael Milken ended up becoming demonized, arrested I think grotesquely unfairly in my personal opinion, but be that as it may, Michael Milken taught us that capital is never the scarce resource and venture capital industry out of Silicon Valley private equity that we began to take hold out of Wall Street innovative financing mechanisms. In debt markets, what became known as high yield, or junk bonds although by then, Milken and Drexel Burnham had moved to Beverly Hills and were not out of Wall Street, but Wall Street followed suit real quickly, and there were excesses. There were losses, there were there were bad actors, you know, just recently Ivan Besky died, he was the famous inside traitor of the mid 1980s. You know, I'm not romanticizing all of this, there's always bad actors, because we live in a fallen world, but there was. a period of robust financial innovation that I am deeply grateful for.

And then there's a whole lot of other people that are, should be grateful, but may not know that they should be. And that's, I guess, my job to try to help understanding in that process. But the concept about capital not being the scarce resource means this, the ideation, innovation And when you have ingenuity, as the human person is extremely capable of it will find capital.

And then when you execute, on human ingenuity, you will find a lot of capital. And so the belief that scarcity of capital is what holds business back as opposed to scarcity of goods and services is one of the great flaws of all time. And now, and we began to really unpack the wisdom of seeing capital is always available, but needing more supply side innovation that really became the a profound takeaway from the 1980s and into the 90s.

So you get into the 90s and I think we know about the digital revolution, the dot com period. It was a robust era. Let me give you these returns. The S&P 500 in 1995, up 34.1%, but then in 96, 20.3%, then in 97, 31%, then in 98, 27%, then in 1999, another 19.5%. Those five years in a row being the best five year period in market history, and after before even two years of that was over, Alan Greenspan, then Federal Reserve Chair, famously referring to it as an era of irrational exuberance. I had a lot of difficulties in my life in the early, late eighties, early nineties and family church and school. And there was a kind of a little two year period there that was very transformative. And I'm not going to get into all of it now. I'm pretty open about it with you in various circles, but it's, I don't want to bore anyone.

And it's a little bit of a distraction to the major takeaway, but you know, the 1990s was funny in this sense from an, the vantage point of markets that bull market of the second half of 1990s word me in. But my father passed away in 1995 and I now needed to do something with my life and to know what I was going to do in my life.

And markets captivated me, intoxicated me. Really at the end of the day that transition into a life in wealth management, financial services, made possible by what was happening, I should say provoked or catalyzed by this real zeal from what was happening in, in markets. I you know, there was a lot of difficulties that are undergirded as well.

And I talk about in Dividend Cafe this, the written Dividend Cafe this week that on one hand, you know, the early nineties were this period of some. Difficulty in life, but on the other hand I also got to live through the Michael Jordan era basketball So, you know, there are things that we're never gonna see again one of them is Michael Jordan who you know through 91, 92, 93 and then 90, 96, 97, 98 won six championships But we're also never gonna see I don't think a five year period like we saw in 95, 99 in markets.

And so that's my best attempt to kind of bring these two things together. It was a surreal period. And then, you know, you get into the next decade. Joleen and I met in the year 2000. We're married in 2001. I've written about in Dividend Cafe. Before that we spent our honeymoon in the aftermath of 9/11. We were literally in air on a red eye flight to Tahiti when 9/11 happened. I'm now, you know, older into my 20s. Joleen worked in a marketing position and advertising at the time. And so, in the travel industry. So 9/11 was a very frightening issue just for us as young newlyweds professionally but obviously it changed the world and the far bigger ramification than what it meant to us and our careers and whatnot was. You know, what it meant to the world became a scarier place immediately and one could say it didn't become scarier, but it revealed how scary it already was. And then, you know, the next decade was just glorious in so many ways, in the sense that all, our three kids were born in 2005, 2007, 2010.

I was building a business. I had gotten hired at a firm called Payne Weber. That then became UBS, that then I left and joined Morgan Stanley. And we were living through this cultural kind of, absurdity that was the housing bubble that, you know, I guess we'll say hit its apex 2004, 2005, 2006, and of course the financial crisis come, came in 2008.

I've said this a thousand times, I won't, I'm going to resist the temptation now to get, go down that memory lane yet again. But it was the seminal moment of my career, and it was the seminal moment, I believe, for that entire era, that entire generation, in terms of American political life, economic life, and cultural life.

And we will spend the next 50 years unpacking what that meant in our economy, we may spend the next 50 years unpacking the specific ramifications of some of what happened into the economy from a fiscal and monetary standpoint. I talk about this all the time, but when you're the firm I was working for at the time is going to this existential moment.

It was not merely a stock market correction or stock market bear market, all of which are always, you know, filled with their own level of complexities and client challenges and whatnot. But where it was so much more than that in terms of being a global credit crisis, a contagion and really just powerful experience to go through in my young thirties.

And yet one that was powerful in what it taught me and how it informed the way I view the client advice business that, that I've devoted my life to. The decade that followed, what can you say, I'm going to kind of incorporate it, not just as the decade, but even the post COVID years, you know, now You know, we, the market went through another heck of a bull market.

You had the unprecedented fiscal and monetary interventions. You had quantitative easing. You had zero interest rates. You know, we now watch TV on streaming instead of cable. There's a lot of things that changed near the end of that 10 years. Then you go into 2020 and we all know they shut the world down.

And I don't want to get into all the issues of more modern history. I think it's more interesting to talk about, you know, milken and junk bonds in 86 or, you know, Solomon Brothers in 1978 than it is. Talk about Covid in 2021. I mean, all these things are I like, I think there's more interesting tidbits.

and further decades out than there is in more recent history. But nevertheless, over this entire period of time you've had tremendous successes on the world stage in terms of the U. S. prevailing in the cold war. A lot of the economic achievements of real GDP growth of the digital revolution the internet moment in the nineties.

You know, we came through the other side of 9/11. We came through the other side of the financial crisis. And of course, at the same time, there's these challenges I talk about all the time. And I think people make a grave historical mistake to believe that we used to not have historical challenges and now we do.

We used to not have various, you know, either governmental or geopolitical stressors and now we do. We've had them forever and yet much like individual lives, including the biography of your humble servant I believe that with the right posture, the right resilience, the right decision making, and the right grace from above we find the victories to outnumber the tough times.

And the story of 100 turning into 20,000 in 50 years is not this mathematical outlier. It's a by product of a belief system that focuses on human ingenuity and not perfectible human ingenuity, not a perfectible humanity. The utopianism of the 20th century should be dead and gone now. It finds its way to breathe every now and then.

But I'm referring to the reality of a fallen world when I speak about the fact that humanity was. with some very significant capacity for production and for doing big things. And that We live in a time period where the negatives can outweigh the positives. And I think many of you have lived lives where some of the difficult times could outweigh the good times, but I hope that you don't allow that to happen.

I feel very blessed and I do mean it sincerely when I say I feel humbly blessed, but I'm grateful and I feel very lucky in the sense that I am fortunate and that Someone I think has smiled upon me in my life. I'm fortunate for my wife and children. I'm fortunate for this business that I love so much.

But I also believe that there is something embedded in this experience that I choose to be long humanity. And this is an expression I borrowed from my friend John Malden. When I say long humanity, I mean long the things of the last 50 years That you really should be long. And I mentioned that 100 turned into 20, 000, but I need to get my own agenda in here a little bit.

Cause it isn't really true. I mean, it's true, but that's because of the S&P 500 reinvesting dividends. 100 only churns to 5,000 on a price basis. With the reinvestment of dividends over 50 years, that's when it goes to 20,000. So you lose 75 percent of the return in my lifetime, apart from dividends in the compounding they're in.

But that's only part of the story. Let's just do basic math here. Because the S&P spent the first half of my life with a pretty attractive dividend yield and it doesn't have that now. It's a, you know, one and a quarter dividend yield now at an entry level. But if you take a starting, you put a hundred bucks today in something, That has a 4 percent dividend yield that's going to grow that dividend at 7 percent a year for the next 50 years on average.

I would like to hope those will be conservative numbers. If your prices are going to appreciate 3 percent a year, I'd like to think those are conservative numbers. This is hypothetical and illustrative to do some math for you. You understand that in 50 years, You're talking about a 42, 837 percent return. 12.89 percent per year based on those numbers. But more important, that 100, the yield will be 8,887%. What you'll be getting in dividends compounded in 50 years. Most of us don't have 50 year timelines. We'll see. I wrote more about it in Dividend Cafe. I haven't talked about it in this podcast or video, but my kids joke with me a lot about my, the color of my hair.

Now the sounds I make coming back from exercising, I'm painfully aware and that's not a metaphor. It's a accurate word about some of the risks of exercising. I do it every day. And it It hurts differently than it did when I was 20. So I know I'm getting older and maybe my timeline for investing isn't 50, but in a lot of ways it's much more than 50.

You know, I believe in multi-generational wealth. In 2074, 50 years from now, do I believe that a 4% current yield with 7% annual growth of dividend will be yielding 8887%. I believe that's the math. Yeah, I believe in math. All I can say is that do not be surprised by what great things lie in store for optimists.

That is not to say there will not be challenges, significant things along the way. There were a lot of significant challenges along the way the last 50 years too. There certainly will be the next 50 years. But I, for one, in my own life, in the management and stewardship of this business, and in the ongoing cultivation of client portfolios, I look forward to what the next 50 years has to offer.

And I just want to say, Warren Buffett was not a billionaire until he was 50 years old. Fast forward to today, he's worth about 88 billion. The second half of one's life can be very rewarding. Compounding can be very rewarding and compounding can be both a mathematical term and the result of the way in which you live your life.

Thank you all for bearing with me in this retrospective 50 years in markets in my own life and I look forward to not just what the next 50 years will bring but what the next 50 days will. Every day is special. Thanks so much for watching. Thank you for listening and thank you for reading the Dividend Cafe.