FRIDAY, AUGUST 16, 2024

Please note that this podcast transcript was machine generated. As a result, it may not always read smoothly, as it reflects unedited spoken content. For the clearest understanding of the podcast's content, we recommend listening to the podcast itself. For complete clarity on the topics addressed, we encourage you to always read the related Dividend Cafe missive and related communications at dividendcafe.com.

Well, hello and welcome to another episode of the Dividend Café. I am your host, The chief investment officer, managing partner of The Bahnsen Group, David Bahnsen, I get to record this Dividend Cafe every week because it is my absolute joy to talk week by week about different things relevant to the markets, the economy, what's happening in the world around us, and to do my very level best to do so around permanent principles that I think are continually applicable for investors. What I generally don't like to do at Dividend Cafe is say, Hey, guess what happened this Wednesday? Or with this big event on Monday, we're going to analyze it here on Friday. It happens sometimes There are certain events that are notorious and infamous and warrant Ad hoc treatment, but for the most part, our goal with Dividend Cafe has always been to allow some sense of evergreen, consistent, first principles based investing commentary and market commentary to permeate what we're doing, both with this podcast video and then the written Dividend Cafe that has been my pride and joy since September of 2008.

This is a very odd week because last week I was actually sitting here in the same spot. I am on the couch in the den at my apartment here in New York City where I recorded last Friday and I'm recording again here this Friday. We will be officially in our new office on 6th Avenue. We've been moving from our spot at the Graybar building next to Grand Central. We've been at 44th and Lex. For those of you who know New York city since 2020, and we're now moving to 6th and 54th much closer to Central Park for what will be our long term home here in the city, a much bigger and just beautiful space. We're very excited about, but as that move has been going on and technology installs and furniture deliveries and all those things I've now gotten to record two Dividend Cafes in a row here from this apartment. In the course of these two recordings, one of them a week ago took place as we were coming off a week where the market using the Dow dropped 6 percent in six days, and. 6 percent is not a big number in terms of market volatility, but in six days it is. And even an anti melodrama investment commentator like myself recognizes that 6 percent in six days is on the high side.

As I sit here a literal week later, it's now up 6 percent from the spot. So to use the exact dates and numbers, the Dow hit 38, 500. It went from 41,200 on July 31 to 38, 500 on August 5th. And from August 5th to now here today it was gone from 38, 500 up to, as I'm recording, we're in the middle of the market day on Friday. We're up a few points right now. 40,600 so more or less right around a round trip last week, we talked about some of the reasons behind it, but then parlayed that into the perpetual risk of these financial leveraged scenarios where. Good things get sucked into it when leveraged financial actors have to unload But that the macro events that really were a few days earlier than last friday It was it peaked out on that monday that nikkei had dropped 12 overnight and all these things was driven by a yen carry trade unwind, valuation concerns and then the Economic vulnerabilities that were becoming apparent in some of the data.

Did all financial average get removed from the market in the last five days? I'm going to go on a limb and say, no. Did the economic scenario entirely change? No. And our valuations all of a sudden cheap and attractive, most certainly not. But did each of those areas reverse in terms of expectations, sentiment to some degree?

Clearly I don't have a commentary for you. About why the market had gone down or why the markets come back up or what it should have done or especially what will happen next now a lot of you who follow Dividend Cafe Especially those who are clients of The Bahnsen Group know That if I were to sit here right now and say hey, there was a six percent down move Then there was a six percent up move.

Now. Let me tell you what the next move is You would know that I had been kidnapped by aliens that it would not be David Bahnsen talking because I will never do that I've never done it, I'm never going to, for the simple reason that I want to go to heaven when I die. And a person who would do that will not be in heaven. Okay, I'm kidding. Little bit, just a little bit. Here's the problem. Nobody knew the market was about to drop 6%. No one knew the market was about to recover 6%. There are all sorts of charlatans that will say they trade in and out. And they do it. I talk about all the time. It's nonsense. And my job is to remind people all the time.

It's nonsense, but it's more than that. It's not just for you to avoid some gimmick on the internet or clickbait or a subscription fee to someone who's for some whatever reason decided to take things that make billions of dollars if they could be done But instead charge you 90 for it or something my goal in life is not merely to help you avoid such things You My goal is to tell you why it doesn't matter when markets can go up six and down six in these short term gyrations, that what an investor needs is not to know this.

I'm admitting two weeks in a row on the same couch that's very abnormal, but a quarter here, a quarter there, a month here, a year there, those things are not abnormal. In fact, 6 percent would be a abnormally low amount of up and down volatility. In a little bit longer period of time. The only reason why this is kind of front and center right now is the hyper short term nature of it.

But my job is to remind people that a properly constructed portfolio doesn't give a, you know, what about one week movement up and down here and there. That there is what I want to use this term anti fragile. There is an anti fragility in dividend growth investing. That, and what that means is it doesn't merely hold up or defend against or serve as some kind of, it isn't just resilient against difficult times against the yen carry unwind against a, an economic vulnerability, a geopolitical event.

It's not just that it kind of whole hangs in there, which is good, but that it. Benefits, there is a robustness and that the compounding of dividends throughout market volatility is an attractive offensive element. Now, some will say, okay, then we want all that more. What do we do to kind of capitalize?

And obviously you can always buy more when things are lower, as long as you're not buying under the delusion that you're buying at the lowest spot, because you just don't know. However, I want to be clear about the way we talk around volatility. Market volatility being down 6 percent in a given week, being down 20 percent in a given year, the up and down movements will happen around sentiment, around bad announcements, around surprises, around inevitabilities.

These things are not something I say, hey, let's go out and pursue it or chase it or hunt it. Let's just be aware of it. Let's just know whatever happens. It's going to happen, which is why dividend reinvestment being programmatic is such a benefit. You don't have to set your watch to wake up and say, I hope I have my crystal ball today.

I hope that guy on the internet who, who is giving the hot tips on market timing. I hope that my, my reading of the charts today, it's just going to happen. There's going to be the up and down volatility. And dividend growth, you have a lot of different companies paying a lot of different dividends.

A lot of different intervals is going to capture that over time. And so you're going to benefit from the inevitability, the assurance of various periods like this, all the while avoiding The fatality of market timing. When you say, okay, I sold out, but markets didn't drop or no, they've recovered so quickly. And then you're afraid to get back in and then you go, finally, can't take it. Can't take it. Then you come back in. Oh, and then most of the time to really punish you for your sin, then markets will drop. But again, the regret that market timing generates. is what creates the second, third and fourth mistakes.

The first mistake is the only way to avoid the second, third, fourth. This is said with a great deal of observational experience. So we are in a period right now where there's been some big moves up and down. A lot of the macro circumstantial factors are still there. Geopolitical uncertainty, what's happening with Iran and Israel, what's happening with Russia and Ukraine, what's happening with the U S presidential election in Dividend Cafe this week, I briefly address a couple because we're just now getting to a point where a couple elements of policy are coming front and center.

I'm going to come back to that in a second, but my point being, there's things that will be moving markets up and down potentially. Okay. Can't predict how those out to respond. You know, those trying to guess exactly what the feds gonna do. I think it's a complete fool's errand. I just don't care.

And I will say it this way. If God Almighty told me the Fed funds rate will be 5% at the end of the year, 50 basis points less than it is now. Or if he told me it'll be 450 basis points, a hundred basis points less than it is now. So what? Regardless of which one, if I knew it was either A or B down 50 or down a hundred, there's no difference in what I'd be doing about it.

No difference. We're completely agnostic to the very specifics about the Fed does monetary policy. My view is that a properly constructed portfolio does not make hey Over something that right now has moved 18% in one month. And what I mean by that is that the fed funds futures market was predicting by the end of next year, the Fed funds would be at 400 basis points down 1.5%, and then less than a month later, it was at three 30, an extra 70 basis points.

Okay? So the four 400 rate at the end of 25, 4% to 3.3%, that 70 basis points is a 18% difference. The futures market forecasting itself was off 18 percent in one month. You want to guess you want your investment plan to be based on guessing what those exact rates are going to be. And when, I mean, just stop that.

Good companies growing free cash flow, paying that to you. I talk about all the time. That's what we care about. We want to diversify some of those things with alternatives and yes to some degree fixed income. Fixed income's role as a diversifier has come back. I don't know how long it'll last if we get back to the zero bound.

God forbid the Fed will take away some of our ability to do asset allocation with the reverse correlative benefits of fixed income. But they're working now and they didn't work for 22 and 23. 2022 is like a once in a hundred year period where both bonds and stocks were down double digits. It had not happened in a hundred years.

They stayed mostly positively correlated that 2023, you had bonds rally huge when stocks had their biggest drawdown recently. That's what you like. That's what, you know, the kind of traditional understanding is for. We would still argue alternatives just lower beta equities to begin with. There, there's a lot more complexity into the way portfolio construction ought to play out, but.

We like the idea of bonds being a diversifier. As long as the coupon is not below the natural rate, you have a little opportunity to use bonds in an effective defensive way. There's a lot of silly stuff being said out there. Just avoid it, please. Okay. I mentioned two policy proposals from vice president Harris, now candidate for president Kamala Harris.

The first caveat I wrote about it a little more extensively in the written Dividend Cafe. I don't think it would be fair to say, Oh, you're being partisan here. Why are you giving us the political opinion? This is just not a political opinion. I'm giving a market investment, economic opinion. I railed.

For very good reasons on president Trump's protective tariffs and industrial policy. I've identified myself very transparently over the years as a Reaganite national review type of conservative. I still am. It's one of the reasons I'm politically independent, politically homeless. I'm not a partisan hack.

I'm just not. Both of these policy proposals from candidate Harris are very clear. concerning. They're not very thoughtful economically. The price gouging, going off a price gouging with groceries federal government price fixing incentivizes hoarding and incentivizes black market activity. It does not lead to that, which really cures prices.

Okay. There's a ton of history behind this. I put a link in Dividend Cafe this week to the op ed that the Washington Post published hammering the proposal. So even if me being a Reagan conservative poisons the well for my criticism, I think the Washington Post would not really necessarily be accused of that same ideological identification.

And then this other issue on the housing, I'm a big critic of housing policy that we do not have enough housing being built. I've identified it in my humble opinion as a supply side problem. And then saying, you want to give 25,000 to help people with a downpayment. I think is very short sighted.

It feeds demand. It doesn't address supply. It subsidizes something which just immediately gets priced in. And so it pushes prices higher. And offsets the benefit of receiving the money itself. Now she did say she wants to oversee the construction of 3 million new homes. And I don't think the president has the ability to do that necessarily, but at least she's acknowledging that there's some supply issue there, that we need new homes.

I mean, that's, that to me is a positive acknowledgement. And so as new, Policy particulars and some meat on the bone comes out around these things. I plan to assess all of it as it becomes pertinent to the way we're looking at the market, the economy opportunities around the exact same thing with any meat on the bone that may or may not come from candidate Trump.

And so there's more on the economic policies of both candidates that we'll be discussing in the months ahead. And it's not a fake civility here. This is my job to do this objectively. And I feel that I'm doing that. So there's my caveat. Hopefully I just limited. The nasty emails I'll get by a little bit.

I'll still get some. I'm gonna leave it there. Thank you very much for listening, watching, and reading The Dividend Cafe. Next week, I get to be with you from our Sixth Avenue office, New York City, opening up for the Bahnsen Group on Monday. Cannot wait. Have a wonderful weekend. Take care.