DIVIDENDCAFE | PODCAST TRANSCRIPTION

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Hello and welcome to this week's Dividend Cafe. We are going to do something a little bit different, although it's not unprecedented because I did it a couple years ago, actually two years ago, this very week. My son, my oldest son at the time was graduating high school and we did a special Dividend Cafe as a letter to high school graduates.

And it was intended to be more than just high school graduates, but one of those kind of broad your entering adult life type messages, dealing with certain financial advice. And it was one of our most trafficked dividend cafes we've ever had. And I went back and read it this week and there was a lot that I was really proud of, I really stand behind, and if I believed it two years ago, you can usually assume I still believe it now. And that is indeed the case. But I did think of some things I wanted to add and some things I wanted to update and in particular update and expand the audience of it.

It's not intended to be words of wisdom for 18 year olds that are getting ready to head off to college, or I should say it isn't intended to only be such, whether one is a young high school graduate or a young college graduate or going into trade school, going into the military just basically pursuing a vocational change in life, some sort of a bridge into adulthood. There, there are any number of things at that just absolutely precious stage of life from late teens to early twenties, mid twenties. But you know that, that kind of moment at which there is a certain element of embracing adulthood and that's, it is been a long time for me now, but I still remember it very well.

I haven't lost my memory yet. I joke in this week's Dividend Café that when I wrote that two years ago, I was still in my forties and now I'm in my fifties. But that's the difference between 49 and 51. So maybe not as pro profound of a distinction, but I do believe that there are a lot of things young people ought to hear, would like to hear, would benefit from hearing.

Some are practical, some are vocational, some are investment oriented. But either way, these are some of the things that the Dividend Cafe has to exist to do, and that's what I want to do here this week. And so consider this as updated and expanded letter for not just high school graduates, but many people and of course, as is always the case, I can say all I want, it's intended for people at a certain age and stage of life.

But there's generally a lot of efficacy, a lot of application to people at all ages. And the thing I had started with a couple years ago. As this sort of baseline thing, because if you say you get to give one bit of practical financial advice to a college student, someone who just got outta high school, they're in college, they're entering college, what have you.

And I could talk about dividend growth and I could talk about private equity and I could talk about career advice. And you can talk about any number of different investment principles and all of which I assume if I would share 'em, are gonna be things that are probably important and accurate and things I believe in.

But on a baseline level, in terms of the most democratic application, the broadest number of people. That need to hear it the most low hanging fruit of the systemic problem in society that you wish you could just wave a wand and eliminate. It just isn't even close. Credit card debt, there's a whole lot of other issues out there.

And we can talk about Roth IRAs and we can talk about, maxing your 401k, whatever, all of it. And in fact, we're gonna get into a couple of these things here in a moment, but there is nothing. That does more damage to more people at that age and stage of life than the accumulation of credit card balances.

And I bring it up because it is controllable and people will say, what do you mean credit card debt is something people get into because they can't avoid it. And I wish that were true. And of course there are cases where it is, where there's an unforeseen life emergency, a medical issue, caring for a loved one, an unexpected job loss.

Those things are called exceptions because they're not the rule and I know the data and this is stuff that we have studied so much that it's just simply unfair to treat the exceptions as if they were the rule. It to use that as an excuse to avoid the vastly more significant and important component of where dividend, or excuse me, credit card debt comes from.

It is a resistance to the concept of delayed gratification. It is the seemingly benign belief that this purchase, I'll be able to get caught up within a couple of months, and then another. All of a sudden, you find yourself in this vicious cycle of paying minimums on credit cards every month for a long time.

And not only does that cost a lot of money and a lot of interest expense that goes there with, but that's a lot of money not being added into your retirement accounts, your portfolio into saving for shortened midterm savings objectives to something more constructive and productive. You forfeit time, value of money.

The opportunity cost, and it's a vicious cycle because then it weighs on your spirit, which makes you less productive in your career because you have less incentive and motivation when the next big thing you're trying to achieve, you're trying to earn for is not to get ahead, but it is to just get caught up from being behind.

These things are vicious cycles, and I've observed it so many times in people. It is such a broad component of society, but the thing is, it's totally avoidable and it of course is avoidable simply by adopting a spirit of thrift, of delayed gratification, of absolutely buying the things you wanna buy when you have the money to buy them.

And while it seems so basic and obvious and many people that get to a point of great financial comfort and excess, we can look down on people that have to struggle with these situations and say, oh, you don't, you know how obvious it is. But see, in the moment where it happens, the, I believe there's generally a mentality that fails people.

They say, I know I probably shouldn't do it, but just a little here, a little there. Yeah. What I'm saying is to avoid it with vigor, with a true tenacity that you will not get caught in that trap. It will be good for your health, your mental wellbeing, and I would argue ultimately good for your soul. Now the second category is one that also could lead to a lot of emotional frustration for a young person or various stages of life.

And hereby young, I don't mean 18 and 19, I don't know a lot of 18, 19 year olds that are saying, gotta get out and buy. My, my first house I think I bought my first condo, let's see, it was May of 97, so I would've been almost 23. It was like two weeks before I was 23. And I, that's pretty young. But I had worked hard and saved and there, there was some unique things going on in my young adult life, but it was a different world then in terms of this pressure that people felt.

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There weren't people in their young twenties that felt like I had to own something. And as people in their mid twenties and late twenties have worked hard, have saved, have gone to college or done something that they feel has translated into this. They face something that I didn't face back in the mid nineties, which is the impediment of affordability has turned against them in every front.

Interest rate costs are higher than they've been the last 25 years. My interest rates are actually higher in, in the nineties, but ev that's what everyone was used to. Then we go for 25 years baking in an expectation of lower rates, and then all of a sudden now, the last couple years, they've popped higher.

And that's why the allure of artificially low rates is so seductive, because it gets baked in people. Do not go back to recalibrated expectation. They continue to wait for something to revert to what they've known for a long time. Understandably, interest rates are not the biggest factor, though, believe it or not, in driving unaffordability it is sticker prices.

And so now I just wanna recap straight from what I had written two years ago, by the way. These basic principles about home ownership, that one should not buy a house or condo or any other form of residential real estate without a minimum of 20% down. And I would argue 25 to 30 is much better that protective equity gives people skin in the game insulates from various financial concerns.

And protects what is your largest purchase? There is a massive difference economically and behaviorally in the protective equity of something 20, 25, 30% down. Number two, buying a home if you want to have a great place to live and raise your family. But not because you think it'll make you a lot of money.

Don't be buying merely as this form of price appreciation. I'm gonna get into that in a moment. Do not buy a home you can't afford. Number three, just 'cause other people are doing it. A keep up with Jones's mentality. If you feel like you're stretching and you're stressed to think about a monthly payment and tax burden and HOA and insurance and maintenance and utilities, don't do it.

Don't invite an anxiety that is above your means merely because you're trying to keep up with something that can't, that isn't necessarily comfortable or doable. Number four, amortize your mortgage and pay down loan principle. If you have any intention of staying in the home for over three, four years, if you think you're just gonna be there a year or two and you're moving somewhere, you could argue why bye to begin with but I understand if one.

Is not prioritizing principal reduction especially through amortization, if it is intentionally a short term play. But if you really believe you're gonna be there longer, not necessarily forever, but something over three or four years amortize the mortgage, the allure of interest only, that really becomes renting from a bank.

And calling your, with the gift of being able to pay property taxes along with it, that's really what it is. It's a psychological thing and it's just so dumb. And then number five, a house should be a home, not a trading card. This is repeating someone, number two, but I'm trying to extract more out of it.

This is my great theory as to what the cause of the financial crisis was back in 2008. But people that believed a home was something to trade around like a card. Because it is mostly done on borrowed money, people have the luxury of pretending that they're actually trading an asset when really they are levering.

And it is a cultural problem as much as a financial one. That it gets us away from thinking about a home as to something that you build equity in over time. You have you sacrifice to save, to get into, and then you become a valued member of a community. 'cause you own a home there. You're investing in it, you're raising a family, you're creating memories, you're doing holidays, you're, like living life.

This is a very different mentality in home ownership than viewing it as a trading card, which obviously we don't. Usually have a high regard for trading cards out of this mentality, though, and this is all stuff I'm repeating from two years ago, but the newer things I wanna add, there's a chart from a recent Harvard case study.

Just understand if you're frustrated that you feel like you have saved and earned and are imposition by a home and it's unaffordable, understand that for a long time, the average home price was about three times income. And it is almost double that right now. At the peak bubble before financial crisis, it was four and a half times income.

It's right now over five and a half times income. At getting close to six is nearly double the three that it's averaged for 30, 40 years people had routinely spend about 30% of their income on a home payment. They're now routinely spending north of 40%. If you feel like you're being left out of the price appreciation that the prior decades have, I would suggest to you that you're not, that the forward home price appreciation will not and cannot look like unless you believe that we're gonna reprice to going from 40% of our income for our home to 50%, but a lot of those metrics are at a plateau.

And maybe everything stays the same, but I would suggest that having the mentality that you really wanna own a home because you want to have a place you call your own, that you live, throw roots in, become part of a community, be you know, raise family, all those things, that's a very valid reason to own a home.

But this notion that you're missing out on a certain financial issue that I think is going to prove elusive. Have the right mentality into when you go into buy a home and have the right economic stability behind it, temper those expectations about future price appreciation and have a mentality, financial framework that's fiscally responsible.

And then I guess I'll anecdotally throw this in. If you buy a home, maybe even own a second home, you've done everything right. You build a lot of equity, maybe paid 'em off, and then you find yourself 20, 30, 40 years older in life. Please don't go to city council meetings and protest against new homes being built because this is the issue we're doing now that we have a inadequate supply to meet current demand.

And the people that are most worried about new supply are the people that they themselves benefited from adequate supply when they were younger. And it drives me bonkers. It's immoral. And I'm just asking you younger people that right now being victimized by the low supply to on the other end of this, a later stage in life.

Remember this? Thank you. Alright, so investing behavior. I spent a lot of time at Dividend Cafe talking about panic and euphoria as the great two behavioral mistakes one could make that can derail one's financial success. And I wanna make clear that they are bad behaviors different sides of coin, but they come from a particular emotional framework.

That is entirely human. Panic comes from fear. Euphoria comes from greed, and humans are human. And I say this all the time, but this is the sort of essence of, I think wealth management's fundamental behavioral proposition, value proposition is in this behavioral management that we don't allow these emotional human realities to lead to a behavioral mistake.

That could become fatal. And I've seen it so many times in so many ways from so many people that I've lost count. I guess there's things you could do to insulate yourself from it, and I certainly believe that employing the services of a wealth advisor that won't let you do it is a very good idea.

But there's a little bit of self interest or self-serving in my stating that. But beyond that. The very tools that a competent truth telling wealth advisor would use are the ones I reinforce. The concept of asset allocation, the concept of seeing your portfolio is something that's supposed to have things in it that go down at times.

Supposed to have winners and losers at all times because of the merit of diversification that you are avoiding home runs because you're avoiding strikeouts. We can go, there's a lot of metaphors and things, but I think you get the idea. There's a discipline that goes into it. That is your insulator that immunizes you from some of these panic and euphoria risks?

I believe it is largely a character trait that, that is nevertheless hard, it's elusive. We can look at other people and say, that person is so dumb, and look how rich they got off of this thing. I wanna do that thing. But that's covetousness. That person is very likely lying. If they're not lying, you're catching 'em at a stage before they bone themselves up, and then maybe they are just some lucky SOB and everything came up.

Roses for 'em. Who cares? It just isn't the way life works or is supposed to work, and to the extent. That you find it tempting to want something someone else had that seems to have come easy. I encourage you to avoid the mentality when it comes to investing because seeking something that seems to have gone well that way for others is itself a very good way for bad outcomes to come to you.

I very much believe that investment wealth is a byproduct of compounding. Compounding is a byproduct of time and there are better ways to compound over time than others, and I'll get to that here in a second. But believing that no riches come quickly because I got something that went up 25 times in one year.

These are really good ways to avoid compounding, which is a better way of saying to avoid the accumulation of wealth. And I understand that you think there's exceptions out there to it. Those things were sustainably repeatably competently achievable. Then they would go away because everyone would be doing them and they wouldn't then be 25 x lucky deals.

Always go to Vegas, bet it all on black, bet it all on one number on black. You can do whatever, all that. It's just not real life. And that mentality is what I'm asking you to avoid. When I say better ways to compound capital, this wouldn't be Dividend

Cafe without me talking about the dividend meat on the investment bone that we believe in.

There's no such thing as a dividend that is not a byproduct of profits. When you buy a company, you're a minority owner in a company, what you're after is the profits of the company. That's what the asset is. If you're a majority owner, you might be trying to take over a company. You get to its assets, they have some factories you want, and you could use them with your other business.

So you go buy the business as a way to take over their factories or their inventory or some key employees they have or something. But if you're not doing that kind of coke and dagger m and a, if you're a minority owner in a business, what you're after are the profits of the business.

And all we're talking about when talking about dividends are not the profits. They're a something to do with the profits and a business generally has a few other things they may wanna do as well. Beef up their balance sheet, pay down debt reinvest into certain elements of the business.

Although a lot of businesses get to the point where they don't even need to do that anymore. The free cash flow is such that it is so productive. They don't have that need to constantly be reinvesting. That's for real mature type businesses. But my point is that there is a portion of profits that companies have to decide what to do with.

And I am saying to you, dividends represent a way for you to de-risk your investment without forfeiting your ownership. If it's a good business, you may wanna keep your ownership, but if you're gonna monetize an investment that's done well for you by merely selling off capital gains, then you have to.

Forfeit your ownership in the business. You own less of the business in order to get the, for the benefit of monetization. So with dividends, you are constantly de-risking and constantly sustaining your ownership because the fruit from the tree is not cutting down the tree. You follow me? This is what we of course have built an investment philosophy around at The Bahnsen Group.

But it is such a wonderful lesson to learn early in life because the amount of people that come to us at age 50 and say, I'm getting close to 60, or I'm at 60 and I'm getting and now I really wanna look at this, if only had done this earlier, the compounding benefits of dividend growth. At the younger ages are massive.

The future income stream, your future yield on original investment, the more the earlier you start. Dividend growth is a wonderful way to do high conviction investing, have diversification, and yet constantly be in the sensible zone of profit making activities that don't force you to divest and dilute yourself in order to actually make money on the investment.

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I would be remiss to not bring up crypto a little bit based on the intended audience of this week's message. There's no, there's, it's no secret what our skepticism is about this digital asset world. The big booms and busts that go along with it and some of the just grift and sanity that you see peripheral to the space.

And I have, I still owe a much longer, more exhaustive Dividend Cafe to my fundamental treatment about where there's so many just bizarre misunderstandings about what's really going on in it. But here's what I would say to avoid going too deep into it right now. I would just encourage you to ask two questions of yourself.

If you're interested in the, if there's an allure to this world, is the reason you may wanna buy some cryptocurrency or digital coin, or NFT or some quote unquote asset because it has a, that has a tech sounding name to it. Is it because you believe it's a way to get rich quick, that there's some kind of superlative, quick accelerated path in it?

Is that a motive? And maybe the answer is yes. Maybe it's no, but ask yourself that question. And then number two is, do you understand why you believe it will go higher? In other words, what if you say, I wanna buy something? 'cause I think it's an appreciate value. Quickly, do you have an answer as to why you believe it will go up quickly?

Is the answer just because I've seen it do it or my friends told me, or it's a pop culture thing? Maybe those are good answers.

Maybe they're bad answers. But have a self-awareness is about what's going on. I believe that if you're in the camp of some of my friends made a lot from X, Y, Z, whatever the X, y, Z may be, I want I wanna make a lot quickly too, even if I don't really understand it, I recommend passing.

I think it's a very good idea to know what you own and why you own it, but I mentioned earlier I had bought a house in the mid nineties and, I'm in my early fifties, so you could figure out generation where I come from. The dotcom moment of the nineties, mark Cuban had this line in a documentary I've quoted several times over the years where he said The bigger the party, the bigger the scam.

There were these companies throwing multimillion dollar parties. That didn't have any revenue at all, or certainly you know, much less revenue than would be necessary to sustain these values. And this whole thing blew up and trillions of dollars went away. And it wasn't volatility. It was the erasure of wealth.

It was wealth destruction, money set on fire, never to come back. And the scam of that moment was everyone living high on the hog of these parties and these were just. Nonsensical companies in moments in time, and I've written a bunch on.com and I'll write more. And in fact, I'm working on a project that is actually correlated to that, that I'm gonna be doing a Dividend Cafe shortly.

I'll share more about soon. I would say equivalent in the crypto moment to that.com moment is not so much. The bigger the party, the bigger the scam. But I would say the shinier, shinier the object, the bigger the scam. Pump and dump is not the stuff. Sustainable investments are made on credibility matters, and if the vast majority of people you find that are really promoting something are taking to social media to tell you how dumb you are for not doing it, that is not the stuff that self-confident investors do.

All right. You do not need to pump and dump. Ha. This kind of grift that goes around with a big space. Be cautious. Just as you would've been cautious of a big party in the late nineties, or at least maybe some of us should have been all learn. From the lessons of the past. Last but not least, I get outside of the investment message, financial advice message.

And I think this is a little bit broader in the culture at large, but nevertheless, a deeply economic message, at least as I understand economics, what I believe about economics as a moral philosophy and a social science and not merely some sort of mathematical exercise. There are a lot of people my age and even and actually it's probably a more systemic.

Habit of people older than me that become curmudgeonly or look down at young people or look at circumstances around us and just are constantly negative. My day things were this, and nowadays things are, it's just so bad. And it could be the national debt, which I wrote about last week and it could be various elements in the culture there.

There are certainly various things that people could be fearful of. Right now, a lot of people are worried about ai. There, you could be worried about get rich quick, grift and all this type of stuff. I think a lot of people are worried about the way that we approach class warfare.

That there seems to be a resentment of risk taking. There seems to be resentment of successful people. The, all these things, I guess make it on a list of mine. Some of them I do not worry about. Some of 'em I do not like. But the thing that I would argue is most concerning that you have it in your own agency to avoid is a rejection of dynamism and optimism.

There is a productive path. For people available and surrounding ourselves with negativity, with cynicism, with pessimism with other paths that avoid productive activity, but seem easier daydreaming about a life as a social media influencer. I think that what we need right now is a generation of people that view risk taking as a noble thing.

And that view virtue, thrift character, integrity, morality, civility, respect for others, even those that you disagree with politically even those that root for absurd football teams. Virtue is a extraordinarily achievable component in your life when you work at it. And couple it dear professional endeavors, and it transcends ai.

It transcends grift. It transcends home unaffordability. I think that if you want to focus on developing the asset of truth telling character and self sacrifice, I think you are going to set yourself up for tremendous prosperity. For tremendous contentment in life. This is, I think, ultimately the great need of the hour for folks that are gonna need to avoid credit card debt, need to make good decisions about a home, need to make decisions about their portfolio.

All of those things we've talked about are real, but when you embrace a path in your vocational life that is all at once productive. And rooted to virtue these production of goods and services that meet a human need, and then you can have a good time doing it. I think that's the message I would leave you with, whether you're a high school graduate, college graduate, going to trade school, starting a business, whatever it is you're doing, getting four roommates and just trying to go figure stuff out.

22, 25, whatever this is to me. The takeaway I would offer you producing goods and services with joy is a life well lived. Thank you so much for bearing with me in this week's somewhat abnormal Dividend Cafe. Look forward to being back with you again next week. Lots more to say. Monday's Dividend Cafe, by the way, is gonna be a doozy 'cause.

Elon and President Trump have decided to give me lots to write about, and there's a lot of economic data jobs, data market updates will get induced, so that'll be normal Monday. But in the meantime, have a wonderful weekend. Thank you as always. For listening, for watching, and for reading the Dividend Cafe.