FRIDAY – AUGUST 28, 2026

Well, hello, and welcome to the Friday Dividend Cafe. I am your host, David Bahnsen, and today, this final Friday in August, as we get ready to bring summer to a close, I wanna do a little part two of where we started last week on *Profit from the Profit*. That is the name of my brand-new book that just came out this week on dividend growth investing. But as I talked about last week, this is, of course, at the very essence of what Dividend Cafe ought to be all the time: some form of us discussing an investment philosophy and some form of an application of that philosophy. That's what dividend growth investing is for us at The Bahnsen Group. It's what it's been for me, for my adult professional life.

And the book, of course, is a longer-form encapsulation of the belief system behind dividend growth investing. But what I've tried to do last week and now here this week in the Dividend Cafe is just kinda capture some of the highlights of the argument behind dividend growth investing, and today maybe look at some of the critiques that are thrown out there, sometimes credibly, sometimes not so much, and just evaluate or provide an answer to some of those criticisms. I wanna quickly summarize what we talked about last week. First of all, if you don't mind, let me say, the book's only been out for a few days, but we're really kinda blown away at how it's done out of the gate. Number one in its category on Amazon all week. Number one in the audio. We're not gonna get the kinda big bestseller list until next week, but the publisher's very excited and optimistic, and so there's just been a great response out of the gate.

But I, very sincerely, wanna say this. In the written Dividend Cafe today, I wrote this at the end of the article, and I'm saying it for you watching the video or listening on the podcast at the very beginning. I don't care about the book sales. Like, it's very much not my day job, okay? I care about the message of the book, and I care about having the arguments memorialized and captured and allowing the book to be a tool because, as much as I am a dividend growth practitioner, I want very much to be a dividend growth evangelist as well. The reason, though, for taking advantage of the timing of the book coming out to devote a couple Dividend Cafes to this topic is because it's the kind of thing we need to be doing all the time. Dividend growth is countercultural and therefore requires a consistency in making the arguments and reiterating what is believed and why.

And so how the book does and everything is wonderful, and any author cares that it isn't just ignored and so forth. But we wouldn't have given the book to all our clients, and my advisors, I understand, are giving it out like hotcakes to people they're in conversation with that aren't clients. It isn't about the sales of the book. We just care about the message of the book, and the title *Profit from the Profit* is meant to capture an instrument for how financial goals can be realized, and to do so connected to an underlying philosophy that we believe to be durable and resilient.

So last week, for example, when we talked about some of the major tenets behind it all, I think that the notion of investors being properly focused on the return coming from the thing itself, in this case a profit-making enterprise, as opposed to returns coming from something outside the thing itself, this sort of exogenous focus on getting popularity, getting momentum, getting big sentiment. In other words, I wanna make money because a lot of other people believe it's gonna make money. It can do well. You may end up happier with the result at times, but I firmly believe that is less durable than getting the return from the actual profit-making enterprise. The company performance delivers a result to you, as opposed to you're getting a return because a lot of people believe it, like it, hype it, et cetera.

That endogenous versus exogenous focus is real and matters, and that was something we talked about last week. And I don't wanna recap everything we went into last week, but I think that dividend growth facilitating a better focus on the reality of how profits are generated from individual companies. There's a person, a personality, a persona, a companyification to dividend growth investing that has become very lacking for a lot of investors that refer to "the market went up, the index went up." They may as well say an amoeba went up, and it isn't the way profits are generated. And I understand sometimes we're pooling things, that an index is actually supposed to be a measurement of investment performance, not the actual investment performance itself. But I certainly understand that there's a sum of parts in a basket of companies, but that focus on the profits coming from all these individual companies doing their various things, I think it really is intrinsic to dividend growth investing, and it matters a lot.

And it separates us from that which is most disruptive to our well-being, our peace of mind, but also to our behavior as investors, which is the sentiment that can create big extremes in euphoria or panic around just the normal reality of market distress and market volatility, where dividend growth investing keeps you in the lanes of profit-making enterprises that will have good and bad moments, but not to the extremes of human sentiment and emotion. So I won't recap everything we talked about last week, but I will say where we left off was that sort of biographical reality that I found dividend growth investing in search of a more coherent withdrawal strategy, and I found it. And I ended up, in such finding, a much superior accumulation strategy. And in having found both a withdrawal and accumulation investment strategy, I found better companies. I found a better way to find better companies. I found a better way to hold on to better companies, and that underlying quality and social contract embedded in dividend growth investing became something that changed my life and career and portfolio worldview.

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So there are critics. There are folks that say, "Nah, I don't buy it," and you hear a couple of greatest hits thrown out there. And I'm gonna focus on a few of those here today before I let you get onto the far more important business at hand, which, of course, is opening weekend of college football. First, you hear people say, "Well, you know, stock buybacks are actually a superior way to return capital to shareholders." We hear people say, "Dividends are actually bad because you gotta pay taxes on them." You hear people say, "A company just becomes less valuable when it pays out a dividend." And one of my favorites: "If dividends are so good, why doesn't Warren Buffett pay them? Why has Berkshire Hathaway gone decades without paying out a dividend?" And then finally, "Dividend investing is good for retirees, but when you really are young, you want great big growth, not these boring, stodgy dividends."

So let me make a few comments in order on those five things. Each one of those, by the way, is addressed very exhaustively in the book. If I say something today and it scratches the itch, great. If you hear something today that you wanna hear more on, then yes, the book does elaborate further. I'm not gonna bore you all in the Dividend Cafe with five whole chapters' worth of content, but I wanna hit some of these things at a high level.

The stock buyback thing is a really interesting argument that I've been contending with for much of my career. First of all, I just wanna point out that one of the major problems with stock buybacks is, as I'm about to explain in a moment, that they don't often actually exist. But first of all, for those who are withdrawing capital and you're an investor who needs a periodic stream of income—that isn't everyone—but let me just make clear that the stock buyback counter to dividends isn't a counter at all. You can't eat a stock buyback. You can't spend a stock buyback. You can't consume one. And to the extent you say, "Well, I can just sell the shares," that obviously isn't happening in any linearity to the company buying back shares, so you essentially are not receiving capital back. Now, you think it's embedded in the value of the shares, but it isn't such mechanically or logistically or practically. And so, just as a matter of basic portfolio mechanics and withdrawal logistics, there is a night-and-day difference between stock buybacks and dividends for a person who needs consistency of cash flow.

But the second point is also very important here, and that is that stock buybacks are essentially the most expendable thing out there when it comes to capital return, that companies suspend stock buybacks ten times more frequently than dividends when things get tough, when there is uncertainty, when there is profit decline, and history has been abundantly clear on this. So there is not anything resembling the social contract that dividend growers represent versus the world and culture and ecosystem of stock buybacks. Now, this is not only empirically and historically undeniable, but it also is important to understand from a timing standpoint that when stock buybacks become most expendable is when they're actually by far most attractive. Companies do just undeniably do the bulk of stock buybacks at times that prove to have been less attractive, and they do almost no stock buybacks when they would be most attractive. So not only is it completely counterproductive to what you say we're talking about, which is an alternative means of rewarding shareholders with profits, but the time where you could do it best is when you are least likely to do it.

But then I wanna get to the third point, which really even trumps the first and second, which is just the absolute math of the thing, that stock buybacks don't even really exist. Because if I tell you we bought back one share, but we then added two more, so you end up with more shares than you started after buying back, the net buybacks are negative. And this is not any form of capital return at all. You go, "Well, how is that possible?" Because, as I've argued even in my very first book on dividend growth investing, and has been true throughout all the years I've studied this, stock buybacks are really offsetting the impact of new share issuance from executive compensation.

That's not universally true. It's not entirely true in terms of the math, and it may be distributively different across various companies and even sectors. But in aggregate, stock buybacks have led to more shares, not less. And so the anti-dilution people think they're getting does not exist from stock buybacks. All you're getting is an offset from what is really a form of employee compensation, executive compensation, incentive compensation, stock options, restricted stock units, incentive comp, et cetera. All of which I'm fully supportive of. I'm totally for these things. I love skin in the game. I love equity compensation. It's just that it isn't a capital return to shareholders. It's an expense item to employees. There's nothing wrong with that, but it isn't in the same category of a dividend. And so I do not believe the stock buyback argument is valid, and of course, I elaborate on that at great length, not just in the book and in the prior book, but in an awful lot of other writing I've done along the way.

The tax argument, I could really go down a rabbit hole here, but some will say, "Well, look, you're paying taxes on the dividends as you go, where unrealized gains aren't taxable, so your after-tax return will be worse with dividends." And again, it begs the question as to whether or not you're achieving the same profits, the consistency of profits, and total shareholder results if there aren't these dividends being paid consistently over time. It also misses the point that a very significant amount of accounts are, of course, themselves not taxable because so many investor portfolios are held in IRAs and 401(k)s and Roth accounts and defined benefits and charitable endowments and foundations. So a significant amount of private wealth money is outside of the taxable concern to begin with.

But I'm very happy to limit my point here to taxable accounts because it is not just that I say, "Yeah, that dividend thing is a drawback, but it's tolerable." I think it's a feature, not a bug. With the capital gain rate and the dividend rate being the same, it's apples-to-apples equivalent, so all you're talking about is paying a little bit of tax along the way versus a whole big tax at the end. There is absolutely no denying that the buildup of a large embedded unrealized gain alters investor behavior. It makes one far less likely to optimally allocate the capital, to have the right balance, the right risk-reward skew, the right security selection, because you are inevitably tainted by those tax consequences, where within the dividend growth portfolio, you've buffered and softened that along the way so it optimizes investor behavior at a later stage. And we've seen this play out time and time again. Again, I can do a whole Dividend Cafe on this. You could read the chapter for greater-length treatment. But again, the argument that somehow we should favor no dividends because we're gonna have to pay taxes on them is utterly silly.

Okay, company gets poorer. This is probably the dumbest one, and it might be the dumbest one in a seductive way because it might seem to be the smartest. But there are people who say, "Well, you have a company worth 11 bucks, and they give you one buck, and now it's worth 10 and you have one. So you could either have a company worth 11, or you could have a company worth 10 where you have a buck on the side. It's no different. All you're doing is making the company poorer." Now, I made up those numbers. The proportionality of them and all that is irrelevant. It's just to give you the kinda math example.

Look, it is an odd thing to believe that I would rather have that dollar that was from an after-tax profit already generated in the hands of the CEO than myself. No, I love the CEO. I love the company. You always can reinvest the dollar into the shares, which is, in fact, what we most often do. If the company itself says, "No, no, no, we wanna hold onto all of it. We want to maintain your money market," or, "We want to have the money to go do M&A with," then I would call into question whether or not that CEO is a good steward of the capital. But in other words, dividends offer the best of all. You can always say, "I wanna reinvest in the company," or you can use it to monetize if you're a withdrawer of capital or you're diversifying into other things. The point being, that cultural mentality of rewarding the risk-takers strikes me as good stewardship.

But then fundamentally, I wanna suggest that the company with 11 versus a company with 10 that gave out one, that it is not the same. The way we value forward profits is different when it comes to what we believe about the company's stewardship of capital, the durability, the growth of profits, their propensity for alignment with shareholders, that all of these things get discounted into market prices. So the dollar itself is not the issue because the dollar was created from the underlying enterprise of the business. Now you have the dollar, and the question is what to do with it. And if the company has a reinvestment item that is generating a higher return on invested capital, they should be reinvesting it. I have no problem with that. I'm talking about where there's such high cash flow productivity that you have to decide what to do with the dollar, and your options are either to let it sit in the company's cash, which is no different sitting in your cash except for you can't spend it. And I don't think that's a great option when the company has adequate cash reserves already and has an adequate balance sheet already, okay?

Or the company could use it for something good, which I'm in favor of, or the company could use it for something bad, which I'm not in favor of, or the company then could say, "Hey, we already have adequate cash reserves. We already have the leverage in our balance sheet down to or up to the level we want. The high return on invested capital projects we've already done, and if we were to take this dollar and put it into a new project, we think it's a low return on invested capital, so I don't want that. So now we have to do something with the capital. We could reduce debt, we could do stock buybacks, or we can give it to you in a dividend." The point is that this objection is avoiding the real subject at hand, which is a decision about what to do with an after-tax profit dollar that already exists. And I would suggest that the forward valuation of companies that are good stewards with what they've done with after-tax profit dollars and have this forward vision for creating new after-tax profit dollars from which they will be good stewards, that's how you're maximizing value. But the idea that it's just at a fixed point in time, either 11 or 10 plus one, is just not how markets work.

Okay, then the Berkshire fallacy. This has come up for years about, you know, "I really like your argument. I really believe in dividend growth, but I gotta ask you, one of the most successful investors of all time, they didn't pay dividends. If dividends are so good for companies to pay, why didn't Berkshire pay them?" And at first you're kinda like, "Oh, that's a pretty good argument." But I need to point out something that's just categorically important to understand: Berkshire is a huge receiver of dividends. They are not an operating company. They're a holding company, and what they hold is a whole bunch of operating companies, some of them private, some of them public, and a whole bunch of those operating companies are paying them dividends. But their deal with their shareholders as a holdco is that they're not paying the dividends out, so they have a permanent capital base from which they are then doing other acquisitions. Acquisitions of what? Operating companies that are actually gonna be returning capital to them. So I think there is no argument here different. Now, what types of companies they're buying may be different. That's a different issue altogether. But the mechanical reality that Berkshire doesn't pay dividends doesn't change the fact that Berkshire most certainly receives dividends, and that's the underlying point, is what are the types of operating businesses you want to invest in?

And then finally, the idea that, well, okay, great, dividend growth works. Dividends, receiving dividends, is attractive for old people, for retirees, for folks who just want that consistent cash and yield later in life. But right now, give me some growth, give me some hot-flying, you know, blah, blah, blah. I'm wording it in a way that you could argue is sort of a straw man because I am intentionally trying to characterize the argument because it is somewhat absurd. But there's a lot of people that say it quite seriously, and there's a lot of people that wouldn't say it as absurdly, but what they mean is kind of the same. So it is kind of a latent absurdity that is, I think, unavoidable, which is this: it's totally presupposing a certain timing. It's completely presupposing a human psychology that, oh yeah, I'm gonna go get in on these 20 great years, 30 great years, and be so happy, all this growth, and then I'm gonna just totally turn it off and pay a bunch of taxes all at once and then kind of rotate all at one time. People would not do that.

But it also is missing the biggest point. Well, maybe not even the biggest, because the fact that the dividend growers just outperform historically the non-dividend payers and growers of the index is empirically ignored in this argument. I'm just willing to ignore it. I'll say for the sake of argument that you're just gonna own the hot NASDAQ stuff and you're gonna be out of it when the NASDAQ is down. I mean, it's a ridiculous market-timing-driven presupposition, but I'll pretend. However, despite all the historical evidence to the contrary, the reality of human nature, everything that is not really defensible in the presuppositions behind all this, the issue I'd like to point out in opportunity cost is one of the fundamental drivers of the accumulation strategy of dividend growth, which is what we refer to as yield on original investment.

That when you lose the decades of accumulating these dividend growers over time, you lose what is the great mathematical miracle of dividend growth, which is the ability to buy something, have it give a very good return, but nothing magical, nothing hot momentum, and yet wake up one day and you're getting 30, 50, 70, 100% cash on cash per year from what you originally invested. Now, that doesn't happen because of magical returns, and that's not a guaranteed or assured thing. I'm talking about the math of buying a company when there's a dividend, let's say, of 3 or 4%, and they grow that dividend over the years. That, yes, the current yield may stay about the same, may even go down a bit because stock prices are going up over time as they're discounting the future growth of the company. However, the yield on what you originally paid for it becomes extraordinary, just from the math. And when investors say, "I wanna enter this game at age 60 instead of age 30 or 40," or whatever the case may be, they forfeit a whole bunch of that, and I find that utterly irrational. And so you have to understand what you're forfeiting to appreciate why I'm critical of it, and yet that is the argument I would make.

So, okay, let me leave it there. We've tried to give you a little taste of four or five objections to dividend growth investing that I've contended with. I've laid out a lot of the basic premises behind the argument for it in the last couple of weeks, and I've laid out the premises over and over and over again over the last couple of decades. I'm going to be doing it for the next couple of decades, and hopefully longer. This is something that I believe from the bottom of my heart represents an incredibly coherent investment strategy that I believe is connected to a very cogent investment philosophy. That's what we're doing here at The Bahnsen Group.

That's why the book exists. That's why Dividend Cafe is named Dividend Cafe. It's why we do dividend growth investing. And ultimately, it all comes down to, in the end, the mechanics of wanting the instrumentation to benefit investors, who are our clients, through profits and, very specifically, profiting from the profits.

Thank you very much for listening, watching, and reading The Dividend Cafe. Fight on. Have a wonderful weekend. We'll see you next week.