FINANCIAL PREPAREDNESS

"One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared." ~ Merlin Olsen

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Stocks for the Long Haul

Like Nassim Taleb (author of The Black Swan and other books), I have a great deal of respect for things that have stood the test of time. This would include water (as a beverage), movement/exercise, intermittent fasting, the family, dogs (as pets), being armed, the handshake, and precious metals. It does not include fiat currencies, cryptocurrencies, words that politicians say, children raised without fathers, new genders, Social Security and Medicare, the federal disability program, a sedentary lifestyle, the Standard American Diet, and many if not most prescription drugs.

Taleb uses Broadway shows as an example. The longer they have been around, the more likely it is that they will be around in the future. Note that four of the five shows with the most number of performances (a proxy for longevity) are still in production, even though three of them started before 1998. In contrast, ALL of the shows between #59 and 121 are no longer in production.

If something has been around for a long time, it's because it has met a deep human need. I'm a fan of longstanding traditions, performances and institutions. While I was stationed at Ft. Sill, OK, I discovered a nearby place called Easter Pageant that's the site of the longest running Passion Play in America. My dad—a longtime Rotarian--had a 20-year perfect attendance record. I have great respect for athletes such as Cal Ripken Jr., who played a stunning 2,632 consecutive games. I greatly admire the players between 78 and 89 who I've played pickleball with; I tell them they're my hero because I want to be like them one day. When you're a part of something timeless like that, you feel part of the history, the tradition, the unbroken chain.

When it comes to investing, novelty (such as IPOs and new technology) draws nearly all of the attention and fresh capital, but you would be wise to ignore the new and the popular and respect longevity and tradition. The present value of any security is equal to the sum of its future cash flows, discounted at an appropriate interest rate. The sum of a stock's future cash flows depends to a great extent on how long the company will be around in the future. And the longer it has been around, the more likely it is that it will be around in the future (although eventually, all companies go bankrupt).

There are several groups of stocks that have increased their dividend every year for many years. Dividend Challengers have had at least 10 years of consecutive increases, Dividend Champions at least 15 years, Dividend Aristocrats at least 25 years, and Dividend Kings at least 50 years. There are 19 Dividend Kings in my spreadsheet, several of which actually have 60 or more years of increases: Lancaster Colony (60), Dover and Emerson Electric (66 each) and Genuine Parts (67). These companies are loathe to break those records because they know it would be an ignominious event, and investors would sell their stock.

As a group, stocks that have a track record of increasing their dividends every year have the best long-term return, followed by stocks that pay a static dividend, followed by stocks that don't pay a dividend, followed by stocks that cut or eliminate their dividend.

Companies that have been around for a long time have withstood recessions (so are battle-proven) and have had time to improve their products/services, systems and efficiency, identify and target customers, and build their brand. These actions tend to create an economic moat that allows the company to fend off competitors and maintain pricing power, which increases the company's life span. Companies that have been around for a long time tend to be in industries where there's not a lot of fast, disruptive change or agile competitors, and where consumer preferences and habits are more entrenched (e.g., tobacco, beverages, food). I track each company's age (the longer, the better) on my spreadsheet, and avoid unseasoned companies.

IPOs (initial public offerings) usually quickly suffer large losses, because the Smart Money (insiders and the original owners) are selling to the Dumb Money newcomers, who believe some pie-in-the-sky story told by Wall Street and the financial media.

New ETFs (exchange-traded funds) also invariably soon suffer a large decline over several years, because new ETFs are only brought to market to meet investor demand, and by the time investors are baying for a new way to obtain exposure to a specific sector, it's time to sell. When John Paulson wanted to short the housing market before it crashed, he had to figure out a way to do that, because there was no “short housing” ETF because no investors were interested in that at the time.

In conclusion, I know it's tempting to get in on some shiny new company, technology or guru (Elon Musk) that's supposed to change the world, but you'd be better off investing in a company that has been around and paying (and increasing) dividends for a long time, ideally something boring like Hormel (which makes Spam). An economic moat + low expectations + little investor interest + time = high returns.

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This week I drove by the Atlanta airport (purportedly the busiest in the world, with five runways) twice and saw something I had never seen before: not a single plane in the sky. Thousands of flights have been canceled. I read some stories about it in the legacy media trying to learn the reason, but they barely mentioned the why: apparently a shortage of labor. I wonder if that's because a number of airline employees have decided they're done getting jabbed? Note how the union leader in that article warned about a labor shortage back in October. Unintended consequences?

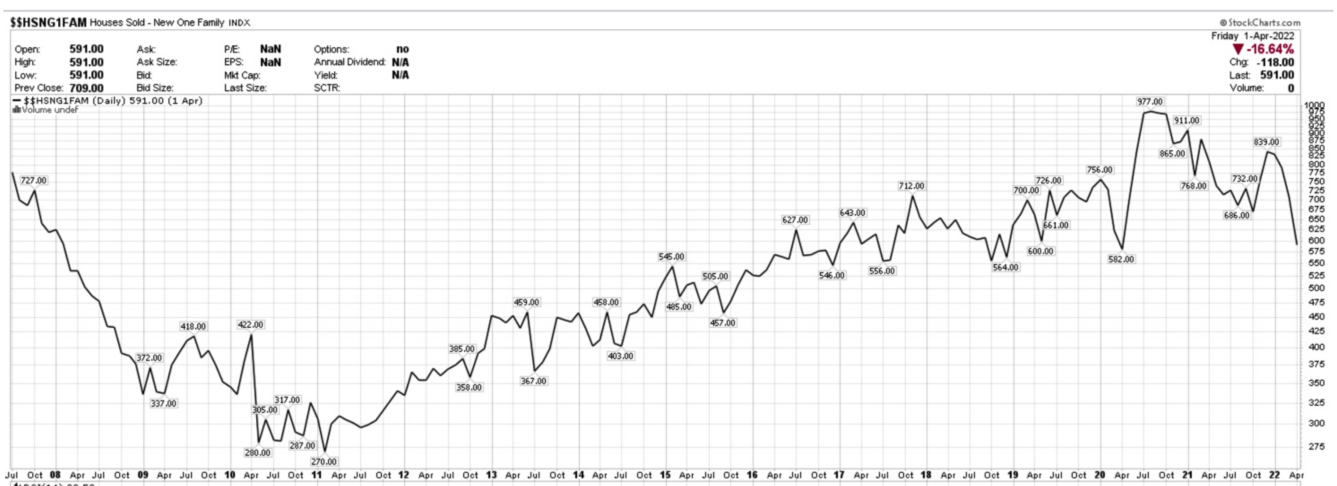
Let's wrap up with a few charts:

Producer Price Index (the prices received by producers for their output)

Move along, nothing to see here--these aren't the droids you're looking for.

Case-Shiller Home Price Index

Exorbitant house prices leads to...



New Single Family Houses Sold

...house sales back to COVID-19 levels.

What You Should Be Doing Now

Keep working on the list of foreign stocks you'd like to buy. A number of foreign markets are starting to look interesting!

Documentary to watch: [Cryptopia: Bitcoin, and the Future of the Internet] on Amazon Prime Video. This was excellent and even-handed.

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I would love to hear from you! I thrive on feedback from readers. If you have any comments, suggestions, insight/wisdom, or you'd like to share a link to a great article, please email me.

Generally, I don't have time to answer questions about your specific situation, but if you have a general question that I think other readers also have, let me know and I will provide an answer in a future issue.

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Before starting a new diet or exercise regimen, you should consult with a doctor, nutritionist, dietician, or personal trainer.