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

Issue #291
September 11, 2026

Collecting Dividends

Do you know the only thing that gives me pleasure? It's to see my dividends coming in. ~ John D. Rockefeller

According to Brave AI, "This quote, first recorded in *Cosmopolitan* magazine in 1908, reflects Rockefeller's investment philosophy. After stepping down from day-to-day operations of Standard Oil in 1896, he retained his shares and mandated that the company pay out over two-thirds of its profits as dividends. For the remaining 41 years of his life, he collected these checks, leveraging the steady income and capital appreciation of his holdings."

A couple of weeks ago I wrote that as an investment advisor, I'm like a combination of a spider (I weave my web by placing a number of distant limit orders and then wait patiently) and a great blue heron (a patient hunter). But I neglected to mention another strategy (besides hunting or laying a trap and being patient) that doesn't require much effort from me at all and that provides a steady income and a positive return while I'm waiting: collecting dividends.

I describe myself as a dividend collector, so it's not just something I do, it's who I am. The vast majority of the time, significant (about once a year) or life-changing (about once a decade) investment opportunities are not available.

The problem with spiders is that they are patient to a fault, and many of them die of starvation while waiting on their web for insects that never come. The problem with great blue herons is that hunting requires a lot of time and energy, and the vast majority of the time, opportunities to catch a meal are not available.

Dividends provide a continual stream of sustenance (as well as a small positive return) to keep me fed while I'm waiting for much larger opportunities to come along, which allows me to be far more patient than an investor with no income, who as a result feels like he has to speculate or gamble in an attempt to earn a significant positive return (and one without the help of dividends).

As a result, collecting dividends allows me to significantly extend my time horizon. In the investment world, the longer your time horizon, the more likely you will be to have a successful investment experience.

Additionally, I don't really *need* anything to happen (other than the company continuing to earn positive free cash flow and distribute some of it to its shareholders, which, if the company has a history of paying and increasing its dividend, is likely). In contrast, when you're speculating in stocks that don't pay a dividend, you kind of need a positive event to happen fairly soon so you can earn a capital gain.

Even if a stock I own declines in value, I could still have a positive return after dividends are included. Paying dividends also helps a company keep short sellers at bay, since they have to pay the dividend to the owners who they borrowed the stock from. This helps boost the return of all of the shareholders, whether they loaned their shares to a short seller or not.

In short, collecting dividends gives me the *leisure* to wait; it puts time on my side. When I'm collecting dividends, I'm less excitable, more stoic, more indifferent to the latest headline or concern.

Plus I sleep better knowing that significant dividends paid over time are solid evidence that a company continues to earn positive free cash flow and isn't engaging in massive accounting fraud. It's fairly easy to fake reported earnings; it's much more difficult to fake cash on the barrel.

I have a ringtone set up on my phone so that each time I receive an account alert from my brokerage firm, it plays the intro to the song "Tom Sawyer" by Rush. Most of the time, it's because I received a dividend. Unlike J.D., it's not my only pleasure, but it does put a nice smile on my face.

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