# The Dividend Paying Tortoise versus Market Darling Hare

## December 31, 2017

Ever wonder what you might have done if you had bought a ticket to the super lotto drawing the last time it made headlines this past summer and you had won?! We don't know for sure if it's ever come close to a billion-dollar payout, but we are certain you'd have some fun spending $500mm or more if you had it. With mega lotto bucks on your mind and for the purpose of this letter, we want you to think on a grand and magnificent scale by considering a cool $1 trillion or more to spend on some investments. Yes, that's $1 trillion with a T, but keep in mind it's not all that far fetched to think there may soon be a single company with that price tag attached to it. Amazon, Apple, and Facebook are ones that come to mind when you ponder which company might breach $1T first.

The reason we are starting with $1T is because we assembled a group of superlative and successful highly valued companies (the hares) in the marketplace that we wanted to compare against a mix of multi-national dividend paying businesses (the tortoises) that would appear to be more stable, consistent, and some might even call boring. This way we could see how we might spend $1T if we had it.

The growth investor or one seeking stocks in the news and making headlines would surely own one or a few of the following: Amazon, Facebook, Netflix, and Tesla. This mini "stock market darling" portfolio would cost you (at today's prices) about $1.2T. It's after tax profits would total about $16B annually and there would be no dividends paid to you as an investor because these companies do not pay any dividends at this time. (See the table below).

All data in billions

| Business | Market Value | Net Income | Annual Dividend |
|---|---|---|---|
| Amazon | $ 570.0 | $ 1.9 | $ 0 |
| Facebook | $ 516.0 | $ 15.2 | $ 0 |
| Netflix | $ 80.0 | $ 0.4 | $ 0 |
| Tesla | $ 52.0 | $ (1.4) | $ 0 |
| **Sum** | **$ 1,218.0** | **$ 16.1** | **$ 0** |

Contrasting the "darling" portfolio to a mix of businesses you will likely find in your CORDA account, you could spend that same $1.2T on eleven different companies in various industries, with after-tax profits of $68B and yearly dividends around $46B. (See the table below).

All data in billions

| Business | Market Value | Net Income | Annual Dividend |
|---|---|---|---|
| Agrium | $ 16.0 | $ 0.5 | $ 0.5 |
| Coca Cola | $ 195.0 | $ 6.5 | $ 6.2 |
| General Mills | $ 34.0 | $ 1.6 | $ 1.1 |
| JM Smucker | $ 14.0 | $ 0.6 | $ 0.4 |
| Kellogg | $ 23.0 | $ 0.8 | $ 0.7 |
| Nestle | $ 269.0 | $ 9.4 | $ 7.0 |
| Pfizer | $ 216.0 | $ 9.8 | $ 8.0 |
| Total | $ 139.0 | $ 8.0 | $ 7.0 |
| Verizon | $ 217.0 | $ 16.0 | $ 9.0 |
| Vodafone | $ 80.0 | $ 14.0 | $ 5.0 |
| Welltower | $ 23.0 | $ 1.0 | $ 1.2 |
| **Sum** | **$ 1,226.0** | **$ 68.2** | **$ 46.0** |

Reviewing these numbers by scale, your CORDA businesses produce 4.2x the level of profits and 46x the level of cash flow via cash dividends compared to the 'darling' mix of businesses. In fact, your diversity and safety goes way up as your $1.2T can purchase 11 businesses outright versus the 4 that many would consider "great" companies although with very high price tags.

The dividend paying tortoise portfolio is composed of an assortment of businesses in various industries, spread across the globe and involving food, snacks, beverages, pharmaceuticals, telecom, commodities, oil and gas, and real estate. Most, if not all, would probably survive the next recession. It would be diversified by geography, lifestyle, price point, currency, and a myriad other number of ways. If all the after-tax profits were distributed back to the owner instead of being reinvested, you'd get all your money back in 18 years. The dividends that are currently paid today would make you whole after 26 years. The key here though – you must wonder what the value of those businesses might collectively be worth in 26 years! It's hard to imagine, but you wouldn't have to get too caught up in the day to day because you'd be collecting those rich dividend streams every quarter or so – to the tune of $46B per year. The high-flying hare portfolio would probably give you vertigo over the next decade or two, with intense drawdowns here and there and you'd sometimes wonder if your principal was at risk. The paper losses that you would experience every now and then would have you consider selling near the lows, all the while in the tortoise-like portfolio, those cash dividends would keep you secure and most importantly, sane.

Again, to emphasize the importance of the strong after-tax profits and cash dividends from the stable businesses, the 18-year breakeven on your investment would then mean you own factories, stores, ethical drugs, hard assets, intellectual capital, distribution systems, loyal employees, – not to mention ALL the future profits, dividend hikes, and the built-in book or market value of the businesses themselves.

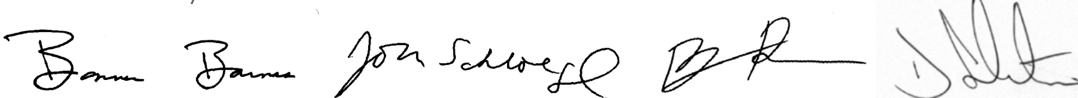
There is no denying that the 'darling' portfolio surely is fun, Netflix binges, Tesla roadster happiness, Amazon shopping indulgences, and Facebook cruising…and we are not at all suggesting these too can't be profitable in the long run...it's just that we prefer as close to sure things as possible, especially knowing from experience there are no sure things ever in life. We are not gamblers, but clearly and maximally we consider ourselves investors, seeking to maximize our income streams over time and to grow our capital without risking permanent loss. We can't say the same thing when investing in businesses with triple digit price to earnings ratios or plainly sky-high valuations. Price is an issue in the absence of value. And we will always seek value!

The tortoise portfolio will surely zig and zag and sometimes go out of favor but just not on a scale as the hare portfolio. That said, if the underlying fundamentals are solid and one can project a reasonable semblance of future revenues, earnings, and cash flow, it's just a matter of time for the underlying value of those assets to increase. This will be our message in 2018 and beyond. For there will certainly be a correction sometime this year or in '19, '20, or '21! For those of you who have forgotten what one looks like, you might be tempted to sell the next time it arrives. We'll surely remind you not to panic and to use any decline as an opportunity to own more trustworthy dividend paying businesses.

With all that said, as we turn towards 2018, we send best wishes for health and happiness in the new year. As the market will likely experience some bouts of selling this year, we will remind you how we will make money for you in 4 distinct ways: through dividends, capital appreciation, rising dividends, and by keeping you in the market when appropriate.

Thank you for being part of our 18th year in the investment management business! We enjoy the impact we are making for all our clients and the personal satisfaction of making a difference in your life. Also, please be sure to let us know if anything has changed in your personal life or with your finances. We want to be attentive to your needs.

Have a terrific year!

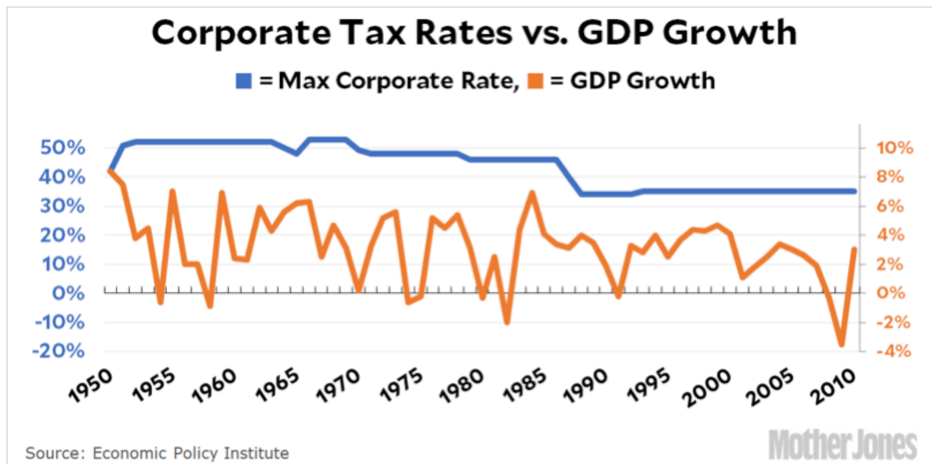


The Portfolio Team

### From the Desk of our Certified Financial Planners:

There have been a lot of questions lately about how the new lower corporate tax rates may affect the economy. In theory, lower taxes funnel more money into the pockets of companies, and they use the money to pay employees more or grow their businesses. When everyone spends more, the economy should grow, but that isn't what necessarily happens.

Below is a chart showing the relationship between corporate tax rates vs. GDP 1950-2011. The results are inconclusive at best. The economy has grown and declined in the past during both high and low corporate and income tax rate periods.




What about interest rates? The chart below illustrates the relationship between the 10-year Treasury yield and GDP. What is interesting is they appear to be rather correlated since 1980. The question may be, do interest rates guide the economy? Or does the economy guide the Federal Reserve's decision on interest rates?