

# Monday, November 22, 2010

## [Its My Money Damn It!](#)

Excerpts From MorningStar Dividend Investor...

### **Where did we go wrong?**

Many explanations are being offered as to why stocks have had such a poor run so far this century, and most of them have at least a bit of truth. Stocks were incredibly overvalued in 1999, and a series of economic and financial calamities certainly didn't help. But a share of stock is still a claim on the earnings of a business. If we want to know where things went wrong, I say, "follow the money."

The sad fact is that most American corporations no longer recognize or treat shareholders as true owners. Even as the economy struggles to climb out of the worst recession in more than 70 years, profits are soaring. Yet the bulk of these earnings, as in the decade just past, aren't finding their way to investors. Instead, these rivers of cash are diverted toward empire-building acquisitions, dubious share repurchases, and obscene executive pay packets.



This has led to an environment where no matter how interest rates seem to go, stocks still can't compete. Total profits for the companies that make up the S&P 500 Index could top \$900 billion in the upcoming year, yet their dividend payments are running at only \$211 billion--less than 25 cents on the dollar! The average stock in this group yields only 2%, half of the historical average of 4%. Some of our best-known, best-loved companies

like Apple AAPL and Google GOOG get away with paying nothing at all. With virtually no say in how large companies are managed, it's hardly a surprise that investors are voting with their feet.

The worst part of this story is that our corporate leaders have learned nothing from this experience. Pitiful yields require investors to rely on capital gains for the bulk of their returns, but why should stock prices go up when their dividends remain tiny? Looks like a formula for more of the same old stagnation.

At the same time, interest rates are very low by any historical standard. By now millions of former shareholders have shifted into bonds, seeking the same thing they ought to get from stocks--better income and more reliable returns. But when bond yields are very low, the rewards will probably be small and risks loom large. Inflation--not that we've seen much of it lately--is not dead, but could come roaring back to clobber the bondholder's real wealth.

By now you may be asking, what could possibly be left?

The truth is that dividends are more than just pocket change, more even than a basis for a comfortable retirement. Dividends are the sole and essential link between investors and the businesses they own. Where you find large, reliable, and growing dividends, you're probably looking at an enterprise that is consistently profitable and relatively unburdened by debt, and whose management runs against the tide to treat shareholders like actual partners. Where you find small, irregular, or unsustainable dividends--or no dividends at all--you may be rolling the dice.