

## Chris & Ryan's Timely Market Dispatch:

### The Market Route - Why Rent Cheque Growth is More Important Than Ever - Questions We Need to Ask Ourselves Right Now

**The Market Route** – The dog days of summer are upon us and the global worry factor has shaken investor confidence in a big way. China/U.S. trade, the Hong Kong protests, a hard Brexit, Iran and North Korea - there is a laundry list of things to worry about. We are big believers in the old adage, “if it’s in the news, it’s in the stocks”. Even before yesterday’s 800 point drop (approx. -3%) in the Dow Jones Industrial Average, the [American Association of Individual Investor Sentiment Survey](#) was registering fear levels equivalent to last December’s sell-off, and the [CNN Fear Greed Index](#) is currently at extreme fear. Being students of history, we know these are **contrarian** indicators and it begs the question: when will stocks be cheapest - when investors are terrified, or when they are optimistic? Suffice to say, investors are terrified. Is it more likely a good time to sell, or a good time to buy?

**Why Rent Cheque (Dividend) Growth is More Important Than Ever** – In short, because interest rates have collapsed and every investment decision is made with a comparison to the alternatives. The chart below shows the U.S. 10-year government bond yield. Last fall it made a high of +3.24%. Today it is at +1.58%. In other words, the rent cheque on the “safe” alternative to dividend-paying stocks has dropped by 50% and furthermore, buying that bond today guarantees that your rent cheque has no opportunity to grow for the next ten years! For us, stocks with growing rent cheques make a lot of sense regardless of the future direction of interest rates. If they go up (unlikely with all central bankers easing), the dividend growth rate has the greatest chance of keeping up with those increases. If they go down even further, the growing income stream from dividend increases becomes ever more valuable. Could North American interest rates go negative? We used to laugh at such questions, but today we would have to answer with “maybe”. It is important to understand that ~25% of the world’s total bond market is now in negative yield territory, meaning you get less money at the end of the term than you started with. I am sure our German cousins would have laughed too, but they find themselves today with a 10-year government bond yield of -0.65%. If that becomes our reality, will you be better off with dividends that grow, or rolling over bond maturities at negative yields?



**Questions We Need to Ask Ourselves Now** - Are we going to be students of history or are we going to succumb to the fear being stoked on every media outlet, selling companies like 3M, Sherwin Williams, TJX, Johnson and Johnson and Microsoft, who have been increasing their rent cheques for decades, even through previous crises – crises that you can remember like the Asian Flu, the Long Term Capital Market Meltdown, the Tech Wreck, the 08/09 Financial Crisis, the European Debt Crisis, the 2015 Oil Debacle, and last December's Christmas Eve Rout? Would you have served yourself well by selling out during those crises, or turning your couch upside down and crawling under carpets to find some money to buy such great companies? Sure, it is different this time around – it always is. But the way we humans react en masse doesn't change much – we sell the fear and we buy the optimism. Is that behaviour we should be trying to emulate individually? When we look back on times like this, our biggest regret tends to be "Why didn't I get more aggressive?". I don't expect the future to be much different.

As always, we are here to help. Please reach out if you need a little extra hand-holding or better yet, you found more money in that couch than you expected!

As an FYI, Ryan is away on vacation with his family until Monday, August 26<sup>th</sup>, 2019. [Larissa Ruditsch](#) is available at 250-405-2419, and you can book time with Chris at <https://go.oncehub.com/ChrisRaperandAssociates> where you can find the meeting type and time slot that works for you. We will confirm the meeting within 24 hours and provide you with a screen sharing link, where applicable.

Yours truly,

Chris Raper  
Senior Vice-President | Senior Portfolio Manager

Ryan Cramp  
Portfolio Manager

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