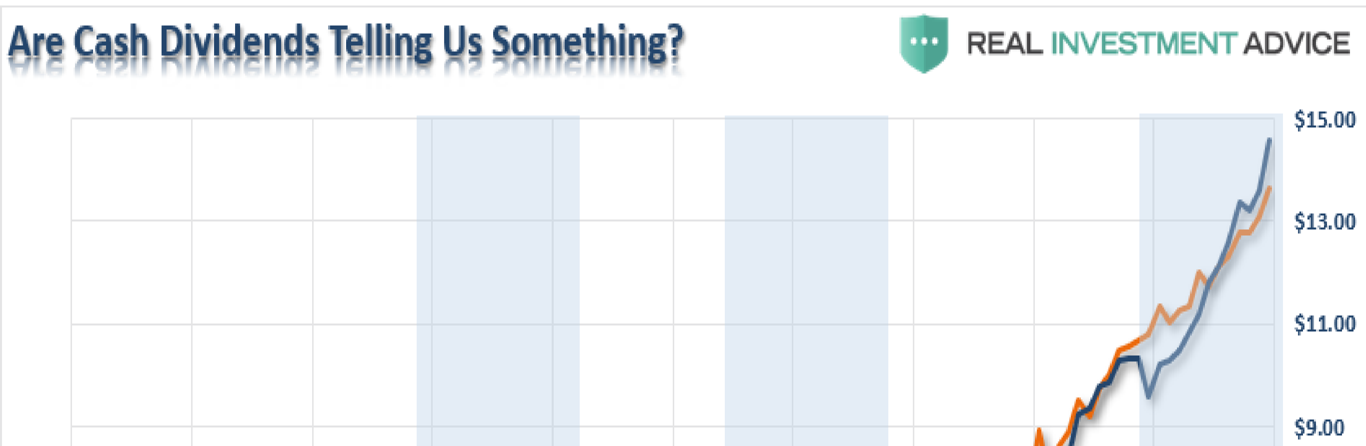
Earlier this week, Eddy Elfenbein has an interesting post discussing the ["Bull Market In Dividends."]•

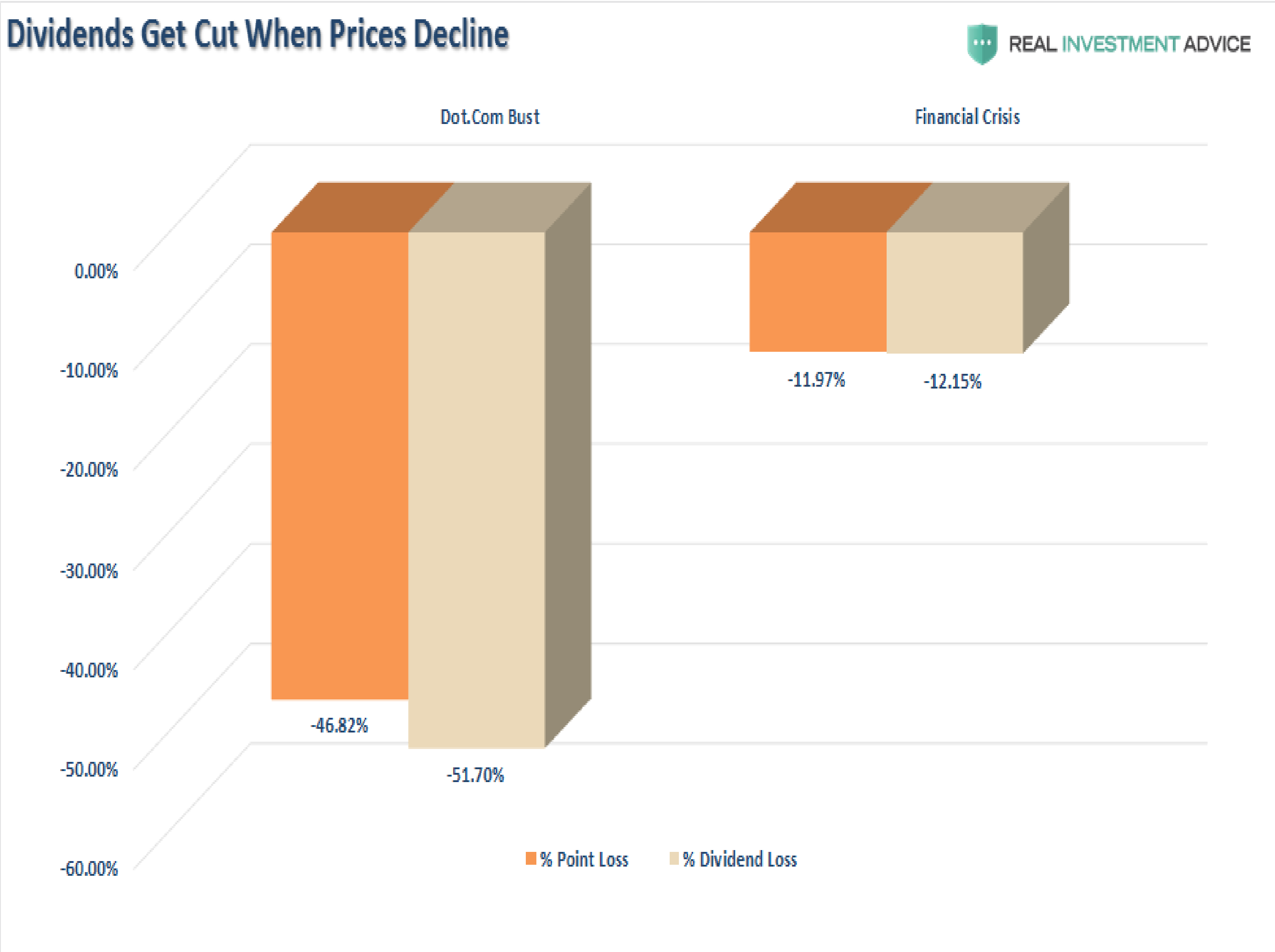
> *"For the third quarter, dividends from the S&P 500 grew by 10.96%. That?s the strongest growth rate in more than three years. It?s the 34th quarter in a row of dividend growth.* ***Over the last eight years, dividends are up 234%, which is pretty close to what the S&P 500 price index has done.*** *Considering how simple it is, the S&P 500 has tracked a 2% dividend yield fairly closely for the last several years."*



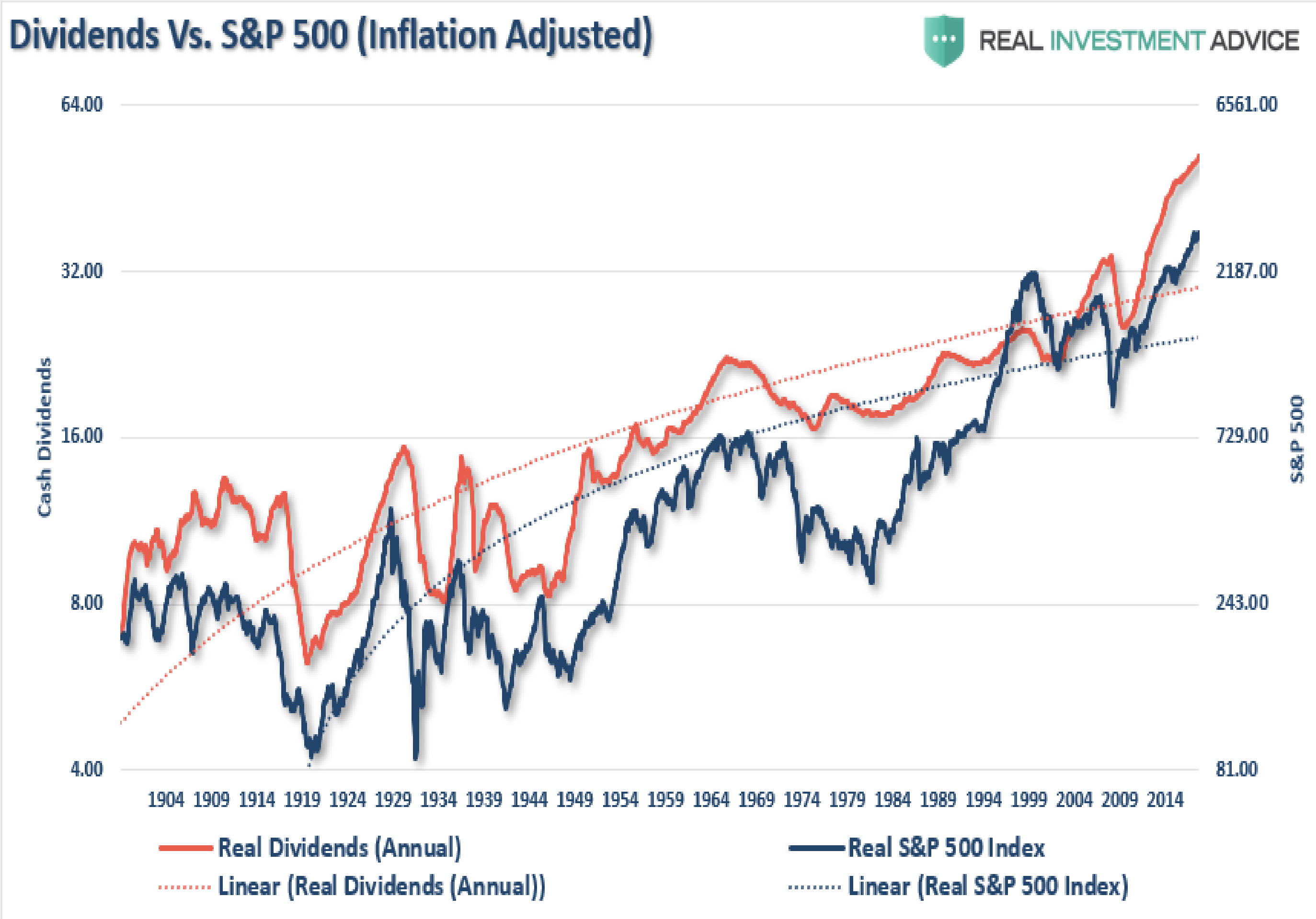
It is an interesting point particularly when you consider that there are a lot of dividends which have been *"financed"* through *"cheap debt."*• There is also the issue of record debt issuance by companies with marginal balance sheets at best or are walking *"zombies"* at worst. As John Coumarionos noted earlier this week.

> *"Low interest rates have allowed companies that would have otherwise gone out of business to stay alive, and this has caused a tepid recovery. Chancellor notes the cumulative default rate on junk bonds during the entire recession was 17%, or ?around half the level of the two previous downturns.? And while central bankers might view this as a victory, he views it as the cause of economic weakness. The lessons for investors are to remain vigilant about stock valuations and higher yielding bonds. At some point, the zombies will not be able to sustain themselves any longer."*

This is an interesting point when you begin to think about the long-term history of dividends and what they represent with respect to long-term market cycles. Let?s start with the notion that• ***?dividends always increase.?*** First, the statement is incorrect because during market reversion• ***?cash dividends?*****•DO NOT increase**• ? but the• **YIELD does because of the collapse in prices.**• But, more to the point, that notion is only true, until it isn?t. **During the 2008 financial crisis, more than 140 companies decreased or eliminated their dividends to shareholders.**• Yes, many of those companies were major banks, however, leading up to the financial crisis there were many individuals holding large allocations to banks for the income stream their dividends generated. In hindsight, that was not such a good idea. But it wasn?t just 2008. It also occurred dot.com bust in 2000. **In both periods, while investors lost roughly 50% of their capital, dividends were also cut on average of 12%.**



Of course, it wasn?t EVERY company cutting dividends by 12%. Some didn?t. Many did, and some even eliminated their dividends entirely **to protect creditors.**The last point is the most important. For any company shareholders are a secondary concern. However, access to the debt market is a far more important consideration when it comes to financial decision making, who gets paid, and who doesn't. Since 2009, due to the Federal Reserve?s suppression of interest rates, investors have piled into dividend yielding equities, regardless of fundamentals, due to the belief?*there is no alternative.?*•**The resulting?*dividend chase?*•has pushed the valuations of dividend yielding companies to excessive levels disregarding underlying fundamental weakness.**•As with the• *?Nifty Fifty?*•heading into the 1970?s, the resulting outcome for investors was less than favorable. These periods are not isolated events.**There is a high correlation between declines in asset prices and the actual dividends being paid out throughout history.**The chart below shows the history of inflation-adjusted dividends and the S&P 500 going back to 1900. *(Data courtesy of Dr. Robert Shiller.)*



The first thing to note is the extreme deviation of real annual dividends above their long-term linear growth trend. As you will notice is that such extensions have ALWAYS mean reverted throughout history. *(In other words, the best time to BUY dividend yielding companies is when the dividend has deviated well below the long-term growth trend.)* Here is another way to look at the same data. The chart below shows the percentage deviation above and below the 5-year average annual cash dividend. There are two things you should take note of.

1. *When deviations have exceeded a 20% deviation it has denoted very overvalued markets.*
2. *Reversions below the 5-year average have been coincident with secular bear markets.*•

Notice that the current deviation from the 5-year average has already started to decline which is coincident with the Federal Reserve rate hike campaign.•Given that much of the dividend issuance was done through cheap debt over the last decade, it is not surprising that with rising rates, the rate of dividend issuances has begun to slow. **Dividends may well already be telling us of a more troubling trend for investors is coming.**•While I completely agree that investors should own companies that pay dividends•*(as it is a significant portion of long-term total returns)*,•**it is also crucial to understand that companies can, and will, cut dividends during periods of financial stress.**•During the next major market reversion, we will see much of the same happen again. It is during these times when prices collapse, and dividends are slashed, the•*?I bought it for the dividend plan?*•doesn?t work out. EVERY investor has a point, when prices fall far enough, that regardless of the dividend being paid, they WILL capitulate and sell the position.•**This point generally comes when dividends have been cut and capital destruction has been maximized.** Just something to think about as you catch up on your weekend reading list.

Economy & Fed

- **Fed Admits Its Road Map Is A Fuzzy Blur** by Caroline Baum via MarketWatch
- **Conservatives Hate Debt - Add $2.4 Trillion** by Committee For A Responsible Federal Budget
- **Political Divide In America Is Worst Ever** by Tyler Durden via ZeroHedge
- **The "Almost" Too Good To Be True Economy** by Heather Long via Washington Post
- **New Fiscal Year Gets Off• To An Ominous Start** by Hunt Lawrence via American Spectator
- **11-Takeaways From NYT's Trump Investigation** by Buettner, Craig & Barstow via NYT
- **A $1 Trillion Dollar Blunder** by Stephen Moore via The Washington Times
- **The Enduring Scam Of Corporate Tax Breaks** by Bryce Covert via NYT
- **Workers Receive Only A Fraction Of Corp Tax Cuts** by Tyler Durden via ZeroHedge
- **The Important Economic Event Of The Decade** by Neil Irwin via NYT
- **Absurd Theory On Why Wages Aren't Rising Faster** by Jordan Weissmann via Slate
- **The China Tariff Mess** by Martin Feldstein via Project Syndicate

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Markets

- **Shiller: A 1929 Redux?** by Tyler Durden via Zerohedge
- **Get Ready For An 8-13% Correction** by Mark Hulbert via MarketWatch
- **We Are Only A Few Ticks From "DotCon" Stupidity** by Shawn Langlois via MarketWatch
- **Do Spectacular Earnings Justing High Stock Prices** by Robert J Shiller via Project Syndicate
- **Post Mid-Term Rally Not A Definite** by William Watts via MarketWatch
- **This Only Happens Near Market Peaks** by Dana Lyons via The Lyons Share
- **Is Gold Poised To Pop?** by Simon Constable via Forbes
- **Why You Can't Decide On Lunch Or Funds To Buy** by Jacob Passy via MarketWatch
- **Rare Divergence Could Spell Trouble For Stocks** by Ryan Vlastelica via MarketWatch
- **This Chart Shows Why Another VIX Surge Is Coming** by Jesse Colombo via Forbes
- **4-Reasons China Is At Risk Of A Slowdown** by Ed Yardeni via Yardeni.com

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Most Read On RIA

- **Irrational Exuberance** by Lance Roberts
- **Sailing Vs. Rowing: Active Vs. Passive** by Michael Lebowitz
- **How To Invest For A Hard Landing** by Vitaliy Katsenelson
- **Debts & Deficits - A Slow Motion Train Wreck** by Lance Roberts
- **Bubbles & Zombies** by John Coumarianos
- **Do You Believe In Magic** by David Robertson
- **The Risk Of An ETF Driven Liquidity Crash** by Lance Roberts

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Research / Interesting Reads

- **BIS Issues Urgent "Zombie Alert"** by Nomi Prins via The Daily Reckoning
- **Powell Hints He May Crash The Markets** by Tyler Durden via ZeroHedge
- **Powell Has Cost Investors $1.5 Trillion In 2018** by Mark Decambre via MarketWatch
- **US Debt Soars $1.27 Trillion In 2018** by Wolf Richter via Wolf Street
- **Markets Are Cyclical, But Where Are We In The Cycle?** by John Stepek via MoneyWeek
- **Larry McDonald: It's Going To Get Really Ugly** by Christoph Gisiger via Finanz Und Wirtschaft
- **Marks: 5-Tips To Make You A Better Investor** by Howard Marks via MarketWatch
- **10-Years After Lehman: Bubbles & Zombies** by Edward Chancellor via ThinkMarkets
- **100-Years Of Ineptitude** by Helmut Anheier via Project Syndicate
- **Elon Musk's Deal With SEC Doesn't Fix Biggest Problem** by Charles Gasparino via NY Post
- **Bad Financial Moon Rising** by William White via Project Syndicate

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> ***?Any fool can buy a stock. It takes a smart investor to know when to sell.?*** **-** *Anonymous*

Questions, comments, suggestions ? please email me.