Enjoying the volatility????

Year-to-date, the US stock market, as measured by the broad S&P 500 Index is roughly flat, with a -1.4% change in price (thru 12/11), augmented by nearly 2% in dividends distributed and accrued. It surely has not felt that way. In January, the S&P rocketed up 7.5% in less than one month, and then fell over 10% in 10 days in late January and early February. From late March through September, the market rose steadily to a 9% gain before the up-and-down action in the fourth quarter brought the year-to-date returns back to around zero.

Start	Finish	Price return %
12/29/18	**1/26/18**	**7.45%**
1/26/18	**2/8/18**	**-10.16%**
9/30/18	**10/29/18**	**-9.36%**
10/29/18	**11/7/18**	**+6.54%**
11/7/18	**11/23/18**	**-6.44%**
11/23/18	**12/3/18**	**+6.00%**
12/3/18	**12/7/18**	**-5.64%**
12/7/18	**12/31/18**	**????**
9/30/18	**12/7/18**	**????**

The US stock market's gyrations this year has provided a nearly perfect example of the central argument made in *Getting Back to Business*: the much greater volatility of share prices compared to income streams makes creating, managing and measuring portfolios according to the income streams a more attractive proposition for many investors than guessing share prices.

As a result of the market's low dividend yield—it has been at or around 2% for two decades—the US market's return in any given measurement period is overwhelmingly price driven. "Play" the market, and you are playing a share-price game, with a small amount of income. Play the tech market, where dividends are nearly non-existent, and almost all the returns are price based. There is nothing wrong with that, and for many investors, that has been a path to great riches, but investors need to be reminded of the differences between an investment framework based on cash payments, which is how most of the world economy works, and one based on price changes, which is how the much of the US stock market works and how many investors in the US market approach it.

In contrast to the prices of the stock market, cashflows in 2018 have been much more stable. Whether you look just at the modest dividends spun off by the S&P 500 Index or the more substantial dividends declared by dividend-focused equity income managers (I am one of them), you will see little if any of this drama. Some companies are doing better than others, some face incremental tailwinds or headwinds, but at a diversified portfolio level, it has been a very quiet year on the income front, far quieter than on the share price front. Many US-centric companies increased their dividends this year due to the tax law change instituted in late 2017, but that has been known to the market since late last year. Indeed, perhaps the only material change in income streams in 2018 that I have observed as a dividend manager has been the rise in the dollar that began in April. For certain multinational companies, a rising dollar constitutes a modest operational headwind.

That is not to say that for certain types of companies, the back and forth with China has not been important. It is for many industrial and technology enterprises. And the early-in-the-year expectation of a pick up in economic growth (inflation) followed by the late-in-the-year disappearance of said expectation of economic growth (inflation) may be viewed as potentially significant for future revenues and profits. That is a given. Oil prices have moved up and down sharply during the course of the year. That volatility has been genuine, but it is a largely expected in the commodity complex. Finally, the Federal Reserve Board gets lots of credit or blame for share price changes as they back off a decade of low interest rates. For some businesses, the change in Fed policy can have some marginal impact on demand and profits, but for stable, well-capitalized companies, Fed policy is not driver of sales and earnings the way it has appeared to be in 2018.

So all the Squawk-Box-shouting and sell-side alarmism has led to a volatility in share prices that is far, far greater than the modest shifts in the real economy during the course of the year. Are you enjoying that volatility? If you are a trader, the answer is probably yes, because it provides you with the opportunity to make (or lose) a great of money. *Getting Back to Business*, as well as its predecessors, *The Strategic Dividend Investor* and *The Dividend Imperative*, have emphasized the greater volatility of share prices than the cashflows that are supposed to underpin those share prices, and why investors therefore might want to focus on those cashflows, at least for a good portion of their portfolio, and leave the exciting “share price only”, “what’s in the this morning’s Tweet?” to a minority of their assets.