Special Episode:
Fallacy or Philosophy: Academic finance's big, sixty-year debate.

Good afternoon and welcome to Keep Calm and Carry on Investing. I am your host, Daniel Peris. This is a special two-part episode. It's called: "Fallacy or Philosophy: Academic finance's big, sixty-year debate."

In this episode, I'm taking up an old academic tussle, but one that I think is important for business investors trying to figure out the stock market. The material for this podcast is really designed as a book chapter and so the podcast version is necessarily both abbreviated and without all the footnotes. The full text, with all the gory details, is available on my website on the same page as the podcast link.

So let's get started…..

It is an article of faith in academic finance that the proper value of a project or an investment is associated with the net present value of the discounted future cashflows of said project or investment. This approach graces most written valuation work, from a passing reference early in academic finance articles to the obligatory cashflow model at the end of stock-analyst reports. It is reflected in the argot of the trade: DDM, IRR, DCF, NPV. Paths diverge as to the best form of manifestation—is it just cash flows to equity, is it distributed cash payments to the equity holders, is it levered or unlevered, terminal value approaches, etc.—and there is a vast array of calculation options. Although this framework has been largely ignored the past few decades in the stock market's "anything goes" environment, it still constitutes the agreed-upon general philosophical framework for equity valuation.

This consensus on valuing companies based on cashflows creates a striking paradox. For the past sixty-some years, the leading lights of academic finance have been nearly equally united in its explicit rejection of the most straightforward, "default" manifestation of a discounted cashflow approach for minority shareholders of publicly traded equities. That is, the lowly dividend, the income stream reserved for none-too-bright retail investors, for widows and orphans, and other lesser souls. I'm not suggesting that the entire finance community shares this view, but as far as academic views that make it from gown to town, that are broadly disseminated and recognized in the practitioner community, yes, it is nearly united in its dismissal of dividend investing.

The purpose of this narrative is to point out this divergence, suggest why it has occurred, and how it can be resolved. It is, indeed, a puzzle, as one of the prominent "anti-dividend" commentators called it in 1976. But the puzzle is not why dividends are paid and sought after, as he questioned, but why anyone would think otherwise. As is often the case in my analysis, the answer is substantially historical. That is, it is all too common in finance and investing to assume that the "rules" are the rules, have always been that way, and will always be that way. Memorize the rules and make a lot of money. Rinse and repeat.

Well, it turns out that is not correct. Many of the so-called rules by which we live, or invest, have a specific context of creation that explains them. They were relevant in that context. They may or may not be relevant in a different context. Or as John Maynard Keynes supposedly but apparently never said, "when the facts change, I alter my conclusions. What do you do?"

In a book published several years ago, I took the same approach to Modern Portfolio Theory, pointed out its historical context, averred that the facts had changed, and encouraged investors to consider whether it is time for a new approach to portfolio construction. The academic disdain for dividend investing falls into the same category: it has a history. I will share that history. You can judge whether or not it is still relevant.

So let us start with that history, actually the positive part of the history, before a prominent and highly visible part of the academy turned on it. But before that, building valuation exercises around discounted cash flows, and by extension, dividend payments from publicly traded companies to minority shareholders, was established as a narrated, explicit cornerstone of valuation work by Irving Fisher in 1906, John Burr Williams in 1938 and more practically by Benjamin Graham, among many others, in the

first-half of the 20th century.[1] From that perspective, dividend payments were understood to be consistent with the broader idea of business ownership. An investor purchases a minority stake in a business and receives a proportional share of the profits in return. It's not all that complicated and, to a great extent, the work done by the individuals referenced a moment ago was just codifying millenia of actual business and investment practice where a stream of future payments would be equated in some fashion or another to the market value of an asset.[2] Just think of any reasonably thought-through, un-forced purchase of productive agricultural land at any time in recorded history. Or British crown loans used to fight endless wars with France starting in the late 17th century. The exercise becomes more developed over the centuries until it is formally articulated in the early 20th century.

While the term dividend has rightly and accurately passed into general usage with a positive connotation—an activity that pays a dividend—the term return has evolved over time. It started out signifying the physical return of cash at the end of an investment—the physical return of the initial investment amount, with a some extra to represent the profit. That was the nature of the earliest joint stock companies associated with specific ventures. It was a liquidating payment.

Over time, it came to represent the cash payment of profits in cash from an on-going enterprise. Or if from a private asset, the returns were the rents from real estate or the yields of the productive land. Yes, the price of an asset rose and fell every day on London's Exchange Alley, New York's Wall Street and anywhere else investments were sold, but non-speculative thinking about such investments, to the extent that there was thinking, came from contemplating the income stream associated with the asset.[3]

The math of total return incorporating both price change and income generation became more formalized in the post-World War II period as data sets, indices, and total return calculation mechanisms appeared. Starting in the 1950s, Modern Portfolio Theory (MPT) emerged as an approach that, while necessarily including the dividend in the total return equation, began focusing more attention on the ever-changing array of daily asset prices and their relationship to one another. As I've argued elsewhere, MPT is a theory of prices for people focusing on data sets of prices, not a theory of business ownership through the stock market. That is, over the past seventy years, the term return has evolved to represent a mostly non-cash return, the change in the publicly quoted price of a venture. There's nothing *per se* wrong with that, but it's important to point out the history of these concepts.

This sustained shift in perspective—from ownership of an income producing asset to asset-price maximization with little attention paid to the income stream—creates the foundation for the paradox that is the topic of this review.

The intellectual history of this movement away from dividends is well known. It is, in fact, so well-known that I believe many investors simply cite the founding document (from 1961), but don't actually read it, or haven't read it in years. That document is worth reviewing closely. A small portion of it remains relevant. The rest of it is so woefully out-of-date as to now meet the standard of being wrong. The authors, both long deceased, received Nobel Prizes for their efforts and have privileged positions in the pantheon of academic finance. Merely suggesting that this particular work might no longer be relevant invites ridicule from the academy. But as Keynes famously warned at the end of *The General Theory* (1936),"the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist."

---

[1] The working out of this narration is detailed in the author's *Getting Back to Business* (2018).
[2] Will Goetzmann touches upon the long-standing use of basic finance and valuation concepts in his magisterial *Money Changes Everything: How Finance Made Civilization Possible* (2016).
[3] The full history of businesses naturally paying dividends to company owners remains to be written, but you can catch glimpses of it in George M. Frankfurter and Bob G. Wood, Jr., with James Wansley, *Dividend Policy: Theory and Practice* (San Diego: Academic Press, 2003). The authors have a quite jaundiced view to the payment of dividends, but provide a good jumping off point.

Franco Modigliani and Merton Miller (popularly known as M&M) made what now seems like a common-sense argument in 1958 that the value of a firm should be based on its assets and earnings potential, not how the entity is financed or the precise nature of its capital structure. It was a whiteboard argument, but it put forth the important conceptual framework that the capital structure of a firm should—all other things (including taxes) being kept equal—be irrelevant to the market value of a business.

Three years later, in the *Journal of Finance*, M&M extended their argument from the "front-end" of the horse—a company's capital structure—to the business end, the company's distributions and returns. Consistent with the increasing focus on share prices, they asked "is there an optimum [dividend] payout ratio or range of ratios that maximizes the current worth of the shares?"[4] That is, does a higher payout ratio lead to higher share prices?

The subsequent argument is redolent with the rational actor and perfect markets theories popular at the time, but the key assertion is that "For the higher the dividend payout in any period, the more the new capital that must be raised from external sources to maintain any desired level of investment."(413). M&M therefore concluded that a company's dividend policy is irrelevant because higher payouts necessarily lead to dilutive capital raising for a given level of capital expenditure by the company. Lower payouts lead to less dilutive capital raising for the same level of investment. The two different approaches to the challenge of growth result in the same outcome at the individual share level. Hence, a company's dividend payout policy should be irrelevant to the price of a share. Their conclusion creates a rather elegant symmetry of irrelevance involving the capital structure going in, and the distributions coming out.

Did you catch the mistake? It is hiding there in plain sight. Hint: in 1961, it probably wasn't a mistake, but it is a huge one today and one that more or less reverses the authors' conclusions for today's corporate managers and investors. The key phrase is ...."for a given level of investment...." . And you will note the critical assumption that the given level of investment involved is invariably greater than cashflow from operations minus the dividend, and thus requires external capital, more if the payout ratio is higher, less if the payout ratio is lower.

That's the rub. I don't have access to the Net Income, Deprecation, and Capital Expenditure numbers—the constituents for the simplest definition of free cashflow (FCF)—for the market in the early 1960s, but it is a reasonable assumption that during the heyday for the industrial, manufacturing economy, the country's leading companies had substantial growth opportunities to pursue and that they were capital intensive. All that Plant Property and Equipment came at a cash cost. So capital intensive industries in growth mode in 1961 would have been cashflow negative and would have needed to raise external capital to fund all of their investment plans and pay their dividend. In that case, M&M made sense. Well done.

Updating M&M for the age of the share buyback is not difficult. Companies repurchasing their own shares was not a prominent feature of the stock market at the time, but since the 1990s, buybacks have come to dominate the stock market demand landscape and have regularly exceeded the S&P 500 Index aggregate dollar amount of dividends for the past two decades. When the buybacks are financed from debt, the original 1958 M&M propositions would apply, as it just represents a recapitalizing of a company with a different mix of debt and equity. This modern application of M&M requires, naturally, perfect markets, none of the inconveniences of tax differentials, good timing of buybacks, and that the buybacks actually reduce share count. That actually happens a lot less than you would think, but we'll take it as a given for the sake of argument.

Fast forward sixty years, however, and M&M's base case is no longer remotely the case, except for a small subset of the market. Utilities now represent just 3.2% of the S&P 500 Index. They do regularly run FCF negative and have to raise external capital to fund the substantial investments needed to modernize our power grids. Many real estate investment trusts fall into the same category. They are another 2.6% of the S&P 500 Index. In theory, and holding all other factors equal, M&M still applies to them. It might also

[4] Merton H. Miller & Franco Modigliani, "Dividend Policy, Growth, and the Valuation of Shares" *The Journal of Business*, Vol. 34, No. 4, (Oct., 1961), 411-43; quote from 411.

pertain to certain capital-intensive companies with dividend payments structurally and regularly in excess of their cashflows from operations minus capital expenditures.

So how much of the market does the M&M dividend irrelevancy proposition apply to now? On an ongoing basis, is it 5% or 10% of the S&P 500 Index? It can't be much more. We are now a service economy and in which the overwhelming majority of S&P 500 Index companies can fund their growth plans without raising external capital. They thereby fall outside the M&M dividend irrelevancy framework. At the aggregate level, the S&P 500 Index has been in that state since 1993, with brief and shallow exceptions during the contractions of 2001 and 2009 (and very likely 2020).

In their original argument, M&M acknowledged a scenario in which they would be wrong: they admitted that for internally financed companies—which they call an "extreme" or "special" (423) case—that "dividend policy is indistinguishable from investment policy; and there is an optimal investment policy which does in general depend on the rate of return." (424) M&M do not like the analytical implications of this scenario at all. They go so far as to call it "treacherous." (424) What was once dismissed with some degree of contempt is now the norm.

This scenario also can be modernized for the age of buybacks. If the share repurchases are financed from retained earnings, then we have the same flaw that the original 1961 M&M propositions have: the dividend and/or buyback policy counts as an alternative to an investment decision. It may be good, bad, or neutral, but it cannot be irrelevant.

It is critically important to step back from the details and acknowledge the difference between what M&M wrote sixty years ago and how their article is used by market participants a half-century later. For sure, the article is not read. Let me repeat that. Outside of the academy, I am willing to bet that no more than 5% of market participants or investment practitioners who reference M&M or dividend irrelevancy have actually read the article or, more importantly, considered its implications in the economy and market as it is now, not in 1961. Instead, M&M is just a "code word" for the general dismissal of dividend payments by corporations—often in favor of share buybacks—and the general dismissal of cash-paying business ownership by stock investors in favor of finding the next Nasdaq darling. Note that M&M didn't say that dividends were irrelevant; they said, under their extremely narrow conditions, that dividend payout ratios should be irrelevant to the overall value of the firm. That is a specific finance claim, not a generalized disregard for dividend payments. My point is that it is not what M&M said; it's what people now think they said. There's a big difference.

That might not have been the case but for their coining of an admittedly catchy phrase—dividend irrelevancy—which goes well beyond M&M's core and quite legitimate point about external financing and dilution. Without that moniker, I suspect few market participants would recognize the original M&M dividend propositions at all. Words matter; semantics matter. How many extra tractor sales has the company with the phrase "nothing runs like a Deere" enjoyed over the years? Coke adds life. It's the real thing. Nike's Just do it. You get my point. The dividend irrelevancy theorem is well named, and perhaps for that reason, it has enjoyed a longer and broader life than it should have.

Don't get me wrong: M&M 1961 is not technically wrong, especially in the very narrow way that it is defined, [5] but it is substantially, misleadingly out of date. That is not the main flaw, however. The real issue is never raised in the article or much of the academic narrative against dividend payments that I will review here. That real flaw is equating capital gains to a dividend payment. Mathematically they are identical. That's the view from academic finance. A number is a number is a number. Money is fungible, particularly in academic exercises involving "perfect" markets. In M&M 1961, the authors treat the matter casually: "investors always prefer more wealth to less and are indifferent as to whether a given increment to their wealth takes the form of cash payments or an increase in the market value of their holdings of shares." (412). Almost all subsequent writing on the topic agrees with that assertion, either explicitly, or implicitly by trying to prove which approach leads to a greater total return.

[5] From a more academic perspective, DeAngelo and DeAngelo claim that it is wrong. I take this point up later, in the second half of this special episode.

From a business ownership perspective, however, they are not the same, not even close, not even remotely in the same league. And the logic of business ownership, particularly for minority shareholders of publicly traded companies, makes a cash distribution from profits—not going into the marketplace to harvest potential capital gains—the natural mechanism of sharing in the success of an enterprise. Let that be considered a maxim of business ownership. It is a matter of philosophy, not mathematical formulas.

Beyond the philosophical differences, there are plenty of real-world ones, such as trading costs, market conditions, and differential tax rates, that may make a dividend or a harvested capital gain more or less preferable than the other for individual and institutional investors. Whether in theory or in practice, these two activities—on one hand, clipping your coupons; on the other hand, going out and selling appreciated securities—are most certainly not the same.

This philosophical difference came to light 15 years after M&M when in 1976, MIT-Professor Fischer Black pondered the existence of dividends at all.[6] In a brief essay in the *Journal of Portfolio Management*, Black admitted not being able to figure out why companies paid dividends or investors sought them out at all. It was for him, "a puzzle, with pieces that just don't fit together." After rehashing the basic M&M propositions, Fischer listed ways for companies to return cash to shareholders other than dividends. The most obvious was share buybacks which were still not as fashionable as they would become. His main argument, however, is taxes. At that time, they were higher on dividends than on capital gains, and one can be timed, the other cannot. And from a corporate tax perspective, dividend payments are not deductible, unlike interest payments on bonds. As a result, they are subject to double taxation, first at the corporate level and then at the investor level. Black sums up the problem: "With taxes, investors and corporations are no longer indifferent to the level of dividends. They prefer smaller dividends or no dividends at all."(6)

Black finds pro-dividend arguments about transaction costs for harvesting capital gains to be unconvincing. He similarly dismisses the idea that dividends are useful as a management signalling tool. He explores other potential reasons for dividend payments, such as trustee bias, pressure from retail investors, etc. None persuade him. Like M&M, Black acknowledges that companies with investment programs less than their free cashflow—he uses different words—might have reason to a pay a dividend. And like M&M 15 years earlier, Black considers this scenario a "special case" that is "relatively rare." Let me repeat: it is now the clear and overwhelming majority case. Fourteen years later in 1990, Black, then at Goldman Sachs, reiterated his view in a brief statement in the *Financial Analysts Journal*.[7] With a flourish, he ended by forecasting that "taxable [dividends] will gradually vanish." Nota bene: thirty years after that statement, forty-five years after his original statement and sixty after M&M, investors and companies continue to defy the academics. Vive la résistance.

Consistent with the line of thought pursued by Black, the ever-thoughtful Peter Bernstein penned an argument in 1996 entitled simply, "The Puzzle."[8] A very sympathetic bridge between practitioner town and academic gown, Bernstein approached the challenge from the perspective of returns. By the mid 1990s, dividend payouts and yields were down and the stock market was booming. If dividends mattered to investors, he reasoned, this would be a headscratcher, and troubling for future returns. He concludes, however, that low yields do not presage low future returns. In effect, dividends don't matter all that much. Along the way, he acknowledges the role that dividends have and can play in the investment equation, including those reflecting the basic tenet of business ownership, controls on management, a mechanism for the investor to guide consumption, etc. In the end, however, Bernstein, like Black, dismisses these

---

[6] Fischer Black, "The Dividend Puzzle," *The Journal of Portfolio Management* (Winter 1976), Vol 2, no. 2, 5-8. Updated through the late 1980s by Steven V. Mann, "The Dividend Puzzle: A Progress Report," *Quarterly Journal of Business and Economics*, Vol. 28, no. 3 (Summer, 1989), 3-35.

[7] Fischer Black, "Why Firms Pay Dividends," *Financial Analyst Journal*, Vol. 46, no. 3, (May-June 1990), 5.

[8] Peter L. Bernstein, "Dividends: The Puzzle," *Journal of Applied Corporate Finance,* Vol 9, no. 1 (Spring 1996), 16-22.

arguments as unpersuasive with investors. And he sides with academic finance in writing that "money is money, whether we dress it up in the costume of income or the costume of principal." Bernstein ends as Black does, without an answer to the puzzle.

And yet, the hostility remains. In preparing for this podcast, I came upon perhaps the most concise summary of the academic argument against dividends. It's a beaut: "the economic consequence of dividends is an involuntarily tax liability to the owners of the firm imposed on a marginal liquidation of their ownership."[9] That is, a dividend represents an unnecessary tax bill and a smaller stake in the company resulting from the company forced to hand out cash. It is hard to come up with a more damning description of the notion of business ownership. It goes beyond just the genuine problem of taxation to one of actual business ownership, that by receiving one's share of the profits, not leaving them in the corporation, one is participating in the forced diminution of the enterprise. Wow.

The academic narrative against dividends has evolved over the years. In recent decades, the initial orthodox finance approach, where the tax differential loomed large, has given way to a behavioral finance framework. In addition to generating tremendous insights into human behavior, behavioral finance has yielded a lot of new material on why investors might seek dividends and the problems associated with that pursuit.

But in many ways, the behavioral finance take on dividend investing is just the other side of the coin of the prior approach. Rather than assuming investors are consistently rational and all-knowing, the behavioralists highlight "the thousand natural shocks that flesh is heir to" when it comes to investing. For a full list of those shocks, see the works of Kahneman & Tversky, Richard Thaler, Meir Statman, among many others. Instead of being perfect at decision making, it turns out that we are often biased, which makes us rather bad at it.

While in the orthodox approach, dividend investing is simply an "mistake" by investors who should focus on less-taxed capital gains, in the behavioral version, it is more mental: it is a "fallacy," a deficiency that is typical of investors who have biases, are not all knowing, and make a myriad of little mistakes. They are not the rational machines from the prior model. Search in SSRN or JSTOR and you will find a lot of academics mulling over the "dividend puzzle' from a behavioral finance perspective.

The behavioralist finance literature on dividends is now itself more than 30 years old, but it has recently been well summarized and updated by two up-and-coming scholars, Samuel M. Hartzmark and David H. Solomon. Their "Dividend Disconnect" was just published in the prestigious *Journal of Finance* last year,[10] and I had the pleasure of having Solomon on the podcast earlier this year. He provided a great summary of their work in behavioral finance. In this particular article, they start with the obligatory reference to M&M and the philosophical assertion that a dividend is no different than a capital gain. From that premise, they pursue what they call the "disconnect" between how investors treat the income stream of an asset with the price of the asset. Having separate mental accounts, investors (supposedly) believe that their dividends are "free"— and they are (supposedly) unaware that dividends are coming out of the asset price. Since so much of the investment world is now measured and operates according to price change, not total return, the negative impact that dividend payments have on price returns necessarily leads to all sort of investing and consumption distortions. They document those distortions in great detail.

I'm not in a position to judge their empirical work though I think they are on the wrong foot in regard to a particular assertion about dividend reinvestment. The difference between practitioner and academic is clear in that instance. But, in general, one needs to assume that Hartzmark and Solomon they have gotten their details and their math correct. As such, they conclude that investors are "more naïve …[in regard to dividends] than academic finance has generally assumed."

---

[9] George M. Frankfurter & Bob G. Wood, with James Wansley, *Dividend Policy: Theory and Practice* (San Diego: Academic Press, 2003), 3

[10] Samuel M. Hartzmark & David H. Solomon, "The Dividend Disconnect," *The Journal of Finance*, Vol. 74, no. 5 (October 2019), 2153-2199.

Of course, I beg to differ there, and I will take up that disagreement in a moment. But both academic paradigms, over a 60-year period, look unkindly on investing for dividends. Try as they might, the community of the most visible and audible finance professors can't find a logic to the most natural and logical form of rewarding minority-stake business ownership. And that is a puzzle I hope to shed some light on.

My answer here is two-fold. First, I want to provide, as is my custom, some historical context to the dismissal of investing for dividends. Second, I want to point out that there is a serious business literature that dividend investors can look to. It's out there; it just doesn't have the same visibility in the practitioner community that it ought to. Perhaps this podcast will even the scales, if only a bit.

As for the first point, the historical context, let's look at this so-called "dividend disconnect." The first generation of antipathy to dividends—M&M, Black and their heirs, from the 1950s to the mid 1980s—corresponds neatly to a period of materially higher taxes on dividends than on capital gains. Combined with an insistence on rational actors and that growing focus in academic finance on the world of share prices and their relationship to one another, well the result was a glaring headwind to being a long-term business owner collecting one's coupons, at least in the academy. Nevertheless, despite these taunts from the university parapets to investors to shift to capital gains, and for companies to stop paying dividends entirely, profitable companies made distributions and company owners collected them throughout the entire period, even with marginal tax rates at the time that are eye-popping by today's standards.

By the mid-1980s, the tax differential had declined substantially as qualified dividend tax rates declined and approached the level of capital gains taxes. The differential between the two has remained relatively low ever since, and for many investors, dividends and capital gains are now taxed at the same level. So other than the issue of timing—which for many investors is an important factor—taxes are no longer a major point of differentiation.

But by the time the tax differential had faded, two other issues loomed large. The first was the rise of stock buybacks. Made widely feasible by a change in securities law in 1982, share repurchases became increasingly popular in the following decade, and the annual dollar value of buybacks surpassed that of dividends in the US market by the early 1990s. With a few recession years as exceptions, that has been the case ever since. The rise of the buyback fits all too nicely into the standard model's assumption that a harvested capital gain is identical to a dividend payment. Since payout ratios were irrelevant—according to the academics—and taxes on dividends were—or shall we say—had been higher, the buybacks seemed like a good idea, and most importantly, one that fit in with the existing prejudice in regard to dividends.

The second issue was the emergence of the dividend-free tech stock. The rise of this juggernaut dovetailed well with academic finance's orientation to asset prices, their correlations, their patterns, and their factors. The shift from measuring business success mostly in terms of cash returns to measuring it mostly in terms of share price gains had been largely completed. As with the initial period of high taxes on dividends, so with the latter period of "missing out" on the skyrocketing tech stocks and the supposed virtues of share buybacks, there were plenty of real-world reasons why academic finance would take a dim view of dividends over the sixty year or so period since the original M&M propositions.

In a practical sense, however, the indictments boil down to one overall charge: that by focusing on dividends, business investors were leaving a lot of money on the table. They were "underperforming" in a total return sense unnecessarily by not playing according to the house rules, which favor those who focused on share prices, not share distributions. This was a real problem, and I don't want to make light of it. Indeed, it has become harder and harder to be a traditional business owner cum dividend investor in the stock market. Many of the market's leading company just don't pay dividends anymore or have such low yields, that no DCF or DDM can be made to work for them. At the aggregate level, the market's payout ratio, as measured by the S&P 500 Index, dropped from the 60%-70% range and a yield about 4%, plus or minus, in the decades prior to M&M, to a 1.2% yield and a 30% payout ratio at the height of the internet bubble at the turn of the century. Right before the GFC, the cash payout stood at a paltry

1.8% and 30%. And reflecting the rise of the dividend-light FAANGS Plus, the yield of the market is once again 1.6%, with a payout of 40%.

Now, I have to admit that there has been a bit of a recovery in some of the metrics as some of the more mature tech companies began to pay dividends over the past few decades, but it is simply a fact that the US market remains dividend challenged. The one real and correct criticism that can be made in this literature is that dividend investor has a smaller number of options to choose from now as a percent of the market than they had in the past. That is real and serious.

This podcast does not deny the numerous, real-world, practical challenges encountered by dividend-focused investors over the past sixty years. Rather it questions the article of faith that a harvested capital gain is no different than a dividend and that the rules of business ownership are different just because a company happens to be publicly traded. Those assertions pass without review or detailed justification in the dominant academic literature, the literature that is the legacy of M&M or the literature in the currently vibrant paradigm of behavioral finance.

From a business-ownership perspective, however, the relative and absolute obstacles highlighted by those shouting from the academic towers might just as easily be considered reasonable agency costs, the price of being a minority shareholder in a desirable publicly traded corporation. I'll return to that positive notion in the second half of the podcast. But it is certainly true that at various times and for various reasons, those agency costs have been high, either in absolute terms in regard to taxes or relative terms due to the Nasdaq phenomenon.

Despite those obstacles, in the business investment context asserted here, the article of faith is the opposite: it is that the success and value of an enterprise—whether publicly traded or privately held—is directly linked to its ability to generate excess cashflows distributable to company owners. What other possible purpose for investing in a for-profit enterprise could there be? And so, one might reasonably ask, where is the literature on business ownership in which a profit distribution would enjoy its natural place. That's a great question. I've been searching for it. It's there, but you have to look for it. That's the topic of the second part of this special two-part episode of Keep Calm and Carry On Investing. I hope you'll listen in. Thank you for joining me.