KEEN ON RETIREMENT

Here's How to Get More Income In a Low Interest Rate World

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski: We are back in the studio for another episode of Keen On Retirement. I'm your host, Steve Sanduski and Bill Keen, we have a big crowd with us here today don't we?

Bill Keen: Yes we do Steve. Once again we've got a couple of team members here of Keen Wealth and I'm excited for our program today.

Steve Sanduski: All right. Well hey why don't we just jump right into it, I know there's several things you want to talk about here. One of the things that we will be talking about is the importance of dividends and dividend investing, particularly in this time where we have extremely low interest rates, but we'll definitely get to that, but yeah let's talk about some of the things that are on your mind here.

Bill Keen: I wanted to introduce another of our wealth advisors at the firm, Eric Savio is with us on the call today along with Matt Wilson and he's a long time contributor to our program, isn't he Steve?

Steve Sanduski: He sure is. Welcome Matt, welcome Eric.

Matt Wilson: Yeah good to see you Steve.

Eric Savio: Happy to be here.

Bill Keen: I'm focused on the depth of the team. I think it's very important this day and age to have a lot of smart people on a wealth advisory team and it's a pleasure to have both these gentlemen on the call today. Eric has been with our firm for 2 years now. He joined in 2014 and he started much like Matt as an intern. You know Matt started as an intern 14 years ago Steve, did you know that?

Steve Sanduski: I don't think I did but that ... I guess he turned out okay then, huh?

Bill Keen: So far it's. So far so good you know. The only problem with these interns is they graduate and then they want benefits and a pay raise.

Steve Sanduski: There you go, they want to get paid a lot more money.

Bill Keen: I'm going wait a second, I liked it the other way before. I like ...

Eric grew up in St. Louis. He went to the University of Missouri in Columbia, we call it MissU here in this part of the country. Then he came in to Kansas City to work on his MBA at Rockhurst University. Interestingly enough that's where Matt got his finance degree as well.

We were able to have Eric work for us as an intern for about a year, and again I say it about Matt years ago, the same thing about Eric is he's one of those guys that he's here early, he's staying late, he's trying to learn, he's reading, he's listening to podcasts, he's doing things offline, he's doing things to demonstrate that he's passionate about this business. For me, that's very attractive because you don't see that very often out there today and so we're grateful that he joined us full time he has literally sat in hundreds of meetings with Matt and I, he is also a licensed advisor. He's behind the scenes on a lot of the planning that we do. Grateful to have him here with us.

It's funny, one of the things too, he's from St. Louis, Matt's from St. Louis, we have to give them kind of a hard time here Steve, we're Kansas City people so we're the Royals and they're the Cardinals. There's a little bit of a back and forth on that.

Steve Sanduski: I was going to ask that. Eric, Cardinals or Royals?

Eric Savio: It depends who's asking.

Matt Wilson: They're in two different leagues so you can kind of like both the teams here.

Bill Keen: Well we have to harass them a little bit. Part of the-

Matt Wilson: Cardinals have won more world series by the way, so we do have that.

Steve Sanduski: Who has won the most recent world series?

Bill Keen: Thank you Steve.

Eric Savio: Steve I do want to say one thing, my football fandom is up for sale so if you want to interest me in the Packers I could lean that way.

Steve Sanduski: We love our Packers up here.

Bill Keen: I love it. Another thing I wanted to mention that's interesting about Eric, he actually studied abroad, A couple of interesting things about that, 1 probably very interesting, is Eric was in Rome when the most recent Pope was elected. So tell us about that Eric, and Steve I sent you a clip it's out there online I sent you a clip of Eric being interviewed by the media while you were in Rome, right Eric?

Eric Savio: That's correct. I'd like to day I planned being over there at the time but it was just luck. The first time in 600 years that the Pope had resigned and that was in February of 2013 and then about a month later they had elected the current Pope and my friends and I happened to be the first couple thousand people in Vatican city to see the Pope and there were a couple hundred thousand people there so we were right up real close. The white smoke came out and about 45 minutes later the Pope came out. I was one of the people that can say that they were there when the Pope was elected.

Steve Sanduski: It's an interesting process too, because don't they have black smoke, white smoke, and ...

Eric Savio: Yes, during the conclave if they don't elect a Pope they put black smoke through the chimney. That happened a few times. We were actually leaving to go on a 10 day spring break. You actually get that while you're studying abroad. We were going to a couple different countries and it was the last day we were there and the white smoke came out so we got to be there for it.

Steve Sanduski: Well I was asking him earlier too a little bit about his experience there, and go ahead and Eric share a little bit about your issue with currency and a little bit about what happened when you were there economically. I think it's interesting and it really ties into what's going on today.

Eric Savio: Yeah. I was there from January to May and in that time frame went to about 9 different countries, dealt with 4 or 5 different currencies, the Euro, the Pound, the Swiss Franc, the Hungarian Forint. Daily and weekly we were having to change our currencies and as a college kid and reading about international finance you hear about these exchange rates but you never think they're really going to affect you. Then I'm over there and it affects you financially especially when you don't have a lot of money over there so we had to deal and keep an eye on the exchange rates and sometimes that effected where we went on certain weekends on trips. That was interesting. Then also the time I was over there Europe was going through the Cyprexit.

Bill Keen: You heard that term Steve? Cyprexit.

Steve Sanduski: No, no, did you just make that up?

Eric Savio: No, most people probably do think I made it up but I did not. It is the name when

Cyprus was going to leave the EU, and this was back in March of 2013 and most people are probably googling right now what is Cyprus and is that even part of the EU? It is, for people who don't know, in the Eastern Mediterranean and they loaned a lot of money to Greece and when the Greek government was failing, Cyprus doubled down and bought more Greek government debt and then part of the Greek bailout package was anyone who owned Greek government debt had to say "Okay the government doesn't have to pay me back" so Cyprus effectively overnight had 0 dollars.

I got to go over there when all of that was going on.

Bill Keen: That's an interesting time to have been there. Let me ask you this Eric ... you've had a couple years at the firm, you've been in hundreds of meetings, looked at hundreds of financial plans, you've been a student of finance and economics an MBA graduate plus a licensed wealth advisor. What have you learned from that? What do you learn from seeing that at that time and this today where you are in your journey?

Eric Savio: I was like "Oh my gosh this is going to rock the economy" and if you look at the headlines the markets did actually go down for a week or so but 3 years later it's in this position. You have to learn and you do learn to separate the news from the noise and what's important. We always like to say, "Bring everything back to the financial plan, and how does this affect me personally." As long as you have a plan in place when we see these headlines flash across the screen, in the long run it doesn't matter too much. We don't want to make light of them, but we don't want to have a drastic reaction to the headlines.

Bill Keen: Wow Steve, Matt, somebody good has trained this guy huh?

Steve Sanduski: I would say so. You speak very eloquently Eric.

Bill Keen: Eric is Matt's right hand man and is pretty much on every single issue that Matt follows. It's a great way to learn. I look and I see "Someone has 30 years experience" and the question is do you have 1 year experience 30 times over again or are you actually paying attention and building on your knowledge? There's a difference. I believe in immersion learning that's why I'm grateful to have interns and to have interns that end up becoming full time at the firm.

Eric thank you for being on the program today. We're going to have him standing by here in case we might want to actually pepper the young man with questions Steve, but we won't quite yet. He does have Matt to help him there and that will be fine. Last episode we talked about bonds and this episode we thought it just would make sense because we mentioned it on last episode if someone goes back and listens or they recall, Matt actually said something about dividends and the growth rate of dividends and folks in retirement living on, the dividend income. He said, "Well that's a whole nother episode." He said it kind of tongue in cheek but at that point I was thinking "You know what? That is a whole nother episode and it would make sense for it to be probably the next episode.

We talk about financial planning and we ... this is a financial planning program, it's specifically even more so a retirement financial planning program ... We think about someone getting to a point in their life where they have enough capital, enough money saved and enough of their debts paid down so they can actually put their money to work for them and live on the interest and dividends and growth. Live on the assets. That's kind of a goal I think we all share. With that in mind the question today is, and we covered it last podcast as well, where do you invest money to create an income stream that in, the world we live in today with long life expectancy-es and interest rates virtually 0 at the banks, where do you invest money to be able to put your money to work and have a good probability of having it last someone's entire lifetime?

The first thing that I think about is 30 year retirements, in some cases 40 year retirements. The costs of goods and services continue to rise, and in fact, you talked about throwing us off earlier, I'm going to just ask you something real quick Steve. You tell me, do you know what the price of a new house was in 1975? Average cost?

Steve Sanduski: I think I can get pretty close because I'm from Omaha as you know, and we bought our house in Omaha that for the most part I grew up in in 1970 and we paid about 30, I'm going to call it $35,000 for our house in 1970 so I'm going to say I don't know, $45,000 in 1975?

Bill Keen: I didn't hear him typing. Last episode he was typing he was pulling up information, he had it to the decimal. It's $48,000.

Steve Sanduski: Yeah that's pretty close.

Bill Keen: Today for the equivalent house it's $250,000. Let's go back, let's look at a movie ticket. Any guess on what a movie ticket cost back then? Let me give you the number today from the information I'm looking at. The number I have today is $8.17 for a movie ticket. 1975 cost?

Steve Sanduski: I'm going to say it was $4.

Bill Keen: $2.03

Steve Sanduski: Okay.

Bill Keen: All right? How about public college? Today it's $18,943.

Steve Sanduski: 1975 college? I'm going to say ... Are we talking just tuition and fees, room and board, the whole shebang?

Bill Keen: We're talking the whole shebang.

Steve Sanduski: $5,000

Bill Keen: The numbers I have in front of me say $1,819.

Steve Sanduski: Oh my gosh.

Bill Keen: Today's costs $19,000. The reason I know that I'm thinking the $19,000 should cover in state public college with room and board, it may not. Matt what do you think?

Matt Wilson: Yes, it'd be close.

Bill Keen: Including room and board?

Matt Wilson: L guess it depends on where you live. I mean.

Bill Keen: Living with your parents?

Matt Wilson: It's pretty cheap to live out here so I think at KU it's about $6,000 a semester so that'd be $12,000 and another $6,000 for room and board, that sounds right.

Bill Keen: I should know this, I've got kids in college all over the place right now.

Steve Sanduski: I do too so Bill and I, we're in the same boat here, so we can tell you exactly what college costs today.

Bill Keen: Right, that's right. The thing that I wanted to bring home with this inflation issue is simply if we're going to have a retirement income in a rising cost world ... and we can get into a debate on what inflation ends up doing long term. I think that what we've done with our stimulus in these economies here and overseas that there's going to be inflation at some point. Over the last 10 years or so there hasn't been a ton of inflation, of course we say that and there's other areas that people say "No it's completely inflating" like college, like health care. When I look at someone's long term financial plan, I say "What's going to give us the best probability of making an asset base survive and thrive as it kicks off an income stream for someone to live on. We've got to be thinking about this inflation factor.

With that in mind Matt, I know you had a couple things to talk about when it comes to dividends on good quality companies, and he's got some really nice information to put some things in perspective because a lot of people think retirement is move all your money to bonds and CD's and live on the interest, but if you look at the numbers today that's not going to generate a whole lot for anyone. My goodness, if you start pulling out anything substantial from your investment pool and you're not making more than 1% or so you're going to immediately be touching principal. In fact what's the 10 year bond today?

Matt Wilson: Remember our last episode, and this was one of the questions I asked you Steve, if you knew what the record low of the 10 year treasury was? Do you remember what it was based on our last episode?

Steve Sanduski: Based on our last episode it was what, about 1.36%?

Matt Wilson: Our last episode the 10 year treasury hit a low in 2013 and it was 1.5%. Today ... and this is kind of an aftermath of the Brexit, the yield is 1.38% in the 10 year treasury. The reason I say it's the aftermath of the Brexit is the Brexit was this recent headline. It actually sounds like an omelet you can order at our local restaurant. The brexit basically the UK voted to leave the European Union and money just flocked here into the United States. What that means is our yields in government bonds go down. That makes ... they're buying U.S. Bonds.

Bill Keen: So again remember last episode, the teeter totter effect. People are putting money into bonds, driving the price up, hence the yields would have to go down, which is what we're seeing.

Hey you know another interesting thing about that Brexit, and this is kind of a step back kind of thought about it, but the Pound lost value compared to the Dollar. I think it's down to what, about a dollar 1.3-

Matt Wilson: Yeah, it lost 15% of it's value.

Bill Keen: From 1.5, so we know that the Pound lost value, but here's an interesting thing Steve. The 10 year government bond in Britain, which is, what's it called Matt?

Matt Wilson: It's called the gilt.

Bill Keen: OK, the 10 year gilt in Britain pays .8. Now that does that tell us? It tells us that people are buying the bond. They're still investing.

Matt Wilson: In January they were 2%, in January.

Bill Keen: That's right.

Matt Wilson: The gilt was 2% in January and now it's .8. So if people were afraid of U.K. gilts, they wouldn't be buying them, yields would be going up, but instead they're saying "No I want to invest in this government bond."

Bill Keen: So what we're saying is speculation in the currency, yes, long term security of the country and them paying their debts, people are still pretty positive about that. Maybe we don't understand what real estate is going to look like over there or what it's going to look like specifically in each community, but the investor populace based on this information we've just discussed, is kind of giving us a longer term view that they certainly don't believe Britain is going to be defaulting on their bonds.

Speaking of that, do you remember in 2007 Steve when the runway models, and I don't remember which one it was, but they were demanding their pay in Euros, not dollars. Do you remember that?

Steve Sanduski: I do, yeah.

Bill Keen: I was looking at that the other day because actually within just a couple months of that happening the Euro hit a peak and has never been back where it was. Maybe we call it the runway model contra-indicator?

Steve Sanduski: I thought where you were going was the hem line indicator.

Matt Wilson: Okay yeah, that's a good one too.

Bill Keen: Oh I do. I sure do. It's good information to be aware of and Matt brings up a great point on where interest rates are. A lot of places around the world right now are negative interest rates. Not to go at it again, that can be another whole episode as well.

Steve Sanduski: Well we did a blog post on that Bill.

Matt Wilson: Yeah, a great blog post.

Bill Keen: We sure did. Can you imagine agreeing to put your hundred thousand into a bank CD and being satisfied getting 99 thousand back a year later? I'll tell you that's an interesting time. Again, so Britain pays a positive rate, we pay a positive rate here in the U.S. That's on the bond side. The reason we're going over this right now is that's the alternative. That's what's out there right now. If we look at the portion of our assets we have in company shares, in ownership of some of the great companies and we look at those rationally and look at what kind of income they can produce, and think "Okay, how does that compare to what we have out there?" and I think that when Matt runs through some of his numbers here it almost will be hard to fathom some of these numbers over the long term.

Matt Wilson: The question that people need to ask themselves, or the answer we are looking for is, do stocks make sense for retirees trying to generate income from their nest egg? We talk about ... the traditional route was just to loan your money to the U.S. government and just live on the interest. At 1.4% for a 10 year government treasury, you're not going to go very far with that. When you look at stocks and stocks dividends ... well right now, Eric do you know what the dividend yield now is on the SNP 500?

Eric Savio: I would say it's about 2.4%.

Matt Wilson: 2.4. It's 2.1% is the yield on the SNP 500. So just think about that right now. You can loan your money to the government for 10 years and after that 10 year period you will get your money back plus 1.4% interest-

Eric Savio: Annually.

Matt Wilson: Annually, that's right. You can invest in the SNP 500 and participate in the growth of that basket of stocks and also receive a dividend that right now yields or pays you 2.1%.

Bill Keen: You're saying that if I'm willing to be subjected to the volatility, yes long term The stocks go higher, but they can go lower in the short term. In the meantime, we can pull down somewhere north of 2% and that's just in the broad base SNP, that's not focusing on a portfolio of dividend based securities. That's just the broad base SNP, 2.1% while we wait if you will.

Matt Wilson: That's right, that's right. All things being equal, compared to the U.S. treasury you can get a higher income stream, from that than from you can U.S. government bonds. Here's the other impact and I think this is one of the things that is unappreciated about dividends is they also have a historically, grown, very well over time. It's important because of the factors that, Bill, you mentioned earlier. Inflation. The goal of somebody with a 30 year retirement it to essentially preserve their purchasing power. That's what they're looking to do.

Preserving that is more and more important now because ... people are living longer and growth has to become more and more of a factor of somebody's retirement because they're living longer.

Bill Keen: Now when you say growth, do you mean growth in the assets overall or growth in the income stream or both?

Matt Wilson: Both! I would say both is equally as important. You have an income stream that goes over time and you also have an asset base that can grow over time as well.

Bill Keen: We talked earlier on in our show here about 30 year retirements, some people think "Hey we're getting ready to retire, we need to have all our assets in fixed income or bonds" and the reality is you're not going to need all of your money back the day you retire.

Matt Wilson: That's right.

Bill Keen: You're just going to need a little bit of it back each year, unless of course you have something planned for; a home or some other expense. As far as the planning goes that Eric was talking about, most of folks' money even when they're at retirement age is still long term money and has more of a longer term investment objective. I appreciate your insight there. Tell us how a dividend is actually grown over the years just to let us see how that works.

Matt Wilson: Let me give you some numbers here. In 1980, do you know what the dividend on the SNP 500 was in 1980?

Bill Keen: That's for you Steve.

Matt Wilson: Anybody, anybody can answer that one.

Steve Sanduski: I'm going to say-

Bill Keen: What about the MBA he should know this stuff. It should still be fresh in his mind.

Eric Savio: 1980, that's a little bit before my time.

Bill Keen: Okay.

Steve Sanduski: Yeah 1980, I'm going to say ... so that was before the big stock market rise ... probably 4.8%.

Matt Wilson: Okay. Let me rephrase that. The dollar amount that a share of the SNP 500 paid.

Steve Sanduski: Oh. That I don't know. I'm going to say that yield was like 4.8 so I don't know what.

Bill Keen: Yeah that would be tough to come up with.

Matt Wilson: That's close. It paid $6. For every share you owned of the SNP 500, you got a $6 dividend.

Bill Keen: So what he's demonstrating here is not necessarily the percentage that it paid, what we're trying to demonstrate is the percentage it has grown. Take the $6 and focus on that. There's no relativity to it. What year are you going to come to here Matt, this year?

Matt Wilson: Yes. That same share, if you had help it from 1980 to today would now be paying you $43. Almost $44, it's $43.90 to be exact.

Bill Keen: So what you're saying is the dividend yield if you owned a share of the SNP, your dividend yield has gone up 7 times.

Matt Wilson: Seven times.

Bill Keen: Is that right?

Matt Wilson: Your income has grown 7 X since 1980.

Steve Sanduski: Matt, how does that compare to what inflation has done over that same period?

Matt Wilson: CPI, so that's how we measure inflation, the Consumer Price Index, that's up 3 X since 1980.

Steve Sanduski: Okay so dividends have grown more than twice as fast as inflation.

Matt Wilson: That's correct. Not only do stocks either they have a current yield higher than you can get in bonds but they also have an income stream that's designed to grow over time and outpace inflation. That's just the income. We haven't even talked about the price appreciation.

Bill Keen: So the one unit of the SNP that we're talking about that generated $6 that now generates 7 times that, what is it actually worth now? Can you give us something ... and again I think Joel did a great job last week talking about the teeter totter approach ... we're on podcast but you can still visualize what we're talking about ... we try not to throw a bunch of numbers and tax laws and things out the re that are hard to comprehend listening. Can you give us an idea of what that one unit would be worth today in addition to the income, assuming you took all the income out and lived on it let's say, what's the investment worth today?

Matt Wilson: You would have had to pay $106 for that share in 1980.

Bill Keen: So Steve was about right. I'm sorry to interrupt you, $6 on $106, can you do the math-

Matt Wilson: A little over 5, 5.5. You would have $106 for that share, today that share is worth $2,100. That's a 19 times increase in your share value since 1980.

Bill Keen: There's been a lot of volatility and there were a lot of times where everybody thought the world was coming to an end there wasn't there?

Matt Wilson: There has been. There's been a lot of issues, like Brexit, like Cyprexit.

Eric Savio: Cyprexit, yes.

Matt Wilson: There was the crash of '87 in there, there was the dot com crash in '02, there was this most recent financial credit bubble here in '08 and '09. All of those, we lived through those during that period.

Bill Keen: So you're saying if someone made an investment in that broad base index, their income, their actual income has gone up 7 times, but their investment corpus has grown by 19 times.

Matt Wilson: That's right.

Bill Keen: Steve this probably where we need to say that this ... past performance is not a guarantee of future results right?

Steve Sanduski: I was going to rain on the parade and say that.

Bill Keen: That's right.

Matt Wilson: We talked about this during our last episode on bonds. That we do have to have bonds as a component to the portfolio, especially when you're drawing income out because we know the money you're going to need in 5 years just can't be subject to the volatility.

Bill Keen: That's right.

Steve Sanduski: Matt, Bill, let me ask you guys another question here. We're talking about how dividends have grown significantly over time, do you guys have any numbers on the way you can get a return from a stock investment is, you can get capital appreciation, so the stock can go from $40 per share to $50 or $60 or more per share so you get capital appreciation; you can also get your divided return of 2 or 3 or 4 or 5% whatever that dividend yield is. Do you have any numbers on over time, over perhaps decades, if you look at the total return of investing in stocks; which would be the combination of capital appreciation plus getting your dividend, do you have any number on what percent of your total return from stock investing has come from the dividends and the reinvesting of dividends?

Matt Wilson: We do. This is again as I mentioned, dividends are very unappreciated because most people think most of the return comes from the price appreciation.

Bill Keen: The Googles, the Facebooks of the world, the Oracles or the Ciscos of the 2000's right?

Matt Wilson: Right.

Bill Keen: That's what make the headlines.

Matt Wilson: That's right. Recently you have the Facebooks and the Twitters, and even private companies like Uber that are going to go public here soon. Well 70% of the total return over any 30 year period is driven by the dividend that the investment pays.

Bill Keen: Wow.

Steve Sanduski: That's huge.

Matt Wilson: That's a very large portion of your return is coming from the dividend stream. Dividends have to be a very important component to anyone's investing portfolio and especially it's important for a retiree to consider them.

Steve Sanduski: Okay guys, would this be a good time to throw a quiz in here?

Matt Wilson: I think so.

Bill Keen: Once again, I've got two other gentlemen on the call, credentialed gentlemen, educated gentlemen. I say go for it Steve.

Steve Sanduski: Okay. All right.

Bill Keen: Of course I'm all tough now when I have all these other guys with me on here.

Steve Sanduski: We're going to go back to a period of time when none of us in this conversation were alive. Let's go back to the 1930's, the decade of the 1930's, and we're looking at price appreciation and the dividend yield during the whole decade of the 1930's. Remember Great Depression Era. What do you think the average annual price appreciation of the stock market was, the U.S.stock market during the decade of the 1930's?

Bill Keen: So you're saying from 1930 to end of 1939.

Steve Sanduski: Right.

Bill Keen: ... '29 happened already, that's the key.

Steve Sanduski: I'm going to make this binary. Was it a positive average annual return or was it a negative average annual return during the decade of the '30's.

Bill Keen: I'm saying it was positive, especially with dividends reinvested for the '30's.

Steve Sanduski: Let's just say price only, price change only, positive or negative?

Matt Wilson: I'm picturing the long term chart in my head because I've seen it so many times and it hovers around the 0 line I think, but I'm going to say slightly positive.

Bill Keen: We're not going to the computer here Steve, just so you know, kind of like somebody else that we know that searches things when we ask questions. We're actually trying to answer. I would say that there was a slightly negative if you just looked at price.

Steve Sanduski: Yep you're exactly right. It was negative. It was negative 5.3. Here's the interesting thing, the dividend yield was a positive 5.7%. The dividend yield was greater than the price appreciation, and so even though you lost 5.3% on price appreciation you got 5.7% positive on the dividend yield so you ended up with a very very slight positive total return on stocks during the decade of the 1930's. Just to point that out, to reiterate what Matt and Bill, you're talking about. Just the importance of dividends that they may be there to help save you during times when stock prices are heading down. Dividends can provide a nice cushion, again past performance no guarantee of future results. We've seen in the past dividends have done in some cases a very nice job for investors.

Bill Keen: That's right, and for us it's also about diversification, not having all of someone's capital in any one security so that if in that occasion that one company does either go away or cut a dividend or something of that nature, there's that whole concept of diversification there. Another thing too about that Steve, I think it's important to look at not just what pays the highest dividend ... Like today we've been talking and you've been talking about just eh market in general. One of the things that I think we should be looking at is some of these companies ... Hey, you see a utility that's paying 10% dividend and you're saying "Well is that sustainable?" Or some of the oil companies when they got hit super hard, or the drillers, they have a dividend out there and the price just gets hit and now the dividend is 15% and not to be suckered in to buying some of those securities that can't sustain that dividend.

Matt Wilson: That's a great point because we talked about dividends and how important dividends are, but higher is not always better. Even Steve, to your point about the decade of the '30's and what happened to the total return and what the dividend yield was, part of the reason that ... dividend stocks have some pretty unique characteristics. Dividend, companies that pay dividends tend to have very strong and sustainable business models and they have superior fundamentals such as strong balance sheets and consistent growth in revenue earnings and cash flow. Companies that are paying dividends ... you can't fake the cash that has to get deposited in your account.

Bill Keen: Checks for the cash, don't they.

Matt Wilson: That's right. Eric I know in your MBA classes at Rockhurst they talk about all the accounting shenanigans that companies can do because they can come up with profit numbers or e-bit numbers all these other different ratios because they can change some of the numbers, but when cash has to be deposited there's no way around that.

Eric Savio: Yep that's absolutely correct.

Matt Wilson: When a company pays a dividend, that tells us they already meet some certain characteristics, but higher is not always the better. When we're evaluating company that pays a dividend we look at what we call the payout ratio. That is how much of it's earnings is it paying out to shareholders via the dividend. There are about 40 companies in the SNP 500 right now that are paying out over 100% of earnings in the form of a dividend.

Bill Keen: So it's not happening for much longer right, or what are they doing there, they've leveraged up obviously.

Matt Wilson: Some of it's being funded by debt which is that sustainable or not because are they having just a cyclical slowdown in their business unit that's caused the decrease in revenue on the short term basis where they're just getting by. Debt right now is very very cheap for companies, they have access to as we mentioned, the 10 year treasury. Well corporate bonds are basically at the same low levels like that.

Bill Keen: So if you're a CFO for a corporation you should be taking in some debt right now, locking it in at these lower rates. I gotta say that there's a crossover point to where you start to raise brow if you sees a company paying out more than their income in dividends.

Matt Wilson: That's right. You do have to just dig a little bit deeper and just say "Why is that?" If that's the case. Payout ratio is very important because if they do run into tough times, that's the first thing that's going to get cut is the dividend. That's the easy, right there, we're not depositing this cash in your bank account, we're going to hoard cash and try and regroup and get through that.

The other factor that's extremely important is what we call the earnings yield. It's essentially the inverse of the PE ratio. Bill why don't you share with us, explain the PE ratio just briefly.

Bill Keen: If you look at the price over the earnings per share, and that's a formula, a basic formula, so if you had an investment that you paid $1 for, you put the 1 on the top and then the earnings per share, let's say it made you a dollar in the first year. You put the 1 on the bottom, 1 over 1, you would have a PE ratio of 1. You made 1 and you only invested 1 and that's in the first year. That's a pretty darn good investment. It's a way to look at a price to earning ratio. Now there's companies out there on average ... where's the market trade in the U.S. on average about 18 times earning or so?

Matt Wilson: That's right.

Bill Keen: So 18 over 1.

Matt Wilson: 18 over 1.

Bill Keen: That's right.

Matt Wilson: We can use that metric to compare to where it's been historically. That's usually how to use it.

Bill Keen: Of course, and if a company has no earnings, which a lot do when they're getting started, it has no PE ratio. Interesting to see. One thing the PE ratio doesn't account for though is the leverage in a company. We're always looking to make sure we're paying attention to all the aspects and that's where this concept of earnings yield comes into play.

Matt Wilson: Yes. I said the inverse of the PE ratio. So the earnings yield is where you take the earnings a company makes and you put that on the top in the numerator and then the denominator is the total enterprise value of the company. That is all the assets of the enterprise plus all of the debt. You have to factor in both components to determine how much earnings are being generated by this enterprise. That's much more revealing because if a company has a lot of leverage to generate those earnings that's not as attractive to the same business that doesn't have that leverage that generates the same amount of earnings. It's very important to take those into consideration when you're evaluating stocks and especially dividend paying stocks.

Steve Sanduski: It certainly is. Dividend investing is a very important topic and it can comprise a nice portion of many investors' portfolios. Bill, you want to wrap up here with some closing thoughts?

Bill Keen: You bet. I always say there's 5 things a company can do with their cash when you're looking and evaluating an investment. That's when they can take their excess capital and they can reinvest it in their business, they can buy other companies, they can buy back their own shares, they can pay down their debt, or they can decide to pay a dividend. Three of those things we believe are friendly to the shareholder. We believe that paying a dividend, paying down debt, and buying back shares, are generally and typically friendly to the shareholder. We're not so sure on reinvesting in the business, it depends on how the management team is working. Then the buying of other companies, according to Mackenzie National Consulting Firm, they say 80% of mergers and acquisitions destroy value. We really pay attention to companies ... and I can think right in our backyard here, the Sprint Nextel merger acquisition I think, they write off something like 30 billion Matt?

Matt Wilson: They did, I think the deal cost 36 billion, they wrote off 30 billion of it.

Bill Keen: Okay, so again just trying to share with our listeners a little bit of the thought process. Most of our podcasts are focused on the planning aspect and living life intentionally, but we always say there's the engine to the financial plan. It's some understanding of how the investments work and some of the thinking that goes in to the processes involved. Steve, thank you so much for helping us. We get great reviews on your participation sir and I really appreciate Eric stepping in the studio today, it's great, I'm grateful to have him on the Keen Wealth Team here and a wealth advisor at the firm, and Matt as always, thank you as well.

Matt Wilson: Thank you.

Eric Savio: Thank you.

Steve Sanduski: Hey thanks guys, we'll look forward to the next show.

Bill Keen: All right Steve, talk to you soon.