

---

## *Developing the Right Mindset About Market Declines*

Please refer to the chart on the back page

As I am writing this on May 12, 2022, the S&P 500 has fallen 19% from the all-time high reached in January, 2022. So this is bad, right?

My answer is **NO!** Market declines give us the opportunity to increase your dividend stream by selling one stock to buy another stock with a higher yield.

Warren Buffett is widely considered to be one the best investors ever. He explained this concept better than I can in his 1997 "Letter to Shareholders" (he owns a significant part of Berkshire Hathaway.)

A short quiz: If you plan to eat hamburgers throughout your life and are not a cattle producer, should you wish for higher or lower prices for beef? Likewise, if you are going to buy a car from time to time, but are not an auto manufacturer, should you prefer higher or lower car prices? These questions, of course, answer themselves.

But now for the final exam: If you expect to be a net saver during the next five years, should you hope for a higher or lower stock market during that period? Many investors get this one wrong. Even though they are going to be net buyers of stocks for many years to come, they are elated when stock prices rise and depressed when they fall. In effect, they rejoice because prices have risen for the "hamburgers" they will soon be buying. This reaction makes no sense. Only those who will be sellers of equities in the near future should be happy at seeing stock prices rise. Prospective purchasers should much prefer sinking prices.

The best way to develop this mindset is to watch your dividend stream rather than watching the value of your portfolio. High quality stocks continue to increase their dividends, even if their stock prices are falling. **Your dividend stream does not fall when the market falls**, but the falling market may well give us an opportunity to sell one stock to buy another stock that has gone "ON SALE". That is the secret sauce we use to add extra dividends to your dividend stream.

## **Example of Dividend Stream Increase**

This is an example from one of our client accounts:

	<u>Yield</u>	<u>% Below High</u>
3/7 - Sell General Mills	2.99%	8%
3/7 - Buy T Rowe Price	3.56%	40%

**Pickup in Yield .57%**

4/25 - Sell Bristol-Myers	2.85%	3%
4/29 - Buy UPS	3.34%	22%

**Pickup in Yield .49%**

Notice we are selling stocks that have not declined much to buy stocks that have declined significantly.

Bargains do not arise only in down markets, but we often see more opportunities during a big market declines.

## **We Welcome Down Markets**

This down market has already given us several opportunities to increase your dividends. There are several other stocks approaching prices that will allow us to further increase your dividend stream.

As my Dad used to say "Make hay while the sun shines."  
The sun shines for us when stocks go on sale.

## **S&P 500 Major Market Declines**

Date of Market Peak	Date of Market Trough	% Loss	Duration (months)	Market Peak Price	Market Trough Price
05/29/46	06/13/49	-29.5	36.5	19.3	13.6
08/02/56	10/22/57	-21.5	14.5	49.7	39.0
12/12/61	06/26/62	-28.0	6.5	72.6	52.3
02/09/66	10/07/66	-22.2	8.0	94.1	73.2
11/29/68	05/26/70	-36.0	18.0	108.4	69.3
01/11/73	10/03/74	-48.0	20.5	120.2	62.3
09/21/76	03/06/78	-19.4	17.5	107.8	86.9
11/28/80	08/12/82	-27.0	20.5	140.5	102.4
08/25/87	12/04/87	-33.5	3.5	336.8	223.9
07/16/90	10/11/90	-20.0	3.0	369.0	295.5
07/17/98	08/31/98	-19.3	1.5	1186.8	957.3
03/24/00	10/09/02	-49.2	30.5	1527.5	776.7
10/09/07	03/09/09	-57.0	17.0	1565.1	676.5
04/29/11	10/03/11	-19.4	5.0	1363.6	1099.2
09/20/18	12/24/18	-19.8	3.0	2930.8	2351.1
02/19/20	03/23/20	-33.9	1.2	3386.2	2237.4

S&P 500 High Price	4797	(1/3/22)
S&P 500 Current	3866	
% Decline	19%	

Note: This is the 7<sup>th</sup> major decline in the past 30 years (estimated retirement period for a couple retiring in their 60's.) These are our "Buy Stocks on Sale" opportunities.