Watching Your Account Values Can Be DANGEROUS.

When it comes to monitoring your accounts, we have two pieces of advice for clients:

Tip #1 - Look first at your **dividends**, not your account values.

Tip #2 - Look at your account values as **infrequently** as you can.

Investing in high quality stocks has historically been a wonderful way to accumulate wealth. For example, if you had purchased the high quality stocks in the S&P 500® 30 years ago and spent your dividends, your wealth would have grown as follows:

Value 12/31/92	$1.00
Value 12/31/22	$8.81
Annual Increase	7.5% per year

Note again, this assumes dividends were spent, not reinvested.

So Why Doesn't Everyone Just Invest in Stocks?

The problem with stocks is the down markets we have to suffer through to achieve these premium returns. Over the past 30 years, the S&P 500® has declined at least 20% on four different occasions. This includes a loss of 57% in 2007-2009.

Many investors are just not emotionally able to watch their account balance decline by 20% to 50%, even if they understand it will eventually recover.

What is the Answer?

Actually, the answer is quite simple: **Quit looking at your accounts**.

If retirement is going to last 30 years and the future is anything like the past, the balance in your account will be much higher in 30 years than it is today. Since we will be living on our dividends and not touching principal, is there any need to keep looking at what the principal is worth?

The answer is clearly no. However, technology has made it easier and easier to look at our balances (now you can actually look at your up-to-date balances throughout the day). But the more we look at our accounts, the more upset and scared we become when the stock market has one of its periodic declines and we see the account values fall day after day.

The Tale of Mr. Daily, Mr. Monthly, and Mr. Yearly

Mr. Daily, Mr. Monthly, and Mr. Yearly all invested $1 million in the S&P 500® on 12/31/92 (equivalent to about $2.2 million today). Mr. D. likes to look at his account each evening after the market closes. Mr. M. only looks at his account when his monthly statement arrives from the brokerage. Mr. Y. looks once a year when he receives his year-end statement from Keystone. All three investors live off of their dividends and do not touch any of the original $1 million investment.

Let’s look at how the four 20% or greater declines looked to each investor.

	Mr. D	Mr. M	Mr. Y
2000 Tech Bubble Burst & 9/11	(49)	(48)	(40)
2007 Housing/Financial Crisis	(57)	(56)	(38)
2020 Covid-19	(34)	(32)	Gain
2022 Inflation Rising	(25)	(25)	(19)
12/31/22 Value	$8.8 Million	$8.8 Million	$8.8 million

Notice the following:

1.) All three investors ended up at the same point. One million dollars grew to $8.8 million.

2.) In every case, Mr. M. saw smaller declines than Mr. D., and Mr. Y. saw smaller declines than both. The declines were the same, but by not looking, Mr. M. and Mr. Y. did not see parts of the declines.

3.) Note the 2020 Covid bear market—Mr. Y. did not even know there was a 34% decline, as the market recovered all of the bear market loss by the end of the year.

THE REAL ANSWER: WATCH THE DIVIDENDS

Let's look at the dividends each investor would have collected.

INVESTMENT OF $1 MILLION IN S&P 500® ON 12/31/1992

1993	$28,866	2003	$39,900	2013	$80,310
1994	30,227	2004	44,621	2014	90,526
1995	31,645	2005	50,988	2015	99,580
1996	34,195	2006	57,111	2016	104,888
1997	35,567	2007	63,648	2017	112,304
1998	37,169	2008	65,151	2018	123,358
1999	38,310	2009	51,422	2019	133,668
2000	37,344	2010	52,165	2020	133,756
2001	36,125	2011	60,648	2021	138,618
2002	36,892	2012	71,715	2022	153,595

Dividends only declined twice. In 2000/2001, the decline was 6% (tech bubble bursting and 9/11). In 2009, the decline was 21% (housing and financial crisis). In the other 27 years, dividends grew. If we could only look at *DIVIDENDS*, stocks would feel much less risky to us.