

# THE KFP PHILOSOPHY

Several years ago, I created the chart on the next page to illustrate how our dividend philosophy would have worked if you had invested \$1 million in the S&P 500 thirty years ago. I like to review this each year with our clients. The chart was recently updated to include 2023.

Our goal in investing for our clients is shown on the front page of each newsletter:

**“Our goal is to build an income stream sufficient to meet your retirement needs. We also want the income stream to increase over time to offset inflation. To do this, we invest in a portfolio of common stocks of some of the best, high quality, financially strong companies in the world.”**

The S&P 500 is an index of 500 different US companies. These are high quality companies. About 110 of these companies meet our safety requirements and would be purchased if they fell to our buy price. Many of these fine companies are already owned in our client portfolios.

Note the following:

- The \$1 million investment would have generated \$28,235 in income in 1994. Assuming dividends were taken each year and spent, by 2023 the dividend stream would have risen to \$150,721 per year.
- The compounded annual increase in income over these years was 5.9% (approximately equal to our 6% goal). This was about double the rate of inflation over those years.
- In only 3 of the 30 years did the income decline. From a high of \$35,785 in 1999, it took until 2003 for dividends to reach a new high. After the 21.1% decline in 2009, it took from 2008 until 2012 to reach a new high.
- Although stock prices are volatile, dividends from high quality stocks are not volatile at all. It is rare for income to decline in any year. If there is a decline, the decline is usually small and the recovery time is usually short.
- Note that total dividends collected over the 30 years would have been \$2,061,368, over two times the initial \$1 million investment.
- The “Dividends Spent” column shows the year-end value of the \$1 million investment, assuming the dividends were spent. Note the principal declined in 9 of 30 years, including three straight years 2000-2002. Principal fluctuates much more than dividends.
- Assuming the dividends were spent, the \$1 million investment would have been worth over \$10.2 million at the end of 2023.
- The “Dividends Reinvested” column shows what would have happened if dividends were reinvested rather than spent. At the end of 2023, the \$1 million investment would have grown to almost \$18 million. This is a compound rate of return of 10.1% per year.

# Investing \$1 Million in the S&P 500 For 30 Years Beginning 12/31/1993

Year	Dividends	% Change	Dividends Spent		Dividends Reinvested		How Much Are You Paying To Get \$1 of Dividends
			Year-End Value	% Change	Year-End Value	% Change	
12/31/93			\$1,000,000		\$1,000,000		37
1994	\$28,235	4.7	984,607	(1.5)	1,013,217	1.3	35
1995	29,559	4.7	1,320,463	34.1	1,393,946	37.6	45
1996	31,941	8.1	1,588,037	20.3	1,714,009	23.0	50
1997	33,223	4.0	2,080,459	31.0	2,285,850	33.4	63
1998	34,720	4.5	2,635,288	26.7	2,939,124	28.6	76
1999	35,785	3.1	3,149,855	19.5	3,557,550	21.0	88
2000	34,883	(2.5)	2,830,486	(10.1)	3,233,668	(9.1)	81
2001	33,744	(3.3)	2,461,336	(13.0)	2,849,314	(11.9)	73
2002	34,460	2.1	1,886,204	(23.4)	2,219,606	(22.1)	55
2003	37,271	8.2	2,383,792	26.4	2,856,283	28.7	64
2004	41,681	11.8	2,598,178	9.0	3,167,107	10.9	62
2005	47,628	14.3	2,676,150	3.0	3,322,668	4.9	56
2006	53,348	12.0	3,040,626	13.6	3,847,466	15.8	57
2007	59,453	11.4	3,147,947	3.5	4,058,835	5.5	53
2008	60,858	2.4	1,936,435	(38.5)	2,557,163	(37.0)	32
2009	48,033	(21.1)	2,390,610	23.5	3,233,897	26.5	50
2010	48,728	1.4	2,696,195	12.8	3,721,031	15.1	55
2011	56,651	16.3	2,696,109	(0.0)	3,799,613	2.1	48
2012	66,989	18.2	3,057,541	13.4	4,407,673	16.0	46
2013	75,018	12.0	3,962,611	29.6	5,835,252	32.4	53
2014	84,560	12.7	4,413,978	11.4	6,634,002	13.7	52
2015	93,017	10.0	4,381,906	(0.7)	6,725,801	1.4	47
2016	97,975	5.3	4,799,721	9.5	7,530,201	12.0	49
2017	104,903	7.1	5,731,825	19.4	9,174,164	21.8	55
2018	115,228	9.8	5,374,317	(6.2)	8,771,946	(4.4)	47
2019	124,859	8.4	6,926,316	28.9	11,533,914	31.5	55
2020	124,941	0.1	8,052,460	16.3	13,656,019	18.4	64
2021	129,483	3.6	10,217,987	26.9	17,576,030	28.7	79
2022	143,473	10.8	8,231,322	(19.4)	14,392,855	(18.1)	57
2023	150,721	5.1	10,225,812	24.2	18,176,399	26.3	68

**Totals**      **\$2,061,368**

**Annual % Change**

**5.9%**

**8.1%**

**10.1%**