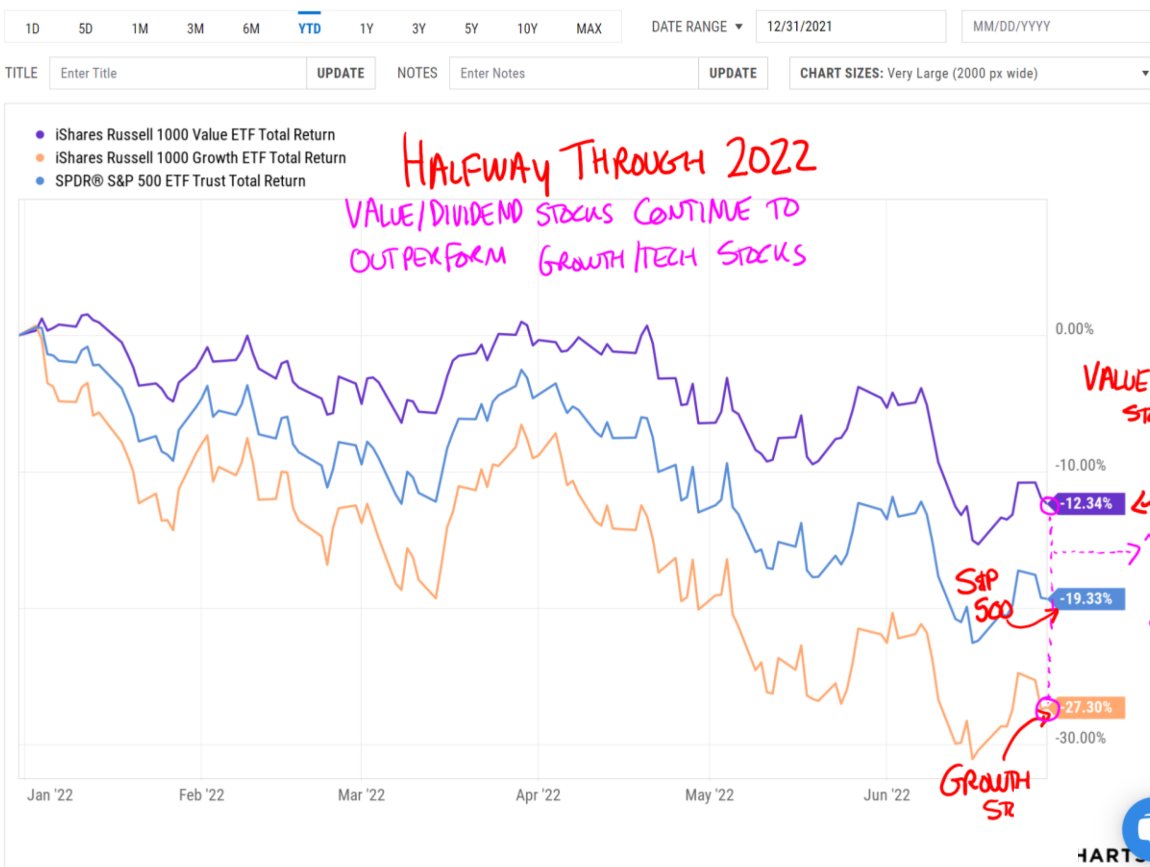
In Rough Waters – Dividend Investing Holding Up Well

It's been a challenging start to 2022. Worldwide financial markets are struggling, global tensions remain on edge and inflation is sitting at half-century highs. There's also a mid-term election coming up in November which is sure to up political rhetoric on both sides. That said, it has not been all bad. Dividend investing, or something most akin to value investing, is holding up relatively well. Thus far, 2022 has seen value stocks decline -12.3% while growth stocks have fallen -27.3%. As income-oriented investors, we remain comfortable in our long-term strategy of primarily owning high quality, dividend paying stocks and bonds designed to provide consistent income through ups and downs.



Source: YCharts

We mentioned the start to 2022 has been challenging. It's been the worst start to a year since 1940 based on a traditional portfolio allocation. The bigger question to us though is not what *has* happened but what is *likely to* happen. We have two ways of looking at this: 1) what does history tell us and 2) how do we view the economy today?

What Does History Tell Us?

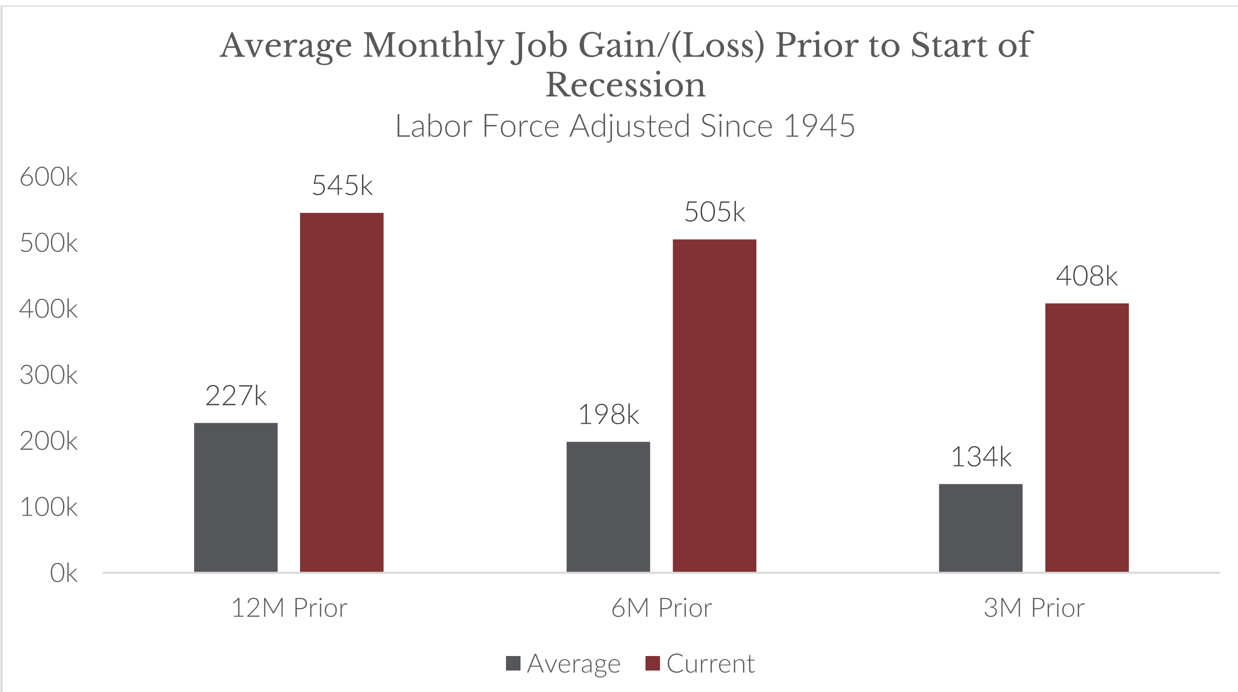
Peak	Trough	20% Down	3 Months	6 Months	1 Year	2 Years
9/6/29	6/1/32	10/28/29	(2.8%)	8.9%	(21.5%)	(55.7%)
7/15/57	10/22/57	10/21/57	6.7%	11.9%	36.2%	55.1%
12/12/61	6/26/62	5/28/62	6.9%	14.0%	30.7%	54.9%
2/9/66	10/7/66	8/29/66	8.9%	18.6%	29.0%	41.5%
11/29/68	5/26/70	1/29/70	(3.7%)	(7.1%)	16.5%	30.2%
1/11/73	10/3/74	11/27/73	1.3%	(5.9%)	(23.7%)	3.7%
11/28/80	8/12/82	2/22/82	4.4%	7.3%	38.0%	52.9%
8/25/87	12/4/87	10/19/87	13.2%	17.4%	29.0%	63.4%
3/24/00	10/9/02	3/12/01	6.6%	(6.8%)	0.1%	(29.7%)
10/9/07	3/9/09	7/9/08	(20.4%)	(26.2%)	(27.2%)	(9.2%)
2/19/20	3/23/20	3/12/20	21.6%	35.9%	61.8%	74.8%
1/3/22	6/16/22	6/13/22	?	?	?	?
		Average	3.9%	6.2%	15.4%	25.6%
		Positive Rate	72.7%	63.6%	72.7%	72.7%
Recession Average			1.7%	2.2%	10.0%	15.3%
Positive Rate			62.5%	50.0%	62.5%	62.5%
Non-Recession Average			9.6%	16.7%	29.6%	53.3%
Positive Rate			100.0%	100.0%	100.0%	100.0%

Source: Capital Investment Advisors; Bloomberg data

Let's address the historical context first. Going back to the 1920s the S&P 500 is positive 72.7% of the time following a -20% decline (which we've had this year). On average, the S&P 500 has been up +15.4% 1 year after the decline and +25.6% 2 years after. So, in a period that includes the Great Depression, the dot-com bust and the Global Financial Crisis returns were positive almost three-quarters of the time and up well into the double digits.

How Do We View The Economy Today?

Our current viewpoint is a recession is not imminent. We have a few reasons for this opinion but the main one is the US labor market remains healthy. Historically, when the economy was heading into a recession, the US had been adding between 134,000 and 198,000 jobs per month over the prior three to six months, adjusted for the size of today's labor market. The US is currently adding between 408,000 and 505,000 jobs. This is not a level normally associated with an economic calamity. Going back to the above table, returns have never been negative after a -20% decline without a recession over a 1 or 2 year horizon. Let's say a recession is on the horizon. Even if we do end up in a recession, based on the same data set, returns were still positive over 60% of the time to the tune of up +10% and +15.3% over 1 and 2 years. While past performance is not always indicative of future results, we can use history as a guide.



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We'd like to add one more point to recessionary fears. Over the past few years, many companies have generated little to no profits yet were still rewarded with sky high valuations. Much of this stemmed from low interest rates. As rates have begun to normalize due to higher levels of inflation, we've seen valuations reset a bit. Our belief is that if a recession comes, it will be due to persistent inflation and a less than friendly Federal Reserve. If this happens, growth stock valuations will likely continue to adjust down and have little cushion from dividends. On the other hand, high quality dividend paying companies with more normal valuations should see less downside and still provide consistent income.

The Bottom Line

The start to 2022 has not been ideal. That said, history serves as a guide to show that improvement could be on the horizon even should a recession arrive. Our approach to weathering stock market volatility will continue to be owning quality, dividend paying companies at reasonable valuations. The goal is to limit extreme downside while providing consistent income along the way.

As always, we're here to help.

-The CIA Investment Committee

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