

# The End of the Dividend Fallout

By [The Mogambo Guru](#)

03/16/09 Tampa Bay, Florida There are a lot of stockholders who buy stocks for the dividends that they pay, which is supposed to be one of THE major reasons why people buy stocks in the first place, and it makes sense... Why would you buy a business if you never got any money out of it?

The Economist magazine says, "A share's value must be the present value of all future dividends – otherwise stock markets would be a giant Ponzi scheme" which is made chillingly instructive today with the huge Bernie Madoff and other Ponzi scheme scandals that are popping up everywhere.

It's the same thing when people ask, "Why does Mogambo go to work at all, since he never does anything while he is there except play computer games and download pornography until it is time to leave early?"

Naturally, I immediately want to respond, "That is not true!" In fact, when I see my boss come snooping around, I try and look real busy, and sometimes I get something done, albeit mostly incorrectly and late, which opens another can of worms with everyone yelling, "I asked you for this six months ago, you moron!" or they hold my report with two fingers and say, with obvious distaste in their voices, "What IS this gibberish?"

Since I only took this stupid job because I needed the money and I am tired of defending myself about my poor work performance, I cleverly change the subject and note that we were originally talking about dividends from stocks, which I was going to use to say that dividends are being cut since company revenues are falling even as taxes and expenses are going up, and that people are responding by selling stocks, which makes their prices go down, which is what you expect ANY time there are more sellers than buyers! Hahaha!

The Economist magazine ignores my glib remark and notes that "Financial companies contributed about one-third of the \$736 billion of dividends paid globally by quoted firms in 2007" although they do not mention the fact that financial companies and government spending have grown until they are now the two biggest industries in America, probably because they know that if they did, I would probably start getting Unglued In Outrage (UIO) when it is obvious that I am not all that tightly-glued in the first place, damn it!

They do not even mention glue, nor that dividends of the S&P 500 have fallen from a high of almost \$29 a share to today's \$25, which doesn't seem that bad until they say, "Standard & Poor's, rating agency, reckons that dividends in America could fall by about a quarter this year – the steepest drop since 1938" especially since that would only take them back to where they were in 2004, and that "Pessimists point to 1931-35, when dividends per shares in America fell by 45% from peak to trough."

In fact, things got so bad back then, and companies were so reluctant to cut dividends (probably figuring that nobody in their right mind would buy their shares otherwise), that “in 1933, American earnings per share dropped below dividends”! Wow! The companies paid out more money to shareholders than the company made!

I know what you are thinking, because it was exactly what I am thinking. You are thinking, “What does this have to do with me, and how can I make a lot of money in a hurry without working?”

Bill Bonner here at The Daily Reckoning does not actually say that you and I are a couple of greedy, impatient, lowlife, lazy scumbags, which I already hear enough to last me a lifetime (thanks anyway), and that it is waaAAAAaay too early to be talking about profits when there are so many losses ahead, and that we ought to be selling all the belongings of our wives and children to get money to buy gold, gold, gold against a global economic crisis, using every fiat dollar upon which we can lay our greedy, filthy hands, but he seems to imply as much when he says, “Major cycles take time. So far, the Dow has only gotten down to the '66 TOP. Now, it has to get to the '82 BOTTOM...adjusted for inflation. Where would that be?”

Uh-oh!! I thought he was asking me for the answer, and I had no idea what he is talking about! And I sure don't want to do any work to find out, which is what you would naturally expect from, you know, a greedy, impatient, lowlife, lazy scumbag like me.

So I was slinking down in my seat, trying to be invisible, when he thankfully answers his own question, “Well...as we recall, the Dow was barely at 1,000 when the bull market began.”

Apparently, Mr. Bonner noticed the way the blood drained from my face at the thought of the catastrophe that would ensue from the Dow dropping all the way to 1,000, when it seems like it had reached around 15,000 a couple of times in the last decade or so, considering all the zillions of dollars in money and dreams that were poured in the stock and bond market and which are now lost, lost, lost.

Perhaps to make me feel better because he figures I am as stupid as I look and as stupid as I sound, he mistakenly thinks that I would not understand the idea of “money illusion” which is the phenomenon where it looks like you are doing fine, financially, but you are actually doing worse and worse, going downhill, because the decline in the purchasing power of your dollars is more than the increase in the number of dollars you get as your stupid little annual raises at your stupid little job, not to mention your pathetic “bonus” which you did not even get last year, and says, “And if we adjust that to consumer price inflation, we come to 2,000-3,000” which I agree certainly sounds a lot better than 1,000 in mere nominal terms when the Dow is now about 7,000, which is a satisfying self-delusion, which is the best kind of delusion.

And, lest there be any mistake, the venerable Richard Russell of the Dow Theory Letters has long-predicted that the Dow and the price of an ounce of gold will one day be identical.

That day may soon be near, and if so, then, “Whee! This investing stuff is easy!”