SCOTT STRATEGIC INVESTMENTS

An Independent Practice

Who is going to tie my shoe?

As many of you may or may not know, I recently had significant knee surgery. In addition, by chance, my wife also had a long-planned extended trip to Egypt that she embarked upon. So, after dropping me off for my first physical therapy appointment she left for Egypt for 14 days, and I had to ride home in Pagosa's only taxi. Not to worry, my abandonment is not the main point of this memo.

Being home alone after surgery, on crutches and with no ability to put weight on the repaired knee left me with the realization: Who is going to tie my shoe's, me put on my socks etc. What happens when I am 80? What if I can't drive? What if I can't live with one of my kids? And how am I going to pay someone to tie my shoes if that is what required.

I turned 56 this year and my recent predicament has put in focus a number of dilemmas/questions that not only must I contend with but many of my peers and clients as well. To prevent any of you disinterested individuals from having to read the whole paper, let me summarize the focus of this memo.

- How am I going to generate a retirement income in addition to social security? Yes, we know about IRAs, 401(k)s and other savings and investments, but how am I going to turn those investments into cash flow to live in retirement and provide for my healthcare and or someone to tie my shoes.

We all here about the aging of the baby boomers and how many people are turning 65 each day but hard to appreciate until you have your own epiphany. Here are two pieces of my own financial plan that I am putting in place that I want to share with you.

1. Continue building a significant portfolio over time, which is focused on generating cash flow. In my case, this will be a portfolio of global equities focused on dividends.
2. Long Term Care insurance. Policies have evolved and changed dramatically but I guess my time has finally come and there some interesting new options.

Cash Flow

Who knows where interest rates are headed in the long-run. Who would have known there would be 13 trillion in negative yielding interest rates around the world in 2019

Global bond yields

Maturity

	2-year	5-year	10-year	15+ year
US	1.51%	1.42%	1.55%	2.04%
Italy	0.02%	0.78%	1.34%	2.45%
UK	0.49%	0.37%	0.45%	1.01%
Spain	-0.57%	-0.35%	0.09%	0.96%
Sweden	-0.66%	-0.71%	-0.36%	1.41%
Japan	-0.30%	-0.34%	-0.24%	0.19%
Belgium	-0.80%	-0.67%	-0.35%	0.54%
France	-0.79%	-0.77%	-0.42%	0.45%
Netherlans	-0.88%	-0.85%	-0.56%	-0.17%
Germany	-0.92%	-0.91%	-0.69%	-0.17%
Denmark	-0.92%	-0.89%	-0.67%	-0.43%

SOURCE: Factset

CNBC

And maybe rates are about to start their climb. But why bother trying to predict when you can utilize a strategy that has worked historicallyand doesn't require the ability to predict or time markets. How do we generate reliable cash flow to keep up with rising costs, retire and pay someone to tie your shoes?

There are a myriad of ways to generate cash flow for an investor. But three criteria for me are as follows.

1. It must be relatively passive.
    a. Rental real estate is not passive. I'm not a landlord today and don't want to be one in the future. Real estate is a fine investment I am just not interested in being an active investor or landlord.
    b. Low turnover. My idea is not a trading strategy. As Buffett says "When we own portions of outstanding businesses with outstanding managements, our favorite holding period is forever." This is my preference as well.
2. The approach must have a high probability of success, not a gamble.
3. It must anchored by principles of value and the strategy must make good common sense.

That is why I am focused on an income strategy built on stock dividends.

Why Dividends Why Now

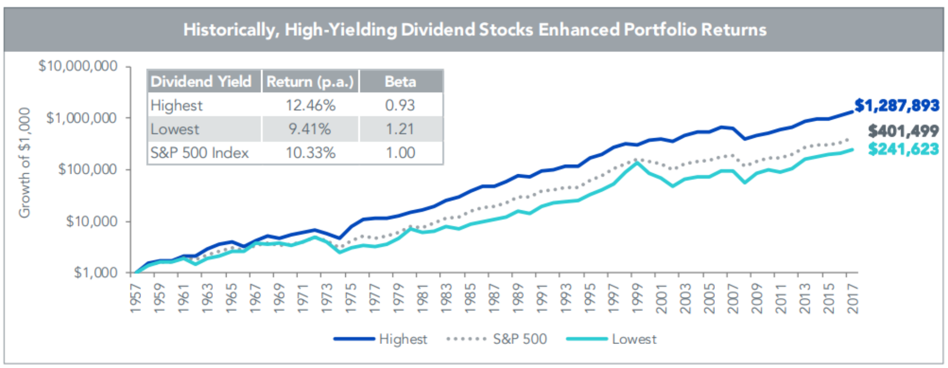
At Scott Strategic Investments (SSI) we work with our clients aiming to build investment portfolios for retirement and to live off of these portfolios when they do retire. Why not consider an unexciting strategy that has been around as long as the market itself.

Do you know the only thing that gives me pleasure? It's to see my dividends come in. - John D. Rockefeller

Four reasons to consider a dividend strategy:

1. Dividends have provided the majority of the stock market return over time.
    a. Between 1926 and 2018, dividends have accounted for approximately 40% of the 9.9% total return generated by the S&P 500.
    b. Between 1926 and 2018, dividend yield and dividend growth have accounted for approximately 91% of the 9.9% total return generated by the S&P 500 Index.[i]
2. Dividends can mitigate volatility. Lower Beta=Lower Volatility.

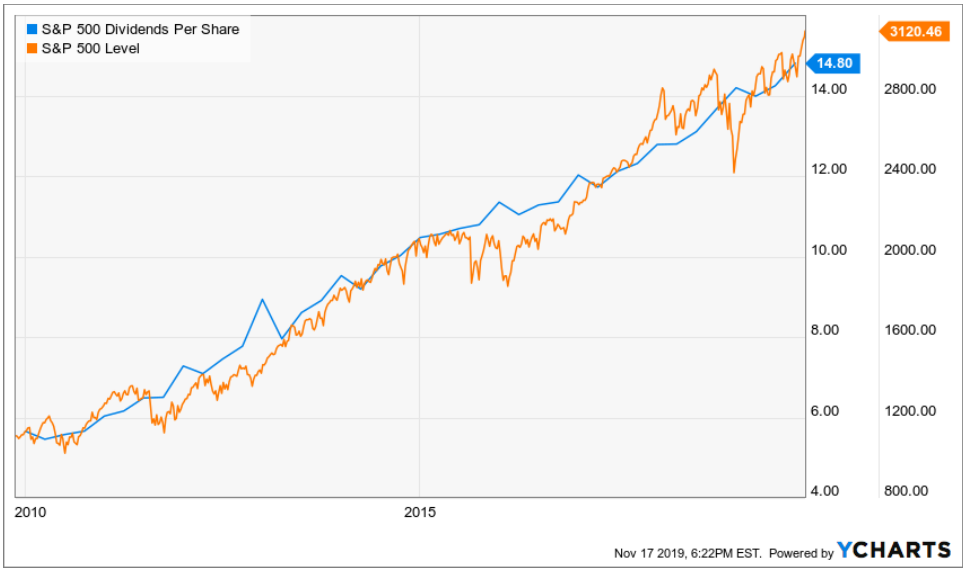
As *the graph from Jeremy Siegel, The Future for Investors updated for 2018 data indicates, lower Beta (volatility) and higher returns for highest yielding stocks in the S&P 500.*



3. The goal is a steady and rising income. Investors should be focused on the business not the stock price. If the business does well and income goes up, the stock price will follow. Dividends are not a sure thing and the company can change them at any time, which is why it is important to pick companies with a track record of paying dividends even in difficult environments.

    But the idea, as the graph below indicates, is to smooth out the ride by focusing on businesses that have the ability to generate returns in good years and bad, and not just focus on the stock price.

    How smooth has the dividend ride been? According to Morningstar, since 1946 the annual dividend payment of the S&P500 Index has declined in only 7 of 67 years. Stock prices by contrast, posted 20 annual declines.



4. Finally, another reason to use dividends to fund some of your retirement expenses is that you may not have to sell anything. You receive the cash flow and keep an asset that is growing and generating high returns on capital and distributing excess cash flow to owners (shareholders) of the business.

   Think of it as owning a farm. Wouldn't you want to live off the sales of your crops, rather than selling some of your farmland to fund your retirement? By retaining the productive asset, you have the option of spending your proceeds or reinvesting. In this example, reinvesting would be akin to purchasing additional plots of land to grow even more crops.

Why not own a basket of high-quality businesses that have a track record of paying above average dividends and growing dividends and maintaining a long-term ownership of those businesses as long as they are fundamentally sound?

If this approach sounds like a strategy you would like to discuss, please give us a call and schedule some time with us and we can evaluate your individual situation.

Next month I will review my latest findings on long term care insurance.

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[i] Source data: Robert Shiller database, Yale University, http://www.econ.yale.edu/~shiller/data.htm and Federated Investors, Inc. Past performance is no guarantee of future results.