

“Dividend-paying stocks outperform non-dividend-paying stocks by 1% to 1.5% more per month in declining markets than in advancing markets.”

Fuller and Goldstein 2005 *

Connolly Report

Since 1981

“Things are not ridiculously cheap.” W. Buffett, Feb 7, 2008 Feb 2008 Vol XXVIII No.1 p. 644

● “Buffett sitting on his wallet” was the headline some editor at the Report on Business selected for its column about **Warren Buffet’s** visit to Toronto on February 7th. As far as I can discern, Mr Buffett did not actually say he was sitting on his wallet: the headline was not a quote. I found the headline misleading. Why? On February 4th, SEC filings revealed Berkshire Hathaway purchased 2,956,000 more shares in Burlington, Northern, Santa Fe between January 7 and 22nd 2008 for \$228,776,374. If Mr. Buffett is sitting on his wallet, he has a lot of change in his front pocket.

The Report on Business column, thankfully, contained some direct quotations by Warren Buffett. One thing he actually did say was “Things are not ridiculously cheap.”

● “The worst market crisis in 60 years” was the title of a column **George Soros** himself actually wrote for The Financial Times on January 22 2008. This title, and his column, made me think waiting might be better. (Google “The worst market crisis in 60 years + Soros”. It’s an excellent summary of what’s happening and only two pages.) Here’s one Soros thought: “the current crisis marks the end of an era of credit expansion based on the dollar as the international reserve currency...the culmination of a super-boom that has lasted more than 60 years.”

● "Those who can should hold cash and wait for the arrival of the 'fat pitch" **James Montier** said in his January 15 2008 essay. Montier continued: "Focusing on the longer-term leads us to concentrate on dividends as these account for nearly half of the total return with a five-year time horizon. Thus large cap stocks that either pay a dividend (preferably a well covered one) or have the potential to turn cash piles into dividends are likely to be the best places to hide." ← ← ←

● “There has never been a time when valuations dropped to the mean and then went back up again without visiting a much lower valuation. Never. Not one time. Zip” **John Maldin**.

● “investors should focus on investments that will weather a recession: non-cyclical stocks. These include shares in companies that sell or distribute things we always need to buy”. These ideas of **Stephen Jarislowsky** were in the the Report on Business on January 18 2008. (Link on my site)

● “Our modern shadow banking system craftily dodges the reserve requirements of traditional institutions and promotes a chain letter, pyramid scheme of leverage based in many cases on no reserve cushion whatsoever. Financial derivatives of all descriptions are involved...” This is but one idea from “Pyramids Crumbling” **Bill Gross’** January 2008 Investment Outlook at PIMCO.

● “Ten years would be a perfectly normal period of time to go from a peak of a great bubble [like the one in 2000], based on the history of bubbles and their aftermath, to a low. I have long thought that 2010 would be when we hit the biggest discount to fair value.” **Jeremy Grantham** Feb 11’08

We have had a period of extra ordinary returns since about the time I began this report in the early 1980s. Periods of stellar returns are followed by periods of mediocre ones. We’ll soon see how our Canadian dividend growth stocks really perform. Are you not glad we invested in the best companies? We’ll be receiving increasing dividends (lots inside), and eventually higher stock prices. At the same time, mutual fund investors will fear opening their statements. They’re over diversified: when the markets drop, fund portfolio values fall too. We’re specialized...just great dividend growers: safer.

*Do Dividends Matter More in Declining Markets? Available free at <http://ssrn.com/abstract=687067>