



Mr. Rogers' Everyday Miracle Money Machine – An Interview with Will Rogers

Saturday with Jim

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~ Will Rogers, 1879-1935, was arguably one of the most listened to people during the early years of the Great Depression - 1930-33. We hope that we were true to Will Rogers' wit, wisdom and worldliness. ~

Gaia: Welcome, Mr. Rogers. We're pleased to have the benefit of your wisdom today.

WR: I am pleased to share my thoughts with you.

Gaia: The nation knew you as a comedian, but you were a successful investor.

WR: If you mean that I always demanded the return of my money, that's right.

Gaia: You're just being modest. You managed your money and that of your family through the Great Depression with hardly a hiccup.

WR: You are too kind. The period between 1931 and the summer of 1932 was no picnic but if you mean that all of our lambs arrived at the farm for their next shearing, then I guess you're right.

Gaia: How did you survive – even prosper – in such bad times?

WR: I never invested in anything which did not pay income, steady and secure income. Our friends used to ridicule me in 1927-29 because I was "losing out" on the new economy, on the big structural changes that would lead to perpetual prosperity. Those times were more trying than those of the depression, but I stuck to my guns: income first, growth through compounding and as a byproduct of having selected safe and strong investments second.

Gaia: How does "income first" work?

WR: Suppose you had a solid utility company which paid you a 6% dividend (a dividend is a return of company profits to its shareholders). If you invested \$10,000 in this company, you would receive \$600 a year in dividends, no matter what investors did to the stock price. So long as the company has profits, it will continue to pay dividends. That's what I call the return of your money. Little by little, you are getting your money back – to reinvest or to spend.

Gaia: You were earning plenty of money those days. Surely you did not need income.

WR: You are right. I used the dividends to buy more shares, which gave me more dividends to buy even more shares. The process is called compounding.

Gaia: For example?

WR: At the end of the first year we made \$600 from dividends, right? Our balance is \$10,600 (the original \$10,000 plus the income of \$600). Let's assume the share price does not change and the dividend income remains at \$600.

Gaia: What happens in years 2, 3, 4 and 5?

WR: Year 2's dividend is \$636 (6% more than the first year). Year 3's dividend is \$674. Year 4's dividend is \$714. Year 5's dividend is \$757. Income has grown from \$600 to \$757 over the 5 years, like clockwork.

Gaia: How does the income increase if the dividend remains the same?

WR: The dividend increases through reinvestment, or buying more shares. You can see this in the increase of the dividend from year 1 to year 2 - \$36 or exactly 6%. Thus, with the additional shares also gaining at 6%, our total year 2 income is \$636 – a nice little raise, no?

Gaia: And the value of your capital at the end of 5 years?

WR: Let's figure that the shares did not go up in price or that the dividend was increased – both unlikely over 5 years. The balance at the end of 5 years would be \$13,383 – a gain of \$3,383 or over 38% - just from compounding.

Gaia: What could go wrong and what might happen to get you even more money?

WR: The company could eliminate or reduce its dividend.

Gaia: What could go better than predicted?

WR: A strong company's stock price rises over time, though not in straight lines. Stock prices usually rise when company earnings are expected to rise, and vice versa. When company earnings rise, it has more to distribute to shareholders in the form of dividend increases. Thus, our 38% increase is probably understated. But remember – we plan for the return of our money and a return on our money in the form of share price or dividend increases is just gravy on the already delicious biscuit.

Gaia: Why don't most people invest for income as you did?

WR: It's not flashy. It's actually quite boring. Income-producing securities are more stable than their faster growing brethren. Income payers are found in already mature industries like pipelines, finance and real estate. Fast growing tech companies, for example, pay paltry dividends. It's fine with me that our style is out of favor.

Gaia: Why is that?

WR: In the investing world, popularity kills the golden goose. Let me show you. Suppose our utility company issues a dividend of \$600 per year on our \$10,000 investment. Suppose the share price doubled because of investor interest arising from the popularity of our approach. Well, the new investors would still get their \$600, but they'd only be making 3% on their money (the shares cost twice as much, halving the return). Of course, early to the party, we have our cake and can eat it, too – we still get the income to compound. But we have a problem, too. If the security's price doubles, then our reinvestments are "buying income" at only the 3% clip, not the 6% we enjoyed at first. In effect, our money buys less income. But our capital has grown immensely – more than doubling in the example. Our total gain is the gain from the higher price plus reinvested dividends we've accumulated – and plowed back into shares.

Gaia: That's a problem many people would like to have. How do you adjust to the higher prices (and profit) which reduce your income with each reinvestment?

WR: We begin looking for other quality companies whose shares are a better value than those in our original company. Let's suppose that we found another company which passed our quality screens having a dividend of 6% - the original dividend rate. If we sold all of the shares in our original investment and invested the proceeds in the new 6% dividend payer, we'd more than double our income from the original purchase. In this example, we have used the strong currency of the first company to buy shares of the second company. If we can continually reinvest dividends and take advantage of capital gains as in the above example, we can increase both capital and income safely. We refer to the entire process as buying income.

Gaia: Buy income?

WR: Yes. You can either buy growth or you can buy income. If you buy income, then every purchase you make is predicated on the amount and the security of the income stream you will receive. Any growth you get is a gift.

Gaia: How do bear markets, where security prices drop 40% or more from their highs, affect you as an income investor? Don't they frighten you?

WR: They provide tremendous opportunities for us to load up on cheap income shares, trashed by a fearful public. But there's a catch. We have to have seen the bear coming and we have to be disciplined enough to have cash to put in play at or near the bottom of the bear move.

Gaia: That's a nice theory, but does it work?

WR: It worked like a charm in the 30's for us. We had to make some modifications, but our income held up well even as the prices of our holdings went from profit to deep loss to profit again. Actually, because of the cash we had to invest at the bottom in 1932, our income increased during the worst bear market we'll ever see.

Gaia: Can we conclude that income investing works in good times and bad?

WR: Yep. But the moves can be glacial, tempting impatient ones to bail because of boredom. It usually takes 3 years or so to really see the effects of income compounding. The exception, of course, is the period at the end of a bear market. Income investors get their best rewards, then.

Gaia: What about the retiree, who needs income and can't compound as you mentioned?

WR: Good question. When I retired, I was making about 9% on my capital. I decided to take about 4.5% as income, leaving the rest to compound. In this way, I had money to spend and I had an inflation adjustment in the form of ever higher income. What could be better?

Gaia: Thank you, Mr. Rogers. It's been a pleasure hearing about what you call your "Everyday Miracle Money Machine."

WR: You're welcome. Feel free to call on me anytime.

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