LAWSON KROEKER
INVESTMENT MANAGEMENT

As We See It

Pay Me Now or Pay Me Later

At some time, investments are expected to pay their owners. For young people saving for retirement that time is distant; but for retirees and organizations such as hospitals and universities depending on endowment support, that time is now. While the latter investors have always been with us, the pay-me-later crowd has been in the spotlight in recent years.

This made sense because there were a lot of *Baby Boomers* and the stock market boomed for a long time. Interest rates declined for a long time and added *illusory gains* to bond portfolios.

Times have changed. In the stock market the tech bubble burst. Stock market valuations receded, but by historical standards are still high. The run of falling interest rates (and mark-up of existing bond prices) surely has come further than it has yet to go. The *Boomers* have aged. Their distant retirement is not so distant. Reliable sustainable income has come back into the limelight. It is cash that buys groceries, so it is time to go back to *Investment Fundamentals 101*.

Investments give off cash as current returns or capital gain. For farms, current cash return comes from the sale of crops or livestock, for property it is called rent, and for securities it is interest or dividends. For all of these forms of investment, capital gain cash is only realized upon sale of the asset.

Bonds deliver cash as interest payments—usually semi-annually and at maturity. The dependability of these payments has been very good. Failure to pay as promised has contractual/legal ramifications. A debtor who fails to pay can be forced into bankruptcy. Currently, bond interest rates range between 2.5% – 5%.

Stock dividends (cash), which are usually paid quarterly, are paid at the discretion of the board of directors who try to maintain a stable or growing stream of dividends. Dividends can be—and have been—cut or eliminated without contractual violations. The average dividend yield today (S&P 500 Index) is under 2%. This is low by historical standards.

Capital gain is realized when and if the investment is sold. This depends on the market. Dependence upon *the market* is the least stable or predictable form of cash return. Recent stock market disappointments have made this painfully clear. It may be fun/satisfying to watch CNN Market Report every evening to see what someone else got for their stock, but it is not money in your bank account until it is your sale.

While speculation is not dead—note hedge funds and the home real estate market—cash income is receiving renewed attention. Bond funds have sold well despite lower interest rates. Commentators are offering lists of *high-yield* stocks. Corporate boards are slowly raising their dividend payout rates.

Reliable, sustainable cash income matters. It is time that it returns to the forefront of portfolio policy considerations.

Pay me now or pay me later, but be sure you get paid.

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