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DIVIDENDS AND DEMOGRAPHICS: WHERE IS THE PUCK GOING?
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Demographics point to a stampede to older age and retirement. Folks, older than 65, will become a rising percentage of the population as 80 million Baby Boomers age. There will be 10,000 Baby Boomers turning 65 every day for the next 16 years. We, therefore, know where the investment puck is going as Baby Boomers will seek risk mitigation in their portfolios as they age.

The Life Cycle Hypothesis

Investment preferences are age related. When the Baby Boomers were young, their first investment was a home, which led to a housing boom. During the 1980-2000 time period, the Baby Boomers turned to growth stocks with P/E ratios expanding from 15 to 25 during that time period as dividend payout ratios declined to 20%. From 2000 until 2040 as the Baby Boomer investment needs shift to income, P/E's are expected to decline from 25 to single digits. Companies will find out as consumption declines and they are not able to reinvest free cash flow at the same rate that it will be better to pay out the free cash flow as dividends, which will meet the income needs of the extreme demographic shift of the Baby Boomers. Demographic trends will keep P/E's low for decades as income needs increase, as the P/E ratio may be seen as the inverse of the dividend yield.

Risk Mitigation

With a massive number of folks trying to protect their portfolio as they retire, they will seek risk mitigation over reward in their investment choices. Dividends have historically provided 44% of the total return of stocks. There is no correlation of dividend returns, which have no systemic risk, with capital gains, which do experience systemic risk. It, therefore, pays to focus on dividend-paying stocks when seeking to mitigate risk. There are plenty of stocks that have paid dividends for 100 or more years, such as **Procter & Gamble-PG**, which has paid a dividend for 109 years and increased the dividend for 58 consecutive years. **Emerson-EMR** is another company that has increased its dividend for 58 straight years. There are 300 companies that have increased their dividends for 10 consecutive years. It is, therefore, relatively easy to predict dividend payments, but not stock prices.

Focus on Absolute Dividend Returns

Investors should focus on companies generating positive and growing cash flows, as these will be the companies that will generate growing dividend streams. Investors can then channel those cash flows to meet their retirement income needs over the next 30 years. Aging Baby boomers should focus on dividend income first with capital gains on the side. While many stocks pay dividends, the emphasis should be on companies that provide income growth every year. During the financial crisis, many bank stocks had to cut their dividends, and you don't want your income stream to be cut during retirement.