



The Georgian Capital Rational.

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THE GEORGIAN CAPITAL RATIONALE

I. Why we focus on dividends? (still; always)

- More predictable than earnings; for management and investors.
- More stable than earnings – management is very reluctant to change, and signal strength or weakness.
- Reflect the strength of cash flow of a company.
- Represent a real return to shareholders – a capital gain is more elusive. A dividend discount model provides the real value of an equity share.
- Favourable tax treatment vs. other income streams.
- Provide defense / capital preservation for an investor.
- Studies show the highest stock returns occur in this order:
 1. Dividend growing company;
 2. Dividend paying company;
 3. No dividend paid;
 4. Dividend cutting company.
- History shows that at least half of long term equity returns are from dividends.

II. Particularly in the current investment environment

- Bank deposits; treasury bills; Canada Savings Bonds give minimal return.
- Regular government bonds yield approximately 2%.
- Interest rates are likely to remain low for a sustained period.
- When interest rates rise, the principal value of current bonds will drop, as investors move to buy new issues. The resulting total return could be zero or even negative!
- In the low interest rate environment, investors will seek alternative investment ideas.
- Even though bonds are perceived as safe in terms of return of principal, investors want / need higher current cash flow.
- Higher returns available through dividends become attractive – the equity risk offset by higher current return, particularly if increasing.

III. Postscript

- We learned about business cycles (Samuelson, 101?), and that history always repeats.

BUT

We appear to have a non-cycle, courtesy of globalization and the Internet!

- Inflation is not what it used to be – another non-cycle?
 - Commodities in oversupply;
 - Technological progress;
 - Internet / globalization = price competition and 24 hour instant information;
 - Demand is muted – global governments and consumer are debt heavy – secular?

GROW INCOME – PRESERVE AND GROW CAPITAL

Invest with Georgian Capital!