EPISODE 833

> *"**ML:** They've never had a losing decade, so the stuff works. For the long-term investing, this style really does work very well."*

[INTRODUCTION]

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FT: This styled investing is known as getting rich with dividends, our guest today is Marc Lichtenfeld. He's the author of a book *Get Rich with Dividends: A Proven System for Double Digit Returns.* It was awarded the 2016 book of the year by the Institute for Financial Literacy and you know, on this podcast, we often talk about long-term investing, investing in low fee index funds, not doing this sort of dart throwing, picking of stocks.

That said, Marc has a lot of experience investing in the stock market and particularly with dividend stocks. So I thought, "you know what? Let's do a little bit of a side bar here and talk about the benefits to this and also, what to look out for."

Marc is also a member of the Oxford Club, which is a group in Washington DC, it has over 157,000 members across the globe and these are mostly investors and entrepreneurs, who work together to learn and share opportunities to grow and protect their wealth.

So, he has his ear to the ground, to know what the rich are doing with their money and how we can learn from that. I was curious to learn some of those strategies. Marc and I talk about the pros and cons of dividend investing, his own upbringing, learning about stocks, where his curiosity stems from and Marc and I go back, we actually cross paths at the street.com and we share a moment about Jim Kramer.

Here is Marc Lichtenfeld.

[INTERVIEW]

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FT: Marc Lichtenfeld, welcome to So Money.

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ML: Hi Farnoosh, thanks for having me.

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FT: It's great to connect with you. I understand that our paths may or may not have crossed at the street.com a long time ago. You have had a huge career as an author. You're really interested in the investing world and the market. How did you arrive at this place? How did you become such a market enthusiast?

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ML: Well, I didn't have kind of the traditional career trajectory for someone who went to Wall Street or is interested in investing. When I got out of college, I wanted to be an actor and I was trying to make it as an actor and first in New York and then in San Francisco and I found I was spending all my free time studying the markets and just trying to learn everything that I could. Eventually, I got married and decided I should probably make my hobby my career and my career my hobby.

So, I pounded the pavement and found an entry level job as a trading assistant on a trading desk and from there, became a financial journalist with .com company during the .com boom called ON24 and later, at the street as you mentioned, became a cell site analyst later on and now work for the Oxford Club for the past 11 years.

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FT: Based on when you started that, compared to where we are today as far as just the sentiments around how to be a smart investor. That's changed a lot, right? Because I think even when I started, which was back in the early 2000s, there were many articles and a lot of advice around stock picking individual stock picks. Whereas now, it's really about picking the low fee funds and our audience generally, we're not the kind that's checking our stock numbers every day.

And frankly, I don't think we should be. What is your advice today, how has it changed or how has it maybe evolved over the years?

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ML: Well, when I started, it was kind of right before the .com boom, so things were very different then, nobody seemed to particularly focused on the long term, everybody was a stock picker, everybody was trying to get rich as these stocks took off every single day, it seemed like.

Whereas you're right, today, there is definitely the focus more on low cost index funds, ETFs. My thinking though is, it's a little bit split. On one hand, I do think you want to have your portfolio allocated across a variety of index funds or ETFs, but I do think there is place for stock picking and not in the way of trying to find that next Facebook or that next stock that's going to go up 500%.

If you want to speculate with you know, some extra funds, that's fine. But what I focus on is picking companies that raise their dividends every single year and holding those for the long term. If you can do that, you can outperform the market and really generate a substantial amount of wealth, if you're reinvesting the dividends and letting them compound over the years or if you need to collect the income, the nice thing about that strategy is the income that you collect form those dividends goes up every year and should beat inflation and keep well ahead of inflation. So you actually increase your buying power.

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FT: Speaking of getting rich with dividends, that's your book, one of your many books, *Get Rich with Dividends: A Proven System for Earning Double Digit Returns*. Let's talk about that specifically. How do you identify these stocks? There are a lot of companies that do offer dividends, but you're talking about double digit returns which is not ever stock, how do you go about analyzing this and discovering these companies?

[0:06:02.9]

ML: What I'm looking for is, there are a few different factors. One, I want a company that has a history of raising the dividend. Because the dividend growth is going to be important factor in achieving those double digit returns and keep in mind, this is over the long term.

In year one or year two, you've may make 6%, you could lose 3%, but over the 10-year period, we're expecting double digit, average annual returns and that really does 10, 12% doesn't sound like a lot in a year, but it's compounding over a decade, that triples your money. It really is quite an impulse.

I'm looking for companies that have a history of raising the dividend every single year. I'd like to see at least five years, but really, preferably 10, 15, 20 years or more. The reason for that is if a company has a long history of raising the dividends. The investors have come to expect that dividend increase and if management suddenly stops raising the dividend, forget cutting it, they just stop raising it after let's say, 30 years in a row.The CEO may have to update his LinkedIn profile because he's going to get a revolt on the part of investors.

It's a very strong statement by management that they are confident in the company's future cash flows. I also look for companies with low payout ratios based on cash flow and in other words. I want the company to be generating enough cash flow to be able to pay the dividend and he a little bit of a buffer, so they're not paying every single dollar out that they're paying cash on dividends.

In case we hit a recession, business gets tough, they can still afford to pay that dividend and then there's some other factors as well, but those are two of the main things that I look for.

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FT: Is this the framework that you've been going by or is this an aspect to your investment strategy?

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ML: That's the main framework for the book, *Get Rich with Dividends* and also my newsletter, *The Oxford Income letter* which focuses on dividend growth companies.

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FT: Can you share some examples of these kinds of companies and it sounds like – it all sounds great to me but not enough people are doing this because if they were, I feel like we would be talking about this much more commonly so there have to be drawbacks, right? What made those drawbacks be?

Also, let's get specific and talk about some of your picks.

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ML: Sure. Some of the drawbacks are that you do have to be a stock picker and as we were talking earlier about ETFs or index funds, you kind of spread the risk among different sectors, different types of investments, whereas if you're picking let's say 10 or 20 individual stocks, there's risk with any stock and if the broad market goes down, some of these stocks could go down if the broad market is on fire.

And let's say, growth companies are really what's hot then dividend stocks may outperform because they're typically, especially companies that have decent yields are typically more value-based companies, not all, but typically.

Those are some of the drawbacks but what I like about this approach is it's been proven to work for decades and decades and decades. Over the long term. Again, any one- or three-year period, it might not, but typically over 10 years, these types of stocks outperform the market and certainly over 20 years. And you know, over 20 years, I'm sorry, over 10 years, the dividend aristocrat index and the aristocrats are companies in the SMP 500 that have raised their dividends every year for 25 years and more, they've never had a losing decade. The stuff works you know? For the long-term investing, this style really does work very well.

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FT: You also are a member of the oxford club, can you tell us about that? What is the Oxford Club?

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ML: Sure. The Oxford Club is the largest private organization of the wealth seekers to be published on a number of different newsletters and services, as I mentioned earlier. Mine is called *The Oxford Income Letter* and that focuses on dividend growth companies, we do have one portfolio of high yield dividend companies and those aren't necessarily dividend growth, but we do know that we have readers who do want some of those 10, 12%, some of those juicy yields.

So that's one portfolio but the rest of it is focused on these dividend growth companies and you know, just because you're getting growth doesn't mean you have to sacrifice yield and we're still getting an average starting yield of about 5% and then as those dividends increase every year, your yield goes up. So, you might start at 5%, but after three or four years, you might be up at five and a half or six or 7%. That's really the focus of the oxford income letter.

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FT: I'd love to transition to some of your history with learning about money, and your experience with money, as all guest here on the show are generous in sharing some anecdotes. I don't know what makes them want to share it, maybe it's just because I make them and they have nowhere to escape.

But nonetheless, here we are. Growing up, what was your introduction to money like? You mentioned stock picking and the markets and was it something that you were conditioned to appreciate as a kid or maybe it was just something that came to you as an adult.

I'm curious if there are roots to that in your upbringing?

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ML: Sure, my parents never sat down and talked to me about money as far as I can remember, but they definitely led by example. We were a middle-class family and a fairly affluent community. I was very aware of kind of the differences between our family and others and I have nothing to complain about, we never went without, but we certainly didn't live extravagantly.

So, from probably about 10 years old, I was shoveling snow to make money. Once I was able to work a real job at 16, I was working in high school, so I've always been working. Kind of a really seminal moment for me as a young adult, my first job out of school, I was working for a very small advertising agency in Greenwich Village in New York and I hated the job and I was the low man on the totem pole.

One of the things I had to do was open the owner's mail and sort it and one thing is that – he was a big investor and I read – I don't even remember what it was that I read, what product it was. But it talked about how at the time, the maximum you could contribute to an IRA was $2,000. And it talked about, if you contributed $2,000 to an IRA starting at age 21 and stopped at 31, you would have more money when you retire than if you started at 31 and invested all the way up until 65.

I understood compounding just because I'd been a saver my whole life, but that was kind of that lightbulb moment when it really showed me how important time is in investing and letting your money grow. I was making $18,000 a year at that time, living in Manhattan and I found a way to put away $2,000 every year in my IRA or when I went on to other jobs to make sure I was contributing to 401(k)s because that made such a big impression on me.

And you know, years later, once I started working on Wall Street and writing about investing. I mean, it's kind of become the most important concept that I talk about, the power of compounding and letting time work its magic.

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FT: It's magic. Nothing beats opening up other people's mail.

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ML: I mean, it changed my life.

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FT: I have a kind of a story like that where I was an assistant early on in my career, working for a top editor and part of my job was to open her mail. I was able to see because she would get all sorts of mail. I was able to see for example, her checks for her speaking engagements, her fees or maybe like some book advance numbers.

It opened my mind to how you could have multiple income streams as a journalist, how you had all this potential to make a lot of money if you expanded your personal brand. That was really for me, the beginnings of inspiring me to kind of take me down this path.

If you ever have a job in your 20s where you can open up someone else's mail, do it. That's a lesson?

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ML: What I just spoke about compounding and just letting time work for you and when I was researching *Get Rich with Dividends*, I had this massive spreadsheet and actually, it's in the book. You can see, year by year, how much your wealth can increase when you're reinvesting the dividends over time.

You know, it starts slowly, from your one tier two where you're five tier six, you're not seeing such a big difference, but as you get out there and year 17, you're 20, the difference from year to year is so huge. When you see it, we actually see the numbers in front of you and a spreadsheet on a table, it really make a pretty big impact and you know, that's really, I can't emphasize it enough that if you have time on your hands, meaning, you're not ready to retire now, you're not getting 75 years old, but you're 20s, 30s, 40s, even 50s and you have a few decades until you may need the money.

Get it invested and leave it alone for the most part. There is a study by Fidelity, a very famous study that it's the accounts that Fidelity manage that were the most successful were the accounts that people had either forgotten about or died.

Buy and hold, I'm not a strict buy and hold person, I'm not set it and forget it person, but generally don't mess with it too much and just let time work its magic.

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FT: What are your thoughts though on if you need your money before 10 years or before five years, I think a rule of thumb I've always heard and appreciate is if you need your money back in five years, don't put it in the stock market. So, what is the time limit?

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ML: I agree with that. I usually tell my readers three years. If you have five years, I wouldn't put it in speculative names. And you needed five years maybe have it invested for a few years and then you can start to scale back, but yeah, there is nothing wrong with a five-year time horizon either of making sure that that cash is available. I mean you could always put it into some bonds or treasuries. I mean you won't get the return that you possibly could in the stock market. But you know anything can happen in the market in the stock market particularly over three years, even five years.

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FT: Is there a lesson you learned the hard way? Is there a financial failure you are willing to share now that you've –

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ML: There are a few. I certainly paid my tuition like everybody else. During the dot com boom, I bought a stock and I knew the company was garbage, but everything was going up and I bought the stock and it did very well and the first thing was I bought too much of it for my income and assets that I had. So, I bought the stock, it did very well and it doubled and I said to my wife, "I think I am going to sell half of it, get our investment off the table."

And keep in mind, this was a very speculative stock, this isn't a dividend pay or that I had planned on holding for years. And so she said, "why don't we let it run?" This is during dot com fever, everybody is making a fortune. "Why don't we let it run and really try to make this a home run?" And I said, "well it kind of already is a home run. It is more than doubled and I would feel a lot better knowing that all of our risk is off the table."

I'll be able to sleep at night and then we'd just let the rest of it run higher and we're playing with the house's money and we were trying to save up for a house, and said, "look at this goes, the stocking option is seven to 15. If this thing goes to 40, we'll have a down payment on a house and blah-blah-blah." And she basically challenged my manhood. So, at that point, I did not sell it and the stock went from 15 to 10.

And I said, "well if it gets back to 12, I will sell it." And it went to seven. If it gets back to 10, I will sell it and it went to five. I said, "well if it gets back to breakeven, I will sell it." And I rode it all the way down to zero.

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FT: Oh my gosh, Jim Cramer always says "pigs get slaughtered."

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ML: And, but also taught me a couple of lessons. One, don't invest so much that it's stressful that you can't sleep at night. But also, to besides pigs get slaughtered to trust myself a little bit and trust how not even so much in my analytical skills, but trust how I am handling the emotions of an investment and if something is getting too much then yeah, you should take something off the table if it is making you crazy.

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FT: Quick question for you now about a lesson you wish you had learned when you graduated from college. This question is brought to us by our sponsor, Chase and it's graduation season. So, want to know what is the number one piece of financial advice you wish you'd had upon graduating Marc?

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ML: Start investing for the long term with your very first paycheck. If you invest let's say $2,000 between the ages of 21 to 31 and stop, you'll have more money at 65 than if you start at 31 and invest every year up to 65. That is the power of compounding. So, invest for the long term as early as you can you want as many years to compound that interest, those dividends, those gains as you can.

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FT: So, a little personal anecdote I learned about you Marc is that you are a big fan of the Rolling Stones.

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ML: Yes, I am.

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FT: And you do a Mick Jagger impersonation? I won't make you do it here. You have a pretty interesting perspective on the latest Rolling Stones tour. What is that all about?

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ML: So, I was very dismayed to see that the Rolling Stones sole US sponsor for their tour is a trade organization for annuities. And I have written extensively about how bad annuities are for most people and I know there are people out there who love them and I am not saying they are wrong for everyone, but they are wrong I believe for almost everyone. And just as an example of that, in 2016 the Department of Labor put forth a rule called the fiduciary rule.

So right now, if you are a certified financial planner you are considered a fiduciary. It means you have to do what is in your client's best interest. If you are a regular stock broker or insurance broker, the rule is you have to do what is suitable for your clients. So, the difference could be, I am a certified financial planner. I would say, "okay my clients wants to be in a growth fund," and it will find the cheapest fund that they could find that meets their objectives.

Whereas a regular broker who is not a fiduciary could find a growth fund that is suitable for them, but charges a 5% load and they get a big commission. So that is the fiduciary rule. So, in 2016, a fiduciary rule is put in place for all brokers including insurance brokers – I am sorry, I misspoke. It was not put in place, it was approved. Once that rule was approved, sales of annuities fell off a cliff because they are not in the client's best interest most of the time.

It turns out that the rule is never implemented and in fact it was now shot down and annuity sales have spiked up. And the reason I am so against annuities is they are very, very expensive and they are basically insurance products that are masquerading as investments and I just believe that you can do it much cheaper. If you need some kind of insurance get some insurance, but you can invest in index funds.

You can invest in dividend growth companies and get some income and do it much, much cheaper than annuities. And the thing with annuities too is there's often a cap on how much you can make if it is fixed then, you know it will never make a certain amount. If it is variable, it can go higher if the stock market goes higher, then it is usually a pretty low cap on how much you can make.

The positive thing about annuities is it's guaranteed, so you know what the minimum payment that you will receive. So, some people like it for that reason. But I just think you can do so much better in other ways, without paying these huge fees and commissions of annuities and so going back to the Rolling Stones, their audience is a little bit older, middle aged to retirees so it is the exact demographic that annuities are targeting.

And Mick Jagger also went to the London School of Economics, so he should know better than to be pitching these terrible products to his fans.

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FT: Yeah, he should know better. But like you just articulated, the annuities industry is quite wealthy.

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ML: Oh absolutely.

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FT: So how does this change your views on the Rolling Stones? Are you still going to go to their concerts? Is this a deal breaker?

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ML: No, I'll still go by. I got my tickets on being on the 16^{th} row. So, I will be there. I will forgive them on this. I am assuming this might be their last tour, but I have been saying that for about 25 years so.

[0:23:44.0]

FT: What is your number one money habit, personal finance habit outside of investing Marc? When you are managing your money whether it is saving or spending, planning, what is something that you do frequently or at least strategically?

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ML: I would say saving. I have always been a saver and then I think that is something that my parents did. Again, they didn't talk to me about it, but I saw them do it. So, whether it's my 401(k), my health savings account or just at the end of the month after having paid all the bills. There is extra money on the checking account making sure that it is going to investments or my kid's 529 plans, but I am diligent saver.

I have been my entire life going back to when I was making $18,000 a year. I have always been a saver, always been – I don't even want to say concerned about a rainy day. I just want to know that that money is there for emergencies or for good things like Rolling Stones tickets, which were not cheap.

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FT: I think you live in Florida, right? I've had some friends move to the Florida area and they really love the tax savings. So maybe sell me on Florida a little bit Marc like what are the pros financially of living on Florida?

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ML: So, as you mentioned, the tax savings. We moved there in 2003 and my son was two years old and I said to my wife and we moved from San Francisco and I said, "if we take what we were paying in state income tax every year in California and just put it in his 529 plan to pay for college we'll be set." And of course, we didn't follow exactly that but we did contribute to the 529 for a long time and he is going to college year and we're in pretty good shape because of that.

Florida, I am in Palm Beach County, which is not the cheapest county in Florida by any measure, but compared to some of the big cities on the East Coast and West Coast it is so much cheaper. So, when we moved from California and I believe this is true today, in Florida I would say you get twice the house for half the money that you do in probably New York, Boston, maybe Philly, certainly LA and San Francisco.

So housing is cheap compared to certain markets in the country. Real estate taxes it is pretty inexpensive, sales taxes fairly inexpensive and the weather is great so you don't, you know you have to run air conditioning for seven or eight months a year, but you need to work, but not the heat really.

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FT: And you need a job where you can work remotely, if somebody is looking to transition from a northern state to Florida, without really switching jobs or industries.

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ML: Yeah, it is a great place for that and there are some big companies in the state and there are employers and people are moving there every day. You know there are so many people who move from New York or the East Coast from the up north and it is not just retirees. There are a ton of younger people coming down to Florida. Their unemployment is very low right now, I believe. Tons of work and health care because of all the retirees and the seniors.

So, it is a great place I think to raise kids and to raise a family. You can go to the beach whenever you want and I've been here 15 years and I love New York. I grew up in New York and I would like to get a place there and split my time there once my kids are out of the house, but I think I will certainly always keep a place in Florida.

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FT: I mean we hear a lot from people on this show who have been let's say early retirees, millionaire's next door, guess what? They are not living in New York or New Jersey. They really examine the cost of your location and how so much geography dictates your ability to save. It's compelling I'll you that much. I will tell you I am sitting here and I am thinking maybe I should call my husband tonight and talk about Florida. I don't think he's going to go for it.

[0:27:51.9]

ML: Well you know that actually brings up a really good point about quality of life because when we were in Florida, my wife got a job offer back in San Francisco and it was a very good job. It paid really well and we were considering it, but it was going to be a pretty intense job. She is going to be working until 7:00 at night every night most likely and we had young kids at the time. So, she turned it down because living in Florida, the cost of living is so much less that there just was not as financial pressure to be in that rat race and pay that mortgage, you know San Francisco mortgage or San Francisco rent.

So, our quality of life is definitely much better in Florida than I think it would have been in San Francisco even though San Francisco is an amazing place and we love it. There is just not that financial pressure.

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FT: Right and like you said, you could always move somewhere else later. I think when you have kids that is a huge consideration that the cost of affording your kids and making sure that they are set up with schools and have proper safety and all of that where you live is paramount. We have had friends who've retired back to cities after raising their kids in the suburbs. You know the kids are in college and maybe just coming back to visit for breaks.

It is actually fun when it is just maybe the two of you and you are able to take advantage of all of the things that the city offers that you weren't able to because you were so busy raising your family.

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ML: Exactly or when I was living in the city making $18,000 a year, I had no money to do anything other than eat some ramen and that was about it. So now I would love to go back to New York and be actually be able to afford to go see some shows and go to museums and things like that.

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FT: It reminds me of a joke I heard the other day. I was on the Steve Harvey Show and he said to the audience, I don't know if we were recording or not but he said something like, "you know building wealth takes time and getting rich overnight doesn't happen." He says, "you know think about everybody you see in first class, everybody in first class is old. It's all senior citizens because they have earned it."

Anyway, there is plenty of young people in first class too these days, but I thought it was a really funny image. He's got a lot of funny money jokes by the way. I think you should go on the road with his financial shtick.

And this has been fun Marc. Thank you so much for coming on the show and being so honest and having some great perspectives on how we can up level our investing strategy. I think it's important also that you follow up with the Rolling Stones. I hope they change their guidelines for the next tour.

[0:30:19.9]

ML: Well thanks for having me, I really appreciate it. It was a lot of fun.

[END]

