

The Discipline Dividend

Every now and then a new phrase or term pops up out of the financial and investing nomenclature. When we came across “The Discipline Dividend,” a term we were not familiar with, we were intrigued. Unable to determine its origin and not sure what the author intended the meaning to be, we were left to form our own definition. This was an easy task because so much of what we do from an investment standpoint occurs around the concepts of discipline and dividends.

Through the years we at Crawford have placed a high priority on consistency. Discipline and consistency are clearly related, for to be consistent in what we do, there must be the discipline to stay focused on the central operating principles of our investment philosophy. In the very early years of our firm our flagship strategy, what we now call Dividend Growth, was called The Consistent Dividend Growth Approach. Dividend Growth is a less bulky term, but the approach is the same and has always focused on companies that have the discipline to run their businesses in such a way as to provide a consistent pattern of achievement. This favorable pattern, in our view, is best revealed through the dividend. We have found that a good starting point when considering stocks for purchase is to identify companies that have very consistently paid and raised their dividends. This characteristic usually means they are high-quality companies, ones that are stable, consistent, profitable, and shareholder friendly. Taken as a group, companies with these characteristics have been, and we believe will continue to be, a very good place to invest.

It is difficult to overstate the importance of consistently following an investment philosophy. This responsibility falls to us as an investment firm managing the assets of clients. It is a task that can require great discipline, especially during periods when the investing public is focusing on investment strategies that are not in line with our investment priorities. In the long run, the fundamentals of how companies execute determines their success as a stock, but over shorter periods of time investor focus can stray to more speculative aspects; greed takes over, valuations become extreme, risk is heightened, and usually trouble follows in the form of disappointing returns. It is our job to maintain the discipline of our investment approach and navigate through these periods based on our underlying philosophy. Discipline and consistency are the keys.

We have stressed how important dividends are for us. The Discipline Dividend, however, focuses not on the individual dividend that one receives from a stock, but the dividend of investment success that is achieved by being a disciplined investor. The Discipline Dividend comes in the form of attractive investment returns that satisfy the goals and objectives of the investor.

Understanding the magic of compound interest may be the most important lesson an investor can learn. It

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is literally amazing what the compounding of earnings and dividends can do for the value of a stock over time. But time is the key. Every bit of time available to an investor needs to be utilized in the compounding process to make it work to its fullest extent. And utilizing all the time available means being fully committed to an investment program and staying invested. This process, which requires consistency, avoids the temptation to try to “time” the market. Attempting to step aside when things don’t look so good marketwise and come back later sounds so easy. It is not. Remember, one must be smart enough to pull this off not once but twice – getting out and getting back in. Meantime, the compounding process has been interrupted, and valuable time has been lost. Never mind that when the market begins to recover, it does so quickly, and often large returns are left on the table. Yes, it requires discipline to stay invested, but time and again it has been proven to be the soundest approach to successful investment. Such success is the product of discipline.

Viewed from our perspective, to earn the discipline dividend, it requires discipline on the part of the investment manager, but also the investor. Both must exercise the proper discipline. For the investment manager, it is disciplined adherence to the central principles of its investment philosophy. For the investor, it is the disciplined adherence to the long term and staying invested. If both parties participate and exert the proper discipline, we believe the outcome should be a successful investment program, aptly called, the Discipline Dividend.