WHY STOCKS MAKE SENSE: THE MONEY MARATHON
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It is understandable that most people are scared of owning stocks and of the stock market in general. In this century, the S&P 500 has gone from 1469 at the beginning of 2000 to its current level of under 1200, a substantial loss for the last 10 plus years, even with dividends reinvested. The market crashed twice during that time; dropping more than 50% twice, in the tech crash from 2000 to 2002 and the financial crash from 2007 to 2009. Top that off with the flash crash earlier this year and it is no wonder investors are skeptical.

Rather than make the usual cases for stocks, I have chosen to discuss the details and the numbers behind the rational of only one stock, McDonald's. I should note that I own McDonald's myself. It is not one of my larger positions, however I wish it had been, because it has been one of the top three best performing stocks since the crash that began in 2007. During that time, it has gone from approximately $50 per share to nearly $78, up over 50% per share at a time when the overall market is still down over 25%.

But, I don't want to talk about the past. Rather, I am interested in the future. Here is why a stock like McDonald's makes sense. First, let's compare safe alternatives. For an investor to be totally safe today, he can invest in government bonds yielding 1.5% for 5 years or 2.5% for 10 years or next to nothing in short term investments like money market funds and short government bonds. Interest rates are at historical lows, and I do mean historical lows, in that in my lifetime, which goes back to 1952 to be exact, I have never seen rates this low. Alternately, McDonald's pays a dividend of $2.44 cents, which at its current price is a yield of over 3%. In other words, if you purchase a share of McDonald's at nearly $78 per share a person's yield based on the dividend is $2.44 divided by $78 which again is over 3%. Here is why the comparison is important. Would a person rather own a stock that yields over 3% or a government bond that yields less than 3% and significantly less than 3%, if the maturity is shorter than 10 years? Admittedly, a stock can go down in value, but it currently yields more than a safe government bond, even a 10 year government bond. The real key to this analysis is what will the dividend be in the future? If we look at the history of McDonald's we can see that it has consistently raised its dividend for many years. Going back to 1994 (which is as far as my Value Line investment survey goes) it has raised its dividend every year, from 12 cents per share in 1994 to $2.44 per share, the current annual dividend. Most importantly its earnings and its dividends are both expected to grow at over a 9% rate per year. (McDonald's currently pays out dividends of nearly 50% of its net income, which is not unusual and means there is ample earnings to cover the dividend should their earnings drop for some reason.) Although what happens in the future is no guarantee, if McDonald's grows its dividend at 9% per year, its dividend will double in eight years. This means that in eight years, the dividend today would be nearly $5 per share or over a 6% yield on the price today, whereas the alternate purchase of buying a ten year government bond, is still earning 2.5%. Most likely the stock will have grown at 9% per year too, which

means the stock price will more than likely have also doubled making for a very nice total return that is over five times as much as the government bond. The mathematics of this is that a 3% dividend plus a 9% dividend growth rate for the dividend means a 12% compound annual return (3% current dividend rate + 9% dividend growth rate =12% expected return) compared to the 2.5% annual return in a 10 year government bond (assuming reinvestment of the dividend). At a 12% compound rate of return, an investment will double every 6 years. So $100 invested in McDonald's would be expected to increase over 200% in a 10 year period (actually to $310) compared to $100 invested in a government bond at a 2.5% compound return would be equal to only $128. The stock has grown 210% in 10 years, compared to 28% growth in the 10 year government bond.

I am not saying every investor should run out and buy McDonald's today. Every investor's situation is unique based on risk tolerance, age and the time frame of the investment. Stocks like McDonald's are good long term investments, but can be volatile in the short run. Likewise owning an individual stock is much more risky than owning a stock fund, which gives an investor more diversification and therefore less risk. I don't expect anything negative to happen to McDonald's, but if tomorrow a study says McDonald's French fries cause cancer, an investor would be glad he owned a fund rather than one stock.

The bottom line is that historic low rates help make a compelling case to own bigger, high quality, high yielding, safer stocks, that consistently have raised their dividends every year-like McDonald's.

Remember, every investor's situation is unique and it is important to review your specific situation with a financial professional).

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