Living Off of Stock Dividends - Transcript

Tom Mullooly : In episode 197, we have a warning for folks who are looking to live off their dividends. Stick around.

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly, and this is episode 197. Thanks for tuning in.

In our last episode, 196, we talked about the two most important words when it comes to dividends; total return. We want to talk about why dividends matter and not necessarily in a good way. There's a couple of problems we'll cover in this video and next video. In today's video, I want to talk about relying on a single stock for dividends, for income that you're looking to live off of. We still see plenty of people showing up in our office who are looking to do exactly that. Without realizing it, they are levering up the risk in their investments by doing something like this.

Let's walk through an example. Suppose you inherited 10,000 shares of a stock that pays a dividend from your folks, or say your parents worked at that company, or maybe you worked at that company. If you've got stock that you inherited from your parents understand that you probably have some kind of stepped up cost basis, so you shouldn't have that much of a tax burden if you want to move on and diversify. Holding the stock though, because it has some great sentimental value to you because my grandpappy worked there or you worked there for 38 years, doing that is a recipe for disaster. Please understand that.

The question that we usually kick off our conversations with is, "Hey, this stock, do you think we should own a hundred shares of this for old time's sake, or should we own 10,000 shares of this?"

Let's go through a specific example. Let's talk about General Electric. In 2016, the annual dividend was 96 cents a share. Pretty good for a $30 stock. GE in 2016 was trading around 30 bucks. So the yield was over 3%. Not bad. In 2017, they cut the dividend. It was now half of that. It was 48 cents a share on a $23 stock. However, the yield was still 2%. In October of 2018, they cut the dividend to four cents a share a year. That's a penny per quarter. On a $13 stock, the yield was 0.3%.

So don't know if you were paying attention, but realize that as they started cutting the dividend, the dividend that had been in place since 1899, notice what the stock did. It went from $30 down to 13, and today GE is a $7 stock.

So in the GE example, if you owned 10,000 shares of this stock in 2016, you had an asset that was worth 300 grand. Pretty good. And you were getting about $10,000 a year in dividend. Also pretty good. However, that same investment today, if you've held on is now worth 70 grand and you're getting a dividend for 400 bucks a year.

Now, can you imagine if you're someone who is retired and trying to live off this money. You're 79 years old and you've seen this investment go from 300 grand to 70 grand and your income has gone from almost $10,000 a year down to 400. How do you feel?

You have tremendous risk in your net worth when people do this. And usually by the time they show up here in the conference room, we hear things like, "Do you think it'll come back?" Really? And, "What should I do now, now that the stock is down so much?" People have a lot of regret because they're realizing that they should've sold a long time ago. They should have listened to folks who were telling them to diversify or at least considering moving assets around.

Look, if you're holding a stock for sentimental purposes and you're expecting to live off the dividends from that investment, go to our website right now and click schedule a meeting in the upper corner of the site. Talk to us. We'd be happy to show you the reasons why this may not be in your best interest.

That's going to wrap up episode 197. Thanks for tuning in.