CONNOLLY REPORT

INCOME GROWTH

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Income growth is not a difficult concept to grasp, and there is no doubt that it is important, but the topic is rarely mentioned--even in prominent publications.

Fortune magazine is one of the flagship publications of Time Inc. whose principal office is at the Rockefeller Centre in New York. Fortune's special year-end Investors Guide carried 18 cover stories Between pages 44 and 166. Topics included: Cashing in on High Yields, Who Will Inherit Your Wealth?, Stocks for the Next Millennium, and How to Hedge Against Inflation. I spent a fair few hours reading through most of this double issue looking for ideas to develop for this journal. Nowhere did I find mention of the concept of income growth. In fact, there was evidence in the five page article about retirement planning that the Fortune columnist was not only ignorant of the concept of growing income, but that dividend income was considered inconsequential. This paragraph, on page 116 of the 1995 Investor's Guide, while arguing well for a buy and hold strategy, reveals the writer's dearth of knowledge about dividends.

> "Consider too the tax impact of selling stock, something you should not do a lot of if you want to make money. Assume, for example, you have a stock you bought for $20. It is now worth $100, but over the next five years it will return a **boring** 4% annually for $122. If you sell the stock today and pay 28% in capital gains taxes, the $72 would have to be invested in a stock with an 11.1% annual rate of return in order to generate the same $122.".

The word, boring, which I emphasized, tells the tale. Dividends, in the columnist's mind, are extraneous and static. Such is not the case. The columnist missed a terrific opportunity not only to strengthen the buy and hold argument by mentioning dividend growth, but also to emphasize an important tenet of retirement planning.

Without skewing the Fortune example too much, we could assume that the original yield on the $20 stock was also 4%. The dividend would then have been 80 cents a share. Since the current price and yield are stated to be $100 and 4%, the dividend must now be $4 a share. The current yield on the original price of the shares is 20% (divide the yield, $4, by the price, $20). Twenty percent yield is certainly not "boring". Certainly income growth should be recognized as an important concept in retirement planning.