



Declining revenue could doom stocks.

Every investor must understand one thing: The origin and the foundation of stocks and the stock market are rooted in the payment of cash dividends.

The original purpose for forming a corporation and a market for the shares was based on the belief or assumption that a company would share its cash profits with its shareholders. The overall performance of stocks big and small is dependent on a majority of the members of major indexes such as the S&P 500 and the Dow 30 to increase their cash dividends.

Cash dividends are the ultimate bonus or reward for those institutions and individuals who buy and hold shares for 10- to 20-year periods. A company's growth in dividend payouts is the primary reason why gigantic pension funds buy and maintain equity positions for periods of 20 or more years. This is because their unwieldy size makes it very difficult for them to "time" the stock market.

If consistent cash dividend growth is the Holy Grail for a shareholder, then consistent revenue growth for a company is paramount. Without revenue growth, it's impossible for a company to increase its profits so that it can increase its dividend payments. It's the "hope" of the increased dividend payment that ultimately drives and determines the value of stocks and the stock market.

The Great Credit Crunch has severely affected revenue growth rates and consistency. Many of the stock

market's former revenue growth stalwarts have watched as their revenue growth has declined by 10% to 20%. At my last count, more than 25 of the 30 Dow stocks had reported a decline in revenue for their most recent quarter. Even worse, a majority of them not only experienced double-digit revenue declines but also came in below their own revenue estimates.

My concern is that with so many member companies of the Dow 30 and S&P 500 unable to increase their revenue, the ability for analysts and investors to predict growth is becoming increasingly difficult. My fear is that the fading of the hope for consistent growth will result in a lack of conviction on the part of those long-term investors who are the foundation of the stock market. This is especially because the yield on 10-year U.S. Treasury bonds is much higher than the dividend yields of the S&P 500 and the Dow 30 indexes.

In an attempt to allay my fears, I decided to do a research study on the 216 industry groups that are monitored by StockDiagnostics.com. What I wanted to find out was how the 216 industry groups were faring on revenue growth. Because it would cover the aggregated financial data on more than 8,000 companies, it would give me a much better indication of the revenue growth rates underlying the stock market. To determine this, I obtained a count of all industries out of 216 that had generated consecutive three-year and five-year growth during the 10-year period of 2000 to 2009. I chose to use three- and five-year data because long-

term investors will not pay a premium or bid up a stock higher than its current price unless the company has a track record of consistent growth or a business plan that has a high probability of generating consistent future growth.

For the 10-year period, I discovered that 167 was the peak in the number of industries out of 216 that had generated three years of growth and that the peak occurred in 2000. The trough, or the lowest point, for the three-year industry-growth count was 57, and it occurred in the most recent period. The peak in the number of industries that had generated five years of growth occurred in 2001 at 130 industries, and its trough also occurred in the latest period. The accompanying chart depicts the three- and five-year industry revenue counts and includes the performance of the S&P 500 over the 10-year period. The chart clearly shows that the number of industries growing has been in a downward trend for 10 years and has not yet leveled out.

With more industries that can generate sustained revenue growth falling by the wayside, there will be fewer and fewer industries that will be in the position to lead the stock market from out of the secular bear and into the new secular bull. Until the number of industries in decline can level out, the super or secular bear market remains intact. **E**

Michael Markowski is the founder of StockDiagnostics.com, which publishes current and historical cash-flow metrics on over 8,000 companies.