Rodney's Take

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Where There's Smoke, There's Money

When is a 5% raise a bad thing? When inflation is running above 6%.

Workers across America are feeling the pinch when they fill up their cars (gasoline is up 49.5% over the last year) and their grocery baskets (food at home is up 5.4%). And it gets worse. If we dig a little deeper, we find that the index for meats, poultry, fish, and eggs rose 11.9%. Even worse, the beef index rose 20.1%. This isn't news to anyone who lives outside the Beltway. It's getting expensive to live.

On the investing side, growth stocks took a hit last week when investors decided that inflation definitely is not transitory. Harking back to a long time ago, in a galaxy far, far away called the early 1990s, investors sold stocks that provided no income and turned a favorable gaze on companies that shared a bit of their wealth through regular dividends. We've owned one such name, Iron Mountain (NYSE: IRM) for quite some time, happily earning the dividend as companies pay to store their records. But that stock has run up over the last year or so, which has dropped the yield for new buyers to just above 5%. That's not bad, but today it doesn't even beat inflation.

It's time to take a look at the tobacco stocks.

We've been in this space for a while with British American Tobacco (NYSE: BTI). The stock is down 6.78% this year and is trading at about $35, which is just a dollar above its 52-week low. This puts the yield at more than 8.5%.

Altria (NYSE: MO, part of the old Philip Morris) has fared better, with its stock up more than 9% this year and still sporting a yield of about 8%. Anyone looking for a place to invest for cash flow in the face of rising inflation and negative interest rates could do worse that these two names.

As for smoking, I'm not a fan, but cigarette companies seem to have a good deal going in the U.S., so I'll give them a look. Due to the master settlement in the 1990s, they aren't allowed to spend much money on big ticket things like advertising, and it's very difficult for competitors to break into the business. This leaves existing companies with a huge market—about 34 million Americans smoke—and low expenses. The combination means that cigarette companies almost print cash, which they share with investors through dividends. Early indications show that after years of decline, smoking ticked up slightly during the pandemic.

The market is not without risk. Regulators would love to see cigarette companies fade away, and jurisdictions across the country try to tax them out of existence. But the habit has been around for centuries, and recent efforts to end it aren't likely to succeed. It's unlikely that companies like BTI and MO will become growth stocks, and there's good reason to hope that they don't. But smoking remains legal, if not always socially acceptable. Anyone interested in parking cash in high-dividend stocks to wait out the current market turmoil could do worse than BTI and MO. Because they're so unloved, they aren't likely to have much downside.

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Got a question or comment? You can contact us at info@hsdent.com.