



Rodney's Take

February 7, 2022

Smoke 'Em if You Got 'Em

The American love affair with cigarettes started long before the 20th century, but the two world wars cemented the relationship. Obviously, smoking isn't good for your lungs, but it can calm the nerves for a bit. When generals of old sent millions of young soldiers into battle in far-flung places, they wanted to include a little something to help the soldiers cope. Cigarettes fit the bill.

During World War I, General Pershing said, "'You ask me what we need to win this war. I answer tobacco as much as bullets. Tobacco is as indispensable as the daily ration; we must have thousands of tons without delay.'" American tobacco companies were only too happy to oblige. Eventually, cigarettes were included in military rations, a practice that lasted until 1975. World War I ended more than a century ago, and 1975 is almost 50 years behind us. Popular sentiment has turned against cigarettes and smoking in general. I don't recommend picking up a pack of Marlboros or Lucky Strikes the next time you are at the store, but you might consider buying Altria (NYSE: MO) or British American Tobacco (NYSE: BTI) in the current market environment. Instead of lung cancer, you'll get cold, hard cash, which will be of great comfort as we adjust to the new normal.

As I'll lay out in more detail in the upcoming February *Rodney Johnson Report*, the Federal Reserve is walking into the unknown and is taking the financial markets with it. The greatest monetary easing program in history, which sent equities to the moon, is about to be thrown into reverse. If you think the central bankers, the same group that labeled inflation as "transitory" for

much of 2021, will be able to engineer a soft landing and restart the equity moonshot, then stay long. If you think there's a small chance that this grand financial engineering experiment will end badly, then consider overweighting in dividend-paying stocks that thumb their nose at the general markets.

Regular subscribers know that we've been moving this way for some time, holding names like Iron Mountain Incorporated (NYSE: IRM) and British American Tobacco, as well as energy companies and income funds. The goal was to build a portfolio of consistent income-producing names to protect against the coming Fed storm. It looks like the storm has arrived.

But not all dividend-paying stocks are created equal, so be discerning when choosing where to put your money. Dividend stock funds include the high-flying names that pay a little cash as well as those that go against the grain. As I wrote last year, energy companies likely are the next tobacco stocks, shunned by polite company but darned good income producers. They've had a great run over the past year, so I'd be looking to buy them or add to them on dips.

The title of this article, "Smoke 'Em if You Got 'Em," refers to the habit of military leaders telling their troops to take a smoke break during patrols. Legend has it that a platoon leader would tell the troops to halt for a break and then say, "Smoke 'em if you got 'em, do push-ups if you don't!", which would lead nonsmoking soldiers quickly to take up the habit. I don't know if that's true, but I do know it feels like a good time to take a break from this market and to pick up a cigarette (company) at the same time.

Rodney

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