Berkshire
DIVIDEND STRATEGY

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Second Quarter 2020

BERKSHIRE BOTTOM LINE

Berkshire Asset Management, LLC (Berkshire) is a fee-based, SEC registered advisory firm serving the portfolio management needs of high net worth and institutional clients. Our guiding principle is a belief that success can be achieved by combining rigorous, well crafted investment processes with an exceptional level of client service and attention to detail. Asset Management with a Difference... Diligence, Integrity and Focus. Berkshire Asset Management, Inc. was formed in 1986 as a SEC registered investment adviser. In 1999 the company was sold to Legg Mason. In 2007, senior leadership repurchased the firm, forming Berkshire Asset Management, LLC, the company built to serve you today.

BIG PICTURE / MACRO / MARKET

- Markets rebound sharply despite mixed pandemic news
- Pandemic: early progress in q2 (North East), relapses late q2 (South, Southwest)
- Berkshire does not believe the pandemic presents long term systemic risk – barring a major policy mistake (public health, monetary or fiscal)
- Health care system increasingly prepared
- Rapid policy response (health, monetary)
- New adaption measures to keep the economy and life "open"
- Banking system appears sound
- Secular changes in health care, technology, and industry should support growth long term

Bottom line? While risks are elevated and the market has rallied, valuations remain reasonable for the patient investor. We believe many high quality U.S large cap companies remain "on sale"

ARE DIVIDENDS IN THE BERKSHIRE PORTFOLIO SUSTAINABLE?

- Berkshire's dividend yield of 3.30% as of 6.30.2020 appears attractive on a risk adjusted basis. Fixed income yields are nearly zero
- 15 dividend increases, 1 suspension, 1 reduction, several re-affirmations
- All Berkshire holdings possess investment grade balance sheets
- Dividend coverage ratios remain attractive across the portfolio
- Recent portfolio changes were designed to upgrade overall portfolio quality and dividend sustainability

Source: Bloomberg

Bottom Line? We do not anticipate widespread dividend cuts that would materially impact the current or long term income producing ability of the portfolio. Other sectors - travel, leisure, restaurants appear more vulnerable.

PORTFOLIO CHANGES

Purchases / Additions	Sales / Reductions
Apple Inc (AAPL)	Exxon Mobil (XOM)
Southwest Air (LUV)	British Petroleum (BP)
Bank of America (BAC)	Bank of Montreal (BMO)

Bottom Line? We used volatility as an opportunity to upgrade the portfolio and buy companies we have long thought attractive

GROWTH VS. VALUE

- Growth/technology oriented stocks pushing indexes to new highs; many underlying sectors/industries lagging
- S&P 500's top holdings represent an ever growing share of the index
- Amidst recession threats, investors appear to be paying a premium for a select group of growth stocks they think may be immune to the cycle
- Valuation disparity between growth stocks and value stocks seemingly now at all time high by a variety of measures (price to book value, price to earnings etc)
- What closes the growth / value valuation gap? An economic rebound which shows investors earnings growth is not limited to a select group of growth stocks
- Industries that may rally in an upturn: financials, energy, industrials

Source: Bloomberg

Bottom Line? We believe value stocks represent a huge opportunity—one not seen since 1999

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Definitions: The S & P 500 Index is a market capitalization weighted index of the largest 500 U.S. stocks. It is a market-value weighted index (stock price times # of shares outstanding), with each stock's weight in the index proportionate to its market value. The index is designed to measure changes in the economy and is representative of most major industries. You cannot invest directly in an index. Beta is a measure of volatility vs. an index. Current yield is the mean estimated annual dividend amount based on current calendar year, divided by the current stock price. Dividend Payout ratio is the fraction of net income a firm pays to its shareholders in dividends, in percentage. Forward Price Earnings Ratio (P/E) is the ratio of the price of a stock and the company's projected earnings per share.