Berkshire
DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: Simple YE Talking Points + Survey Says... – *December 10th 2021*

Hard to believe how quickly the holidays are coming! In the spirit of a quick Berkshire YE recap, here are a few simple bullets you can share with clients. Overall, we believe we had a solid year and a lot to be grateful for!

- **Review Main Goal of Berkshire Portfolio:** generate income, grow income, provide stability during times of volatility
- **Current Dividend Yield:** Approx. 2.75%
- **Income Growth 2021:** Approx. 8.5%
- **Dividend Increases:** 31 out of 37 (year isn't over!)
- **Total Return 2021:** 20.25% Net of Fees -- In line with value index. (Composite estimate Net of fees)
- **What We Own:** A balance of some quality cyclicals, financials, pharma and some big tech.
- **What Does a Typical Holding Look Like?** In general, we believe our companies generate nice dividends and have better balance sheets than typical value manager, but the stories may not sound quite as exciting as the growthy names atop the SP or the Nasdaq
- **What Type of Environment Seems to Help the Portfolio?** It seems to do well as the economy expands and interest rates go up, not so well when we talk recession and lower rates.
- **What We Did Right** --- Owned a healthy weighting of banks, industrials and to a lesser degree tech (stocks up a lot but we just didn't own enough "beta")
- **What We Did Wrong** --- pharma stocks have been weak but we believe should do well long term… we believe there is plenty on value to be unlocked in these companies. Bad pick with AT&T. Intel has been a dog but we like it long term. We missed adding more to energy complex, but probably good as many of YOUR clients probably own too much already - so we are a good diversifier.

Outlook/Why Own Berkshire Now:

- We think the market will cool a bit in years ahead. 5-7% potential returns in 2022... Dividends may be a big % of total return.
- Market is somewhat rich by historical standards but we still think dividend equities will outperform bonds over the next 5 years.

- Growth stocks look expensive and think the rotation into value stocks should continue.
- Dividend growth stocks tend to do well in periods of higher inflation. Compounding dividends may serve as a good hedge.
- Reasonable valuation relative to pure S&P, Nasdaq.
- While the threat of a modest correction FEELS a bit higher than usual, trying to time the market and execute appropriate after-tax strategies carries a high degree of difficulty.

Risks:
- Most of the speculative stuff typically blows up --- EV, crypto, meme stocks, could be destabilizing to the market but we are far away from anything there.
- China recession / Evergrande
- Policy mistakes out of Washington

Feedback Wanted: What practice management topics interest you most
- Succession/Acquisition planning issues for acquirers and acquirees
- Tools/Tactics for Working With Millennials
- How To Create a Specialized Niche
- How to Harness the Power of Technology and Unified Managed Accounts
- Other ideas?

The Matrix We'd Like To Enter?
Speaking of gratitude, here is some great life/career perspective from a somewhat unlikely source - Hollywood Actor Keanu Reeves. His life demonstrates many lessons: humility, generosity, overcoming adversity…and yes a total commitment to excellence. Keanu Reeves Inspires

Stay healthy, be safe and have a great holiday season!
Gerry

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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. Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The index was developed with a base value of 200 as of August 31, 1992. Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The index was developed with a base value of 200 as of August 31, 1992. You cannot invest directly in an index. BEst (Bloomberg Estimates) Earnings Per Share (EPS Adjusted) estimate returns Earnings Per Share from Continuing Operations, which may exclude the effects of one-time and extraordinary gains/losses. Beta is a measure of volatility vs. an index. Upside/Downside capture ratios refer to a portfolios performance as a percentage of either positive returns (upside) or negative returns (downside) vs. an index. Standard Deviation is a measure of total risk. Alpha, Beta and capture ratios are represented as calculated by Morningstar.

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