Berkshire
DIVIDEND STRATEGY

Berkshire Asset Management
46 Public Square, Suite 700
Wilkes-Barre, PA 18701
570.825.2600

"Casual Friday" Commentary

Casual Friday: Next Up? + Santa Crypto... – *November 5th 2021*

What's the Next Big Thing?
Year end is approaching and it has us thinking. (We're **always** thinking about advisor practices!).
This is a little longer than our usual but the inspiration kept coming.

What big trends will shape the business and how do help advisors plan and thrive?

The last few years have brought on **BIG** changes to the advisor business: DOL, Reg BI, COVID, move to virtual, tech stocks, along with the side shows of crypto and meme stocks. These are all mega / disruptive trends that inspired or forced new ways of doing business.

However, is it just me, or does everything now seem a little quiet and subdued? Markets are at all-time highs, most clients are happy, advisors are having solid years. Once again, the market's big rebound rewarded many, but did it also bail out some non-viable business models? Is energy for change low, or is it just everyone is working from home? Nothing seems broken, and no huge wave seems obvious. Times like these, when complacency is high (especially in the market) tend to make me nervous! What will work in the next 12 months and the next 12 years? Banking on market appreciation is an uncreative and lazy approach to growth and not a viable strategy - especially now. Real bond yields are negative and stocks are 20+ times earnings and at all-time highs. Grinding out 4-5% returns after taxes and fees might end up being a huge victory for you and clients!

So maybe there IS no one big thing…maybe it's a lot of smaller more subtle things. Maybe success is more about grinding out a niche, narrowing your focus and getting more streamlined. Maybe its acquisition. Maybe it's about lifestyle. Maybe the big wave ISN'T coming.

Nonetheless, as year-end planning approaches, here are some concepts worth considering:

- **Compliance demands** won't ease - it's only going to get tougher. Get used to it. That probably necessitates more model delivery, OCIO type strategist models and increased use of outside managers - no complaints from your friends at Berkshire on this one.

- **An advisor's choice of firm keeps growing and evolving.** It seems every month brings on a new iteration of RIA's models, independent channels, aggregators, roll ups, banks, hybrids, insurance companies, etc. Wires and large regionals keep re-engineering their models too. We don't think there is a clear winning formula here - but driving down the cost structure and increasing technology platforms should be everyone's focus. There's something for everyone and advisors will probably be switching firms -- a lot.

- **Product proliferation** is crazy too… zillions of ETF's, asset allocation models, OCIO models, SMA's, firm directed models makes choice overwhelming and complicated for many. Our call? The advisor still needs to be the driver of implementing simple basic diversified selections that rely on income in a low appreciation world. Simplicity and easy to understand strategies drive sticky clients who probably won't sell the second the market is down and they don't understand something.

- **Succession planning** / young advisors is still a challenge and an opportunity. The industry is aging, and there is a legitimate shortage of advisors to take their place. It seems there just are not enough young advisors bidding for the books of older advisors. We suspect firms will get a lot more creative in how they keep assets on the books. I mean think about it from a firm perspective…you've got an advisor who is 70+ years old, his clients are probably old too. What happens when this advisor leaves, passes away or his clients pass away? 85% of clients fire their parents' advisor anyway so the firm is at grave risk of losing the business unless someone with some acumen can preserve the relationships with both generations. If there is one big obvious growth driver it's this one…acquire, systematize, streamline to grow. Another thought… Advisors preach to every client that walks in the door they need a financial plan, why on earth would you not take the steps to plan for and protect one of your largest assets. https://www.advisorperspectives.com/articles/2020/06/22/succession-planning-is-a-growth-strategy

- **CLEAN UP YOUR BOOK.** Advisor books still seem fragmented despite demonstrated progress to financial planning and fee-based products. It seems advisors still have waaaay too many CUSIPs and one-off strategies. "Inventory overload" is real and it's an impediment to growth and good service. The best advisors we know literally are driving down to 20 total strategies or less. You should too. We can show you how.

- **Fragmented investment / tech stack is broken**. Period. Mutual fund wrap account here, advisor directed account there, SMA over…this model is DOA in the modern world. Sorry folks --- can you really give clients great planning, service, make changes across the book as markets change when everything is all over the place? Its total DIS economies of scale. It feels like using muskets vs. modern military technology. Streamlining and consolidating into a common platform -- most likely a UMA with great planning software is the only fix. Do it despite the despite cost - it will pay for itself in efficiency and more assets later. You're welcome.

- **Increasing and more complicated taxes are on investors mind.** This one could be a growth driver / door opener. My sense is all clients will be very willing to talk to an advisor who really knows his/her stuff when it comes to taxes. Its back-to-school time on this one.

- **Fee compression is real** -- for everybody. Let's all get over it, because everyone's ability to handle more clients and bigger assets is real too. We all operate in a ridiculously profitable if not competitive business and we've all enjoyed amazing economics for decades. Just think if you were a lawyer who only got paid by the hour or owned a cement company where you had to buy dump trucks and raw materials to make an extra dollar. We're fortunate to get AUM based fees. Technology, massive intergenerational wealth transfer to the tune of $30 trillion and a shrinking advisor base will keep total comp high even if the fee % goes down.

- **Mega Asset Management Firms are controlling distribution**. Amazing stat - 85% of all assets are sold by just 25 firms. Some offer a lot of services to supplement advisors. BUT - so do many of the smaller boutique players like us. And a boutique story can often differentiate your offering… Think about it, everyone with a brokerage account has access to XYZ ETF. So, ask more from your partners. We personally thrive on delivering great practice ideas and inspiring engagement with you!

- A subtle yet perhaps more important key to success. It's easy to get lost in the alphabet soup of strategies, technology platforms, alpha beta sharp etc. Of course, your job is to do great planning and deliver investment solutions. But your other more subtle job is managing expectations. The main reasons we don't win clients or keep them? It's the expectation gap between what we deliver and what they want. For example, it baffles me that advisors talk all day long about how they do planning, yet 60% of clients say their advisor doesn't do planning! Plus, client return expectations are also way out of whack, creating a HUGE chasm between how we keep score and they do. Find out and fill the hole - and remember sometimes the truth hurts like when the client expects double digit returns with no risk. You've got to set em straight.
  Casual Friday: Closing Perception Gaps

What issues are you seeing that will shape the future of our business? We welcome your feedback and we are more than happy to assist on any initiative.

Welcome Santa Coin Crypto!

Random news -- Dozens of new crypto currencies launched just this WEEK!
What could possibly go wrong?
https://coinmarketcap.com/new/

Gerard Mihalick, CFA, Portfolio Manager
gmihalick@berkshiream.com or (570) 825-2600

Jason Reilly, CFP®, VP Distribution
jason@berkshiream.com or (570) 825-2600

Berkshire Dividend Growth SMA is available through various custodians, broker-dealers and UMA providers. This commentary is Intended for Institutional and advisor use only. This commentary may make information of third parties available via website links. The Third-Party Content is not created or endorsed by Berkshire nor any business offering products or services through it. The delivery of Third-Party Content is for general informational purposes only and does not constitute a recommendation or solicitation to purchase or sell any security or make any other type of investment or investment decision. In addition, the Third-Party Content is not intended to provide tax, legal or investment advice. the Third-Party Content provided to is obtained from sources believed to be reliable and that no guarantees are made by Berkshire or the providers of the Third-Party Content as to its accuracy, completeness, timeliness.

Berkshire Asset Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®). Berkshire Asset Management is a fee-based, SEC registered advisory firm serving the portfolio management needs of institutional and high-net worth clients. The Dividend Growth Composite contains portfolios invested in Berkshire's Dividend Growth Strategy with an equity allocation target of 90% - 100%. The Dividend Growth Strategy's primary objective is to generate a growing stream of equity income by investing in a diversified portfolio of equities with stable, high, and growing dividends. The benchmark is the S&P 500 Index. The index returns are provided to represent the investment environment existing during the time periods shown. For comparison purposes, the index is fully invested, does not include any trading costs, management fees, or other costs, and the reinvestment of dividends and other distributions is assumed. An investor cannot invest directly in an index. Gross returns are presented before management and other fees but after all trading expenses. Net returns are calculated by deducting actual management fees from gross returns. Returns reflect the reinvestment of dividends and other earnings. Valuations are computed and performance is reported in U.S. dollars. To receive a complete list of composite descriptions and/or a compliant presentation, contact Jason Reilly, CFP® Tel: 570-825-2600 or info@berkshiream.com. Past performance does not guarantee future results.

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.

Risks: Past performance does not guarantee future results. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for an individual's investment portfolio. Dividends are subject to change, are not guaranteed, and may be cut. Investing based on dividends alone may not be favorable as it does not include all material risks. There is no guarantee any stated (or implied) portfolio or performance objective mentioned by Berkshire can be met. Berkshire's equity style may focus its investments in certain sectors or industries, thereby increasing potential volatility relative to other strategies or indices. The dividend strategy may include bundled services also known as a "wrap fee program". Because there is typically a low turnover in the strategy, this may be more costly for some investors. No one should assume that any information presented serves as the receipt of, or a substitute for, personalized individual advice from a qualified advisor or any other investment professional.

Market Commentary, Aggregate Holdings, Securities, Sectors, Portfolio Characteristics Mentioned: No statement made in this presentation shall construe investment advice. This presentation is for informational purposes only. Views, comments or research mentioned is not intended to be *a forecast of future events. The mention of any security or sector is not deemed as a recommendation to buy or sell. Any reference to any security or sector is used to explain the portfolio manager's rationale for portfolio decisions or philosophy. Research or financial statistics cited regarding securities or sectors do not contain all material information about them. Any securities mentioned represent a partial list of holdings whereas Berkshire portfolios typically contain approximately 30-40 securities in percentage weightings ranging from 1-5%. A complete list of holdings from a representative account is available upon request. Overall portfolio characteristics mentioned are from a representative account deemed representative of the strategy; data may be compiled from Bloomberg, Baseline or Berkshire estimates. Individual holdings, performance and aggregate characteristics of actual portfolios may vary based on a variety of factors including market conditions, timing of client cash flows and manager discretion. This presentation contains Berkshire opinions and use of Berkshire estimates which are subject to change at any time. Berkshire employees may have personal positions in any securities or sectors mentioned. Charts, presentations or articles may be obtained from third parties and Berkshire does not guarantee their accuracy. *Platform restrictions may apply. Preliminary returns are based on composite estimates only. Individual accounts will vary.*