Berkshire
DIVIDEND STRATEGY

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

"Casual Friday" Commentary

Casual Friday: Dividend Increase + "Gray Rhinos & Dragon Kings"? – *August 13th, 2021*

Dividend Increase Alert:
Leggett & Platt's (LEG) Board of Directors announced a dividend of $.42 per share for the third quarter, an increase of $.02 per share or 5% versus the third quarter of 2020. The dividend will be paid on October 15, 2021 to shareholders of record on September 15, 2021. This marks the 20th dividend increase in the Berkshire Dividend Portfolio this year (out of 36 companies).

Quick Market Comment:
A swift rise in the ten-year treasury from 1.17% on August 3 to about 1.37% has reignited momentum for the value/equity income trade vs. growth. We continue to believe inflationary forces are at work: labor shortages, commodity squeezes, and money printing are stronger forces than some of the deflationary forces at work. Plus it doesn't take a Fed economist to see everything seems to cost more -- a lot more. The national debt is indeed a deflationary or stagnating force as it will drain productive resources from the economy. As we monitor our portfolio it appears to perform better as rates rise. Why? Banks are likely direct beneficiaries of higher rates. Higher rates may also be associated with economic growth, benefiting cyclical companies in the portfolio. All in all, a good week for equities and our portfolio!

Here are some other reasons we believe our portfolio is an attractive place for client funds now.

- Value stocks still sell at a big discount to growth. Our relative quality remains high and our relative valuation remains low
- Historically, dividend growth and inflation have been positively correlated making dividend growth stocks a potentially effective hedge
- Dividend yields look attractive as fixed income remains near 0% – Real rates are currently negative
- As "Boomers" retire and interest rates remain relatively low, dividend stocks should occupy a dominant position in investor portfolios -- Demand

In addition to providing a high-quality dividend growth strategy, Berkshire also designed a service model to help solve key advisor initiatives. If you'd like to discuss some best practices around the following initiatives / practice profiles, please give us a call -- We have specific tools, commentaries and playbooks to help!

- Experienced managed money users: elevate practice cache from Berkshire's boutique service model (PM's access, deep due diligence, client meetings, etc.)
- Advisors just switching to managed offerings: utilize our manager support and alleviate client's anxiety about being cast off
- Advisors switching firms: huge opportunity where strategies from previous firm are not portable including
- Advisors seeking to consolidate multiple offerings (aka "inventory overload")
- Advisors who want to implement income/objective based outcomes vs. chasing a benchmark
- Younger advisor (embracing managed accounts) taking over the practice of a self-directed or transaction-oriented advisor
- Advisors who wish to make manager/strategy changes but are concerned about capital gains tax implications supersede
- Advisor seeking attractive dividend strategy, and who wishes to utilize our practice management tools

Looking to catch up on past Casual Fridays?
Visit our Casual Friday Page for recent discussions on:
- Inflation and dividend strategies
- Earnings season and outlook
- Dividend Increases
- Building an Income based advisory practice

Is Humanity getting better or worse in dealing with catastrophes?
The subject matter of the article may be controversial -- and Berkshire is by no means offering an opinion. Instead, this circulated around the office and we found it to be thought provoking. It covers catastrophe from a humanitarian standpoint but also touches on impact to markets -- insert the "Gray Rhinos & Dragon Kings" market theory: https://www.advisorperspectives.com/articles/2021/08/09/niall-ferguson-says-were-getting-worse-at-dealing-with-catastrophes-but-hes-wrong

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

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

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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.

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