Berkshire
DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: Game Changer? + European History In Pics – *February 25, 2022*

The ancient Chinese proverb states: "May you live in interesting times." Suddenly, things are more interesting -- clearly not in a good way. The question on clients' minds... Is the Russian invasion a game changer to the investment narrative?

It's hard to say, so let's start with reasonable/direct observations…

YTD Berkshire models indicate we are faring well in a down market.
Berkshire -5% vs -10% S&P500 (as of close 2.24.22 net of fees)

Behind the move YTD – A rotation to value and dividends has been propelled by rates/inflation and valuations. Growth stocks were likely undergoing a huge valuation reset. We've experienced solid downside in a tough market, true to discipline.

Thursday's reaction raises more questions than answers -- "Is this a game changer" to recent 3-to-6-month trends? The value and reopening trade completely unwound in a matter of hours. Cross currents and contradictions are in abundance...

Immediately after the invasion, it was risk off…growth scare… bond yields lower, equities lower, VIX higher, commodities, especially energy, moved sharply higher. This type of market action seems pretty consistent with a geo political shock of this magnitude and parties involved.

The afternoon changed... Biden made his sanction announcement, equity markets turned positive – it was a sharp curve ball from the morning session. Equities rallied led by tech -- which harkened up pandemic days when growth stocks ripped higher at every threat to economic growth. BUT this time interest rates ended the day HIGHER which seems a bit odd given uncertainty to the economic picture. Lately, it seems tech/growth fades in the face of higher rates.

Global banks were down which makes sense with asset freezes, but wait, wait… rates moving higher should be a positive? Crude prices receded from highs and large global energy companies were actually *down* on the day. Many consumer companies, which are usually safety trades, were down, the culprit being higher input costs. I.e. Ukrainian/Russian wheat, sunflower oil, etc. Most industrials were somewhat solid, seemingly paradoxical.

"I don't know" is seldom spoken by managers and advisors, but conviction at times like these may demonstrate misguided expertise. Macro is hard, and even the best geopolitical analysts have dissent on outcomes... Instead, we revert to what we know best and seemingly holds true -- We cannot predict and avoid these shocks. We can only try to own durable companies we think can *withstand* these shocks so we don't have to exit the market at the wrong time and sacrifice the potential for increasing dividends.

Our dividend income and dividend growth may be consistent even in times of stress
Page 2 of our dividend scorecard displays this concept:
Dividend Strategy Scorecard 12.31.2021

Good link on nuances of the Ukrainian conflict -- As usual, its complicated...
Moring Brew: The digestible Ukraine explainer you've been waiting for

Ukraine In 1 Picture?
https://www.visualcapitalist.com/map-explainer-ukraine/

Time lapse video 2400 years of European Civilizations (11 minutes but really fascinating)
https://youtu.be/UY9P0QSxlnI

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