



Berkshire

DIVIDEND STRATEGY

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“Casual Friday” Commentary

Casual Friday: "Winning Formula" + Financial Planning In... 3000 BC? – February 4, 2022

Good morning, everyone...it's been a busy week!
BCE rate hikes...hawkish ECB...growth stocks under pressure.

Berkshire relative performance appears solid YTD -1% Net of Fees as of 2.3.2022 based on composite estimates only -- Amidst the Nasdaq down more than 11% and the S&P down 6% YTD.

Also, a number of companies in our Dividend Strategy portfolio have increased dividends:

- Intel 5%
- Waste Management 6%
- Kimberly Clarke 2%
- Norfolk Southern 14%
- Chevron 6%

Repeating for emphasis: a rotation tends to be a process, not an event. It's usually not one, but a series of catalysts...start and end dates can be murky even with the gift of hindsight. Still, we can now point to:

-9.18.20 (Vaccine Monday) as a meaningful turn with value outperforming growth by one of its single largest margins in years (8% relative performance in one day).

-The fed and other world banks are growing ever more hawkish, pushing the trend to a “higher rate trade” further down the field.

-The speculative excesses are clearly coming off many Nasdaq stocks, and growth strategies are seeing meaningful outflows.

Where to from here? We never know for sure but momentum is building for the possibility of continued solid relative performance for the value/equity income camp.

Advisor Success Story: “A business...not a collection of sales”

A recent conversation showed an advisor creating a solid end-to-end system across many aspects of his business.

-Detailed, sophisticated planning? Yep - 2 CFP's on staff and he's very fluent in many specialized areas vs. just cranking out boiler plate income projections.

-The SMA? NOT dead! He tends to favor SMA's over mutual funds because clients see their current holdings, experience ongoing active management, and this helps them stay connected

to their portfolios

“When the market’s down, I can keep them on track because they see and understand individual holdings and they don’t want to sell. With a mutual fund they think ‘I don’t understand what’s in that fund... it’s down... sell it!’”

-He does have investment discretion. This ability varies from firm to firm, but its key to efficiency. He spends little time on implementation and more time on planning, investments and client relations. Plus, it creates the sense he’s an authoritative expert vs. constantly asking for permission from clients to make changes. It is subtle but important.

-Standardization. Three diversified and complimentary equity managers comprise his equity allocation. He buffers portfolio volatility with the right amount of fixed income to get client risk tolerance right. He’s got his finger on the pulse of each strategy and how each fits the overall allocation. 150 households and running through a mass custom strategy vs. 150 strategies... this is scale at its finest.

-Modernize. All his operations run through streamlined UMA tech stack. He can make changes to the models and shift on the fly.

-Past performance? De-emphasized. He’s asking: how does each strategy fit my clients’ goals (income, income growth, etc), what is my big picture view (valuations, inflation) and how do the manager’s holdings fit these goals.

There is downside. He does have to turn away business that doesn’t fit, and he’s got some concentration risk with a limited number of strategies. It takes some discipline but to us it sounds like a winning formula!

CASUAL FRIDAY BONUS: Does the world’s first financial planner date back to...Mesopotamia in 3,000 BC?

Did they stretch for yield? Make overly optimistic assumptions? Calculate ‘yield on COW?’ You bet! Here is a great quick watch!

<https://canvas.osam.com/Commentary/BlogPost?Permalink=an-ancient-relationship-fintech-and-financial-advice>

Fintech has come a long way, yet human behavior is still pretty similar!

More interesting investment management history stories are coming next week including: the first mutual fund and the original crypto hunters!

Have a great weekend!

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