



Berkshire

DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: "Macro" Vs. The Income Oriented Practice – August 20th, 2021

Equity markets seem to be wrapping up a volatile week... Delta variant, the Fed, valuations and jobs data all hit the tape giving pause to the "risk on" theme. The week is a reminder of the constant in stock markets -- Investors always try to compile economic cross currents and surmise "which way is the market going"? Timing the markets based on macro themes is an incredibly challenging business, one that most do not consistently get right. This year again has proven market timing based on these factors is really, really difficult... We've heard the same question echo all year: "When is the correction coming"? Our response: "At some point." For those sitting the sidelines or under allocated to equities, they've likely missed out on the 17ish % return YTD in US Large Cap indices. (Source: Bloomberg)

So how should advisors handle the constant barrage of these types of questions? To be credible you'll need an educated view of the economy, valuations, and share opinions with clients -- Obvious. But instead of getting in to the "macro" ping pong match, the discussion could instead heavily focus on long term objectives and aligning strategies to satisfy income needs. We've seen some extremely successful advisors who became that way by making dividend / income investing their core offering to clients. They've recognized a key theme to help build their practice -- **Most clients are likely investing to generate income (maybe now or maybe later). So why not align conversations, planning, portfolios, performance measurement and reviews around income?** A systemic difference to the traditional, "here's how we did against the S&P 500 this quarter" or "I think we should raise cash based on..." type practice.

Steps to Refocus the Client Conversation

- Reminding clients about alignment of investment goals?
 - We'd argue 90% of investors are seeking income and growth of income now or at some point in the future. This will come organically through your planning process. So, design portfolios that match objectives with income goals and de-emphasize past total return - Clients identify with the thought process
- Redefining the benchmark during ongoing client meetings?
 - Move from "did we beat the S&P?" to "Is my income plan on track"
 - We know as advisors we're not always going to beat the market, so why benchmark your client accounts this way?

- Consistently expressing the potential growth of income?
 - Show clients dividend increases and growth of income over time:
 - [Dividend Scorecard 6.30.2021](#)
- Specific talking points on the power of dividend investing?
 - <https://www.visualcapitalist.com/power-dividend-investing/>

Dividend Analogies

Along the way, clients might appreciate analogies and simplification

“Commercial Apartment Building”

- “Tenants” are high quality US companies (ie. MSFT, CSCO, AMGN).
- Owner “rent” is based on a growing share of “tenant” earnings (dividends). If the “rent” is being collected and growing every year to meet your income goals, should you really be too worried about how much the underlying building is worth day to day or month to month?

“Income While You Sleep”

- Instead of stressing over market values, remind clients that a dividend portfolio is likely growing cash flow even while they sleep
- Take the annual portfolio income and divide it by 365 days in the year
- Example: 2MM portfolio, generating 3.25% annually / 365 = \$178 Daily

One of the biggest benefits of a simplified "meet the income liability approach" - it makes for a very efficient practice without a lot of moving parts or exhausting conversation about market direction, in our opinion. Throw in technology, remote access and dividend investing sets the stage for a perfect lifestyle practice. See you on the beach:

https://www.barrons.com/advisor/articles/lifestyle-practice-financial-advisor-51628872360?mod=hp_ADVISOR&mod=djem_WealthJournal

Broadway's Back. Can it Stay Open?

<https://www.bloomberg.com/news/articles/2021-08-03/broadway-is-coming-back-in-september-but-can-it-stay-open>

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