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"Casual Friday" Commentary

Casual Friday: Hard Questions... No Easy Answers– *March 4th, 2022*

Good morning,
An advisor asked me (prompted from a handful of client conversations he had this week) -- "What if we go into World War 3?"
My response: "What if we don't?"

I in no way intended to be abrupt or dismissive -- the thought is weighing on all of our minds... but I did want to make a point. What's happening in Europe is terrible. Risks are HIGH. The outright loss, utter disruption and shattering of human life is heart breaking. It also makes me grateful for all we have, right here right now in what appears to be the most secure land.

Still, we need to provide some sort of guidance... Unfortunately, there is no clear investment play book, magic phrase or mechanical relationships to work from for the type of scenario we fear. The Russia/Ukraine crisis is yet another cross current in a massive sea of data points.

"Tell me what's obvious now? Is it obvious the conflict is going to escalate into an all-out war? Or is it obvious the conflict will be less intense than expected because the Russian Army is large but appears somewhat disorganized/unmotivated? The Ukrainian resistance is inflicting a harsher bite than expected. And the world is choking a good portion of Putin's financial war chest." Check out this great article showing how Russia has billions of currency reserves but... They placed many of them in Foreign Central banks and are now frozen. So, the financial ammo to defend the ruble (and other things) is now feckless:

To Punish Putin for Russia The World Weaponized Finance

"Is it worth totally disrupting a client's financial plan - loss of income, potential cap gains taxes, not meeting long term growth goals by going to cash at the wrong time for something that MIGHT happen?", I asked. A short-term measurement of course, but those who sold equites upon invasion are likely a few hundred basis points behind. Timing investments on these macro calls is a tricky business to say the least.

Rather than actually discussing outright abandonment of equities, I offered a different approach:

- Make sure clients EXPECT yes, EXPECT shocks to the system that result in large equity draw downs. Commitments to tactically rebalance based on big shifts and opportunity? Yes. Telling them you will avoid crashes all together? May get you fired…

- Ensure portfolios match risk appetite -- revisit often. Ask how they feel about potential one-year worst case scenarios – run 40%, 30%, 20% down markets in real life dollars. Keep allocating more bonds/alternatives until you get to a number they can live with. This way when it happens, they will have a good sense of what to expect.

- We said it last week "You can't avoid these shocks, own assets that provide durability through theme". Berkshire hopes a bias towards "quality" contributes to solid down capture in volatile markets... if an equity manager can run down captures of 70-80% paired with fixed income, clients may be less likely to hit the panic button.

Unfortunately, the only way "out" is "through" as the saying goes.

Client Help Thy Self – A Quick Practice Management Rant
I don't shy from criticizing unproductive approaches by clients, advisors and yes managers (present company included). Ours is a tough business. We all make mistakes.

Lately, I've clamored how clients really SHOULD consolidate assets to one primary advisor (and hey, why not YOU?). Clients want and expect good results. But advisors are challenged and can't deliver good advice in a vacuum. Can advisors offer comprehensive approaches when client assets are spread out amidst multiple advisors? Can they be opportunistic? (You're selling and the other advisor is buying?) At worst, it probably leads to myopic or ad hoc decisions on their part.

Perhaps a stretch on the analogy, but imagine a patient goes to a **nephrologist, yet the patient won't give a full medical history.** Doctor decides to remove left kidney not knowing anything about the right. Right kidney was in far worse shape... Sounds like a malpractice case.

Times like these are opportunities to dig deeper with clients... Make the case for consolidation. Be on the right side of the asset flows

Our dividend income and dividend growth may help clients during times of volitity.
Use page 2 of our dividend scorecard to display 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

Peace,
Gerry

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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.

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