Berkshire
DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: It's Breaking...Bad + "Crypto Rehab"– *April 22nd 2022*

Berkshire Dividend Growth SMA: Available on Vista Manager Platform
Schedule a Call - Dividend Strategy Scorecard 3.31.2022

"TGICF"

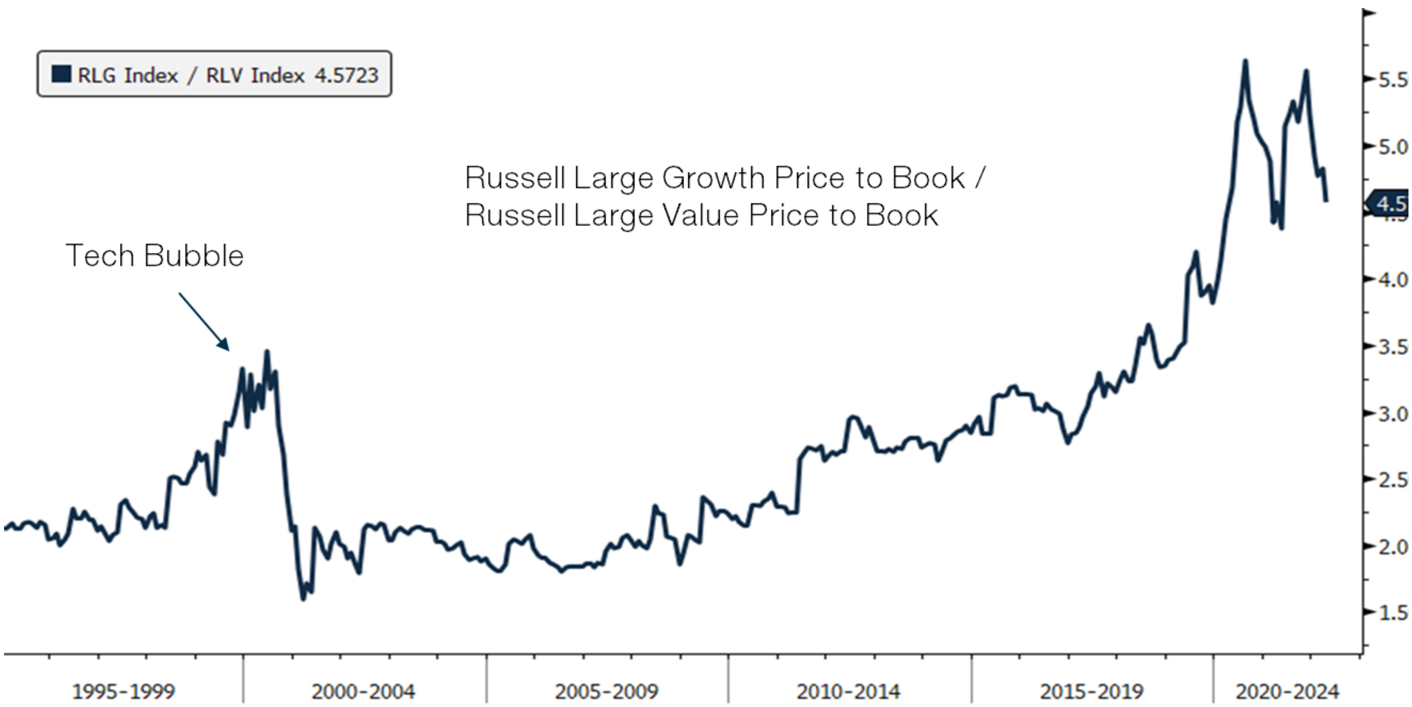
Netflix Crash:
The ongoing growth vs. value rotation is an issue permeating many advisors' minds. The big NFLX miss is not just about one stock, it's part of the larger story unfolding. Recall the Ozark - Tiger King - Queen's Gambit crazed days of the pandemic… How hot were growth stocks like Netflix? On a price to book valuation basis, growth traded at 5.5x value stocks, eclipsing even 1999 valuations. Many thought value could never catch up. Value has been on a roll since then, and positive year to date. Rotations evolve as a process rather than a specific event, and even with the gift of hindsight it's hard to mark starts and ends. Still, we offer a plausible time line that could show where we go from here.

- March 2020: Pandemic. There's no growth. Only stay at home/growth stocks can do well.
- September 2020: Vaccines develop. Maybe other sectors besides growth/tech can grow? Value out performs growth by 8%... rotation ON!
- Early 2021: Reopening trade. Multiple sectors rebound and smash earnings estimates. Value leads.
- Summer 2021: Omicron. Growth scare. Rates plunge and growth swings back in favor.
- Late fall 2021: Pandemic shifts to rear view. Fed gets serious about inflation. Growth stocks under pressure but end up big for the year.
- Early 2022: Higher rates punish growth stocks. Stay at home, AARK and many meme stocks down 30-70% from ATH's. Nasdaq hits bear market.
- March 2022: Russian invasion; rates continue higher, value actually even for the year.

Whew. What a ride. At first, the weakest more speculative highest valuation names crumbled (think meme, exotic crypto, etc). Then the highest-octane new economy stocks got hit. But not everyone felt the rout would hit established mainstream growth stocks. So, it's telling an established mega cap name like Netflix can suffer such an equal fate. While its dramatic the stock was down +30% in a day, it's pretty cataclysmic the stock is down 70% from its all-time high.

The lesson? No growth stock is immune from punishing valuation resets no matter how good the story sounds. And when the break occurs, the tallest trees usually have farthest to fall.

Whereto from here? Growth *still* trades at 4.4x value on price to book. The economy is expanding which for the moment has value continuing its run. If the economy holds up, valuation and fundamentals say its only mid-innings for value/equity income. So yes, the growth sector appears to be breaking bad …so don't chill when it comes to valuation. (sorry we couldn't resist multiple Netflix metaphors)



(Source: Bloomberg)

Value of a Financial Advisor: True to Life

Think back to what the financial world was like in 2010. The gaping wounds of the financial crisis were still wide open. The future was anything but certain. If anything, most people seemed certain we were DOOMED. Equities? Dead. US equities? Even worse. Think back how so many thought investing, and America will never be the same. Heck, we had our doubts.

Then imagine a 53-year-old recently divorced person with very modest earning power walks into your office -- "I have $2,000,000 in investable assets, make 40k a year, but need over $125,000 a year to live. And that doesn't even get me close to how I was living. My alimony runs out in 5 years. How am I going to replace this income?" Financial ability to assume risk? Low. Emotional ability to assume risk? Even lower given recent life events.

What would your allocation advice have been? Be honest. Given the mess the world was in… would it have been 100% dividend growth equities? Or would it have been more in tune with consensus thinking and modern portfolio theory models which were likely saying buy: bonds, alts and foreign stocks.

Despite all the doom, gloom and uncertainty 100% equities is exactly what one of our advisors, working in conjunction with us had the courage and foresight to recommend. I say in conjunction with because the advisor did ask our opinion on this case (we love when that happens!) and we pointed out how the alimony really was similar to owning bonds, which made the "real" asset allocation closer to 70 equities, 30% bonds which - still fairly aggressive given the state of world affairs. We also provided a range of examples of what the portfolio MIGHT be producing in income over 5 and 10 years.

And despite a host of reasons NOT to invest in equities (how many crises did we experience in the last decade?) the portfolio has done its job.

Tale of the tape? (Please keep in mind, p*ast performance does not guarantee future results.)*

- Cumulative client spending 2010-2022: approx. $1.1 million
- Cumulative dividends? Approx. $1.2 million (over 50% of the original investment)
- Potential annual income for the *next* 12 months? $145,000
- Portfolio value? $5.3 million

Should we even worry about what U.S. equity benchmarks did during this time when it was the advisor's courageous and contrarian decision to make the portfolio 100% equities in the first place over time? Does the benchmark matter when all the income needs were exceeded and never declined even during the pandemic? Was there a better combination? Of course, but that's easy to see only in hindsight. Of course, we can't be cavalier about stock or sector allocation, but when you really get down to it, isn't the most value the advisor brought here was the ability to have the prescience to allocate this way and the fortitude and skill to keep this investor in the game throughout crazy times?

Charlie Munger said "compounding works best when its uninterrupted". But like many investing concepts…it's so simple, but rarely easy. Kudos to this advisor… he and dividend investing truly made a difference on a real-life human being.

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Rehab for Crypto Traders?
"It's like any other addiction," Rojas says. "It could destroy your life if you don't take care of it"
https://www.bnnbloomberg.ca/it-could-destroy-your-life-crypto-trading-goes-to-rehab-1.1755520

Regards,
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