Berkshire
DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: New Purchase + "What Does Capitulation Look Like" – *May 13th 2022*

#TGICF

Sold Spin Off Company: Warner Bros. Discovery (WBD)

- No Dividend

Berkshire New Purchase: Deere & Company (DE)

- Aggressive dividend increases the past 3-5 years
- Room for payout ratio to expand. DE is targeting 25-30% div payout ratio; currently 19%
- "A" rated balance sheet
- Farm fleet is relatively old: replacements needed
- Soaring agriculture prices are causing a new cap ex spending cycle
- Farming is going high tech with increased use of "precision farming"
- While cyclical, free cash flow margins are attractive with the opportunity to increase margins long term

Recent Advisor question: "What does capitulation look like?"
Near term it probably looks a lot like what we are seeing now. Bond yields dropping… VIX spiking...fear greed at extreme levels…a flight to defensive holdings like utilities, pharma and food. Importantly the equity market onslaught has methodically and viciously worked itself up the quality spectrum. Robin Hood stocks, emerging "disruption" stocks, fringe crypto stocks were all early and dare we say predictable causalities symbolic of rampant, irrational speculation.

Speaking of crypto, after 35 new cryptos were introduced in one week (December) we sarcastically asked "Gee what could go wrong there." And this week showed? Plenty! Even amore traditional crypto plays (which seems like an oxymoron) showed how badly things can go awry. When the Staples center renamed itself Crypto.com Arena, we commented around the office "surely this must be the end." Don't even get us started on the Matt Damon's creepy Super Bowl crypto ad. It's all irresponsible, reckless and sadly, quite predictable.

Many of these speculative favorites took hits to the tune of 50-70%. More recently the routs in Tesla, Netflix Facebook and Amazon made it clear the rout was going mainstream. But now Microsoft and Apple are taking a good beating? That's probably a sign we are getting closer to a near term bottom. A global reset of valuations? You bet. Growth stocks have compressed from 30-20 times EPS, and the S&P has dropped from 23-16 times forward earnings.

In most cases, this is a healthy reset that needed to happen. It sets the stage for (potentially) better returns from here. But it also shows the value of advisors and managers bring with: planning, cash flow, real analysis and downside protection and COMMON SENSE…just to name a few.

The advisor who asked this question also was quick to point out “Our clients have been here before. They know this is the natural cycle of things. Not every strategy works all the time. But clients know their overall plan is still on track and how and the reasons we hired each manager.”

So here is to you sticking with the tried and true and hopefully building sensible portfolios you can be proud of.

Have we hit bottom? Well, there aren’t too many trees left for sellers to chop down. And while valuation is not a timing tool, stocks are starting to look pretty attractive once more.

"LUNATICS"
(April 19th) Bloomberg published a great article detailing the rise of LUNA Crypto and it's founder Do Kwon -- "Do Kwon is counting on the oldest cryptocurrency as a backstop for his stablecoin, which some critics liken to a ginormous Ponzi scheme." -- A few weeks later, LUNA is worthless, wiping out roughly 40Billion in market cap.

https://www.bloomberg.com/news/features/2022-04-19/terraform-s-do-kwon-s-huge-bitcoin-buys-catch-crypto-billionaires-attention

Have a great weekend!

Regards,
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