Berkshire
DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: "Clean up in Aisle 7" + A Template For The Times?– *May 20th 2022*

<< Test Availability >>
Schedule a Call - Dividend Strategy Scorecard 3.31.2022

#TGICF

"Clean up in Aisle 7"
Generally, the market isn't always right, but we should always know what it's trying to tell us. Walmart and Target earnings announcements showed low to mid-range consumers are feeling the pinch and have little money for anything except bare essentials. A decrease in discretionary spend + a broad "trade down" to private label products is setting off recession alarms…and shuttered the market's recent attempts at a comeback. Many branded consumer companies got pounded, creating another near-term sector casualty… Thanks inflation.

But the cure for inflation might just be inflation itself. Costs are getting so high; it's negatively affecting demand. Inflation pushed rates higher and are starting to bite. Home debt service increased more than 30%, cooling housing related areas of the economy. And if supply chain bottle necks ease at all, substantial relief might be in sight. So *maybe* we've seen peak inflation rates and *maybe* 3.25% on the 10-year treasury is a firm rate ceiling.

As a result, *maybe* investors get relief from the absolute beating stocks have taken. S&P and growth indices? -18% and -30% year to date. Ouch. Berkshire Dividend? It's down a more palatable -7%. (based on model estimates net of fees – Returns are YTD as of 5.19.2022) The good news is valuations have been reset in a major way. Since Jan 1, 2022, S&P multiples compressed from 30 to 19 and now sit slightly lower than 40 year averages. Big cap growth valuations are also falling to pieces. We are not calling a turn for Cathy Wood related issues, but a vast amount of froth and overvaluation has been eviscerated. That's healthy long term.

Recession threats are elevated, but recessions alone don't cause large draw down's. The bubbles they pop, do. And unlike say 08, we don't see an obvious one that will create wide scale panic. Banks are well reserved and the financial system, we believe is much stronger.

Investors buying or owning stocks at these levels have the potential for much better forward returns than at Jan 1.

Generating solid investment results? Here's one way you might share the good news…

The following is a template with possible language for client meeting/discussion/letter. We helped an advisor craft a similar one. His clients have an abundance of equity income, short term fixed income and yes, some struggling growth strategies. What you might seek to accomplish in each section is highlighted below. Obviously, you will need to fit to your own needs, portfolio holdings, these are suggested talking points only and do not represent the results of any accounts. Check with your compliance department before utilizing!

Dear Client....

Show Empathy
Many clients are watching financial news and possibly feeling some stress about recent market volatility. It's natural to feel this way. 24-7 news sensationalizing doesn't help calm investor nerves. Our first bit of advice? Shut your TV off!

Quantify -- It's probably not as bad clients think
We have good news and facts about your account. And we are proactively contemplating changes to the investment lineup. Overall, the combination of managers we assembled (both equities and fixed) is performing well - experiencing ____________ percentage decline in a market where many similar strategies are down -20% or more.

Show successes…but set expectations you won't be 100% right
Most individual strategies we selected are meeting or exceeding our expectations. We employ each strategy for unique and specific reasons. Not every strategy will outperform every time and we won't be perfect in our decisions. Overall, we are proud of our performance. When many other strategies are faltering, we need our featured strategies to hold steady - like they are now.

Review thought / justification for past advice. "We thought this…so we advised you do that"
During the pandemic, many growth and new economy stocks were soaring. Many offered exciting fundamentals, but their valuations were very high. Much like 1999, speculation ran amuck across many new economy stocks. Both of these forces pushed growth indexes to all-time highs making traditional stock strategies look boring, if not outdated.

As such, we over-emphasized managers who focused on dividends, stability, and with lower valuations**.** This turned out to be a very good move for clients. Our experience, analysis and the insight indicated more aggressive sectors might look attractive long term, but near term their valuations were high for our taste. We treaded carefully here, allocating a relatively small portion of client portfolios to these sectors. (This sentence is helpful for advisor who might have a growth portfolio stock getting hit)

Experience also told us since interest rates were at record lows, bond maturities should be short and their quality should be high. Bonds have posted their worst one-year performance since 1842, yet the bond strategies we employed have declined far less than the indices and are down less than equities. Dividend strategies and intermediate high-quality bonds rarely let our investors down. So far, this cycle proved no different.

And then what happened / results?

Currently, growth related equities are getting pounded. Robin Hood stocks, emerging “disruption” stocks, fringe crypto stocks were all early and dare we say predictable causalities symbolic of rampant, irrational speculation. 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 after mainstream growth stocks. Even stocks like Microsoft and Apple are under pressure. Capitulation means you even sell the stocks you love. By that measure, we think we are close to a near term bottom.

You might want to show a table of how popular indices are doing…

- Growth Index: -26%
- S&P 500 Index: -18
- Value Index: -10%
- Aggregate Bond index: -10
- Intermediate Bond Index: -6.5
- Insert Client’s blended results ________

Perhaps list performance of some of their key strategies. Remind clients each strategy has a specific job to do. If they are underperforming assess and communicate if the long-term elements of the strategy are still on track vs. knee jerk hiring and firing based on recent performance.

Strategies of emphasis	**Why We Use Them**	**Insert Your Comment/Outlook**
Dividend Strategy	Generate dividend income, grow income, provide safety on the downside	
International Dividend	Offered higher yields and lower valuations vs. domestic dividend stocks	
Growth Strategy	Long term ownership of mega cap stocks with superior secular growth profile	
Mid-cap growth fund	Invests in nascent, emerging "disruptive" stocks. Help us find us "the NEXT amazon"	
Bond Strategy	Generate current income, hedge equity market risk	

Take a victory lap

Your portfolio heavily features equity income managers who are down less than the value index. When growth was soaring, it was hard to buy value stocks. Bond portfolios are down less than the intermediate index. So blended returns are likely to be very attractive given what’s happening around the globe.

Justify your current outlook. You might work top-down sharing why you like one large asset class over another
Long term, we generally prefer ***equities vs. fixed income*** because of their inflation fighting ability and their ability to compound your wealth. Within equities, we prefer large high quality ***domestic dividend payers vs. smaller growth*** companies because they offer little yield and less volatility. We will continue to emphasize ***domestic equities over foreign ones***. Within fixed income we prefer high quality i***ntermediate maturities vs. low quality*** long maturities because rates are still low. The goal of our fixed income is to preserve capital, generate some income and hedge against the risk we take on the equity side.

Remind clients sometimes the best action is no action
You are likely to see us and our managers make a few moves in the portfolio in the coming weeks, but we do see a need for wholesale changes. We monitor your accounts and markets round on an on-going basis. Even when we don't make a ton of changes to your portfolio you can be sure it is based on a conscious disciplined decision-making process.

Regardless like Aaron Rodgers said "R-E-L-A-X"
Despite what is happening in the market, please have confidence your investments are performing well and your long-term financial plan is on track.

Enjoy the weekend,
Gerry

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Definitions: The S & P 500 Index is a market capitalization weighted index of the largest 500 U.S. stocks. It is a market-value weighted index (stock price times # of shares outstanding), with each stock's weight in the index proportionate to its market value. The index is designed to measure changes in the economy and is representative of most major industries. Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The index was developed with a base value of 200 as of August 31, 1992. Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The index was developed with a base value of 200 as of August 31, 1992. You cannot invest directly in an index. BEst (Bloomberg Estimates) Earnings Per Share (EPS Adjusted) estimate returns Earnings Per Share from Continuing Operations, which may exclude the effects of one-time and extraordinary gains/losses. Beta is a measure of volatility vs. an index. Upside/Downside capture ratios refer to a portfolios performance as a percentage of either positive returns (upside) or negative returns (downside) vs. an index. Standard Deviation is a measure of total risk. Alpha, Beta and capture ratios are represented as calculated by Morningstar.

Risks: Past performance does not guarantee future results. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for an individual's investment portfolio. Dividends are subject to change, are not guaranteed, and may be cut. Investing based on dividends alone may not be favorable as it does not include all material risks. There is no guarantee any stated (or implied) portfolio or performance objective mentioned by Berkshire can be met. Berkshire's equity style may focus its investments in certain sectors or industries, thereby increasing potential volatility relative to other strategies or indices. The dividend strategy may include bundled services also known as a "wrap fee program". Because there is typically a low turnover in the strategy, this may be more costly for some investors. No one should assume that any information presented serves as the receipt of, or a substitute for, personalized individual advice from a qualified advisor or any other investment professional.

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