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DIVIDEND STRATEGY

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"Casual Friday" Commentary

"Casual Friday: Redefining Manager Comparisons + The First Casual Friday"– *June 3rd 2022*

#TGICF!

Happy risk-off Friday as the market grapples with higher rates, potential for recession and corporate profits.

Redefining Manager Comparisons

Advisors often say: "Send me a performance comparison between Berkshire and ___________"

On the one hand, Berkshire understands it's a competitive business, returns matter, and many advisors invest in sophisticated performance analytics to fuel and guide their process.

Berkshire posts its returns to mainstream data bases and possesses analytics that provide output for the empirically minded advisor.

On the other, we've seen a number of situations where these comparisons could be leveraged in a more expansive way and incorporate other factors.

Often, substantial empirical evidence supports a switch, but without proper collaboration between manager and advisor either no switch happens, or the basis of the switch is spurious. Unless returns are truly abysmal, torture the data long enough, spin it with the right market view, and the analysis could tell you whatever you want.

So manager analysis needs to be about more than the raw numbers. But what constitutes "more"?

We believe complete due diligence really entails: comparing the **structural** advantages one strategy shares over another, how a portfolio is positioned for the future, and service differentials. Working with the manager, the advisor overlays findings against future market conditions and the client goals. Performance may become secondary.

Possible queries to combine with raw numbers:

1. What is the advisor really trying to accomplish by making a switch?
2. What qualitative and qualitative criteria will catalyze change?
3. How is one manager's process structurally more appealing than the other?
4. What challenges would be associated by making a switch? Taxes, exit fees Berkshire Tax Managed Transitions
5. How is the incoming manager's portfolio more appropriately aligned positioned with the advisors market view vs. long term client objectives?
6. Does the advisor know the people behind the process…their backgrounds, their character, nature of the firm?

7. What type of service does the manager give?
8. Is the new manager able to assist the advisor with communicating the key tenants of the strategy which assists with long term retention?
9. What are the bigger needs of the practice and can the manager support them.

One of my favorite commentaries about manager selection dates back to a Wall Street Journal editorial circa November 2005 Fortunes Favor The Brave

"Picking my managers was in retrospect almost inevitable. I knew the people behind the performance: where each got their start, how they achieved success, how they managed risk, what books they read and not unimportantly how they handled their private life."

In many ways, we've designed our culture and interactions with you to promote a similar connection to Berkshire.

More practically, Berkshire seeks to de-emphasize performance (favorable or unfavorable) and instead tries to focus on the structural benefits our process and service that are unique and enduring to us.

A track record should be little more than a check that validates these tenants. The track record is the by product of these factors, not the other way around.
We are happy to have a expansive discussion the next time you are contemplating a manager change.

Advisors and Top Performing Athletes

Denver Broncos quarterback Russell Wilson mentioned he spends $1,000,000 a year on his body. Source: "Jimmy Kimmel Live" March 2, 2022

Travelling nutritionists. Premium Foods. Supplements. Massage. Cryotherapy. Mobility Coaches. Equipment.

The math works. his investment could yield a few extra years of career longevity and if he's earning $20 million a year its more than worth it. Not to mention his near-term performance likely improves.

Should you adopt the same mind set? Is an advisor really that different than these guys? To thrive, I mean REALLY thrive as a high functioning advisor you need the ability to work long hours, have boundless energy and perform complex financial analysis—all with clarity. But you sit all day. You get distracted. Meetings go long. Poor nutrition or excess weight can slow you down even more. A day in the life of an advisor can be exhausting, mentally, physically and emotionally.

Your time and energy are the most precious commodity you have. Being able to go the extra mile with clarity means everything.

We all are pretty well compensated so I'm proposing you adopt a similar mindset as Russell.

Invest in your health and wellness as if your job and your life depends on it because it does.

Do you need to spend a million dollars? Hardly!

Pay for a massage once a week. Hire a trainer. Order a premium food service that will likely save you time. Get a mediation coach. Guard what you put in your body and your mind with your life. Schedule your days relentlessly to build in time for things like: hydrating, taking supplements, stretching, mediation exercise and additional therapies. Make it a priority to have mind body emotions in peak shape. You need every edge you can get!

Does your math work? If you invest a few thousand a year, it might give you the extra energy to work an extra 10 hours a week. The 40-ish hours you already put in might make you 20% more energetic and productive. So 40 turns into 48. So now its like you are working 58 hours a week instead of 40. That's an increase of 45%. Could it increase your production by 45% and give you a few extra years in the business? That might be a stretch but I'm sure I'm on point with the incremental benefits.

In case you haven't figured it out, remember - YOU are the product. Maintain yourself so you perform like a super bowl winning quarterback. Be the "Russell Wilson of Financial Advisors."

The First Casual Friday:
It had prior iterations but in May of 2014, I wrote and distributed the first official Casual Friday. My goal? Go beyond the bland "market updates" flooding your inbox. Instead, create a set of practical tools advisors could used to enhance: client communications, their practice and their over all lifestyle. Make it all about things advisors care about. Make it a tool to promote our passion for all the right industry ideals, and yes, make it fun to read and write. There's never a shortage of ideas. We love to hear how so many of you make great use of its contents in so many different ways. To readers old and new...thank you and if you can, write me with ways to improve it!

Here is the first edition! First Casual Friday

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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.

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.

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