Berkshire
DIVIDEND STRATEGY

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"Casual Friday" Commentary

## Casual Friday: Quarter End Quick Hits + Respect for The Flag – *July 1st, 2022*

#TGICF

What a volatile ride through the first half of 2022… We're bursting at the seams with ideas worth sharing. Much more in the coming weeks. Today, we'll keep it brief ahead of a big holiday weekend.

**2022 Dividend Increases**
Let's start with some good news…
21 out of our 37 holdings increased the dividend in 1st half of 2022
The average dividend increase +6.5%

| Name | Ticker | Announcement Date | Dividend % Increase |
|---|---|---|---|
| General Mills | GIS | 6/29/2022 | 5.9% |
| Bank of America | BAC | 6/27/2022 | 5.0% |
| WP Carey | WPC | 6/16/2022 | 0.9% |
| PPL | PPL | 6/9/2022 | 12.5% |
| Deere | DE | 5/25/2022 | 7.6% |
| Chubb | CB | 5/19/2022 | 3.7% |
| Leggett & Platt | LEG | 5/17/2022 | 4.8% |
| PepsiCo | PEP | 5/3/2022 | 7.0% |
| Apple | AAPL | 4/28/2022 | 4.5% |
| Kinder Morgan | KMI | 4/20/2022 | 2.8% |
| Johnson & Johnson | JNJ | 4/19/2022 | 6.6% |
| Qualcomm | QCOM | 4/13/2022 | 10.3% |
| Procter & Gamble | PG | 4/12/2022 | 5.0% |
| PNC Financial | PNC | 4/1/2022 | 20.0% |
| Waste Management | WM | 3/1/2022 | 13.0% |
| Walmart | WMT | 2/17/2022 | 1.8% |
| Cisco | CSCO | 2/16/2022 | 2.7% |
| Chevron | CVX | 1/26/2022 | 6.0% |
| Intel | INTC | 1/26/2022 | 5.0% |
| Kimberly-Clark | KMB | 1/26/2022 | 1.8% |
| Norfolk Southern | NSC | 1/25/2022 | 13.8% |
| AT&T | T | 3/25/2022 | -46.6% |

AT&T (T) cut the dividend commensurate with the spin of Time Warner. AT&T is very unloved but up YTD and we believe more value will be delivered to investors in years ahead. (Source: Bloomberg).

Bank dividend increases? Meh... We were hoping for higher increases but recession fears may be looming over capital committees.  BAC also has a few mark to market issues in their bond portfolio which created a slight strain near term.

**More (relative) Good News**

- Berkshire Dividend Strategy -10.25% YTD -- based on model estimate YTD net of fees
- S&P -19.97% & RLV -12.87% YTD
- Performance reflects our “quality” bias and desire to protect in down markets
  - LMT, GIS, MTB and broad exposure to big pharma, materially boosted performance
  - Our overweight in large banks and owning only high-quality energy negatively impacted relative to benchmark

We’re also happy to report the strategy experienced strong asset flows 1st half 2022. Performance likely helped… But we noticed, increasingly advisors are recognizing how dividend strategies drive practice efficiencies. "Which way is the market going?" -- "Why is xyz stock down?" and other conversations like these can be absolute productivity killers for the modern-day wealth planner.

Instead:

- Redirect the conversation from “did we beat the market” to “is your income plan on track?”
- Use growing dividend income to hedge against inflation
- Gain SMA transparency vs funds with 1,000s of holdings
- Consolidate non-strategic “tickers” in to a durable core holding
- Create a focused investment narrative, with a manager partner providing ongoing, timely communication

Advisors are rightfully articulating the merit of these aspects, and delivering higher order conversations and more sophisticated advice to clients and finding life can be a lot simpler!

**Outlook: "Recession"?**

Inflation defines 2022 -- Some fear the run-away kind.
Rates moving higher caused pain in equities and fix income alike.

Earlier this month, we shared hope on the inflation front -- TIPS declining, housing cooling, commodities prices rolling over, sentiment terrible… All of which lead to the next obvious question. Does this signal recession…and should we care?

Basing investment decisions on unilateral language may be unwise. Is a recession already priced in? Maybe. What if the recession comes in less bad than expected? Worse? What if there is no credit cycle this time around? Banks appear very conservative in underwriting standards, AND their balance sheet management – It looks like most are balking at the chance to raise dividends / increase buy backs after exceeding capital requirements. This may be a good thing, especially if Jamie Dimon's hurricane theory is accurate. Inflation can fall flat, the Fed could pivot, economy stay strong and markets could rip higher even if we are grappling with the "R" word. The economic cross currents right now are totally unfamiliar – who knows.

Our preferred remedy… don't time it… own companies that can withstand shocks and plow through.

We are excited about our new practice management piece which will display how advisors can justify and articulate the case for increased outsourced solution.

Here's a few interesting industry statistics we found while researching the piece

- 78% of advisors cite new business as a top priority but guess how much of their time is spent on compliance and admin. Hint – it's a lot – so much it makes it difficult to do much else let alone spend the right amount of time on picking investments (Natixis)
- 62% of clients want a broader range of services from their financial advisor (Natixis)
- The SMA is NOT dead...SMA programs grew 34% from 2020-2021 (Cerulli)
- 15% of clients look forward to returning to in person visits (McKinsey)
- 50% of clients think their primary wealth manager should improve should their digital capabilities
- The majority of clients WANT to consolidate to one advisor. Interestingly clients over 50 prefer to consolidate to a traditional brokerage advisor, but majority of clients under 50 prefer to consolidate to their bank channel advisors. HMMM. (McKinsey)

**The Rise Of Private Banking?**
Regardless of which channel you "live in" ignore concierge services and the "other side of the balance sheet at your own peril":

The ultra-wealthy are pining for private bankers
Meet Jared Birchall, the secretive and straight-laced man that Elon Musk trusts with his billions

**America, Happy 4th of July!**
Veteran gives big Salute for the USA flag

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