



Berkshire

DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: Growth/Value - Now What? + Middle Market Strategy? – August 5, 2022

[Dividend Strategy Guide 6.30.2022](#) - [Dividend Scorecard 6.30.2022](#) - [Dividend Fact Sheet 6.30.2022](#)

#TGICF!

5 Chart Friday...

The charts and market rally have us thinking... Is the market more excited about the prospect of rates eventually go lower (equities are going up) and not worrying about what a recession might mean (equities should be going down). Right now, it seems to be the former -- "Lower Rates + Soft Landing". Some charts are pointing to weaker economic times ahead.

Commodity roll over continues...

Futures price performance, weekly



Source: FactSet

As of Aug. 4, 1:04 p.m. ET

(Source: Wall Street Journal)

Lumber...



Yield curve inverted...



Citi Surprise Index...



Source: Bloomberg

Growth trading 11 multiples higher than value...



Source: Bloomberg

What to make of the recent growth rally? Our “friends” who run growth strategies (yes, we're ALL friends) are probably saying: “hey, look at the bond market and other data... economic growth is soft. Sell cyclicals. Buy our stocks because they have growth profiles that might transcend the recession.” It’s a plausible argument -- definitely true during COVID. We don't ask you to always be drunk on just the Berkshire Kool-Aid :)

However, this latest cycle is playing out so close to the 2000-2003 recession it’s scary. During that time the same case could be made to buy growth. But ultimately growth stock valuations were still so high, cyclical / value-ish names did way better despite economic challenges. Growth's valuation reset continued for years. Statistically by most measures, growth still out-trades historical averages, and trades at near record high premiums to value. Growth and value allocations are not 'either or' choices per se, but if you are using a valuation framework, value appears much cheaper.

Middle Market Niche?

With all the attention paid to growing your assets and HNW/UNH...is the middle market being ignored? Perhaps. On the one hand, I once read “ironically competition is actually LOWEST for the seemingly MOST unattainable goals. Why? Because they seem so hard no one tries.” It’s like no one asks out the most attractive person at the bar because everyone assumes they must be taken! Perhaps that ultra-high net worth family you think already has an advisor really isn’t well covered because everyone assumes they must!

On the other hand, this week we found one advisor specializing on relatively smaller investors. Like any good niche,

- It may repel more prospects than it attracts.
 - This niche lets everyone know his sweet spot - “500k - \$2,000,000” and it repels who he doesn’t
- It lends itself to specialized messaging with an edge: “Hey Main Street...Wall Street is only focused on mega millionaires...I care about you”
- Since the clients are similar, it lends its self to a standardized offering/expertise.

Long term success however comes down to two critical points: scale and standardization.

It’s a practice predicated on volume, and to run a volume business, it’s critical to standardize as much as possible...marketing...planning...investments...client service experience. And it requires clients who take his advice and implement his ideas. If he starts taking one offs and customizing in the name of "getting assets / revenue today" the whole system will grind to a halt. He will need to be disciplined about keeping his message tight, and limiting the number of strategies or else he will totally hit the wall. It’s a sound strategy -- if done with discipline and consistent execution!

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