



Berkshire

DIVIDEND STRATEGY

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“Casual Friday” Commentary

Casual Friday: Cross Currents? + Berkshire Virtual Branch Lunch (VBL) – September 9th, 2022

#TGICF!

Here's how we interpret the investment narrative down the home stretch of Q3

Our observations:

Berkshire Dividend Performance:

- Portfolio holding up well YTD, latest downturn – down about half as much as S&P, slightly ahead of value index (net of fees)
- Dividend story resonates with clients in this market.

Macro – yep-some challenges

- Summer rebound fading again...
- Fed grows more hawkish
- Inflation? Still running hot...
- ...but underneath, key indicators are “rolling over” (lumber, copper, housing, energy)

“Are we going into recession?”

Investors need to ask deeper 2nd, 3rd level questions

- Is the economy destined for recession? Nothing is certain yet
- How severe will it be? Fed could engineer a soft landing, where EPS declines and multiples recede which are normal ebbs and flows of a business cycle.
- Will it create contagion? Probably not. Bank underwriting appears adequate and there is way less leverage in the system than 08.
- Are recessionary forces already priced in? Markets down sharply YTD, off recent rallies. Berkshire portfolio sells at approx. 13x eps.

Growth vs. Value?

Statistically, growth still looks expensive.

This summer we literally heard growth investors assert “if recession forces build, growth should outperform value/cyclicals because of earnings scarcity and consistency.”

Yet, growth appears to decline MORE on “risk-off” days”

Conclusion?

Market timing, macro prognostication and excessive sector rotation are unproductive and potentially exhausting approaches.

Planning + income / income growth + companies which can withstand the shocks look like a winning formula for clients and advisors alike!

Virtual Branch Lunch

We encourage advisors to check out our Virtual Branch Lunch.

It's not the same old product pitch. Its full of industry insight, best practices and it's an efficient way to ramp up due your diligence.

<https://vimeo.com/742400803>

Bonus:

Here is a visual showing the 1,000-year reign of England's monarchy.

<https://www.visualcapitalist.com/cp/visualizing-1000-years-of-englands-kings-and-queens/>

Have a great weekend!

Gerry

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refer to a portfolio's 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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