



Berkshire

DIVIDEND STRATEGY

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“Casual Friday” Commentary

Casual Friday: Equal And Opposite? + Where The Wealthy Are – October 28th, 2022

#TGICF!

Equal and Opposite?

Newton’s Third Law: for every action (force) in nature there is an equal and opposite reaction.

Recent market forces harken memories of the pandemic when value/dividend-oriented advisors had to justify ongoing allocations to their investors. Growth stocks, meme stocks, crypto, and new economy stocks were dominating headlines, investor consciousness... and index returns.

Many active managers (including Berkshire) defended portfolio performance by pointing to a few (10-20) large growth-oriented companies that comprised a historically large proportion of the market. At one point, 5 companies made up 22% of the S&P -- an all-time high. Stats like these were included in virtually every value manager’s slide deck to justify underperformance. Outsized moves in these stocks vaulted the indexes higher leaving active / value managers looking foolish.

We argued, eventually those forces would reverse. Fast forward, we believe the reversal is happening in a somewhat predictable fashion, eating its way from bottom up. The wrath of this rotation first devoured the areas with the greatest froth and speculation: meme stocks, SPACS, crypto, new economy stocks. We surmised investors’ thesis was totally flawed (dare we say “non-sense”) and would end very poorly. We then argued, at some point even the more established growth stocks atop the index (those with real businesses but very high valuations) would eventually: retreat, correct, mean revert, fall to more normal valuations in perhaps a more benign fashion. Eventually, value and active management would likely start looking better.

It’s been anything but benign. Massive valuation was wiped out, even in “quality growth”. Meta’s flop yesterday inspired us to ask: “is the opposite now true?” -- Meaning are a few large growth stocks dragging DOWN the index the same way it pushed it up and if so, by how much? A quick attribution at the Bloomberg confirms: if you eliminated the returns of the ten largest S&P 500 stocks in the S&P you are down ONLY about half as much

YTD. Yep, equal and opposite force.

It's been a tough environment for many fellow managers on the growth side. On 9.1.2020 – Russell Large Growth Index top weightings: Apple (AAPL) 12.5%, Microsoft (MSFT), 9.65%, Amazon (AMZN), 8.41% -- 3 names (out of 1000 companies!) made up 30% of the benchmark! Add in the next 9 largest companies you're over 50% of the index in just a dozen names. We wonder how many retail index investors were cognizant of this. Pressure to beat the index presents a conundrum for an active manager. You need to construct outsized weightings in very high multiple stocks just to be equal weight the index. If you don't match these big positions and the market keeps going higher you underperform and potentially get fired. But now as these things blow up you are dealing with potentially big absolute losses on the downside. Career risk is real, and investing really isn't as easy as people think.

The growth guys will say "growth investing works", and the value guys will say "value investing works." Who's right? Well, that's what makes a market. One thing we do know and it doesn't matter if you are a professional investor or an individual...chasing yesterday's winner, zig-zagging in and out of sectors just to try to "keep up" and dismissing sensibility...well that almost never works.

Just How Frenzied was Bitcoin?

GBTC Grayscale Bitcoin Trust -- Relative price to NAV



(Chart Source: Bloomberg) (Grayscale - For NAV Per Share and AUM calculated in accordance with US GAAP Methodology, [see here.](#))

How to network with the wealthy even if you are not wealthy?

Here are some good ideas to network with HNW and even UHNW.

[10 Ways to Network With the Wealthy \(When You Aren't Wealthy\)](#)

and when you actually meet them, here's how to *knock it out of the park*...

Social Setting Playbook:



[Having trouble viewing? View on LinkedIn](#)

Speaking of knocking it out of the park... Go Phils?

Our proximity to Philadelphia has us rooting for the Phillies!

Or wait...does a Phillies win mean economic doom?

<https://www.cnbc.com/2022/10/12/no-a-phillies-world-series-wont-cause-an-economic-downturn.html>

Have a great Halloween 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 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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