



# Berkshire

## DIVIDEND STRATEGY

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"Casual Friday" Commentary

### Casual Friday: Inflation Game Changer? + "Tell Him The Good Part Mortimer" – November 11<sup>th</sup>, 2022

#TGICF!

#### **Is the inflation report a game changer?**

It's hard to say but I'm sure many will welcome the reprieve – growth strategies which seem to benefit from lower rates rallied huge on the news. Investors who got careless with fixed income with excessive, duration, credit, leverage have likely experienced a walloping this year. But yesterday's huge bond rally (approx 33 bps on the ten year!) will surely alleviate some pressure for those brave enough to hang in. Sustainable? Well, let's call it all a catch-up rally from extreme pessimism mixed with a positive catalyst the market thinks changes the narrative in a meaningful way. Given the voracity of the news and ensuing rally, perhaps this alone can propel positive sentiment through year end. Berkshire clients also benefiting, and our strategy is now flirting with positive territory for the year. We have a number of new names under review that could diversify our financial health care and consumer cyclical sectors. The market's recent pounding has opened the door to some names we've liked for a while but felt needed to be added at lower levels. We see some opportunity to diversify away a bit from banks, add to consumer or telecommunication services.

Stay tuned!

#### **FTX disaster and "Trading Places?"**

After 37 new crypto's were launched last December (including a "Santa Crypto") we casually yet sarcastically commented: "Gee what could go wrong there?" Well now we know. We didn't waste too much brain power getting into the intricacies, but the FTX / Binance disaster actually follows a familiar pattern.

Who can forget Randolph and Mortimer Duke from the movie Trading Places? Recall the scene when Randolph and Mortimer are explaining to Billy Ray how the Duke and Duke commodities brokerage firm operated.

"Tell him the good part, Mortimer!" Mortimer says: "No matter whether or not our clients make money or lose money...the Duke and Duke get the commission.

Billy Ray (Eddie Murphy) says: "Sounds to me like you guys are a couple of bookies." Billy Ray captures the essence of agency vs. principal business in a heartbeat! "I told you he'd understand! Says Mortimer!

[https://www.youtube.com/watch?v=gu74l4LNL\\_c](https://www.youtube.com/watch?v=gu74l4LNL_c)

What could go wrong with such a winning business for the Dukes? Well, acting simply as “agent” for client trades wasn’t enough for Randy and Morty. Greed takes over and they begin speculating/using firm capital to bet on frozen orange juice concentrate. Their efforts create a myriad of hi-jinks. And despite their efforts to obtain an illicit crop report from the one and only Clarence Beeks, the principal trades go all wrong and the Duke’s end up in ruin. One of the funniest movies ever but pedagogical for investors...and those who run exchanges!

At the risk of oversimplifying apparently FTX wasn’t content simply being a crypto “bookie.” They felt they too could profit from “prop trading” --- speculating on digital assets with borrowed money-- some of which was its client’s assets. Gee what could go wrong? “Tell em the WORST part Mortimer” Not only are the assets they bought down, the collateral pledged apparently was a speculative digital asset itself which is plummeting in value! Who is the counterparty that accepted THIS collateral? Turns out it was a sister company to FTX global! What a mess.

Different actors. Same movie, except this one is real life. New paradigm-speculation-leverage-blow-up-margin call-'how could this happen? Hopefully we don’t add on the word “contagion” to the script. And safe to say advisors won’t have to worry about pressure to answer client questions about “crypto” anymore. So good riddance to this discussion...and like the song "Good Riddance" by Green Day says: "Its something unpredictable but in the end is right...I hope you had the time of your life. Crypto investors surely are not having the time of their life right now.

In contrast to this volatility and crypto mayhem, we trust dividend investors are “Looking good Billy Ray!”

Have a good weekend!

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