



Berkshire

DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: Dividend Increases + "Own Everything?" – December 16th, 2022

#TGICF

Good morning – hard to believe we're on the fast track to 2023!

Dividend Increases:

[Deere & Co Increases Dividend 6% - 12.7.2022](#)

[Bristol Myers Increases Dividend 5.6% - 12.8.2022](#)

[Pfizer Increases Dividend 2.5% - 12.9.2022](#)

[Abbott Increases Dividend 8.5% - 12.9.2022](#)

[TE Connectivity Increases 5.3% - 12.9.2022](#)

[Nucor Increases Dividend 2% - 12.14.2022](#)

*Note - There have been no dividend cuts in the Berkshire portfolio over this same period.

Dividend increases this year have been a little underwhelming. We suspect our companies are "battening down the hatches" a bit in anticipation of potential economic weakness. Two big banks in the portfolio passed on dividend increases. Our investment decision making process appreciates prudent capital management, so we're not terribly disappointed. Hopefully, when the clouds clear dividend increases come back with a vengeance. Success isn't always linear; it can be lumpy. Still, portfolio cash flow from dividends increased mid-single digits YTD in 2022 – not bad considering inflation.

Berkshire's relative total return has held up @ -4.11% (net of fees based on composite estimates YTD through 12.15.2022) vs -7.51% for Russell Large Value and -16.98% for the S&P 500.

Per the new SEC marketing rule, we discussed performance so we're required to display this:

Performance as of 9.30.2022	Berkshire (Gross)	S&P 500	Berkshire - S&P 500 Difference	Russell 1000 Value	Berkshire - Russell 1000 Value Difference	Berkshire (Net)
1 Year	-5.40%	-15.50%	10.10%	-11.40%	6.01%	-6.40%
3 Years	5.96%	8.13%	-2.17%	4.32%	1.64%	4.96%
5 Years	7.13%	9.22%	-2.09%	5.26%	1.87%	6.13%
7 Years	9.88%	11.39%	-1.51%	8.13%	1.75%	8.88%
10 Years	10.74%	11.69%	-0.95%	9.16%	1.58%	9.74%

Below are sector weights and the approximate weighted average of the Berkshire Dividend portfolio vs the Russell 1000 value index.

What Helped Berkshire? A healthy sector weighting and an overall good selection in health care. A number of industrial companies with stand-out performance relative to the benchmark.

What Hurt? A modest outsized weighting vs. the value index and our selections performed about “in-line” with the index. We’re a bit disappointed banks didn’t perform better: higher margins, sales and good capital ratios didn’t offset fears of a recession. I’m sure many are thinking “here we go again”.

Sector attribution, weighting and return data YTD as of 12.07.2022

Sector	Berkshire Weighting	RLV Weighting	Berkshire Sector Return	Sector Return
Industrials	15.38%	10.42%	5.50%	-6.44%
Communication	1.08%	7.58%	2.67%	-25.18%
Health Care	17.23%	17.42%	10.94%	0.42%
Materials	3.88%	4.05%	35.74%	-4.19%
Real Estate	2.07%	4.82%	1.10%	-24.52%
Discretionary	5.20%	5.57%	-3.77%	-16.45%
Staples	9.69%	7.39%	5.65%	2.59%
Utilities	1.86%	5.55%	-0.17%	1.33%
Financials	16.92%	20.29%	-14.31%	-9.62%
Energy	7.21%	7.51%	42.49%	59.99%
Technology	16.41%	9.15%	-27.60%	-26.74%

Buck the Investment Trend?

“Double whammy” will define 2022 for investors... In the wake of inflation and higher rates, both stocks and bonds took it on the chin. Vanguard’s recommendation? – Stick tight to the indices, there’s less risk to your practice -<https://advisors.vanguard.com/iwe/pdf/IARCQAA.pdf> -- This is the foundation of Vanguard’s Advisor’s Alpha playbook. Use low-cost funds, get benchmark-type returns and move on to focus on all other value adds to client relationships. Vanguard is not alone, much of the industry now seems dominated by these views... i.e. firm driven models, custom indexing, a few low-cost fund companies dominating market share, and “own everything” through diversification. This is not a criticism, just an industry observation...

No doubt, we strongly believe in the merit of building a planning superpower and delivering “alpha” outside of investment advice. Try to solve big client problems, and hopefully land big assets. This is the driving force of many modern-day advisory/client relationships.

- But has the industry gone too far suggesting you should “commoditize” your investment offering?
- Is “benchmarking” investment portfolios really accretive to your practice?
- Can you differentiate and attract/retain clients with a unique investment process?

We could make a strong argument best in bread advisors add plenty of “alpha” outside of investment management, BUT they also pair this with a differentiated, well-crafted investment approach. (i.e. they don’t tend to just relegate investment decisions to firm/fund company models or indices). These top advisors tend to build their investment process ***with intention and alignment***.

Align With A “Partner” vs A “Provider”

Elite advisors seemingly forge long-term partnerships with firms and managers that help them achieve investment objectives, greater practice efficiencies, and aspirations. AKA they want “partners” not just providers. The difference? These advisors know their partners inside out and the conviction they have with their partners, not just the product, resonates with clients. It may seem subtle, but advisors boasting about how great their partners are vs those stammering about how a product works, can make an impact.

Align Investments with Client Financial Plans

Think about your investment planning engagements – don’t most of them boil down to: “I need my investments to provide income now or income in the future.” If this is the case, why wouldn’t you recommend strategies precisely focused on income generation? The reality is, you can deemphasize indices and benchmarks in client conversations if you constantly reinforce income generation. Dividend and interest income is tangible and you can directly relate it back to accomplishing financial goals. Get out of the business of – “did we beat the benchmark this quarter” And instead, consider going on offense – “I’ve reviewed your plan, and your income goals are well on track”.

Align With a Common-Sense Approach to Investing

Much of the industry creates portfolios from mountains of complex, often backward-looking data sets... This often creates, investments that are not transparent, tough to understand and ones your clients have difficulty relating to. We’ve heard it said from end clients in the past - “I don’t understand it, I don’t like it, it’s down, sell it”. Simple and transparent may not only get the job done but may also help reinforce productive investor behavior.

Align Inventory Across Your Book

Should all clients (invested in the same asset class) get your best ideas? Strict inventory management and investment alignment across the book is one of the key focuses of top financial advisors. They create a limited number of investment plans for all clients, culminate their best ideas and stick to them with unwavering consistency. The benefits? They go to market (prospects and clients) with intimate knowledge of their investment process, their conviction resonates with the client and they can build enormous efficiencies in their overall practice.

Air conditioned STREETS, Dangling metallic sharks and Shakira on repeat?

Dubbed the "City of the Future" Lusail (not Qatar) will host the World Cup Final:

[Inside Qatar's futuristic but unfinished city of Lusail, host of the 2022 World Cup final](#)

Have a great 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 portfolios 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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