Berkshire
DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: Stalemate? – December 2nd, 2022

Are the bulls or bears right? Bulls point to: strong earnings, low valuations, lower rates, and progress on inflation. "The market is going to run!" Bears point to: an inverted yield curve, persistent inflation, and an imminent recession "The market is going to crash" Both camps can articulate a well-reasoned and well-researched investment thesis.

Yet, the conviction in both seems very high. Is it me or does everybody sounds pretty "binary" in their thinking – as if economy/markets are pre-destined to follow one dramatic path or the other… as if these are "events" that are going to happen with a clear start and end point. Seldom heard in a sound-byte TikTok mentality driven world?

"I'm not sure" or "hard to tell" and a well-thought-out decision to stay the course are rare commodities. That advice hardly has the makings of a viral video vs. a bombastic bold prediction. But maybe, just maybe there is a middle ground. Maybe the plusses and minuses cancel and we gyrate around is the base case. Want to clip a growing "dividend coupon" while everybody else sorts it out? We've got you covered.

An advisor question this week -- "What are some key points I can share about Berkshire?"

Reasons to allocate to dividend/value stocks now

- We think the value rotation will likely continue – generally, growth is still expensive, rates might continue to rise, rotations take a long time
- Inflation still running HOT. Perhaps offset with increasing dividends
- Generational washout from growth stocks akin to 1999?
- Many investors are still starved for income and may continue to buy up dividend stocks

Why Berkshire: "A high service boutique focused on one thing…

- Discuss a special close working relationship with Berkshire and how access to portfolio managers elevates the client/manager experience: due diligence, portfolio's role in allocation, on-going understanding
- Highlight Berkshire as a specialized manager – only does dividend growth, best-in-class and specialized
- Longevity of team & management consistency
- "Some firms let advisors look in the window, Berkshire lets me come right in the front door"

Why Berkshire Dividend Growth: "Generate dividend income, grow dividend income, provide safety on the downside…

- Show the growth of dividends on the back of scorecard. Highlight how there have been many reasons to "bail" over the last ten years, but you would have missed out on significant compounding. (Power of staying invested)
- Real estate analogy – collect GROWING rents from high-quality tenants like companies in our portfolio
- Highlight the need to generate cash flow to satisfy liabilities vs. trying to match an arbitrary benchmark. (akin to liability-driven investing)
- If Berkshire is doing a good job at picking dividend growers' appreciation will likely follow…show growth of $1,000,000 chart - Dividend Strategy Scorecard 9.30.2022

Why is Berkshire Process Different

- It's not just screening historical data. Its forward-looking, trying to find tomorrow's dividend growers
- Unlike some other managers who simply "screen dots" Berkshire's process is comprehensive.
  - Evaluate: current cash flow, growth of cash flow, risk of cash flow and what the whole company is worth
- Employs above average time horizon in an attempt to capitalize on the short-sightedness of Wall Street

Resulting Portfolio:

- High-quality large cap companies that should be able to power through any crisis
- Stays fully invested
- 30-40 names; reasonable diversification
- The transparency of an SMA keeps clients on track
- Unlike a fund, the SMA lets the client have more control over taxes

The Dark Side of TikTok:

I'm a (proud) "GenXer". I feel like my generation has a great appreciation for technology because we grew up without it but are still young and vibrant enough to leverage all the amazing new things it offers (usually!) I also have children who grew up entirely with social media and have witnessed firsthand how it's consumed and perceived by the younger generation.

TikTok is interesting. It spawned largely from Musical.ly Inc. a program where kids could act out music videos. Now it shares short video content ranging from the most non-sensical to the most intellectual. Market reports? Physics? Religion? Politics? Affinity groups? Hobbies? Motivation? Pet tricks?

It's became like a video twitter where you can create, subscribe view content about pretty much anything you want. It's also polarizing based on geopolitics and privacy policy. I'm not advocating you use it or don't use it, but if you are a parent, this article is worth considering… Because it's probably a powerful force on your kids' psyche. Some content is disturbing, but awareness is the first step to preparation: https://www.bloomberg.com/news/videos/2022-11-29/the-dark-side-of-tiktok

Have a good weekend!

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