



Berkshire

DIVIDEND STRATEGY

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“Casual Friday” Commentary

Casual Friday: '23 the Year of Jordan?– January 6th, 2023

Welcome to our first edition of ‘23 and Happy New Year!

As Berkshire now enters its 37th year of operation¹ the word dominating our minds is “consistency”. Consistent commitment to dividend growth -- even in hard times. A consistent investment process. A consistent management team. Consistent messaging. A consistent service standard to you and your clients.

Advisors and managers alike tend to lip service about “relationship”, but its consistency in **all** these areas (not just performance) that galvanizes working relationships. And as months, turn into quarters and years, we hope Berkshire’s consistency creates feelings of trust and confidence with our advisors. We cannot guarantee performance or outcomes, but we can assure consistency (while still seeking improvement) remain our top priorities.

Thank you for YOUR consistent acceptance of us and here is to a great '23!

Quick tale of the tape on Berkshire’s 2022

- Dividend increases: 32 out of 36
- Average increase: +6.35% (more commentary on this rate later)
- Net return: -3.5% (Net of 1% Fee – Based on YE 2022 Composite estimate)
 - S&P: -18.13% / Value: -7.56% / Nasdaq: -32.51%

(Source: Bloomberg: 12.31.2021 – 12.31.2022 Annual Returns)

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

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%

¹ Berkshire Asset Management, Inc. was formed in 1986 as a SEC registered investment adviser. In 1999 the company was sold to Legg Mason. In 2007, senior leadership repurchased the firm, forming Berkshire Asset Management, LLC.

- Top 5 Berkshire Absolute Performers 2022 (absolute)

o CHEVRON CORP	58.48%
o MERCK & CO	49.38%
o LOCKHEED MARTIN	40.43%
o GENERAL MILLS IN	28.10%
o ABBVIE INC	24.04%

- Bottom 5 Berkshire Performers 2022 (absolute)

o Bank of America (BAC)	-23.81%
o Apple (AAPL)	-26.40%
o Microsoft (MSFT)	-28.02%
o Qualcomm (QCOM)	-38.61%
o Intel (INTC)	-46.65%

- Companies NOT raising or cutting the dividend in 2022
 - o PPL, AT&T, JPMorgan, M&T Bank
- Current P/E: 13.5x
- Current Div yield: 2.7%

Burning Questions:

1. Will the economy go into a recession in 2023? Better questions? How severe will it be? Will it create contagion? And since virtually EVERYONE is talking about the threat, IS IT ALREADY PRICED IN?
 - a. *Our view: Potentially mild and largely priced in*
2. Is it obvious that after such a steep decline in growth/tech stocks they scream opportunity...or is this environment more like 2000-2005 period where growth stocks went through a painful multi-year valuation reset?
 - a. *Our view: Value still has some pretty good tail winds, so maybe this reset is in the 6-7th inning*
3. Are you as an advisor rooting for higher bond prices/lower yields or the opposite. Low yields may mean low(er) inflation but.... recession? Higher yields mean more decimation of prices but also could be associated stronger growth? Talk about your double edge sword.
 - a. *Our view: Could we root for a “drama free” year...ya know stable capital markets with slight upward bias? Is that too much to ask?*

4. After years of higher yields and lower valuation and Is THIS the year international stocks finally gain true leadership?
 - a. *Our view: We are not global allocators but can see the logic. And hey even a stopped clock is right twice a day.*
5. Will “crypto” regain/increase credibility as a viable mainstream currency ready for global acceptance or will it continue to decline into total oblivion. Will Sam Bankman Fried serve jail time in 2023?
 - a. *Our view: we think the tide keeps going out on crypto. Innocent until proven guilty, but if allegations are true let’s hope he does a lot of hard time.*
6. Is this the year as an advisor you really cut down on your “inventory” and streamline your practice into a few of your highest conviction ideas?
 - a. *Our view: Streamlined. Focused. Strategies that have your highest conviction and passion...that’s a winning formula for growth, efficacy and better work / life balance*
7. Is this the year you acquire that advisor super power?!) expertise in a specialized wealth management area?
 - a. *Our view? In an increasingly crowded marketplace, we believe the generalist practice is under assault*
8. Will ESG increase in popularity or decrease in popularity?
 - a. *Our view? While well intended, there is increasing scrutiny on how a manager creates, quantifies and executes a true investment “edge” while simultaneously adhering to potentially nebulous social agendas that may lack definition and structure.*
9. What will be the top performing S&P Sector in 2023? Worst Performing Sector?
 - a. *Our view? No prediction but we generally believe in contrarianism!*
10. Will Elon Musk Remain CEO of Twitter? In control of Twitter?
11. Will Tik Tok be banned in the U.S?

Michael Jordan wore '23 most of his career and he was the best largely because he was relentless to be the best. Make this your 'year of Jordan' in your practice.

Have a great weekend.
Gerry

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Berkshire Asset Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®). Berkshire Asset Management is a fee-based, SEC registered advisory firm serving the portfolio management needs of institutional and high-net worth clients. The Dividend Growth Composite contains portfolios invested in Berkshire's Dividend Growth Strategy with an equity allocation target of 90% - 100%. The Dividend Growth Strategy's primary objective is to generate a growing stream of equity income by investing in a diversified portfolio of equities with stable, high, and growing dividends. The benchmark is the S&P 500 Index. The index returns are provided to represent the investment environment existing during the time periods shown. For comparison purposes, the index is fully invested, does not include any trading costs, management fees, or other costs, and the reinvestment of dividends and other distributions is assumed. An investor cannot invest directly in an index. Gross returns are presented before management and other fees but after all trading expenses. Net returns are calculated by deducting actual management fees from gross returns. Returns reflect the reinvestment of dividends and other earnings. Valuations are computed and performance is reported in U.S. dollars. To receive a complete list of composite descriptions and/or a compliant presentation, contact Jason Reilly, CFP® Tel: 570-825-2600 or info@berkshiream.com. Past performance does not guarantee future results.

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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