



Berkshire

DIVIDEND STRATEGY

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“Casual Friday” Commentary

Casual Friday: Dividend Increase Alerts + Don't Call It A Comeback? – February 2nd, 2023

#TGICF

Berkshire Dividend Increase Alerts

January '23 brought 3 dividend increase announcements in the portfolio:

[Chevron Increases Dividend by 6% + \\$75Billion Buyback](#)

[Norfolk Southern Co Increases Dividend by 9%](#)

[Kimberly-Clark Increases Dividend by 1.7%](#)

No companies in the portfolio cut dividends during this period

Don't Call It A Comeback?

Fueled by a '22 slump and a dramatic decline recently in the 10yr treasury, the “old tech” guard sprung back with a 2023 vengeance. AAPL, AMZN, TSLA, NVDA, GOOGL, META, CRM, NFLX¹ were all up big for the month – Repeat 2020? A few large growth companies to drive 2023 index performance?

We'll observe the trend closely. However, we do believe value leadership should endure for the years ahead...

Here are the dynamics at play:

1. Rates and Stocks?

Just like bonds, stocks have durations and are impacted by rates... When rates are moving up, long duration assets (i.e. long bonds, high valuation growth stocks) are negatively impacted. We'd argue rates were a primary driver of value's outperformance over growth last year --- and rates are the primary driver of growth over value YTD.

We're observing dramatic shifts between growth and value... which makes sense. The uncertainty surrounding interest rates is extremely elevated. Participants attempting to time markets or chase performance are at a higher risk of being whipsawed.

¹ Berkshire's Dividend Growth Strategy (“Strategy”) does not currently hold positions in individual securities mentioned, except for Apple (AAPL). References to particular securities are for illustrative purposes only and are solely intended to provide examples of securities in the technology sector which previously underperformed in 2022, which are now turning around in 2023. Such securities references are not intended to be recommendations to take any action with respect to such securities or an indication of performance of the Strategy. Past performance does not guarantee future results. [Click here](#) for a complete list of securities held in the strategy.

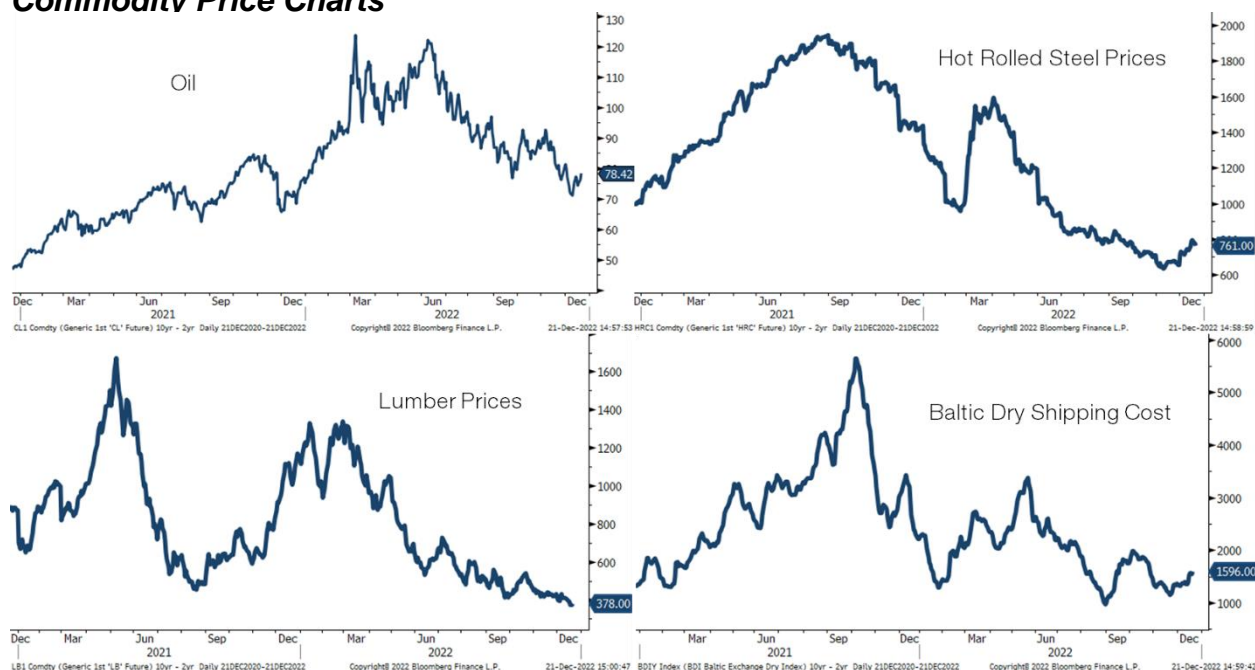
CBOE Interest Rate Volatility Index



2. Deflationary Forces Underway?

On the supply chain front, it appears many of the companies held in our strategy are observing less constraints; a potential benefit to company margins and product availability. We suspect continued improvement in supply chains... China reopening provides relief. Also, there was a pull forward in demand post pandemic that has cooled, further alleviating pressures. For months, inputs costs have plummeted – some reaching pre-pandemic levels. As time passes, these deflationary components should pass through the economy.

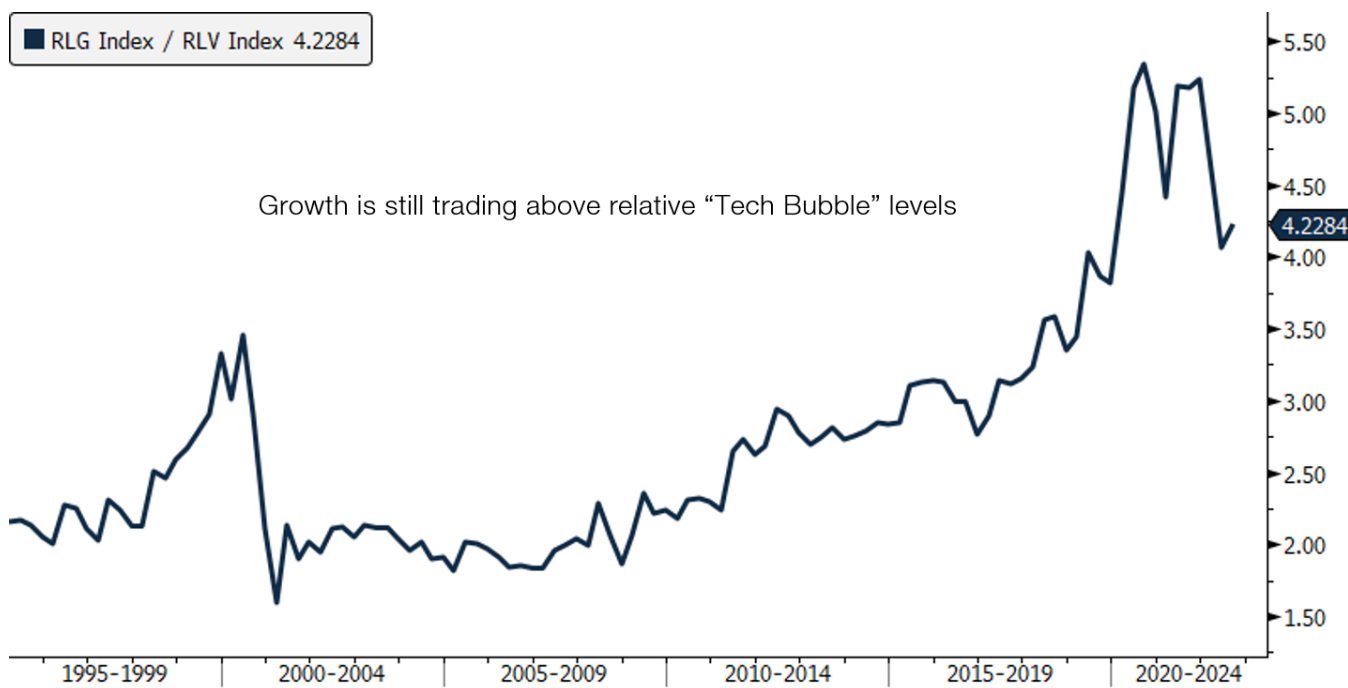
Commodity Price Charts



3. Valuations attractive?

2022 served as “valuation reset” for most of the frothy areas of the market. But does the reset = cheap? We believe, not yet... Regression analysis based on historical P/E and P/B suggest value should outperform growth in the years ahead. In fact, growth still trades above “tech bubble” levels relative to value.

RLG Price to Book / RLV Price to Book



Investing For Cash Flow

Measuring macro dynamics and developing top down prognostications is a challenging business. As outlined above, we're cognizant of macro influences, but they are not top priority in our analysis. Our mission -- own high quality dividend paying stocks with a strong potential for future dividend growth. Companies that have secular advantages, moats around their business and can withstand and potentially thrive through various economic cycles. We believe strongly in the many benefits to dividend investing...

But we notice, one of the potentially biggest dividend investing benefits to an advisor's practice is often overlooked.

Think about all the time and energy exhausted on that menacing question: "which way is the market going? It can be a subtle productivity killer in your practice. Instead, imagine the potential simplicity and effectiveness of managing client portfolios for growing cash flow through dividend investing. It may be a far more productive option than trying to time markets!

Here's how advisors can coach clients:

- Remind and refocus clients about their real investment goals:
 - It's likely all about income – either income now or income later.
- Redirect the conversation from “did we beat the market” to “is my income plan on track?”
 - [Dividend Scorecard 12.31.2022](#) - Page 2 outlines Berkshire income growth
- Reinforce dividend concepts through regular Berkshire communications
 - [Berkshire Dividend Increases](#)

Meet Bobi

A 30-year-old Portuguese dog has been named as the world's oldest ever by Guinness World Records - beating a record that stood for a century.

<https://www.bbc.com/news/world-europe-64507336>

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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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