



# Berkshire

## DIVIDEND STRATEGY

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“Casual Friday” Commentary

### Casual Friday: Dividend Increases + "Batten the hatches?" – February 24<sup>th</sup>, 2023

#### Dividend Increase Alert:

- [M&T Bank Increases Dividend by 8%](#)
- [Deere & Company Increases Dividend by 4.2%](#)
- [PPL Corporation Increases Dividend by 6.6%](#)
- [Cisco Systems Increases Dividend by 3%](#)

#### “Battening the Hatches”

In the 19<sup>th</sup> century heavy wooden strips or “battens” were used to secure tarp covers over the hatches (openings) and keep water out during harsh storms.

“Hard landing”, “soft landing”, “No landing?” ...even the keenest pundits with the fanciest models don’t agree.

“How is Berkshire dealing with this macro uncertainty? Has this environment changed your opportunity set?” were common questions this week.

**Reminder: the threat of a U.S. led recession is the worst kept secret on the planet right now. Priced in? The constant chatter must exert some downward pressure on prices or keeping a lid on them – depending on how you look at it.**

Whether this ends up being a hurricane or tropical depression, companies are allocating capital conservatively. Buy backs and dividend increases are drying up.

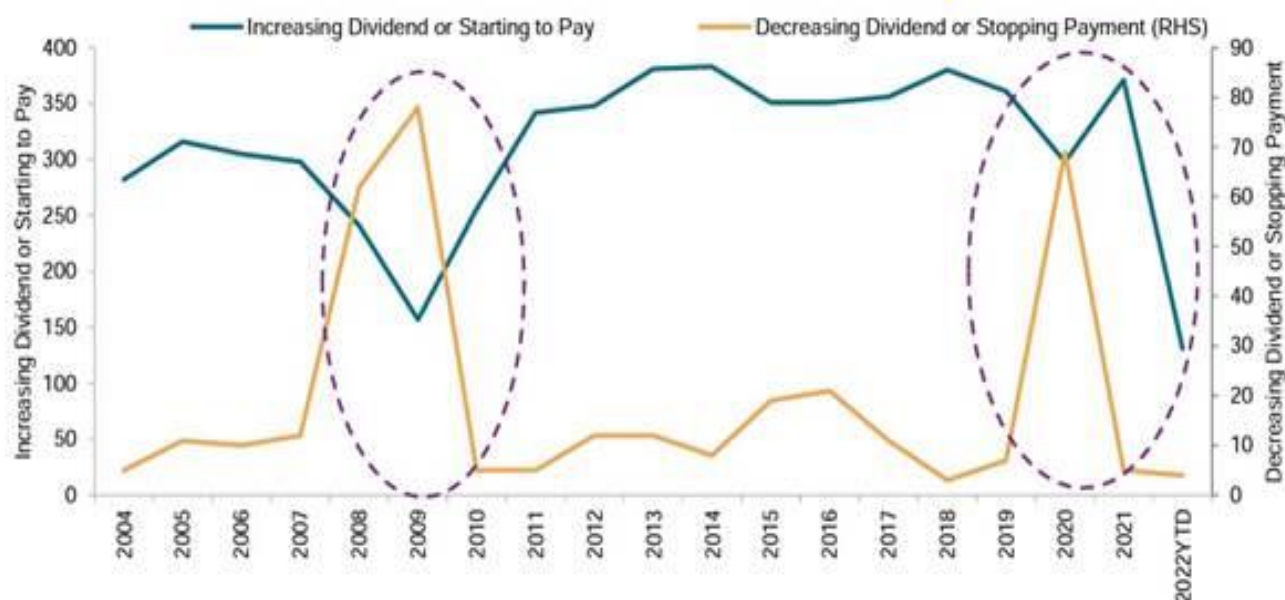
In fact, dividend increases in the S&P 500 plummeted from about 350 to 150 in the last year – a 20 year low (See chart below).

Companies are decidedly prepping balance sheets until the forecast calls for sunnier skies. We’re slightly disappointed, but prudence is what makes these companies durable in the first place.

Our preferred dividend discipline compels us to remain flexible and focus on quality business fundamentals vs. others who simply screen historical data: “We need 5 consecutive annual increases” or “We sell if a company doesn’t raise the dividend”. Static, overly ridged screening cuts the opportunity set roughly in half. Our forward-looking approach (ie modeling a company’s future dividend growth prospects) may expand the opportunity in an ever discriminating market – especially if dividend increases again become plentiful.

Our weather forecast is likely no better than the rest... instead we’re attempting to cruise on the most durable vessels while maintaining flexibility for shifting tides.

**Exhibit 3: Amount of Dividend Actions of S&P 500 Companies**



Source: S&P Dow Jones Indices

## Berkshire Tax Alpha Transition Program

Technology unleashed a proliferation of new “tax managed” services to advisors and end clients.

But are the advances actually too complicated and not in alignment with what clients really want?

Comments regarding competing solutions:

1. “I don’t want to track a benchmark”
2. “The fees seem high”

3. "I don't want to own and constantly trade 100s of names"
4. "my clients want stocks, not multiple ETF's"
5. "What is tracking error really trying to tell me?"

Berkshire's Tax Alpha Transition: simple, understandable, dividend focused.

It's a white glove approach to transitioning accounts with large embedded capital gains.

#### Use cases

1. Advisor seeks a portfolio that generates dividend income, grows income and provides safety on the downside but is worried about embedded capital gains
2. Berkshire portfolio manager customizes and monitors EACH account (tax budget, time frame, holdings, detailed before and after simulation)
3. Advisors gain from the portfolio itself, as well as exceptional practice management coaching/support and a reasonable fee structure
4. Detailed program logistics found here: [Berkshire Tax Alpha Transition Program](#)

Request a proposal by calling / emailing Jason Reilly [jreilly@berkshiream.com](mailto:jreilly@berkshiream.com) or (570) 825 2600

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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 portfolio's 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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