



Berkshire

DIVIDEND STRATEGY

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“Casual Friday” Commentary

Casual Friday: Dividend Increases + Batten The Hatches? – February 24th, 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%](#)

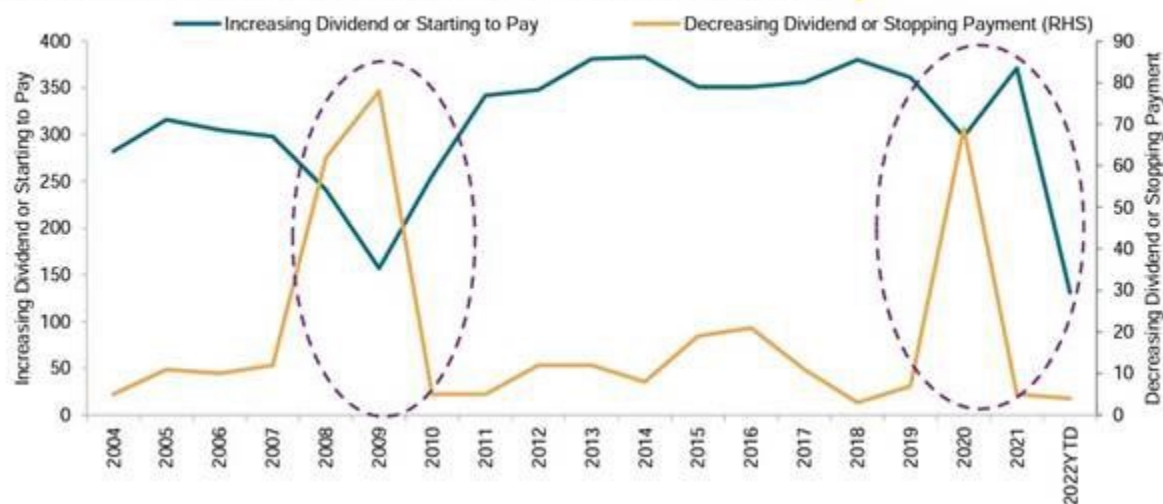
“Batten the Hatches?”

“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 possibly the worst kept secret on the planet right now. Priced in? The constant chatter must be exerting some downward pressure on prices or at least 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. (They’re battening the hatches) We’re slightly disappointed, but prudence is what makes these companies durable though difficult cycles.

Our preferred dividend discipline compels us to remain flexible and focus on quality business fundamentals vs. simply screening historical data: “We need 5 consecutive annual increases to buy” or “We sell if a company doesn’t raise the dividend”. Static, overly rigid 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:

- “I don’t want to track a benchmark”
- “The fees seem high”
- “I don’t want to own and constantly trade 100s of names”
- “My clients want stocks, not multiple ETF’s”
- “What is tracking error really trying to tell me?”

Berkshire’s Tax Alpha Transition Program Goals: simple, understandable, dividend focused. It’s a white glove approach to transitioning accounts with large embedded capital gains. Use cases include:

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

Request a proposal by calling / emailing Jason Reilly jreilly@berkshiream.com or (570) 825 2600 - Note: Platform restriction may apply.

Casual Friday Bonus:

"Batten down the hatches": In the 19th century, heavy wooden strips or “battens” were used to secure tarp covers over the hatches (openings) and keep water out during harsh storms...

"Don't look a gift horse in the mouth" Many inspect horse mouths to evaluate its overall health...if someone is giving you a horse, skip this step...

"Cat got your tongue?" In ancient times, liars had their tongues cut out and fed to cats...

Here is a complete list of sayings and how they got their origins: [Fun List of Sayings and Their Origins](#)

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Any companies referenced, have been done so, solely for illustrative purposes and not based on investment performance or attribution to the overall performance of the strategy. The companies identified herein do not represent all the securities purchased, sold or recommended for client accounts, and you should not assume that an investment in the companies identified was or will be profitable. Berkshire retains the right revise or modify portfolios and strategies if it believes such modifications would be in the best interests of its clients. Model portfolios may or may not contain any specific security at any time, and decisions to invest should not be made based on the presumed or current composition of any model portfolio - A complete list of holdings in the Berkshire Dividend Growth Strategy.

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.

Risks: Past performance does not guarantee future results. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for an individual's investment portfolio. Dividends are subject to change, are not guaranteed, and may be cut. Investing based on dividends alone may not be favorable as it does not include all material risks. There is no guarantee any stated (or implied) portfolio or performance objective mentioned by Berkshire can be met. Berkshire's equity style may focus its investments in certain sectors or industries, thereby increasing potential volatility relative to other strategies or indices. The dividend strategy may include bundled services also known as a "wrap fee program". Because there is typically a low turnover in the strategy, this may be more costly for some investors. No one should assume that any information presented serves as the receipt of, or a substitute for, personalized individual advice from a qualified advisor or any other investment professional.

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