Berkshire DIVIDEND STRATEGY

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“Casual Friday” Commentary

Casual Friday: You Never Know + New Portfolio Purchase – March 17th, 2023

#TGI CASUAL FRIDAY

Our thoughts are with advisors who work in bank settings and whose practices or institutions are suffering adverse effects from the news. “Is your bank going under?” “Are my assets safe?” We are sure non-bank advisors or RIA’s who utilize custodians in the news are fielding questions like these as well. We can only imagine the discussions you are having...

New Portfolio Purchase: Lowes (LOW)

- Growth potential from secular housing trends
- Management focusing on the return of capital to shareholders vs. capex on stores
- Outstanding shares nearly halved over the past decade
- Increased dividend 30%+ last year, maintains healthy dividend payout ratio
- Spending in technology expected to unlock significant margin expansion
- Attractive entry point, relative valuation in historically low range
- Potential Risks: sensitivity to retail trends, housing cycle, and changes in dividend policy

Tons of Financial Headlines – What Really Stands Out?

1. This week reminds us, “you never REALLY know.”
    a. Investing is not a game of absolutes and mathematics.
    b. Human behavior can be irrational, superseding fundamentals
    c. Good long-term investors draw on experience to strike a balance of art and science.
    d. Be wary of people who think they know “FOR SURE”
    e. Shift your mindset from “is there risk” (there always is) to how much return is possible given risk. (usually higher during panics).
2. We take great comfort this crisis is a duration mis-match
    a. Banks had bad bond management – Not correctly matching durations of liabilities and assets.
    b. Very limited indication of a bunch of toxic loans like in 2008, rendering the entire system insolvent.
    c. Underlying collateral is largely government bonds which provides wiggle room policy wise.

3. The decline in 2-year yields is unlike anything we've seen in our career
    a. The curve is normalizing – at lightning-fast speed.
    b. Relief at the long end helps solve the root problem – declining bond portfolios
4. "If the market thinks you are insolvent, you are insolvent…"despite your pleadings!
    a. Investor quickly abandon fundamentals and rational thinking
    b. Banks are levered institutions and if everybody decides they want their money out at once, by design it's not available
    c. Confidence is everything. Bank runs are real.
5. Let's not forget how this happened. "We need inflation"
    a. COVID hits -- Fed panics and slams rates zero/negative
    b. Every asset on the planet inflates
    c. Banks have low loan demand, so they buy a bunch of bonds trying to get yield
    d. Massive inflation, Fed slams on the brakes, SVB straight through the windshield
    e. Has it occurred to anyone all this micromanaging of monetary (and fiscal) policy may actually be the problem? Its like a fire department starting a bunch of fires then come to the rescue and creating more problems!

The advisor question comes to us in many forms, but usually rings of "is now a good time to buy equities?" This is outside my realm to advise whether or not clients should invest at a particular point in time. Each advisor and each client have totally unique circumstances. We don't see anything close to the financial picture that would justify opinion. If a client owns all bonds right now, and has great ability to take risk, it might be a great time to invest. If a client is 100% stocks now and has zero risk taking ability it might be a terrible time to own equities.

Long term readers know that Berkshire is pretty impervious to negative macro events. Recessions, elections, fiscal cliffs, heck even through Covid we generally advocated to stay invested. But when events start to seep into the financial system like a "blood cancer" more caution is warranted. Does this event qualify – sort of. Bank failures and near term funding problems and worries if an institution make it through the night get pretty close to contagion.

Full circle to bullet 1 – these are bad interest rate bets by a few bankers that sadly toppled whole banks and created this ripple. We think there is a way out, but stay tuned.

A RUMOR Fueled the Great Depression?
How one local businessman's experience ignited a 20,000-person mob scene at the Bank of United States – fueling the Great Depression.
[The Bank Run That Helped Create the Great Depression]

Who Knew...St. Patrick was Actually Born in *Britain*
[Fun Facts St. Patrick's Day]

For those who missed last week's *Casual Friday Live!*
https://vimeo.com/event/2983706

Have great weekend and good luck with your brackets!

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