Berkshire
DIVIDEND STRATEGY

Berkshire Asset Management
46 Public Square, Suite 700
Wilkes-Barre, PA 18701
570.825.2600

“Casual Friday” Commentary

Casual Friday: Portfolio Change + Both Sides Please – March 3rd, 2023

#TGICF!
Portfolio change:
Sell: Kimberly Clark (KMB) full position
Buy: Mondelez (MDLZ) – approx. 2.5% weighting

The trade is reminiscent of our 2021 trade, Coke (KO) for Pepsi (PEP). We believe this upgrades the dividend growth profile while maintaining a similar risk and sector profile in an area we like.

Kimberly’s dividend growth has been stingy lately (2-3%), despite reasonable fundamentals, while MDLZ’s dividend growth is pacing above double digits. P/E’s are similar. There is a yield give up (approx. 3.70% - KMB vs. 2.35% - MDLZ), although we favor faster growth in this case. Kimberly’s div payout is north of 80% (on somewhat depressed earnings) so it will be difficult for it to grow much beyond EPS growth. Mondelez sports a payout just south of 50% and they’ve also retired over 25% of the share count over the years. (Source: Bloomberg)

KMB and MDLZ maintain solid exposure to international markets, bringing diversity and growth to both companies. However, the nature of the businesses are somewhat different. We believe the brand loyalty and pricing power with food, is superior to tissues and care products, which explains why MDLZ’s margins exceed those of KMB.

Dividend growth is more selective than ever. Last year roughly 150 companies in the S&P 500 raised (or initiated) the dividend vs. 300ish the year before. (Source: S&P Dow Jones Indices) Digging deeper and getting more selective within this sector to squeeze out incremental dividend growth makes sense to us. We maintain KMB is a good business, however we prefer ownership in MDLZ going forward. Risks include: supply chain, cost pressures, geopolitical tensions but these exist in the consumer space.

“Both Sides Please”
Since wealth is comprised of assets AND liabilities, if you ignore the right side of a client’s balance sheet can you really call yourself a wealth advisor/planner? -- I know, I know some might grumble about "lending”, but we believe integrated asset & liability management is here to stay. And if you are not addressing the right side of a client's balance sheet, odds are another advisor is.

Just a year ago, if a client had to fund a major expense, the decision seemed (relatively) easy. Try to borrow at an extremely low (often variable) rate, keep investing in quality stocks and hopefully your portfolio grows at 7-8%. Easy-peasy, interest rate arbitrage right out of CFA Level1!?

Fast forward to today…not so fast. Short rates in some cases have tripled, home equities shot up and stocks are under pressure. Clients are seeking serious advice in this new world, so gear up to add unique insight to these discussions – Operating on the both sides of the balance sheet is not only a client retention tool, it will likely open new doors. Kitces recently published a thoughtful article to navigate and build new skills surrounding the topic. He hits on intra-family loans within estate plans, fixed vs adjustable and "downsizing" opportunities: Providing Mortgage Advice In A Higher Interest-Rate Environment: Opportunities For Advisors To Add Value

CASUAL FRIDAY GOES *LIVE* NEXT FRIDAY
Date: 3.10.23 - Time: 11:30 EST

Format:
-3 topics from printed version (2 minutes each...and yes we will be timing them!)
-Live Q&A
-Listen live or listen later
-Access link: delivered to you next Wednesday and in Casual Friday

Have a great weekend!

Gerard Mihalick, CFA
Dividend Strategy Portfolio Manager/Partner
Berkshire Asset Management, LLC

Office (570) 825 – 2600

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.

*Market Commentary, Aggregate Holdings, Securities, Sectors, Portfolio Characteristics Mentioned: No statement made in this presentation shall construe investment advice. This presentation is for informational purposes only. Views, comments or research mentioned is not intended to be a forecast of future events. The mention of any security or sector is not deemed as a recommendation to buy or sell. Any reference to any security or sector is used to explain the portfolio manager's rationale for portfolio decisions or philosophy. Research or financial statistics cited regarding securities or sectors do not contain all material information about them. Any securities mentioned represent a partial list of holdings whereas Berkshire portfolios typically contain approximately 30-40 securities in percentage weightings ranging from 1-5%. A complete list of holdings from a representative account is available upon request. Overall portfolio characteristics mentioned are from a representative account deemed representative of the strategy; data may be compiled from Bloomberg, Baseline or Berkshire estimates. Individual holdings, performance and aggregate characteristics of actual portfolios may vary based on a variety of factors including market conditions, timing of client cash flows and manager discretion. This presentation contains Berkshire opinions and use of Berkshire estimates which are subject to change at any time. Berkshire employees may have personal positions in any securities or sectors mentioned. Charts, presentations or articles may be obtained from third parties and Berkshire does not guarantee their accuracy. *Platform restrictions may apply. Preliminary returns are based on composite estimates only. Individual accounts will vary.*