



# Berkshire

## DIVIDEND STRATEGY

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“Casual Friday” Commentary

### **Casual Friday: Divs, Derby, Model Changes & More! – May 5<sup>th</sup>, 2023**

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Good Morning, #TGICF!

A ton to cover this am!

**Dividend Increases:** [PepsiCo \(PEP\) Increases Dividend 10% --](#) PepsiCo has paid consecutive quarterly cash dividends since 1965, and 2023 marks the company's 51st consecutive annual dividend increase.

[Leggett and Platt \(LEG\) Increases Dividend 4.5% --](#) Despite challenging fundamentals, LEG delivers a pretty solid increase

#### **Portfolio Model Change:**

##### **PNC – Reduce from 2.7% (current) to 1.7% (target)**

Rationale:

- Low valuation, attractive yield but plenty of negative headline / fundamental risks near term
- This move signals our potential desire to gradually reduce bank exposure because the sector has limited near/intermediate term dividend growth prospects
- Potentially higher regulation likely spells systemically lower ROE's and dividends long term

##### **EOG – Increase from 0% (current) to 1.5% (target)**

Rationale:

- Increased capital discipline is creating more free cash flow throughout the industry
- Investment grade balance sheet; Cash on balance sheet exceeds debt
- “Minimum” 60% of free cash to shareholder return with dividends as a “priority”
- Generous and timely special dividend program
- A cyclical business? You bet! But technology shifts have created a systemically better cost structure. EOG estimates it can earn a return on capital of 10% even with oil at \$42 a barrel
- Key stats
  - Forward P/E: 8.92%
  - On-going dividend yield: 2.96%
  - Market Cap: \$67 billion
  - 3 year, 5 year div growth: 93%, 67% (includes special dividends – we don't expect that going forward)

## **Song Remains the Same:**

An advisor, walking into a client meeting emails us and asks: “What should I tell clients about Berkshire’s Portfolio and the market right now”

## **Our preferred advisor response almost ALWAYS begins with:**

*“We own Berkshire because we believe it aligns with your goal to*

- *Generate dividend income*
- *Grow dividend income*
- *Provide safety on the downside*

Its like politicians. Regardless of how the questions is posed or what's happening in the market we suggest you respond in the same way.

Next get client buy in, reinforce the income concepts and proceed with some of our current observations:

## **Market narrowness: making a comeback!**

- A few stocks in the S&P 500 are up big YTD; average stock not doing so well
- Didn't own the top ten of S&P500? Your return is actually negative for the year.

## **Bank Crisis? Manageable**

- We think this storm passes because current problems are mostly about bad interest rate bets verses a sea of toxic loans a la 2008
- We believe we have seen the peak in interest rates this year; inflation should roll over. Commodity ROUT!

## **Recession? Maybe**

- Hard to predict the timing severity and fall out. Macro prognostication are low value activities and just not our game.
- We'd rather own battleship type companies that can weather harsh storms, so clients can stay invested and enjoy compounding without interruption
- Threat of recession is literally the worst kept secret on the planet, so to a large degree prices must reflect a large part of the threat

## **Dividend Growth? Tepid.**

- 2021- 360 companies raise/initiated dividends
- 2022 – 150 companies raise initiated dividends
- Berkshire team is digging harder, and might have to pay up to find companies with better growth profiles

## Bonus chart: Careful what you wish for? Commodity prices falling --- hard!

GLCO Global Commodity Prices

Options

Monthly Spreads ● Mov Avg ● Performance ● AVAT vs 10d %Chg 1Y USD

Commodity	2Day	Price	Norm Chg	%Chg	Δ AVAT	Time	%1Y	%1YCur
<b>Energy</b>								
NYM WTI Crude		72.20	-3.46	-4.57%	+12.68%	11:09	-31.35%	-31.35%
ICE Brent Crude		75.82	-3.49	-4.40%	+7.62%	11:09	-29.52%	-29.52%
ICE ARA Gasoil		663.00	-28.00	-4.05%	-12.22%	11:08	-43.61%	-43.61%
NYM NYH Gasoline		244.65	-10.39	-4.07%	-8.14%	11:09	-30.30%	-30.30%
NYM NYH Heating Oil		228.54	-9.69	-4.07%	+10.93%	11:09	-45.65%	-45.65%
NYM HH Nat Gas		2.22	-0.10	-4.14%	+7.28%	11:09	-70.27%	-70.27%
ICE NBP Nat Gas		85.50	-3.03	-3.42%	+85.84%	11:08	-47.76%	-47.90%
<b>Metals</b>								
LME Aluminum		2,356.00	+37.00	+1.60%	--	04/28/23	-22.28%	-22.28%
LME Copper		8,595.50	+9.00	+0.10%	--	04/28/23	-11.36%	-11.36%
Spot Gold		2,011.71	+29.15	+1.47%	--	11:19	+7.98%	+7.98%
DCE Iron Ore		715.00	-6.00	-0.83%	-41.32%	04/28/23	-12.83%	-16.51%
LME Nickel		24,219.00	+120.00	+0.50%	--	04/28/23	-26.56%	-26.56%
Spot Silver		25.24	+0.24	+0.98%	--	11:19	+11.46%	+11.46%
SHF Steel Rebar		3,683.00	-45.00	-1.21%	-29.78%	04/28/23	-27.88%	-30.92%
<b>Agriculture</b>								
CME Live Cattle		163.30	-1.57	-0.96%	+39.67%	11:09	+20.78%	+20.78%
ICE Coffee		185.80	+0.20	+0.11%	-97.23%	11:09	-13.94%	-13.94%
CBT Corn		584.25	-0.25	-0.04%	-94.02%	11:09	-27.29%	-27.29%
ICE Cotton		80.35	-0.96	-1.18%	-99.98%	11:09	-46.72%	-46.72%
CBT Soybeans		1,426.00	-1.50	-0.11%	-98.01%	11:09	-13.33%	-13.33%
ICE Sugar		25.33	-0.21	-0.82%	-1.13%	11:09	+34.38%	+34.38%
CBT SRW Wheat		615.25	-3.00	-0.49%	-96.68%	11:09	-41.71%	-41.71%

### Conclusion?

There are always risks. The outlook almost always appears murky unless the market is raging higher. We've always opined "Everyone likes the idea of buying stocks at low prices, until they see the news that goes with it."

### Weekend Activities!

May 5: [The Real Story Behind Cinco de Mayo](#)

Full Moon: [Dramatic Full Moon This Weekend](#)

Kentucky Derby Recipes: [From Mint Julips to Kentucky Bourbon Pie](#)

Berkshire Hathaway Annual Meeting: [Visualizing Buffett's Holdings](#)

Have a great weekend,  
Gerry

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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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