Berkshire
DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: YE Zoom + Dalbar Victory? – October 20th, 2023

#TGICasualFriday!

YE is approaching quickly, use this link to [Schedule a Teams, Zoom or Phone Meeting with Berkshire]

Topics include: Performance perspectives, thoughts on rates, opportunities for the portfolio and your business initiatives.

Berkshire Talking Points For Today's Market:
Remind clients of why they hire Berkshire. We seek to generate dividend income, grow dividend income, and provide safety on the downside.

- Dividend growth over the past three years as of 9/30/2023 is consistent and growing at ~ 7% (even as a recession looms) - Dividend Strategy Scorecard 9.30.2023
- 2022 Performance
  - S&P 500 -18.13%,
  - Growth down ~30% with many hyped-up growth stocks down ~40-70%
  - Berkshire Dividend Strategy fared much better -- Dividend Strategy Factsheet 9.30.2023
- In 2023, the S&P rise is mainly driven by 7 large-cap growth stocks that make up a huge part of the index. Most have very high valuations and don't pay a dividend
- The remaining 493 stocks in the S&P 500 are only up approx. ~ +2% YTD.
- Berkshire Dividend Strategy: ~14 Forward P/E, ~2.85% dividend yield – we think it's a good entry point.
- Waiting for a pullback? It's here! The index is being propped up by mega-growth stocks but underneath the surface, lots of sectors are already way down. As higher rates pummeled utilities, real estate, high-quality US Banks and consumer staples, (many down 20-30%), we believe it creates very attractive opportunities for Berkshire to buy new companies.
- If U.S. rates are near a peak, we believe Berkshire's relative performance will pick up.
- Fortunes can change quickly. In one quarter last year, value outperformed growth by about 12% and nearly 25% in one year
  (Source: Bloomberg)

Good News, Bad Prices or Bad News Good Prices?
Possibly the two hardest things for a financial advisor? One - turning down business

you know will be a headache later. The second? Convincing clients to remove money from strategies that are “working” and adding to investments that don't appear to be working as well.

Typical Client Logic…
Good news + good growth + rising price = good investment

Value Investor Logic…
Bad news + slow growth + falling price + potential turnaround = good investment.

It's not easy! Heck, it can be frustrating for a professional value manager sometimes.

But this mindset often creates good old-fashioned performance chasing. Result? Study after study shows that investors tend to blow it…The Dalbar study shows over time US equities do ~11.5%, but the overall average investor only does ~6%. How can this be? It almost has to be ill-timed purchases and sales. Buy at the top sell at the bottom. So, about 5.5% underperformance. (Source: https://www.ifa.com/articles/investor-behavior-impact-on-returns)

Resist the temptation to appease clients. After all, do you want YOUR AUM to compound at 11.5% or 6%? If you cave into client pressure the Dalbar suggests it compounds at 6%. Conversely, what if you could flip the Dalbar differential to your favor and ADD 5.5% by adding to all the underperformers clients may be pressuring you to sell? In theory, performance lost by the performance chasers should be gained by the more forward-looking approach. Here’s what a $100 million dollar book of business looks like compounding at 6% vs 11.5% vs 17% in 5 years….

Dalbar Victim or Dalbar Victory…

	6% Annual Return	11.5% Annual Return	17 % Annual Return
Year	$ 100,000,000.00	$ 100,000,000.00	$ 100,000,000.00
1	$ 106,000,000.00	$ 111,500,000.00	$ 117,000,000.00
2	$ 112,360,000.00	$ 124,322,500.00	$ 136,890,000.00
3	$ 119,101,600.00	$ 138,619,588.00	$ 160,161,300.00
4	$ 126,247,696.00	$ 154,560,840.00	$ 187,388,721.00
5	$ 133,822,558.00	$ 172,335,337.00	$ 219,244,804.00
6	$ 141,851,911.00	$ 192,153,900.00	$ 256,516,420.00
7	$ 150,363,026.00	$ 214,251,599.00	$ 300,124,212.00
8	$ 159,384,807.00	$ 238,890,533.00	$ 351,145,328.00
9	$ 168,947,896.00	$ 266,362,944.00	$ 410,840,033.00
10	$ 179,084,770.00	$ 296,994,683.00	$ 480,682,839.00

(For demonstration purposes only. Not to be misconstrued as past or future returns of the Berkshire Dividend Strategy)

Staggering! In the near term, doubling down on unpopular strategies may create difficult client conversations and maybe you risk frustrating clients. (You also might earn more respect by drawing a hard line and demonstrating you are the expert!)

We believe it's a choice between two very different destinies:

Victim to Client Pressures?

- Chase performance
- Maybe more near-term revenue
- More clients, but ones that don't take your advice
- A zillion strategies, disorganization and assets compounding at 6%
- Dystopia

Contrarian Approach?

- Add to lagging strategies
- Potential loss of near-term revenue/client attrition
- Fewer yet more loyal clients who respect and take your advice
- A narrower list of strategies, organized, and assets compounding at 17%
- Harmony

Bonus: Absolutely insane mountain biking...hopefully clients' rides in solid income strategies will be much less harrowing!

Have a great weekend,
Gerard

Gerard Mihalick, CFA

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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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