Berkshire
DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: Dead$? + "It's Not Worth It..." – November 3rd, 2023

#TGICasualFriday!

AbbVie Increases Dividend by 5% -- October 27th 2023

"To heck with it… just buy me a T-bill"

Equity markets peaked nearly 2 years ago… since then, investors experienced recession chatter, higher rates, a battle against inflation, and banking panics. Result? 2 years' worth of losses in many equity, bond, and balanced accounts. Even if you bought an equal-weight basket of the "magnificent 7" starting 10.31.2021, you're in the red. *(Source: Bloomberg)*

Investors are clamoring:

- "Are equities dead money?"
- "With bond yields higher than dividend yields, is it over for dividend investing"
- "Shouldn't we just roll 6-month T-bills or buy bonds?"

We get it…and we gear our communication to tap the zeitgeist of your client's mood.

Consider 3 key points:

- Bonds paid zero for years, so it's easy to see why investors might be lured by ~5% U.S. Bills and Bonds.
- Macro uncertainty – Recession? Maybe but remember "The stock market has predicted nine of the past five recessions." - *Paul Samuelson*
- Palpable investor frustrations – Average trailing 2-year return for balanced accounts as of 10.31.2023? ***-9.35%.***

(Source: Bloomberg, Balanced account calculated using 65% S&P500 and 35% Barclays US Aggregate Bond returns from 10.31.2021 - 10.31.2023)

Many of our readers and investors agree with the concept of long-term compounding through dividends until resolve is tested. 2 years in the red is an eternity to most investors!

Can we keep em on track?

"Just buy me a T-bill at 5%"
We hear advisors plowing client money into short-term treasuries. Higher rates have helped advisors attract higher rates and gather assets. We understand the appeal. However, can advisors convert them into longer-term true wealth management clients? After all, clients might soon get a tough lesson in reinvestment risk as is often the allure of investing at the

front end of an inverted yield curve. And if clients were simply "rate shopping" advisors might find out they did a lot of work on what's usually low-margin business – only to see an outgoing wire if the client thinks they think they can get a higher rate.

Is investing in treasuries today actually accretive to a long-term wealth plan? It appears real returns after tax for high-income earners are negative…

High Income Earners Investing in Bonds	
Investment	$100,000.00
Rolling US Treasuries ~Return	5.30%
Annual Return	$ 5,300.00
Tax Rate	37.00%
After Tax Return	$ 3,339.00
Current Inflation Rate	3.70%
Cost of Inflation	$ (3,823.54)
Client's After Tax Real Return	$ (484.54)

(Source: Bloomberg, IRS Website)

"There's a recession looming" -- The stock market has predicted nine of the past five recessions. - Paul Samuelson

For the past year, the threat of a U.S.-led recession is possibly the worst-kept secret on the planet. Pundits exclaim --- "Batten the Hatches!" This 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. And many sectors and individual stocks are already down 20-30%

Whether this ends up being a hurricane or tropical depression, companies are allocating capital conservatively. Buybacks and dividend increases are lackluster. In fact, dividend increases in the S&P 500 plummeted from about 350 in 2021 to 150 in 2022. (Source: S&P Dow Jones Indices) Companies are decidedly prepping balance sheets until the forecast calls for sunnier skies. We're slightly disappointed, but prudent capital management is what makes companies durable through 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.

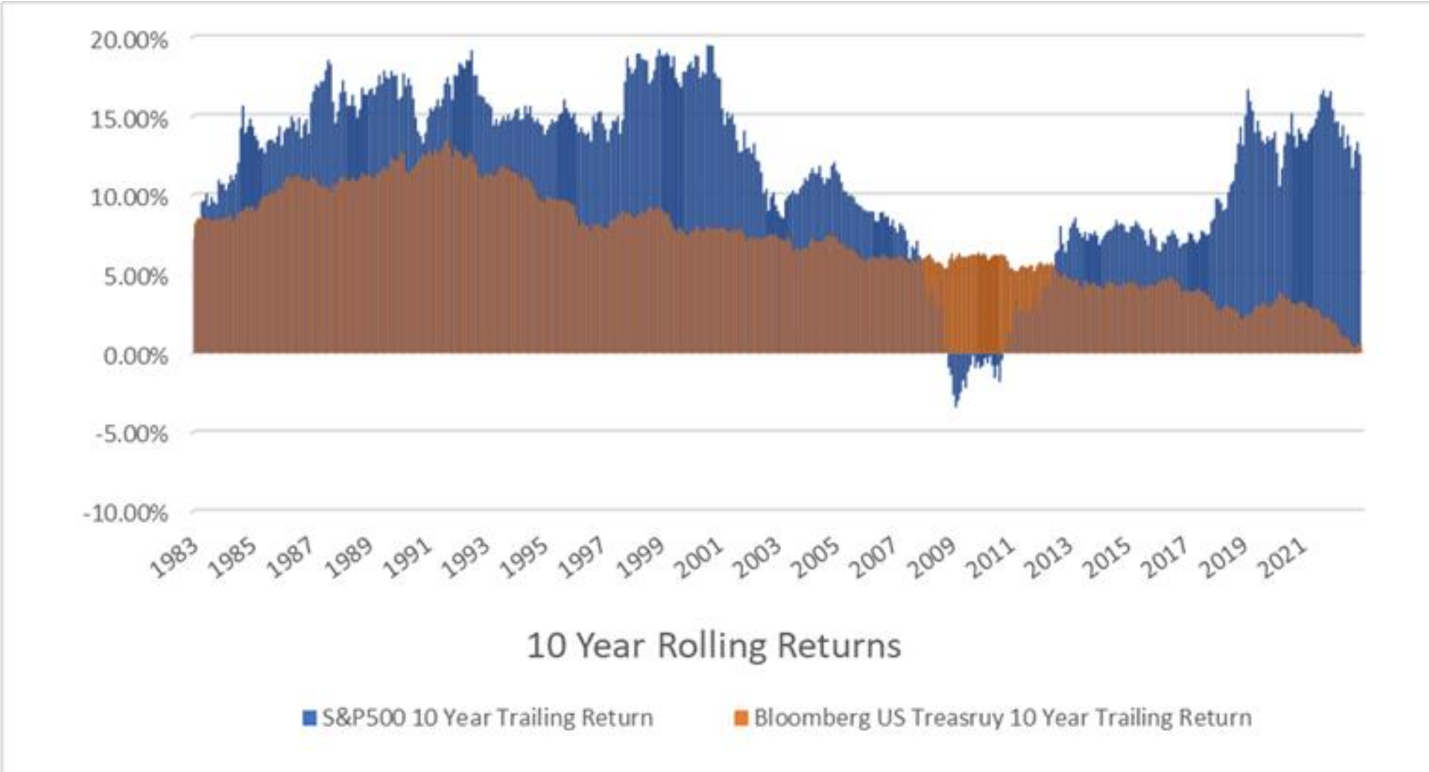
Our weather forecast is likely no better than the rest…
Instead, we're attempting to cruise on the most durable vessels while maintaining flexibility for shifting tides.

"Still the Champ?"
To encourage clients to stay in equities, we ask them to consider the long term compounding of stocks vs. bonds and inflation. In our opinion, it is unlikely bonds will provide the effective inflation hedge, or solve the longer term planning objectives dictated by their financial plans. In many cases, the returns won't align.

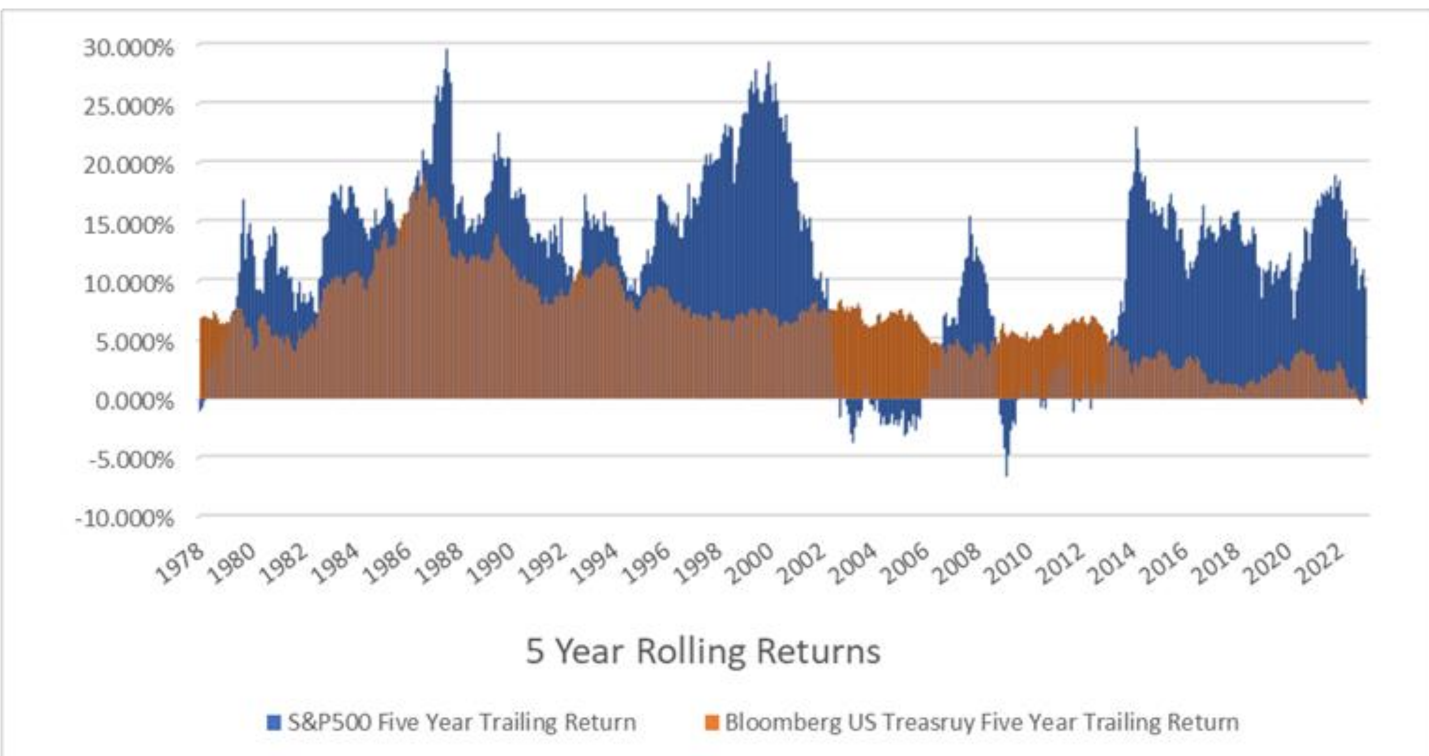
Source: Bloomberg. S&P 500 Dividend Aristocrats Total Return Index
The S&P 500 Dividend Aristocrats index is designed to measure the performance of S&P 500 index constituents that have followed a policy of consistently increasing dividends every year for at least 25 consecutive years. Bloomberg US Treasury Index: The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting.

"Yeah but, with rates this high, equities are dead now. We should just buy bonds"
Ok, check out the following two charts – it shows rolling equity returns vs. rolling bond returns since the early 80's when rates were really high!

In most ROLLNG 5-year and almost every 10-year period, stocks provided a higher return, even at many different intervals when rates were higher than they are now. Stocks outperform over long periods. Remind clients investment horizon are typically longer than 2 years.



(Source: Bloomberg)



(Source: Bloomberg)

“I Don't Need a Niche”
A niche, or a truly specialized skill set is a rare commodity.

Average advisor: “I have some high-net-worth retirees and get referrals.” and “I put them in a bunch of different strategies depending on what their needs are.”

Elite advisors: "I have a highly specialized group of clients with unique needs that match my expertise and I allocate them to a narrow list of investment strategies I know exceptionally well.”

Having a niche truly pays off. Michael Kitces's analysis finds that top advisors with a niche (versus top advisors without a niche):

- Spend 150+ more hours every year on high-value, client-facing activities (or 28% more time with clients and prospects, while spending 13% less time doing middle-office and back-office tasks)
- Are able to deliver a more focused and customized financial planning process (as not every possible area of financial planning is applicable to every particular niche)
- Serve an average of 14% more clients (since advisors with niches can more easily scale their practices)
- Have clients with an average of both 25% more investable assets and higher net worth
- Are able to set their AUM fees 9% higher, and generate 20% higher standalone planning fees
- Earn an average of $660,000 (versus $395,000 for non-niche advisors at the same income percentile)

Source: Kitces Research On Advantages Of Niching In Time Use, Planning Approach, Pricing, and Productivity

Here are 7 Unique Examples of Advisor Niches:
Source: https://blog.twentyoverten.com/6-examples-of-unique-advisor-niches/

- *Desert Crest Financial* - Serves women experiencing life changes
- *Highball Advisors* - Serves ex-railroad professionals
- *PharmD Financial Planning* - Serves Pharmacists
- *C.L. Sheldon & Company* – Serves active and retired military
- *Cornerstone Wealth Consulting Services LLC* – Serves contracting industry
- *Wealthkeel, LLC* - Serves Gen X and Gen Y physicians
- *Gold Canyon Financial Planning* – Serves LGBTQ community

Disclaimer: The advisors noted herein are not affiliated with Berkshire Asset Management, LLC (“Berkshire”). The Advisers are listed for illustrative purposes to evidence niche-based advisers and should not be construed as recommendations of Berkshire.

What a $1,000 Bottle of Wine Tastes Like, and Where to Find the Best
https://www.bloomberg.com/news/newsletters/2023-11-02/top-shelf-newsletter-1000-wine-whiskey-gifting-goose-island-black-friday

Have a great weekend,
Gerard

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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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