Berkshire
DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: Dividends, Dirt Cheap? + SHOCKING Client Expectations – December 15th, 2023

#TGICasualFriday!

Dividend Updates:
Pfizer Increases Dividend by 2.4%
Nucor Increases Dividend by 5.9%
Waste Management Increases Dividend by 7.1%
Bristol Myers Squibb Increases Dividend by 5.3%
W. P. Carey Announces Quarterly Dividend of $0.860 per Share – Note: Lower commensurate to NLOP Spinoff

Equal and Opposite?
2022: High dividend, low P/E, low beta? Your strategies likely ranked well. High growth? Likely down 20-30%
2023: "Violently equal and opposite" … low yield, high p/e and high beta is likely trouncing dividend and low P/E.

These "factor forces" proved a powerful and reliable attribution tool to predict return rankings across dividend, value, core and growth strategies. Investor amnesia aside, we know some are likely frustrated this calendar year.

We'll leave the "7-stock- AI-crazed-market speech" for another time. Near term, it is possible the Fed's "dovish pivot" changes the narrative – value looked very healthy relative to growth, post-Fed. We'll take it.

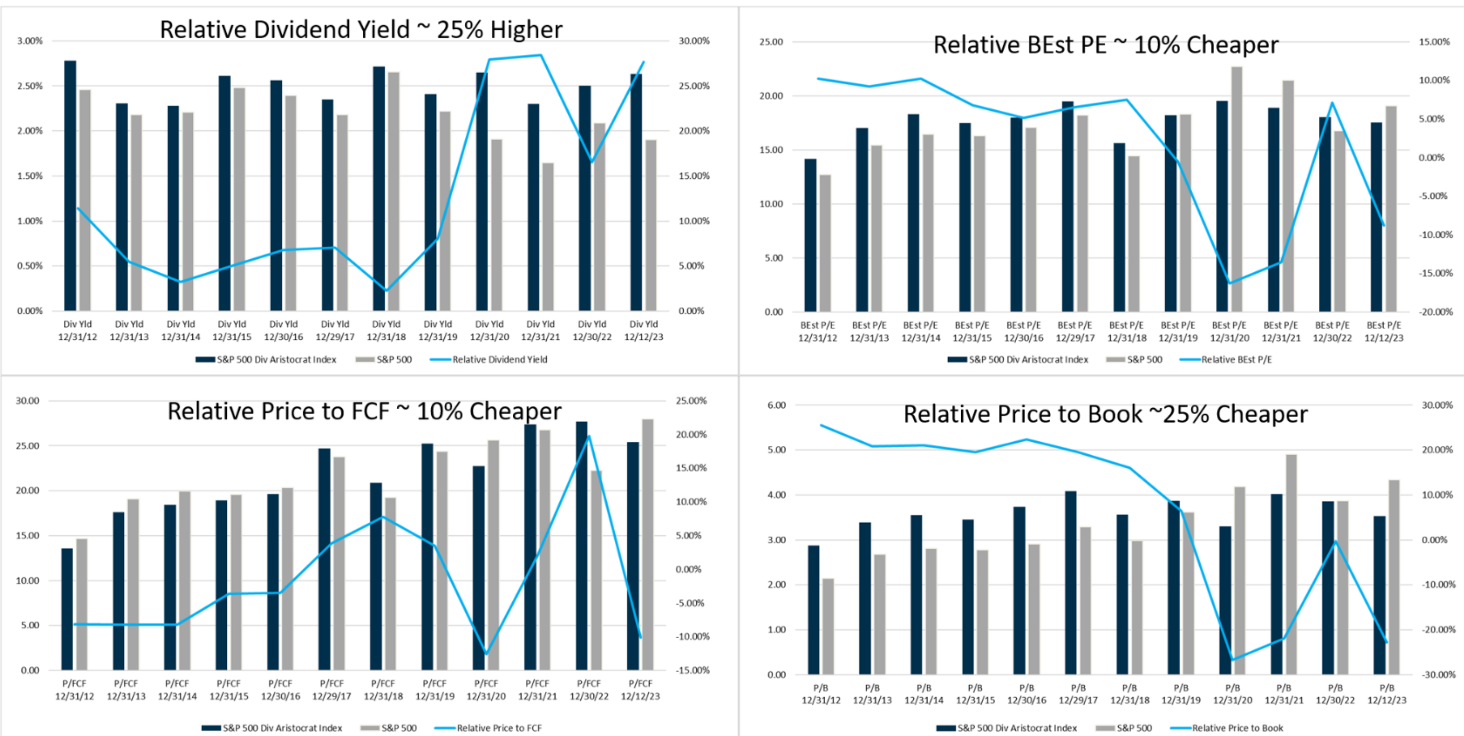
Bigger picture 2024?
Short-term prognostication is not in our DNA. Instead, we advocate dividend strategies occupy a permanent place in client portfolios much like a family business or long-term real estate holdings.

Dividend strategies may help:
- Align client financial goals with financial plans as we seek to generate dividend income, grow dividend income, provide safety on the downside
- Create client "buy in": Transparent ownership in durable companies that clients understand may keep them on track during market volatility – also good for an advisor's business
- **Provide clients with long-term,** solid risk-adjusted total return:
    - S&P 500 Dividend Aristocrats: The Importance of Stable Dividend Income

Dividend Stocks: “Dirt Cheap?”
At its core, successful investing is about what you have to "put in" (invest) relative to what you "get out" (in the form of dividends, earnings, interest etc). "How much growth will I get?" may not be the right question. "What do I have to pay to receive x amount of growth?" is likely more on point. And the price you pay for an asset determines your return. The math doesn't lie.

As we exit 2023 and head into 2024, the following valuation metrics show investors might be able to "get a lot" from dividend stocks without paying a lot relative to the S&P 500.

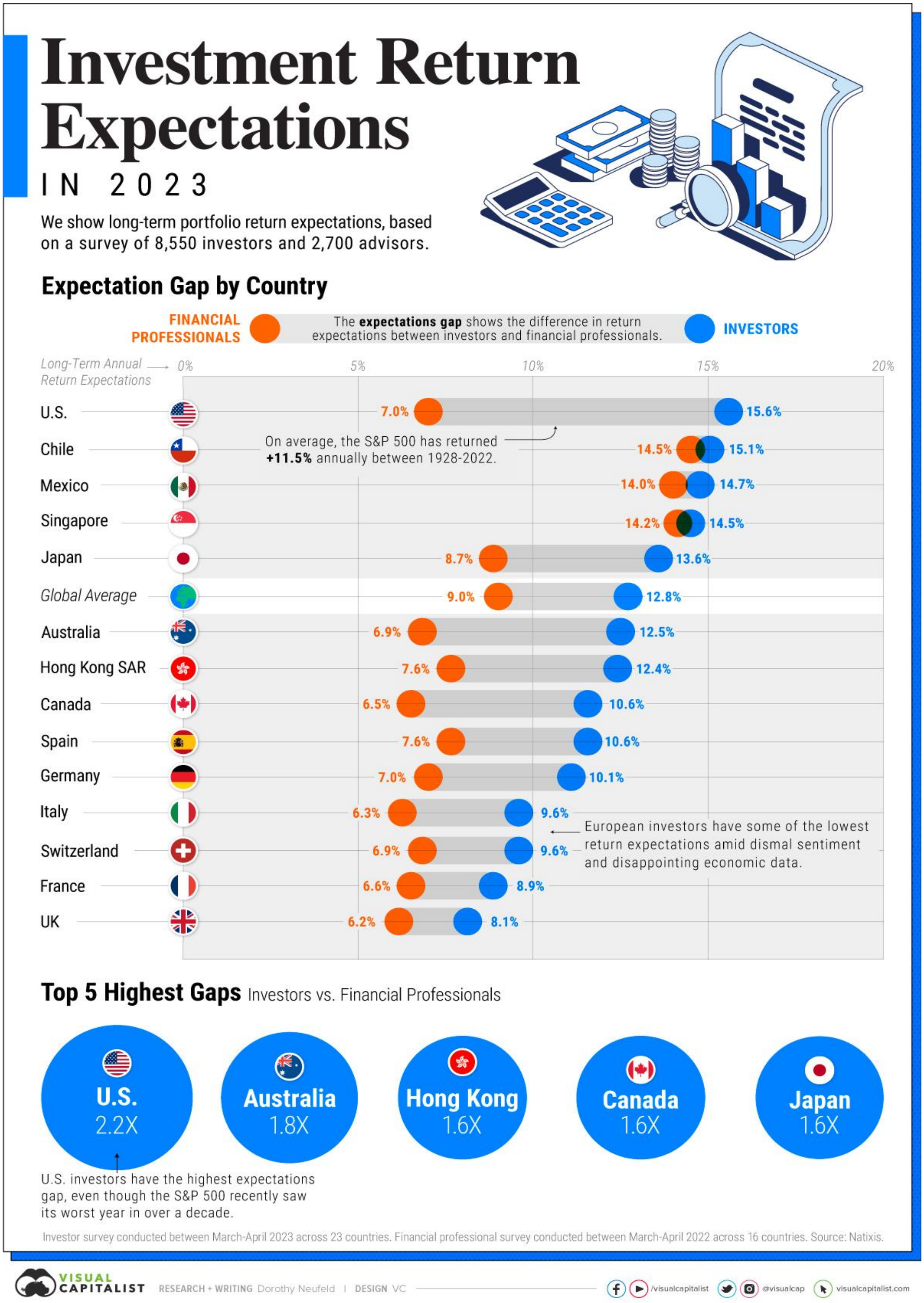
S&P 500 Dividend Aristocrat Index vs S&P 500



(Source: Bloomberg)

Shocking Survey?
If the following client survey doesn’t stop you in your tracks, I don’t know what will**.**

Get this…a recent survey of 10,000+ U.S investors shows they expect YOU to generate long-term returns of…**15.6% ABOVE inflation. Seriously, the absurdity cannot be understated. To meet or/and exceed these client expectations, you'd have to outpace Buffet over his 58 years at Berkshire Hathaway! You'd have to double the S&P500 every year! To boot, most clients seek capital preservation -- How the heck can you get long returns of 15.6% ABOVE inflation owing a moderate 65/35 portfolio?!**
Source: https://www.im.natixis.com/us/resources/2023-individual-investor-survey-full-report



(Source: Visual Capitalist)

Financial professionals expect 7% which is more reasonable but not a lay-up.

Other gaps identified:

1. Gap 1: 57% of high-net-worth investors said they "don't have a financial plan" Yet, 80% of advisors say they prominently feature planning as a key offering in their practice. (Natixis 2022)
2. Gap 2: US Clients surveyed said they expect returns of "15.6% after inflation" (Yes, they want nearly ***20% returns*** from their investments), *yet capital preservation was a top priority.*
3. Gap 3: Clients believe "Passive is less risky than active and will protect me on the downside".

Very bluntly, *if* we are allowing clients to walk around thinking 20% is reasonable, it's a formula for disaster. Most relationships in life or business fail based on unmet expectations. It's also interesting the U.S. gap is the highest in the world. So maybe our industry is not communicating properly, overpromising or isn't doing enough to close this gap. Clients become unhappy and default to the low-cost alternative i.e. $8 trillion at Vanguard.

Allowing clients to dictate or subtly unduly influence your investment decisions because you don't want them to take their business elsewhere is also a losing strategy. It's not an innocuous foul…it's a true silent killer in the practice that damages advisor/industry credibility, your long-term production, and your quality of life.

Advisors and managers must forcefully push back and enlighten investors on these absurd expectations.

"Ok, Gerry don't just yell at me…how can we close the gaps?"

You can't close 'em if you can't see them. Here are probing questions:

1. "What return goal do you think is reasonable over time?" "How did you come to that conclusion?
2. "How satisfied are you with the completeness of your financial plan?"
3. "Are there any areas important to you this plan does not address.?"
4. "What areas of the plan are low priorities?" – perhaps you are focusing on things that they don't really care about!
5. "How do you define success in these areas?"
6. "How do you define risk? Lack of income? Price fluctuations? Not keeping up with the market?"

These are just a few to get the conversation started. Remember to ask clarifying questions like a simple "Why is that?" "Tell me more" etc and all techniques advocated by the sales/communications coaches teach. Client information and knowing how they will keep score of the relationship is empowerment.

Then you can lay out precise action steps that will create a series of expectations you CAN meet. Be at the ready with historical information: returns, typical bear markets, annual corrections, you can't time the market etc.

This is the essence of advising.

Another good strategy? Leverage your questionnaire. At future meetings, pull out select questions for discussion. It can help you reinforce core concepts and focus client energy on something other than simply "is my account up or down?" In the end, figure out how clients keep score and by the results of these surveys, it may be quite different than what your thinking.

Conclusion?
Perception gaps are real and if they are not addressed it creates a dynamic that doesn't serve any one. Our advice? Don't cave, be real. Think long term. Some advisors lack the courage to speak the hard truth or make hard decisions for fear they might lose a relationship. And you know what? You MIGHT. Sometimes (usually!) letting the wrong clients go is a GOOD thing. Its easy to get caught up in near term AUM and revenue growth but in the end I believe we are all called to create something greater and enduring that provides abundance for all.

After that little rant, how about a more fun survey?
Email us your favorite Christmas movie!

1. Elf
2. It's a Wonderful Life
3. A Christmas Story
4. Other

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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