Berkshire
DIVIDEND STRATEGY

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

"Casual Friday" Commentary

Casual Friday: Dividend Increases + Checklist For All-Time Highs? – February 23rd, 2024

#TGI-Casual Friday!

Dividend Increase Announcements:
Chubb Increases Dividend by 5.8% - February 22nd, 2024
Walmart Increases Dividend by 9% - February 20th, 2024
PPL Corp Increases Dividend by 7.3% - February 16th, 2024
Cisco Systems Increases Dividend by 3% - February 14th, 2024
PepsiCo Increases Dividend by 7.1% - February 9th, 2024
Chevron Increases Dividend by 8% - February 2nd, 2024
(Note: No dividend cuts were announced in the Berkshire Dividend Strategy in Feb '24)

Portfolio Run Down/Recent Events
The last few weeks saw value catch a decent bid relative to growth…
then NVDA steamrolled that… for now.

We're asked, "How does a value rotation become sustainable?"

- Broader economic growth theory: Investors come to realize there are lots of growing and inexpensive companies outside of the Mag 7
- Higher rates usually hurt growth stocks (Duration of "growth" cash flows are much longer)
- Valuation crumbles – sometimes it just "happens"... even when the fundamentals are stellar…

It's rarely "one event" and it's usually a combination of events only understood in hindsight. No one puts out an official sign-up, "It's over."

Our view of near-term "price action" on some companies in the portfolio?

- Norfolk Southern (NSC): ripping higher with the help of an activist
- Walmart (WMT): Stock split, larger than usual dividend increase, Vizio purchase
- Merck (MRK), AbbVie (ABBV): Continue to move higher, reversing a tough 2023 for healthcare
- Emerson (EMR), Waste Management (WM): Strong earnings and solid bids on the stock prices
- PNC Financial (PNC), M&T Bank (MTB): CRE & recession concerns but yield curve normalization & loan volumes improving. Problems? Sure… but single-digit P/Es? C'mon man!

- Deere (DE): Can't catch a bid. Lower '24 guidance. Offers nice combination of div growth, closet tech play, more sales from "service" and low valuation
- Energy stocks: Prices not reflecting elevated and stable oil prices, record production and "EV transition" slowing

This is about as "Fast Money" as we can get!
(Source: Bloomberg Professional)

Checklist for a market at all-time highs?
Clients are likely feeling good and your business is probably coming off a record year. However, it's not time to get complacent. Cash in some client goodwill and approach the tougher/more comprehensive conversations.

1. Have the "risk" conversation - Now! Remind clients what the downside feels like in dollar terms. Show them index returns from 2022. Quantify the dollar amount they have invested in equities and calculate the approximate dollar loss if the market declined 20-30% (a meaningful correction). And if they can't handle a one-year loss of that magnitude, they likely need to rebalance back to their baseline allocation.

2. Talk down return expectations. Yes, this sounds basic – But according to Natixis, the average client expects ~18% annual returns, and advisors expect 8%. It's an ABSURD gap. Think of the perils to your business if not properly addressed. Source: https://www.im.natixis.com/us/resources/2023-individual-investor-survey-full-report

3. Scrutinize manager/fund returns even more closely. Did a winning strategy: Take on undue risk? Benefit from gains concentrated in a few possibly overvalued/risky positions? Gain from a macro tailwind that might now reverse? Own lower-quality names? Drift from their style?

4. Start talking about what conditions would begin to spark potential changes to their investment lineup. Set strict guidelines so they know what to expect. One simple sentence can prove you are proactive: "I'm contemplating a few changes to your portfolio". Spell it out "if X happens, I'm going to suggest we do Y"

5. If you haven't done a full financial plan, now is the time. It will help remind clients you do more than investment management – which will be critical if we go through another down cycle. Plus, you will likely uncover additional assets and/or discover client objectives you didn't know about. Remember – solving big problems means potentially landing big assets.

6. Talk about charitable giving – Highly appreciated assets are typically very tax-effective donations. It's a great way to uncover client philanthropic passions. And while you are at it, consider contributing to the client's charity, volunteer for the next event, or help them fundraise - it's a great way to ingratiate yourself.

7. Get the spouse or kids involved. Some studies show up to 75% of children have not met their parent's financial advisor! You might ask "is there anyone else in your family who should know about what goes on here?" This way you start to build continuity and start to lock down

future generations. Client attrition runs as high as 85% after the death of a spouse or parent. Plus, you might find a financially successful child, and you can impress them with your approach. You don't want to be meeting the kids or widow/widower at the funeral. (https://www.thinkadvisor.com/2016/03/01/how-advisors-can-stop-losing-clients-heirs-as-clients/)

8. Use the "Marie Kondo" de-cluttering method for clients and strategies – "if they don't give you joy, thank them, and but say goodbye". Streamline into your favorite clients and your highest conviction strategies you know inside and out.

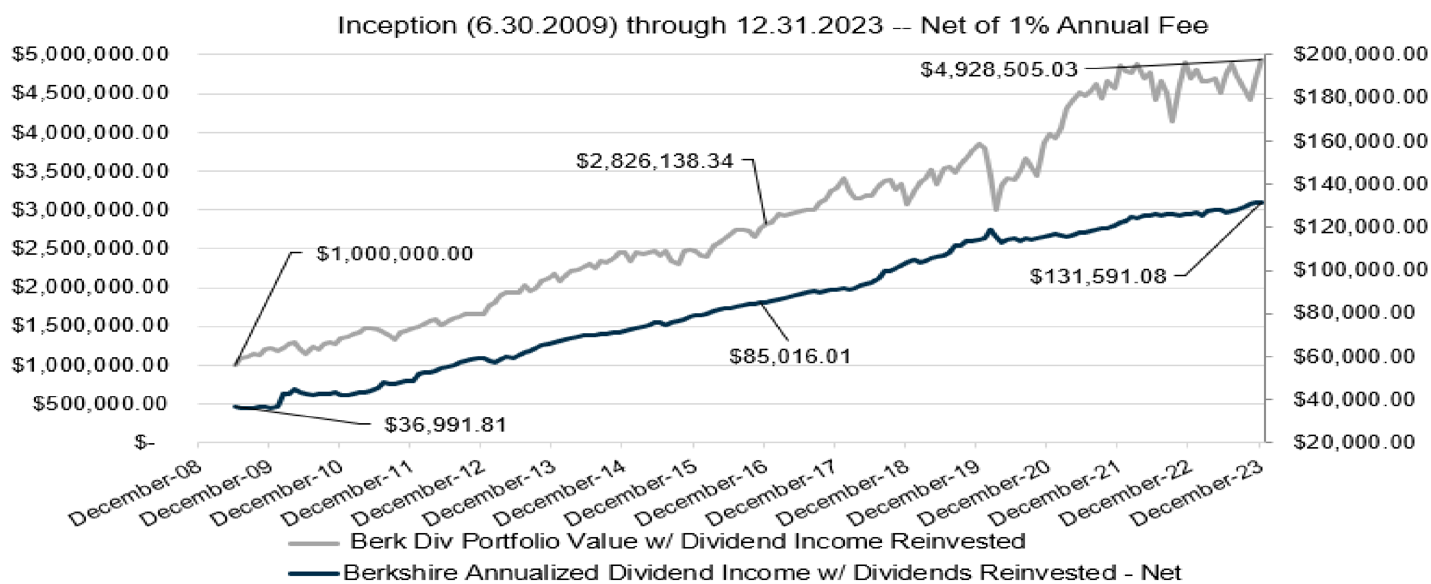
9. Carefully dissect recent AUM growth: how much of the growth came from client wins, and how much came from asset appreciation. For the former, carefully dissect the steps of how you won those new assets, and see if you can replicate those conditions. This creates a disciplined repeatable process for client acquisition.

10. Consider lowering portfolio beta and focus on income generation -- Can One Chart Say it All? Investors often talk about the investment merits of dividend growth strategies. But what about how they may help advisors meet a host of key practice management objectives?

- Tired of talking about the ups and downs of the market?
- Want to increase flexibility in your financial plans?
- Want to show why stocks could be better than "t-bill and chill"
- Looking for ways to a align a portfolio strategy with common investor goals (like "need to grow income now, or grow income later")
- Need a chart that inspires clients to get off the sidelines, get invested and stay invested?

Please see page 5 of our Dividend Strategy Guide 12.31.2023 for more detailed information, fees and disclosure information.

Send us an email subject "One-Chart" if you would like a client-friendly PDF



(Please reference [Dividend Strategy Guide 12.31.2023] for Returns Net of 3% Fees. 3% fee represents the max fee in "wrap" programs in which Berkshire Dividend Strategy participates. Intended for illustrative purposes only. Income chart is based on the assumption $1,000,000 is invested in the Berkshire Dividend Growth and Income Strategy at the inception of the Berkshire Dividend Growth and Income composite. (6/30/2009) The $1,000,000 investment is adjusted monthly based on the stated monthly total returns for the given composite. This includes accumulation and reinvestment of the dividend. The monthly adjusted account values are then multiplied by the current yield of the respective composite. The resulting monthly income figures are then charted in the graph. Dividends are not guaranteed, and may be subject to change. 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. A fee of 1% annually is included in analysis. Berkshire Dividend Growth and Income current yields are calculated in Zacks from a representative account only. Individual account yields and returns can vary. Calculation limitations: Changes of the underlying holdings in the index or composite can change current yield calculations. This can lead to various ranges of results that may appear more or less favorable. Example: Stock A with 3% current dividend yield is sold. Stock B with 4% current dividend yield is purchased. This would result in higher yielding portfolio but is not the result of "dividend growth")

Have a great weekend!
Gerard

Dividend Strategy Portfolio Manager/Partner
Berkshire Asset Management, LLC
Office (570) 825 - 2600

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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