Berkshire DIVIDEND STRATEGY

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

"Casual Friday" Commentary

Casual Friday: A New Narrative + Advisor Growth Plan: "NO" – May 3rd, 2024

#TGICasualFriday

We're excited about upcoming UMA changes that will price Berkshire Dividend Strategy on par or less than competing strategies. Give us a call or email to discuss.

So, rate hikes are now "unlikely" says Powell. The market sure looked confused Wednesday, rallying immediately after, then closing down ~0.30%. (S&P500 - Source: Bloomberg). As of early this morning, "bad news is good news" has equities rallying and bond yields plummeting.

Another New Narrative?
All kinds of financial assets struggled in April. Higher long-term interest rates, the delay in the reduction of short-term interest rates, moderating economic growth, and a third consecutive "bad" inflation reading have raised the specter of stagflation. Yet another new narrative is emerging. Stagflation: low or flat economic growth with stubborn, elevated inflation. Stagflation is the worst economic environment for investors. Earnings do not grow and higher interest rates put downward pressure on valuations or P/E's. It puts policymakers in quite a conundrum. Raise rates you quell inflation but kill growth. Lower rates to spur growth but inflation probably escalates. (Side rant – is less micromanaging the economy an option?)

Being a "fed prognosticator" or basing your investment decisions on short-term economic predictions is not a sustainable or attractive way to invest, in our opinion. Six months ago, the talk was about an inevitable economic slowdown replete with 6 (count 'em six) rate cuts by the Fed. Powell did his "dovish pivot" sparking the "everything rally". Even with the specter of a well-advertised commercial real estate crash, the market has hummed along just fine… and so have the banks, to the surprise of many – even us. Recently: hot CPI, hot CRB, hot ECI… Until Wednesday it looked very possible the Fed may have to raise rates instead of lowering them. Then Powell uttered the word "unlikely." This morning added to the slow growth narrative part of stagflation.

And what to make of recent volatility? The violent moves in many indexes and individual stocks are abnormal and potentially troubling. The S&P is declining by 30 handles in the morning and rallies over 80 handles on Fed speak and then turns around to decline by -70 handles (from the high) to close -20 handles on the day. A slew of individual companies created abnormally violent moves up and down. How can the efficient market misprice companies so much from one day to the next? (Source: Bloomberg)

Conclusion? Everyone seems confused.

Our advice, skip trying to "make sense out of non-sense". Investment conversations around these events quickly become circular, exhausting, and drain your productivity.

Instead, control what you can control. Cash flow… quality business selling at reasonable prices… long term compounding. Companies that simply compound cash flow for multiple generations because of their business models and operating philosophy. Companies with simple businesses: garbage, snacks, pharmaceuticals, software, smartphones, investments. And we will continue to use volatility to our advantage to constantly try to upgrade the portfolio even further.

Advisor Growth Engine: "NO."
We constantly hear -- “I want to grow my business.” This statement is often accompanied by a random AUM target and often lacks a comprehensive disciplined repeatable process for attaining it. It lacks “HOW”.

Potential Strategies?

- Increase the number of households
- Increase the size of households
- Increase fees on existing households
- Offer new services to existing households
- Enter new client segments/niche
- Enter new geographies
- Hire other advisors
- Buy a book(s) of business

…you get the point.

They’re all valid. But most, if not all of these strategies have to do with “More” and “YES”. Think back to early in your career. You needed revenue to get started. For a time, it was the classic beggars can’t be choosers. And from the moment we are taught to maximize AUM and get clients to say “yes”… Turning down business is an anathema.

It’s no wonder advisors are programmed to say “yes”. “Do you have a pulse and $100,000? Yes! I’ll accept you as a client.” (We're exaggerating for effect) But our point is: not having a more exacting client profile creates a series of one-off products, non-strategic clients, hundreds of tickers in a BOB, compliance issues, lack of scale, etc.

How does an advisor take their practice to the next level with all this noise?

Enter the advisor growth engine of "NO."

In our opinion, the advisors with the highest AUM, productivity and PEACE in their lives are often distinguished by what they DON'T do... they're equipped to say no.

- NO! to letting clients drive the investment decision agenda
  - Instead, they do create a sound financial plan for clients and implement aligned investment allocations (think about this one a moment, if the client is dictating investment decisions to you – why do they need you?)
- NO! to non-scheduled disruptions / menial tasks
  - Instead, they schedule the day with the most productive and impactful activities for clients and their practice.
- NO! to 100's of tickers/strategies in their book of business
  - Instead, they do create a finite amount of high conviction models that are implemented across the ENTIRE book
- NO! to a generalized practice with random clients they don't really love
  - Instead, they do build a niche around a specific group of clients with very specific needs which they have a very specific set of solutions for.

The industry chases "more/yes" to drive growth. No one likes revenue walking out the door. Imagine going to your manager and saying "uh, yeah for the next two years my business is going to be down 10-20%. The industry doesn't seem to teach or like that. Everybody in this business has a quarterly number and a higher-up to report to. And you probably don't like it. But honestly ask "Would saying no to those 20% of clients that take up 50% of my time create something greater?" 50% of your time, restored -- where you can be more focused, work on the highest order tasks, pursue a niche you're passionate about, spend time developing new skills, or relax. We knew one advisor who took this to heart, took 2 years of lower gross, cleared the decks but now works about 30 hours a week...and his production has never been higher.

Kitces elaborates on the "No" playbook:
Kitces & Carl Ep 137: When Does Your Career Transition From Saying "Yes" To Opportunities And Focusing More On "No" Instead

Berkshire Hathaway's Annual Meeting is this weekend - Of all the things the event is known for, who would have thought... Warren Buffett the Wingman!
How Berkshire Hathaway's Annual Meeting Became a Hotspot for Romantic Mergers

Have a great weekend!
Gerry

Gerard Mihalick, CFA
Dividend Strategy Portfolio Manager/Partner
Berkshire Asset Management, LLC

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