Berkshire
DIVIDEND STRATEGY

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“Casual Friday” Commentary

Casual Friday: Summer "Turbulence"? + Airline Hacks... – May 31st, 2024

#TGI-Casual Friday:

Dividend Increase: Lowes announces 5% dividend increase

Summer Turbulence?
The record market rally experienced minor turbulence the past two weeks -- Observations?

- Choppy trade on higher rates and economic cross-currents.
- American Airlines stock price whacked on strategic missteps.
- Salesforce's shares plunged on weak guidance.
- Consumers trading down? Target, Starbucks, Kohl’s sales woes.
- And Medicaid “disturbance” is pressuring some healthcare names.

Some make the case we’re still cruising at 30,000 with the seatbelt sign-off. Not prognosticating, but a lot could change, it's prudent to prepare, and given the relative calm, we suspect many clients are taking on more risk than assumed. (See: “Checklist for a Market at All-Time Highs?” to coach clients)

- Earnings season is just about complete and ~80% of S&P 500 companies beat EPS expectations.
- Held to maturity and CRE clamor seems to be cooling.
    - KRE up 20%+ from 2023 lows.
- Inflation a bit sticky but tame and economic growth appears present.

We consistently opine, timing the market is not effective… You could have fooled us if you said S&P500 would be up ~25% rolling 1 year since 5.30.23. (Source: Bloomberg)

Checklist for a Market at All-Time Highs?
So maybe with the summer lull and markets near the top, dust off the Checklist for a Market at All-Time Highs. 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. 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?

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

Here's Berkshire Dividend Strategy Marketing Material

Speaking of Airlines…
Summer travel is underway. Here’s a few travel hacks for booking your vacation flight:
You Don't Have to Pay Top Dollar on Expensive Airline

Have a great weekend,
Gerry

Gerard Mihalick, CFA
Dividend Strategy Portfolio Manager/Partner
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