Berkshire DIVIDEND STRATEGY

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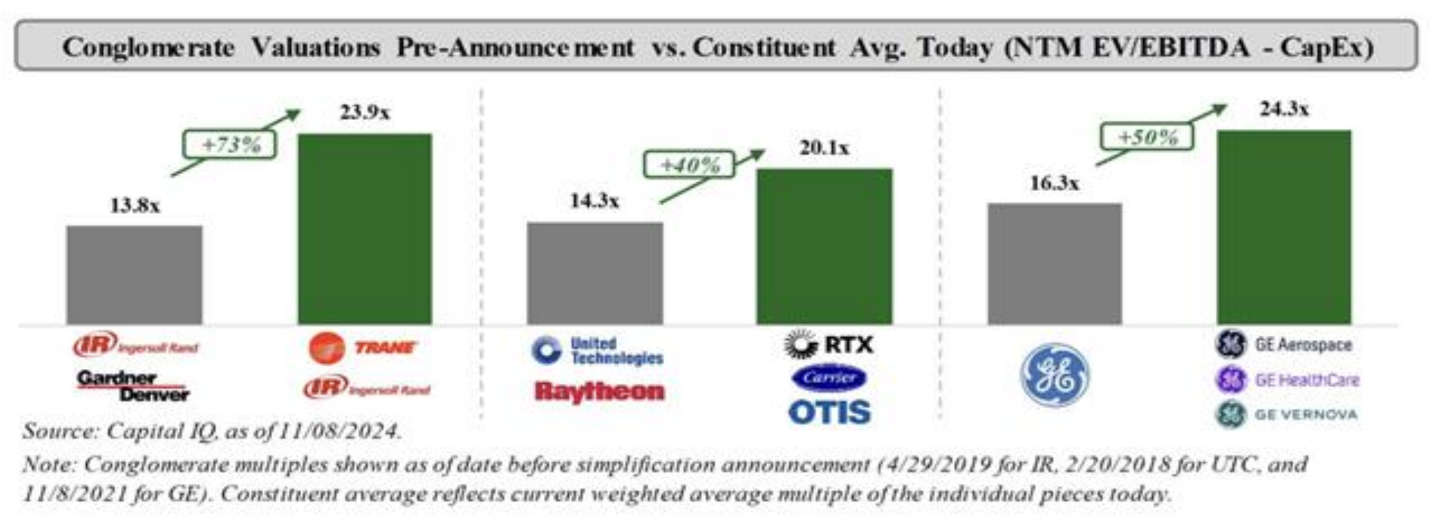
"Casual Friday" Commentary

Casual Friday: Portfolio Change + $124Trillion? – December 6th, 2024

Portfolio Change
Add 1% to Honeywell (HON) - New Target Weighting 3%
Source of Funds from Cash
- Industrial conglomerate with mid to high single-digit revenue growth expected
- Higher EBITDA margins than peers trading at 4 to 5x times lower multiple
- Shareholder-friendly, historical commitment to return capital
  - ~ 2.0% dividend yield growing ~5.5% annually (trailing 5 years)
  - Buybacks. Retired ~10% of shares outstanding (trailing 5 years)
- Potential split of the business, driven by activists, may unleash significant value for shareholders



Source: Capital IQ, as of 11/08/2024.
Note: Conglomerate multiples shown as of date before simplification announcement (4/29/2019 for IR, 2/20/2018 for UTC, and 11/8/2021 for GE). Constituent average reflects current weighted average multiple of the individual pieces today.

Risks
- Weak segments of the business, like automation, continue to weigh on performance
- Cyclical business, in general

(Source: Bloomberg)

Dividend Increases
Deere Raises Dividend 10% - 12.3.2024
Merck Raises Dividend 5% - 11.19.2024
(Source: Bloomberg)

$124 trillion?
Cerulli now projects that wealth transferred through 2048 will total **$124 trillion. PLUS** 85% of kids fire their parent's advisor and 1/3 of advisors may retire in the next 5 years. ***And there are actually more advisors over 80 than under 30.*** (Source: Natixis, Cerulli, SS&C, Carson Wealth Management)

Result? Massive amounts of newly minted millionaires seeking fresh, comprehensive advice!

Think back on your career… How many times have you seen G2 or G3 inherit significant sums of money only to blow through it in a matter of years? In fact -- [70% of Families Lose Their Wealth in the 2nd Generation](). What's going wrong? Is it a lack of education? Why didn't they follow the plan? What can we do to prepare the next generation for their $124 Trillion inheritance?

Since 85% of the kids plan to fire you, before you do anything, you must get to know successor generations BEFORE death. You might ask the patriarch or matriarch of the family: "Who else should know what goes on with your accounts?" Or "Would it make sense to start reviewing your estate plan with your major beneficiaries." It's a great time to position yourself as the lead advisor, and subtly remind heirs you played a role that put them in this fortunate position.

But beyond financial acumen, a deeper understanding of behavioral finance aspects holds the key to retaining the assets, collecting new assets, and making sure these new clients don't "blow it".

Here's how to enhance your "soft skills" as you help "G2" navigate their "sudden wealth" moment…

Recognize the Emotional Weight
They just lost a loved one and now they may feel unprepared to manage this new wave of responsibilities and decisions that comes with their inherited wealth. Advisors are "pitching them product", online articles are confusing, and CNBC is usually scaring the crap out of them about the markets.

Pause with them… Acknowledge the stress and emotion they are experiencing. Ask questions, understand, and empathize with their struggles. Ask your clients if they are feeling a mix of loss, guilt, confusion, and stress, and let them know it's normal. Build that foundation of trust and honesty out the gate. Reflexive listening skills vs lecturing go a long way here… "So you are feeling____ or "Is it safe to say that you want____" or "So you are worried that____" "Do I have this right?" This will go a long way in building trust, earning their business, and getting them to stick to a realistic and sound financial plan.

"Cool Off"
Advise your client/prospect to take a "cooling-off" period before making any significant financial decisions. Encourage them to reflect on values, goals, and aspirations this wealth can facilitate. This isn't about delaying decisions unnecessarily but about making more thoughtful, aligned choices. Think about this one… Every other advisor is probably trying to "make the sale". This strategy explicitly shows you are acting in their best interest.

Emotional weight acknowledged… Cool-off period complete – Move on to the financial plan. Share the hard truth – The biggest goal is to not run out of money and the greatest impact on their wealth over time will be spending. Share with them the huge gaps that exist between client expectations and reality. A Natixis Survey states clients expect 18% annual returns! If they think they'll get 18% and want to spend 18%, a disaster is brewing.

Guiding a client/prospect through the maze of sudden wealth is no small task. Financial expertise is a minimum standard but expertise in behavioral finance is a differentiator. In fact, "sudden wealth" is a serviceable niche (albeit a narrow one).

Here's a couple more resources to help build your $124Trillion in ''sudden wealth" playbook:
Four reasons intergenerational wealth is destroyed in 3 generations
Navigating the Great Wealth Transfer

Martial Law and Its History Explained?
From the Civil War to the rule of Ferdinand Marcos in the Philippines, find out how martial law has been enforced—and exploited: 5 Times That Martial Law Was Declared - https://www.history.com/news/martial-law-events

Have a great weekend!
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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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