CASUAL FRIDAY

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Volatility Brainstorm + Portfolio Changes

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Q1 2025 MATERIAL AVAILABLE

Note: Commentary written before the tariff announcement remains highly relevant!
Dividend Strategy Guide 3.31.2025
Dividend Strategy Scorecard 3.31.2025
Dividend Strategy Factsheet 3.31.2025
Dividend Strategy Commentary 3.31.2025

In general, we observe dividend and value strategies holding up reasonably well given the recent volatility… but like they say, "if you don't like the market, wait 5 minutes!"

Peek Drawdowns TYD:

- Value Index: -16.5%
- S&P 500 Index: -21.5%
- Growth Index: -25.6%
- The VIX is not only high, but also all over the place – so even volatility is volatile (aka the "vol of vol")

Whew

(Source: Bloomberg)

SOME THOUGHTS

- We believe this selloff is not only about tariffs. It's a combination of overvalued growth stocks, they started to correct, and then the tariffs seemingly created panic selling.
- Unlike Covid or GFC, this literally could end with 'one tweet' – see Wednesday's action.
- "Uncertainty" "recession" likely to dominate earnings releases next week – but that should hardly come as a surprise given the above.

PORTFOLIO CHANGES:

Our turnover is higher than normal, but the team is working hard and excited to capitalize on this immense volatility.

Here's a summary of our latest adds/additions, including our latest – Lennar Homes (LEN)

- Hershey (HSY) 3.5% current yield
  We view Hershey as a "multi-generational" brand with historically strong and defensible profit margins. Although rising cocoa prices introduced margin pressure, Hershey's inelastic demand profile, disciplined management, and proven track record of dividend growth (approx. 9%) help position it for future gains.

- AO Smith (AOS) 2.3% current yield
  This manufacturer of water heaters and filtration systems operates in a seemingly cyclical industry, but approximately 85% of water heater sales are replacements, providing a steadier revenue stream than many expect. AO Smith also boasts a nearly debt-free balance sheet, high return on invested capital, and a stable dividend-paying culture.

- Dell (DELL) 2.9% current yield
  Though technology hardware can be volatile, we see Dell as a forward-thinking firm with improving fundamentals. The management team's commitment to meaningful dividend growth (recent increases came in at double-digit

percentages) signals confidence in Dell's free cash flow generation, even amid tech-sector uncertainty. We expect a tailwind from AI machines and the next Windows upgrade.

- Lennar (LEN) 1.9% current yield
  A recent addition to our portfolio, this homebuilder has shifted toward an "asset-light" business model, which we believe could significantly boost return on capital and dividends over time. Combined with demographic tailwinds—a shortage of starter and mid-tier housing and strong demand in states like Florida and Texas—in our view, Lennar's strong cash-flow profile supports its ongoing dividend and potential for higher valuation multiples. LEN may see a boost from lower interest rates.

(Sources Bloomberg)

BERKSHIRE VOLATILITY BRAINSTORM!

"The world is ending!"
"I'll wait to buy when things calm down."
"Sell me out!"
Advisors can always use more firepower when talking clients off the ledge. So, we brainstormed as many "stay invested/get invested" talking points as we could.

We really want your feedback—what are your favorite tactics?

Here's ours, some specific to Berkshire, some generic.

1. Start with Purpose
   Begin by reminding clients *why* they invested in the Berkshire Dividend SMA: to generate consistent dividend income, grow that income over time, and reduce downside risk. Emphasize that recent volatility hasn't changed this objective.
2. Point to History
   Show them our 15-year track record of compounding dividends. Say: "Every year brought something scary, and yet dividend growth stayed steady and increased." Use the dividend scorecard to demonstrate and visualize this resilience.
3. Normalize Discomfort
   Acknowledge their fear, then remind them: everyone likes the idea of "buying low," but low prices rarely come wrapped in good news. Discomfort is the price of the chance at high returns.
4. Re-anchor to Their Plan
   Reassure them by saying: "Your financial plan is working. Income needs are covered, and we're still right on track." This ties emotion back to logic. THE LONG-TERM PLAN SHOULD DOMINATE INVESTMENT DECISIONS, NOT MARKET SWINGS. So, if their portfolio is below long-term allocation targets, encourage tranches into the targets.
5. Compare Value to Growth
   Highlight: "Value is outperforming growth this year, and that's exactly what dividend strategies are built to do." Offer to share up-to-date SMA metrics to show the data.
6. Flip the Script on Fear
   Say: "It's uncomfortable now, but our research shows future gains are born in low-price environments—not at peaks. This is where real opportunity begins.
7. Contextualize the Drop
   Tell them: "This has been one of the fastest drops in decades. Quick moves like this create fear—but they also open doors for disciplined investors."
8. Contrast This Crisis with the Last
   Note the difference: "COVID and the GFC dragged on. This one could fade fast, just point to Wednesday's action. "
9. Warn Against Emotional Selling
   Be direct: "Selling into panic rarely ends well. It halts compounding and usually leads to regret. Let's avoid that trap."
10. Refocus on Fundamentals
    Guide them: "Yes, earnings may soften, but ask yourself—should a short-term headline change what you'd pay for a high-quality business long term? We don't think so."
11. Break Down the Real Risk
    Clarify: "Tariffs might slow the economy—but so far, we're not seeing signs of financial system stress. No contagion, no debt crisis. That's key."

12. Remind Them What's Normal
    Share the stat: "On average, markets correct 14% every year. What we're seeing isn't unusual—it's expected." (source J.P. Morgan).
13. Reframe Volatility
    Say: "This isn't a bug—it's the price of admission. Every great long-term return required getting through times like this."
14. Explain the Fear Spiral
    "We believe part of this crisis stems from key sectors being grossly overvalued in the first place. Tariffs might not be the cause, but the accelerant that morphed into an irrational panic. That panic spread, reinforcing the drop. This isn't a collapse—it's a reset."

PERHAPS THE BEST PUTT AT THE MASTERS THIS WEEK?

Rory McIlroy's four-year-old daughter Poppy sinks putt at Augusta

Have a great weekend!
Gerry

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