Berkshire
DIVIDEND STRATEGY

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“Casual Friday” Commentary

Casual Friday: Q&A + 10 Actionable Ideas For Summer – *June 18th, 2021*

The markets are finishing the week on shaky footing… Comments from Powell were first received as “cycle / broader economic growth” and have since reversed to “tighter policy will immediately kill growth and inflation” -- A total 180 from recent sentiment. With 2 “potential hikes coming in 2023” this might be an overreaction by the market. (Source: Bloomberg)

“State of the Union?”
Recently, I was simply asked - "Give me the state of union on dividends and Berkshire portfolio." Here's a quick recap of the discussion based on many questions we've fielded recently.

“Is it still ok to buy equities.” (Our most common question)
Yes, we always believe equities are a good long-term asset with the following current caveats.

- You are willing to accept positive but lower returns going forward.
- Mid-single digits would be a win next 3-5 years.
- While S&P 500 and Nasdaq look expensive, value and equity income stocks still look reasonable.
- If economic growth remains robust this mutes the effect of potential higher bond yields on stocks.

Will there be a correction?

- Dividend stocks have proven resilient in corrections.
- Market has been correction free for a long time, so a little bit of caution is warranted.
- You should ALWAYS invest as if there was going to be a correction and make sure your balance sheet and personal risk tolerance can handle it.
    - Corrections are nearly impossible to predict, and it proves even harder to get back in (bad news goes along with corrections).

Is the reopening trade real?

- We are believers a genuine economic rebound is underway and should benefit cyclical names.
- Fed remains very accommodative and liquidity is exceptionally high.

- GDP growth could be 12% this quarter, and EPS growth north of 50% (off a horrible quarter this time last year).
- Inflation should benefit dividend growers vs. non growers.

How is the outlook for dividend growth?

- We are pleased we've done a 180 from this time last year when everyone was worried about mass cuts. Now it's "how FAST will they grow the div?"
- Although, we expect companies will remain conservative in their dividend policies.
- Valuations in our world are reasonable.
- We believe hidden growth opportunities are available in reasonably priced companies.
- Again, mid-single digit growth would be a win.

What sectors do you like?

- Banks (higher rates, credit quality, loan growth, higher dividends coming).
- Industrials (reopening, select margin expansion, rapid eps growth).
- Health Care (cheap, cash flow generators, good pipelines).
- "Old tech" (5g, internet of things, pristine balance sheets, reasonable valuation).

What do you NOT like?

- Crazy "casino mentality" - Distracts logical investment thesis and creates poor investor behavior
    - GME, AMC, BB, etc. – Probably not healthy for the market..
- Lots of Nasdaq type names in valuation rarified air.
- Utilities and REITS - too interest rate sensitive with limited growth.

Any Concerns?

- The deep value / low quality trade will persist vs. our quality bias.
- Profligate gov't spending and higher taxes are not exactly simulative -- Stagflation?

Been a lot of easy money sloshing around driving up prices.

Conclusion?

All in all, we think it's an ok time to put money to work in dividend equities -- maybe not full allocations but you have to play to win. We do however think it's very prudent to use dividend equities to "de-risk" portfolios. We see froth in areas of the market and there is opportunity to capitalize and shift portfolios. It's never exact, and it's never easy. There is no all-clear sign in investing. Over time, trend is up. Next 0-12 months is any body's guess but we think at these prices and fundamentals, dividend stocks can provide a decent return going forward.

Summertime is traditionally full of doldrums, but you can still be proactive.
Here are 10 ideas and we have supporting steps to help you implement them:

1. Pair Berkshire with an annuity – Simplify client's life by guaranteeing needed income and use Berkshire to grow discretionary income. Simple, transparent, no nonsense.
2. Pair Berkshire with Structured note for downside buffer – 50% Berkshire/50% income structured note. The note could provide highly customizable and predictable downside protection and reasonable upside. Berkshire Div Strategy could give income growth, appreciation and broad exposure to long only large cap strategy. (Notes vary from firm to firm)
3. Potential tax changes driving clients nuts? ***Get Proactive*** - Hire an expert to speak at a dinner with your wealthiest clients – Tell them to bring a friend who may also have these concerns.
4. Want/Need to change managers but worried about taxes? Utilize Berkshire Tax Alpha Transition Program – Intro
5. Are your clients Small Business owners? Host a working Zoom lunch with a focus on maximizing retirement plans for small business owners.
6. Think rates are low? Discuss Berkshire as a way to grow income in a low fixed rate world.
7. Think the value rotation will continue? Trim some growth, allocate more to value. Call us for talking points. Better yet, add cache -- put one of our PM's on the phone with your clients.
8. Have clients who care about their health? Is fitness the new golf? Pick a classy venue, hire wellness coach/nutritionist/exercise coach to discuss health initiatives. Tons of possibilities!
9. Are your clients real estate investors? **Learn** how to do 1031 exchanges and network with local real estate investors as a niche.
10. Tired of wasting time driving to see clients? Master the zoom call and deliver interactive financial planning/analysis

(No statement made in this section shall construe investment advice)

Berkshire Summer Guide
Office quiet and looking for more fresh practice management ideas??
Casual Friday: Berkshire Summer Guide… – June 4th, 2021

BONUS: Summer School

Use summer downtime to gain true expertise in key areas to stand out from the crowd. Don't invite experts to talk to YOUR clients. Become the expert.

"Advisor expert so and so ….

- knows more than HR about our companies ESOP or Restricted Stock options"
- helped me maximize social security benefits when setting up retirement"
- saved me a ton of money by assessing ALL of my insurance policies"
- set up my estate so my kids will likely avoid millions in tax"
- set me up with a cash balance pension plan and I'm contributing more than six figures a year to my retirement plan"

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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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