Berkshire
DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: Equal & Opposite? + Ticker Overload – June 2nd, 2023

Good Morning, #TGICF

Equal and Opposite?
2022 was a notable year for dividend strategies. In fact, most dividend indices were roughly flat, while the S&P 500 languished, down nearly 20%. Growth and momentum as factors got smoked, while dividends, value and profitability held up much better. Now, almost midway through 2023, "equal and opposite" forces shape YTD performance.

Dividends, value and profitability are all negative factors and they seem to be defining the returns of most dividend strategies. On the other side of the performance spectrum, familiar faces sit near the top… Seven stocks, (Facebook, Amazon, Apple, Microsoft, Google, Tesla, and Nvidia) after May's increase, are now up 44% on average and have driven nearly the ENTIRE performance of the S&P 500 YTD. The remaining 493 companies are basically flat YTD.

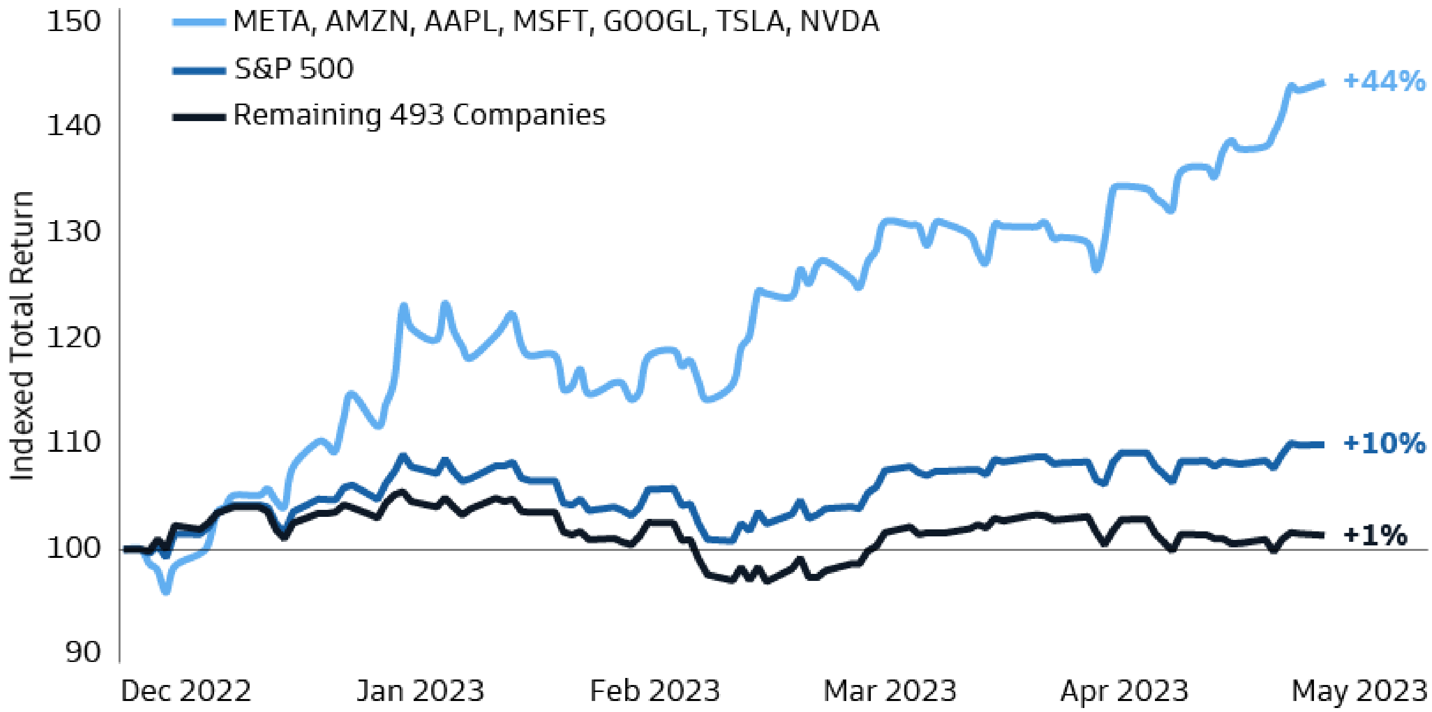
These 7 stocks now represent approx. 27.4% of the SP 500 and a whopping 43.1% of the Russell Growth. It's a misnomer to call it the S&P 500, it is not very diversified. We believe these 7 are great companies; they have superior balance sheets, strong earnings, cash flow, and dominant businesses.

The issue is valuation, which to say the least, is extended. For example, Nvidia, an artificial intelligence and gaming chip maker, trades for 40 times trailing SALES. Meta, up over 100% this year, has declining to flat sales but still trades at 19 times earnings. Is artificial intelligence bigger than the internet? It certainly could be, but profitability from this breakthrough appears way off.

So the big question is – "Will this narrow performance persist?"

The risk of whiplash appears very high at the moment. Value vs growth had massive performance dispersions over the past number of years. Selling value to chase growth in late 2021 or throwing in the "growth towel" to buy value late last year would have crushed client performance. We never know how long these trends last, but we're certain, giving clients "performance whiplash" can jeopardize an otherwise healthy relationship.

We recognize disciplines move in and out of favor, but we've found sticking to cogent long-term investment processes and patience tend to be more successful than darting in and out of markets -- portfolio balance aligned with investor goals is always a good idea. We do however suspect at some point in the not-so-distant future, the market will regain its balance. (Source: Bloomberg)



Source: Goldman Sachs

“What are all these “tickers” in my book?!"
Many advisors meet this inflection point in their careers. Seemingly harmless to the layperson…

But accepting the “one-off” clients, “selling” products, and overcomplicating investment strategies can eventually lead to a stifling amount of inventory and major shortfalls in an advisor’s practice. Even the most elite advisors may agonize over maintaining non-strategic investments due to capital gains issues or clients that don’t fit their model.

Imagine COVID 2020 for a moment…The markets are haywire, clients are calling and you’ve determined to capitalize through investment changes, for all of your clients.

The problem? We heard these massive advisor inefficiencies exposed:

- "I had way too much inventory on the books to react quickly enough for all clients."
- "Clients had inconsistent performance"
- "I had too many non-discretionary accounts – it slowed me down."
- "I need to create more scalability while maintaining customization and satisfied clients."

Add in the time it takes to keep track of all those tickers, potential compliance issues and lack of conviction when sitting across the table with a client… How the heck do some advisors even function with soooo much inventory?!

Some may argue having a thousand tickers in a book of business is "customization", but it's likely not adding strategic "value" to your clients and it's likely not adding value to your practice. In fact, when this occurs an advisor's time and attention is often relegated to less impactful activities. Advisors are served well when they treat their investment book of business like a garage… Spring clean-ups are required, otherwise it gets messy, inefficient and you forget what you have. A bunch of "stuff" accumulates -- some of it likely not useful. However, unlike a garage, the risks of not managing investment inventory are considerable -- compliance headaches, low conviction investment review meetings, and client financial plans and investments potentially not aligned. ***Perhaps the biggest risk?*** Broad inefficiencies that limit you from taking your practice to the next level.

Berkshire offers specialized solutions to assist in "spring clean-up" through technology and customization -- we've helped advisors build more streamlined, efficient and productive practices - Give us a call to discuss cases studies.

The Miami Heat, the Florida Panthers and a Staggering Chance at Sports History
A single sports region has never won the NBA Championship and the NHL Stanley Cup in the same season.
https://www.wsj.com/sports/miami-heat-nba-finals-florida-panthers-stanley-cup-65cf036d

Regards,
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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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