Berkshire DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: Swiss ARmy Knife – February 2nd, 2024

#TGICasualFriday!

Do you need to transition a portfolio into a managed account, but are worried about the manager taking the tax hit all at once? Advisors find our solution is efficient and cost effective. Call us 570.825.2600 or email gmihalick@berkshiream.com for info.

Advisor Question: *"Why should U.S. large cap companies trade at such a premium to history…and to others markets across the globe."*

First, we believe: interest rates. CFA Level 1 discounted cash flow formula math shows the value of any asset is the present value of future cash flows.
Huh? To value something, take the cash an asset generates (or dividends, earnings) and divide it by the interest rate (a risk free rate + extra yield for to take risk) + a growth rate

Cash flow / (Required rate of return% – growth rate) = value (aka the intrinsic p/e)

Mathematically if you divide $1 of cash flow by a lower number (the interest rate) the value goes up (smaller denominator). And if It's the same math behind why bond prices go down when rates go up (bigger denominator)

Example: $1/ (10%-4%) = a multiple of 16 x
But that same $1 /(8%-4%) = a multiple of 25 x.

That's why persistently low rates justify higher P/E's. One could argue that lower rates are a byproduct persistently slow growth, which would lower values, and that's true. A "DCF" is a complex interplay of all the variables. The Math.Does.Not.Lie. But the trick for investors is getting the inputs right!

Other reasons which may justify higher P/E's than other countries:

The U.S. enjoys relatively stable laws, a well-educated labor force and deep, liquid capital markets that are still arguably the best in the world in our opinion.

Free cash flow from an information-based economy: Think about the U.S tech, pharma, industrial and banking sectors. So many of these companies are just cash flow generating machines vs. developing world which still requires heavy equipment, cheap labor, and makes lower end commodity products. Tech companies being the most obvious example.

Dividend Growth: The Swiss Army Knife for Advisor Productivity?
It's common for advisors to seek: larger accounts, more AUM and greater efficiencies.

And for many the answer is "more". More work, more marketing, more clients, bigger clients, add more investment options and maybe even add more advisors to your team.

But what if the path to greater profitability and efficiency is actually "less"

- What if you spent *less* time covering so many strategies and cleaned up your book?
- What if you spent *less* time debating with clients that don't take your advice or are not profitable
- What if you spent less time agonizing over investment decisions and outsourced?
- Our favorite? What if you spent LESS time debating clients about "Which way is the market going?" Think for a moment how much agonizing time you've spent with clients on that pointless discussion. It's the biggest productivity killer since they invented "compliance" (compliance departments please have a sense of humor!)
- What if you spent more time on income-based strategies and investigated how dividend strategies may help solve client goals vs. chasing /timing the market or trying to beat an arbitrary benchmark that might have little to do with what clients really care about. How much more time would you free up to spend on what really matters?

Done correctly, it may create a subtle yet seismic shift in productivity! And yes, dividend strategies may possess the versatility to solve a number of practice challenges that may help unlock it. Call us, we'd be happy to show you how less could create more…a LOT more.

Dry January is over…just in time for SOARING cocktail prices.
[Soaring Cocktail Prices?]

Have a great weekend!
Gerard

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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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