Berkshire
DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: Dividend Increase + "Spring Clean Up?" – March 22nd, 2024

#TGICasualFriday!

Dividend Increase
JPM Announces 9.5% Dividend Increase – 3/19/2024

Advisors on the quest for a magic growth bullet... like doing something new that lands zillions of dollars may overlook the productivity enhancements dividend investing brings to the table. Narrowing investment offerings, owning less and simplifying is what frees up the time for expansion, in our opinion.

Dividend Growth Investing in Your Practice

- *Aligning investor goals?* -- Generate income, Grow Income and Provide Relative Safety on the downside. Sound familiar?
- *A higher compounding rate?* Annual Returns -- S&P 500 Dividend Aristocrats 11.38% vs S&P 500 10.13% - (Source: Bloomberg 1994 - 2023)
- *Downside protection?* The S&P 500 Dividend Aristocrats has outperformed the S&P 500 69.34% of the time in down months. (https://www.spglobal.com/spdji/en/documents/research/research-sp500-dividend-aristocrats.pdf)
- *Inflation protection?* When CPI YOY is above 4%, S&P 500 Dividend Aristocrats outperformed the S&P 500 by ~0.40% monthly. (Source: Bloomberg 1994 - 2023)
- *Higher Equity Allocations?* Owning high-quality and durable equities may allow for larger equity allocations in client portfolios. Over time, do you want your clients' wealth and your BOB to compound at the rate of stocks or bonds?

Why Dividend Growth investing Now

- *Yield?* S&P 500 Dividend Aristocrats Current Dividend Yield ~ 70% Higher than S&P 500 (Source: Bloomberg 3.15.2024)
- *Valuations?* S&P 500 Dividend Aristocrats Current Price to Book trades @ ~40% discount to S&P 500 (Source: Bloomberg 3.15.2024, based on historical averages)
- *Factor Rotation?* Dividends as a "Factor" are one of the worst performers in the past year (Source: Bloomberg 3.15.2024, based on historical averages)
- *Secular Growth?* Dividend growers tend to have excess free cash flows and quality balance sheets. They can be more likely to have the resources to invest and capitalize on future growth opportunities. I.e. technology adoption, innovation, new markets.
- *Future Yield?* A stock with a current dividend yield of 2.5% with 10% annual dividend growth could effectively provide a ~6% yield on original cost by year 10.

- *Diversifier?* Top 10 names in the S&P500 make up ~34% of the index and ~55% of the growth index. Dividend growth can provide solid diversification to these growth-heavy indices. (Source: Bloomberg 3.15.2024)

Spring Clean Up?

“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 you want to make 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 case studies.

Flip the Productivity Script?
The NCAA basketball tournament cost an estimated $17.3 billion in lost productivity last year. But it doesn't have to be a drain: Business leaders who flip the script can win big on company culture:
https://www.inc.com/sarah-lynch-/march-madness-could-help-employee-engagement.html

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.

Risks: Past performance does not guarantee future results. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for an individual's investment portfolio. Dividends are subject to change, are not guaranteed, and may be cut. Investing based on dividends alone may not be favorable as it does not include all material risks. There is no guarantee any stated (or implied) portfolio or performance objective mentioned by Berkshire can be met. Berkshire's equity style may focus its investments in certain sectors or industries, thereby increasing potential volatility relative to other strategies or indices. The dividend strategy may include bundled services also known as a "wrap fee program". Because there is typically a low turnover in the strategy, this may be more costly for some investors. No one should assume that any information presented serves as the receipt of, or a substitute for, personalized individual advice from a qualified advisor or any other investment professional.