CASUAL FRIDAY

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#TGICasualFriday – from a washed out North East

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Advisors: The inspiration for this foundational article comes from many sources. But in the end, it comes down to this… We aim to help you articulate the case for dividend strategies, to get clients invested and keep them invested. We think the article will resonate with a wide class of investors: retirees, business owners, real estate entrepreneurs, even foundations and institutions. Several advisors we know use it as the centerpiece of their investor presentations, with great success..

"You Can Be a Landlord Too" by Gerard Mihalick, CFA

Why Owning Dividend Stocks Is Like Owning an Apartment Building. Except the Tenants are the likes of Microsoft, Johnson & Johnson, and J.P. Morgan — *And We Expect Them* to Pay Us More Rent Every Year

Imagine this:

You own an apartment building on Main Street in a high-quality neighborhood. But instead of individual renters, your tenants are some of the most profitable businesses in the world—household names like Microsoft, J.P. Morgan, Johnson & Johnson, and Pepsi, just to name a few.

In this analogy

- They don't miss rent.
- They don't trash the place.
- And every year, as their profits grow, they should voluntarily pay you more.

That rent? It's called a **dividend.**

And when you own a well-constructed portfolio of rising-dividend stocks, in *a sense,* it's like you are the **landlord** of a high-quality cash-generating piece of real estate.

The Power of Quality Tenants
Just like in real estate, your outcome is only as good as your tenants. You want businesses, aka "the tenants" with strong cash flow, pricing power, and responsible balance sheets. You want companies with a track record of rewarding their owners, through thick and thin. And yes, we DO evaluate these metrics each quarter as they present their results.

In our portfolios, we don't chase speculation. We **rent out capital** to blue-chip businesses that treat shareholders like partners. The better they perform, the more likely they are to pay you. As the landlord, you expect bigger and bigger "rent checks" aka dividends every year. Even during Covid in 2020, 32 of our 35 companies in the portfolio paid us more rent (announced dividend increases) – a testament to the financial strength of our tenants! (Source: Bloomberg)

Do You Check Zillow Every Morning?
No real estate investor wakes up and calls their broker every day to ask,
"What's my building worth right now?"

They care about occupancy, rent increases, maintenance, and long-term appreciation. The same goes for dividend investing. Stock prices bounce around daily. But dividends are grounded in fundamentals. They're paid in cash, not opinions.

When your clients understand they own a portfolio of growing rent checks—not just a fluctuating "ticker"—they *likely* stop worrying about headlines and start thinking like long-term owners. And if you have the right long-term tenants, it is also

** "Peer group" - Morningstar groups managers reasonably considered to be close investment alternatives, and for which performance and other statistical measures, such as fees, are comparable.*

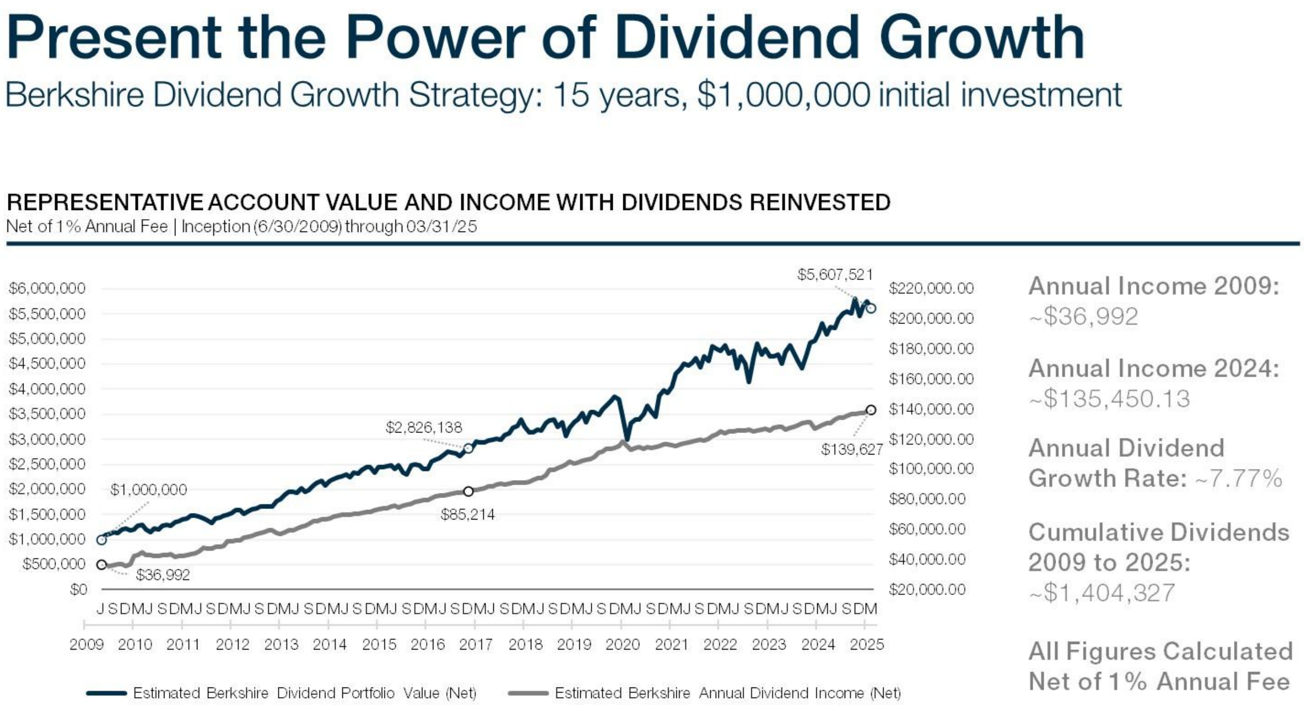
likely that the value of the underlying building will grow nicely too.

The Payoff: The Potential to Compound Income and Attain Peace of Mind
Over time, rising dividends may help keep pace with inflation, support lifestyle goals, and create a more predictable investment experience.

You don’t have to bet on the next hot trend or worry “which way is the stock market going”. Instead, collect more and more rent, and let time do the heavy lifting.

How has Berkshire’s “Apartment Building” done over the past 15 years? More “rents in the mailbox” each year. Dividend checks have piled up so much they exceed the initial investment by over $400,000. (Reference the chart below) The underlying price of the “building” has risen from $1 million to $5.6 million. Without checking a benchmark or other managers, we venture to say many investors would gladly dial in this result for the next 15 years if they could magically. (Source: Dividend Strategy Guide 3.31.2025)

And unlike actual real estate, our investors have enjoyed instant liquidity. Transparency? You’ll possess a clear understanding of who is “living in the building” because they (the shares of the companies owned) will be displayed on monthly statements.



*Please reference the GIPS composite presentation on page 19 of Dividend Strategy Guide 3.31.2025 of for Returns Net of 3% Fees. 3% fee represents the max fee in “wrap” programs in which Berkshire Dividend Strategy participates. Intended for illustrative purposes only. The income chart is based on the assumption $1,000,000 is invested in the Berkshire Dividend Growth and Income Strategy at the inception of the Berkshire Dividend Growth and Income composite. (6/30/2009) The $1,000,000 investment is adjusted monthly based on the stated monthly total returns for the composite given. This includes the accumulation and reinvestment of the dividend. The monthly adjusted account values are then multiplied by the current yield of the respective composite. The resulting monthly income figures are then charted in the graph. Dividends are not **guaranteed and** may be subject to change.*

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*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. A 1% annual fee is included in the analysis. Berkshire Dividend Growth and Income current yields are calculated in Zacks from a representative account only. Individual account yields and returns can vary.*

So come check out our apartment complex and stay a while. A long while…we think you'll like it here for generations to come.

Bonus: Some Finer Points

Sometimes We Have to Kick Out a Tenant

We like long-term residents in our place, and we respect the heck out of them. However, if a company stops growing cash flow, cuts the dividend, or mismanages its capital… we might ask them to find a new place to live. In our typical 38-unit building (aka we own about 38 stocks), we might see 2 or 3 new tenants leave and enter the place yearly, which helps keep disruption *(and likely taxes)* at a minimum.

- Dividend cuts = missed rent
- Poor capital allocation = damage to the property
- Excess leverage = tenant overextended on credit.

We don't set it and forget it. We monitor tenant quality. If a business stops meeting our standards, we evict and replace them with a stronger tenant.

Diversifying the Building

"Would you rent every unit in your building to one company? No. We diversify the rent roll."

- Sector, industry, and company diversification to reduce risk of overconcentration.
- Rent resilience = dividend durability across the portfolio.

We desire a range of tenants—some growing fast, some steady, but all responsible. This *should* give our building (portfolio) strength across economic cycles.

Capex and Reinvestment

"Good landlords reinvest in the building. Great companies reinvest in the business."

- We see the companies that reinvest profitably as ones growing dividends over time.
- We watch for companies burning cash or taking on too much debt to pay dividends. Sometimes NOT growing the dividend fast is good for the long run health of the business.

We want tenants who improve the property while paying rent—and we surely don't want tenants who borrow just to make rent!

We Don't Panic When a Tenant is Having a Hard Time – Within Reason

"Even the best tenants run into a rough patch on occasion. One bad stretch where they can't grow the dividend, they are retooling for the future, doesn't mean we kick 'em out."

- Short-term noise vs. their long-term cash flow prospects.

- Stay the course unless the underlying fundamentals change.

Enough dividend talk... fire up the grill and enjoy the holiday weekend!
- 28 Memorial Day Recipes for a Memorable Cookout
- 11 Cocktails That Belong at Every Memorial Day Cookout

Have a great Memorial Day weekend!
Gerry

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