BERKSHIRE DIVIDEND STRATEGY

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Early Casual Friday: The Great Divergence + Human Alpha

#TGIEarlyCasualFriday!

Advisor Quote: “XYZ Dividend Manager is *down* YTD."
2026 is shaping up to be a year of great divergence for value and dividend managers. When we look under the hood, much of it isn't only a matter of managers buying "quality"—it traces back to valuation discipline. In recent years, we've noticed others' appetite to pay up for "quality" increased, in some cases significantly. The lesson isn't about how you define quality, it's that valuation matters at the company level -- especially when AI is forcing investors to rethink the attractiveness of business models.

Consider the historic narratives on two sectors:

- **Software** — consistent, capex-light, high margin. Some pay a healthy, growing dividend. The kind of quality a dividend discipline is likely to own. BUT traded at premium levels.
- **Semis & Hardware** — capital intensive and cyclical, and many pay no dividend. A lot were "dead money" for years, trading at mid-single-digit PEs for good reasons.

Then this happened in 2026:

- **RLV Semis:** +144%
- **RLV Hardware:** +111%
- **RLV Software:** –21%

***(Source:** Bloomberg as of 6/16/2026)*

Exposure in one and not the other, and your returns end up in different galaxies. That's not a rotation—it's a historic fault line that rattled a lot of investors. The Street is calling it "SaaSpocalypse." Goldman flagged it as the worst stretch of relative performance for software versus the S&P 500 in the sector's recorded history. *(Source: Bloomberg)*

Paying a big premium for a business that suddenly faces headwinds—or worse, is threatened with being wiped out entirely—is a long, painful ride down. Quality and valuation are two different questions, and 2026 reminds people you have to answer both. We won't buy a bad business at any price just because it's cheap, and we won't pay to the moon for a great one just because it's great. Discipline cuts both ways. That's us keeping *two* steady hands on the wheel, not one.

And advisors are wise to go beyond a simple return series when allocating to managers. Some of the managers under the most pressure now were doing great up until recently.

Alpha, beta, Sharpe ratio—the underpinnings of Modern Portfolio Theory—do not tell the whole story. At a basic level, MPT tends to reward what has gone up the most (and, presumably, what carries the highest valuation). But a deeper look into peer portfolios revealed high betas, low yields, concentrated sector exposures, and overall P/E ratios that seemed uncomfortably high to us.

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With apologies to our consultant friends who favor sophisticated MPT models—and especially beta as a measure of risk—we would suggest a simpler construct: a fundamental beta. One that thoughtfully measures the reality of the business – not the stock price: balance-sheet strength, cash-flow consistency, and valuation discipline.

"Safe and cheap" remains the goal, because the tallest trees usually have the farthest to fall.

"Human Alpha"
We're all drowning in content and oceans of meaningless communication: the auto-personalized birthday emails, the “hey are you still accepting new clients…” lead generation pitch or the LinkedIn congratulations that read like they were written by the same invisible hand—because they were. When everything can be generated instantly and infinitely, none of it carries weight. The marginal cost of an AI-generated kind word has dropped to zero, and the market has priced it accordingly.

This week, we received—guess what—a handwritten thank-you card, written by humans!

Picture this: an advisor team we're privileged to serve, passes a card from person to person, and each one takes a moment to write something thoughtful and sign their name. In this day and age, it feels like one of the few things that can't be faked or automated. Priceless.

It's a level of appreciation that goes well beyond a simple thank-you email—and it's a great blueprint for making clients feel genuinely valued. Here are a few more ideas to put into practice:

- **"First-Day Fuel."** One advisor keeps a running list of every client's kid heading off to college. The week before move-in, a care package shows up at the dorm—not from Mom, from the advisor. Inside: a gift card to the campus coffee shop, a phone charger (the one everyone forgets), and a short note: "Your parents have trusted me with the financial plan that got you here. Go be great. Call home Sundays." The parents hear about it before the box is even unpacked. The advisor didn't just manage the 529—he showed up at the finish line.

- **"Reunion Photo."** One advisor we know is always looking for ways to give clients special keepsakes, which keeps him front of mind with the whole family. The scene: one of his largest clients' long-overdue family reunion. The advisor called the client's kids for help. "Your parents aren't just clients—they've been friends of mine for years. I know the reunion is coming up, and I'd like to do something special. I'm going to hire a photographer for the event, but I need your help. I think it'd be really cool to have a portrait of the reunion delivered to the house afterward. Can you help me pick the photo, frame, size, and where it hangs?" The portrait now hangs in the dining room and comes up at dinner after dinner—a constant source of joy for the family, and a daily reminder of the advisor behind it.

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- **"Humble Pie."** Another advisor swears by the "Humble Pie" method. How does it work? When a client-service mistake is made, the office sends the client an actual pie, along with a note explaining the service standards they hold themselves to. In the advisor's words: "No one eats pie alone—so it's a chance to turn a mistake into a referral!" Bonus: tuck in a "Share the Last Slice" business card—"If a friend needs dependable advice, feel free to pass this along."

Paper, Not Pixels: The Financial Advisor Summer Read List
There's no algorithm involved in sitting on a beach with a paperback in hand...

- **Unreasonable Hospitality — Will Guidara.** The former operator of a four-star restaurant on turning ordinary service into moments people never forget.
- **Same as Ever — Morgan Housel.** A short book on the things that never change while everyone's panicking about the things that do.
- **Co-Intelligence — Ethan Mollick.** The clear-eyed guide to working *with* AI instead of being flattened by it.

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