



Berkshire

DIVIDEND STRATEGY

Berkshire Asset Management, LLC

46 Public Square, Suite 700

Wilkes-Barre, PA 18701

570.825.2600

www.berkshiream.com

Third Quarter 2019

BERKSHIRE BOTTOM LINE

The **Bottom Line** is designed to provide you with a high level overview of last quarter. For a full report, visit www.berkshiream.com

Berkshire is a fee-based, SEC registered advisory firm serving the portfolio management needs of high net worth and institutional clients with equity, fixed income and balanced portfolios. Over the past 30 years, we have found success by combining detail-oriented investment processes with an exceptional commitment to meeting your needs.

BROKEN RECORD?

- Convoluted push/pull macro worries – about trade wars, Federal Reserve actions, and a potential recession – are persisting quarter after quarter.
- Still, stock indices keep grinding higher, leaving naysayers and market timers well behind. Value stocks are rebounding vs. growth as the economy remains durable.
- Interest rates remain near all-time lows; 10Yr Treasury yield 1.70% at quarter-end (down from 3.25% a year ago).
- Political theater adds market intrigue, but is likely “non-investable.”
- Trends we’re monitoring: The Fed is intervening in money/repo markets. Unwinding of the Fed’s balance sheet and other manageable technical factors make us think it’s not a re-run of 2008. Banking liquidity remains solid.

BERKSHIRE STRATEGY NOTES Q3, YTD

Berkshire returns approximating the broad gains of U.S. large-cap benchmarks.

Areas of emphasis in our portfolio performed well.

- Leading**
- Financials holdings: “sneaky” good performance (in line with indexes) despite low rates and a flatter yield curve.
 - Consumer-related stocks: outpaced the market thanks to operational turnarounds
 - Industrial stocks: continued to outpace the index thanks to GDP growth, stock selection
 - Last year’s laggards: many Berkshire stocks which were formerly a drag on performance posted sharp turnarounds

Mixed Berkshire is underweight technology compared with many large-cap indexes. Microsoft, Qualcomm increased more than 30% year to date.

Lagging Health Care stocks: Political rhetoric is keeping a lid on prices. Political gridlock may limit opportunities until the 2020 election. Newly added Bristol Myers (BMW) looks attractive, however.

OUTLOOK

The “stay the course/don’t time the market” principal has been vindicated, as Berkshire’s clients have benefited from near fully invested status. Berkshire’s formula for success remains straightforward: Buy good companies. Be forward thinking in company analysis. Focus on growing cash flow. Grind out returns. Keep a value bias, especially near record highs. Thankfully, the much-feared recession has so far proved elusive, enhancing the value of companies in our portfolio. While it may sound like a broken record, we expect the stock market to continue to be music to the ears.

FROM LAGGARDS TO LEADERS

Clients who invest with a value manager may lose patience with underperforming stocks. “How can they own *THAT* company! Don’t they know how bad things are?”

We understand: certain holdings challenge our patience! But sometimes the most unloved make the best investments. Good businesses evolve, adapt and recover.

Here are a few examples in Berkshire’s portfolio of companies that struggled in the past year or so, but are performing well year-to-date:

- **General Mills (GIS):** organic growth improving and so are results at Blue Buffalo (its latest/largest acquisition).
- **AT&T (T):** lower rates, debt paydowns and the integration of Time Warner are all aiding the balance sheet.
- **Qualcomm (QCOM):** settling with regulators and customers (APPL). An attractive “5G play.”
- **Proctor & Gamble (PG):** cost cutting and portfolio realignment kicking in.
- **Wells Fargo (WFC):** new CEO has investors hoping for lower costs, higher dividends, and less regulatory pressure.

Read our full quarterly report to learn more.

NEW BERKSHIRE INVESTMENT PROFESSIONAL

Rachel Ames, CFA - VP, Portfolio Analyst

Education – George Washington University – BA Finance

Her background includes security analysis, portfolio management, and coding. At Berkshire, she'll work with the entire PM team on idea generation, security monitoring and trading. Rachel has held various roles in the investment industry for 15 years. She has served in analyst, portfolio manager and supervisory roles throughout her career with ProShare Advisors and CBOE Vest in the D.C. area.

Contact Berkshire:

46 Public Square, Suite 700
Wilkes-Barre, PA 18701
570.825.2600 | www.berkmgmt.com

Gerard Mihalick, CFA,
Portfolio Manager
gmihalick@berkshiream.com

Jason Reilly, CFP®, VP
Advisor Distribution
jason@berkshiream.com

Berkshire Asset Management is a fee-based, SEC registered advisory firm serving the portfolio management needs of institutional and high-net worth clients. Registration with the SEC or any state securities authority does not imply a certain level of skill or training. The views expressed reflect those of Berkshire Asset Management, LLC (Berkshire) as of the date of the commentary. Any views are subject to change at any time based on market or other conditions, and Berkshire disclaims any responsibility to update such views if you are not a client. This presentation is not intended to be a forecast of future events, a guarantee of future results or investment advice. Because investment decisions are based on numerous factors, these views may not be relied upon as an indication of trading intent on behalf of any portfolio. The information contained herein has been prepared from sources believed to be reliable but is not guaranteed by Berkshire as to its accuracy or completeness. Risks: Past performance does not guarantee future results. All investing carries risk including risk of principal or income loss. 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.

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. You cannot invest directly in an index. Beta is a measure of volatility vs. an index. Current yield is the mean estimated annual dividend amount based on current calendar year, divided by the current stock price. Dividend Payout ratio is the fraction of net income a firm pays to its shareholders in dividends, in percentage. Forward Price Earnings Ratio (P/E) is the ratio of the price of a stock and the company's projected earnings per share.