



Berkshire

DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: Accelerating Growth + Advisor "Fork In The Road" – February 23rd, 2018

Markets appear to have shaken off recent volatility, allowing investors to focus on company performance. Earnings are not only growing, but accelerating:

- S&P 500 earnings are now expected to grow 18.4% Y-O-Y, on 6.4% revenue growth*
- Before Q4 earnings season, analysts expected 12% EPS growth on 4% revenue growth*
- S&P 500 estimates now stand at \$156 for calendar 2018, which prices stocks around 17.2 times earnings*

The robust rise in revenue estimates tell a positive story which goes beyond tax reform boost.

The Advisor/Client Fork in the Road:

You get a great referral from one of your best clients. You profile the prospect: Surgeon, \$2 mill in cash, \$1.5 million income, single, 34 years old, plans to save 50% of take home, and not working with an advisor.

So what's the "fork in the road"? He's enamored and wants all FAANG/growth stocks and you believe growth stocks don't represent good value at these prices. The model portfolios across your book focus on US dividend/value stocks accented by allocations to select international strategies.

Do You:

Dig in, stick to your convictions and risk not getting the business altogether? Or take the path of lesser resistance and say "Well if that's what you want, let me show you the great line up of growth managers we can access."

The advisor we know (yes, this is an actual case) drew from his reservoir of experience, confidence, and expertise. He doesn't take clients under these circumstances where clients don't follow his advice. Instead, he dug in, articulated his well-crafted investment process and won the business. He earned a level of trust that upon signing the paperwork the client said "I don't want to be involved with any day to day decisions. Just check in with me once or twice a year."

Lessons and Takeaways:

Expertise/Brand - The advisor knew taking the client under client circumstances dilutes his brand as an expert, essentially saying: "Dr. Client, you know better, I'll appease you because I really want your business."

Standardization – Appeasing the client would have created a one off investment strategy he would have to learn and monitor later. These one offs create time drag, shallow product knowledge and low conviction.

Who Owns the Performance? - If the investment performance goes poorly, as the advisor suspects it will, the client will likely still hold the advisor accountable. This will create stress from an investment the advisor didn't pick. .

Because this advisor is a true expert in a refined offering, he was able to discuss the benefits of this portfolio in multiple ways that eventually resonated with the client. In this case the Dr. had experience in real estate, so the advisor talked about how dividend stocks are akin to owning a building where the tenants pay increasing rent every year. That's the power of being a highly focused expert who has told his story multiple times in multiple ways.

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Dividend Highlights

- Dividend growth can often provide transparent insight into a company's fundamentals and vitality.
- Dividend growth can provide an attractive stream of increasing cash flow to satisfy many financial objectives.

Most importantly, *the advisor knows the slippery slope* - A different asset class here, a different manager, there. Maybe he takes on a couple high maintenance clients with distorted performance expectations. Then before you know it, he ceases to be a finely tuned business and becomes merely a collection of sales. No brand, no scale and no time. It's a business that runs the advisor instead of the other way around.

Situations like these are the proverbial 'fork in the road' and it takes a lot courage and discipline to pass up near term revenue for longer term practice value.

Speaking of Courage and Discipline...

Lindsey Vonn knows a thing or two about grit, determination, and making split second decisions. Advisors too need a similar set of skills / edge as they adapt to a changing landscape and ponder the longevity of their careers. The following link contains the workout Lindsey

Vonn uses. But keep scrolling and you will find some of the most interesting Olympic stories sure to interest or inspire anyone!

<https://www.nytimes.com/interactive/2018/01/30/magazine/winter-olympics-alpine-skiing-lindsey-vonn-workout.html>

Have a great weekend!
Gerry

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**Source: Bloomberg*

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