



Berkshire

DIVIDEND STRATEGY

Gerard Mihalick, CFA
gmihalick@berkshiream.com

46 Public Square
Wilkes-Barre, PA 18701

570.825.2600

"Casual Friday" Commentary

Casual Friday: Positive Catalysts + Speaking Your Clients' Language – November 17th, 2017

Quick Company/Portfolio Updates...

Proctor and Gamble (PG) shares were up modestly yesterday as it was reported activist Nelson Peltz of Trian Holdings won the recount for a board seat at the company. Expect a "Florida-esque hanging chad" fight as both sides have spent mightily on this proxy. FYI Berkshire voted against management and supports additional outside directors.

Cisco (CSCO) and **Walmart (WMT)** were both up sharply yesterday as they reported solid earnings. **Qualcomm (QCOM)** continues to be a positive development. QCOM's refusal on takeover could mean a bidding war ensues - potentially driving the stock price even higher. In the past month the stock has surged more than 25%.

All of the above companies had past struggles and a time where investors thought "it's over" and threw in the towel. These companies turned operations around, overcame serious secular threats and have rewarded patient investors. Their stories bring to mind another company we've received numerous inquiries about...

Yes, we are disappointed GE management felt compelled to cut the dividend. However, there are no automatic sells or buys at our shop and we will not buy or sell this (or any) stock solely on any one metric or outcome. Our decision must remain in the context of overall valuation, and we think selling today would be doing so at a material discount to its true worth. The road may be bumpy, and we understand the stock may be under pressure from tax loss selling, but we see a path to higher valuation. A sum of the parts valuation looks particularly interesting. The underlying businesses – especially health care and aviation – would fetch premium valuations if valued independently. We think eventually these valuations will outweigh the overhangs of pension and other conglomerate related issues.

Objectives-Based Client Reviews: Are you Talking Their Language or Yours?

Earlier this week I conducted an account review for a 10-person municipal pension board. I manage part of the pension assets. The plan's overall consultant went first: he explained how the economy's doing, gave GDP forecasts, a stock market update and went over monetary policy. He pointed out how certain sectors like international seemed to be leading now thanks to economic upticks in Europe and Japan. He talked about manager performance, his combination of active, passive, and fixed income managers, how they did relative to benchmarks.

It was a good presentation – if his audience has been economists, portfolio managers and CFA's!

But he was talking to the municipal pension board. Some of them seemed disengaged, a little overwhelmed by all the facts and figures. Others focused on details instead of the big picture: "What's wrong with this manager?" "Why didn't we move more to international last year?" "Should we buy more growth stocks?" "Should we give more to passive management?"

It created a type of chasm where the list of assets/data points were on one side and the client's plan objectives were on the other. He ended up creating tension, inviting his audience to micromanage: their response was to question individual investments and second guess his allocation suggestion which put him on the defensive. This happened despite solid overall performance!

What was missing?

- Context: how the overall portfolio and select investments were designed to achieve the goals of the overall plan!

Berkshire is a fee-based, SEC registered advisory firm serving the portfolio management needs of high net worth and institutional clients. Over the past 29 years, we have successfully implemented highly focused equity, fixed income and balanced portfolios. Our guiding principle is a belief that success is achieved by combining rigorous, well-crafted investment processes with an exceptional level of client service and attention to detail. Asset Management with a Difference... Diligence, Integrity, and Focus.

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.

- The client's objectives and language: he didn't show that he understood the rationale behind how each major asset class achieved the desired results of the investment policy as a whole. I'm sure he does understand that – but he assumed his audience would take that for granted, and they didn't.

For example, he might have pulled highlights from the IPS and addressed how his overall asset allocation addressed them:

- "You have to earn 6.0% to meet the long-term obligations of this account; How did we help achieve that? We made the decision to overweight equities 6 years ago when bonds were the popular choice. Our capital market forecast thinks stocks can do 8% long term."
- "We noticed a number of years ago that aggressive growth managers looked attractive, so we overweighted them in favor of value."
- "Why should we own bonds now when rates are so low?" Well there are a lot of near term pension obligations and the plan needs liquidity to meet them. We successfully utilized short duration high yield bonds to meet those needs."
- "How do we combat low interest rates? The dividend strategy we selected is a conservative one, generates a growing stream of income to satisfy both your need for income and total return."

How do you make sure you're speaking the client's language?

- Turn every statement/prediction you want to make into the question the client is really asking. Instead of "you should switch to value stocks because of a favorable price-book-ratio (client: "um, okay – what does that mean? Why?") ask a question: "So why should we keep owning all these value stocks when growth is doing so well?"
- Answer the question! Once you give the client's point of view, it's easy to tell them what they really want to hear: why you like a particular strategy or how it works – the facts that show you're managing their concerns, rather than the concerns that they've hired you to manage.

Asking the client's questions for them shows you understand their interests – and forces you to explain your strategy, which is really what the client is looking for. It doesn't have to be a pension plan – because in a sense everyone is a pension plan. They have assets and a set of financial obligations to meet. If you continually manage to the liability instead of the market you will always be speaking their language.

Prepping for Thanksgiving?

Here are a few links to get you started...

<http://www.businessinsider.com/thanksgiving-meal-tips-and-tricks-2014-11>

<https://www.today.com/money/thanksgiving-travel-expert-tips-hassle-free-holiday-t104861>

...and don't miss Berkshire's complete guide "Actively Managing Your Thanksgiving" - which we will send you next week!

Regards,
-Gerry

Gerard Mihalick, CFA, Portfolio Manager,
gmihalick@berkshiream.com or (570) 825-2600

Jason Reilly, CFP®, VP Advisor Distribution,
jason@berkshiream.com or (570) 825-2600

Berkshire Asset Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®). Berkshire Asset Management is a fee-based, SEC registered advisory firm serving the portfolio management needs of institutional and high-net worth clients. The Dividend Growth Composite contains portfolios invested in Berkshire's Dividend Growth Strategy with an equity allocation target of 90% - 100%. The Dividend Growth Strategy's primary objective is to generate a growing stream of equity income by investing in a diversified portfolio of equities with stable, high, and growing dividends. The benchmark is the S&P 500 Index. The index returns are provided to represent the investment environment existing during the time periods shown. For comparison purposes, the index is fully invested, does not include any trading costs, management fees, or other costs, and the reinvestment of dividends and other distributions is assumed. An investor cannot invest directly in an index. Gross returns are presented before management and other fees but after all trading expenses. Net returns are calculated by deducting actual management fees from gross returns. Returns reflect the reinvestment of dividends and other earnings. Valuations are computed and performance is reported in U.S. dollars. To receive a complete list of composite descriptions and/or a compliant presentation, contact Jason Reilly, CFP® Tel: 570-825-2600 or info@berkshiream.com. Past performance does not guarantee future results.

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.

Market Commentary, Aggregate Holdings, Securities, Sectors, Portfolio Characteristics Mentioned: No statement made in this presentation shall constitute investment advice. This presentation is for informational purposes only. Views, comments or research mentioned is not intended to be a forecast of future events. The mention of any security or sector is not deemed as a recommendation to buy or sell. Any reference to any security or sector is used to explain the portfolio manager's rationale for portfolio decisions or philosophy. Research or financial statistics cited regarding securities or sectors do not contain all material information about them. Any securities mentioned represent a partial list of holdings whereas Berkshire portfolios typically contain approximately 30-40 securities in percentage weightings ranging from 1-5%. A complete list of holdings from a representative account is available upon request. Overall portfolio characteristics mentioned are from a representative account deemed representative of the strategy; data may be compiled from Bloomberg, Baseline or Berkshire estimates. Individual holdings, performance and aggregate characteristics of actual portfolios may vary based on a variety of factors including market conditions, timing of client cash flows and manager discretion. This presentation contains Berkshire opinions and use of Berkshire estimates which are subject to change at any time. Berkshire employees may have personal positions in any securities or sectors mentioned. Charts, presentations or articles may be obtained from third parties and Berkshire does not guarantee their accuracy.

**Platform restrictions may apply. Preliminary returns are based on composite estimates only. Individual accounts will vary.*