



# Berkshire

## DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: "REAL" Returns + Uber's Next Big Thing? – November 10th, 2017

### Quick Market/Company Thoughts:

Equity markets are feeling some downward pressure due to the uncertainty associated with the tax reform package. Many will share market opinions, but we believe final outcome and long term effects on company cash flow continues to be difficult to handicap at this time.

**AbbVie (ABBV)** recently announced it will increase its dividend 11%, which demonstrates the company's underlying strength. We will send you a client friendly announcement shortly.

**Broadcom's (AVGO)** \$70 bid (\$60 per share in stock, \$10 in cash) to acquire **Qualcomm (QCOM)** is a positive development and supports our investment rationale for owning the stock. AVGO is drawn to its royalty model, leading 5G position and complimentary vertical markets. Potential synergies for a combined company are high, and we believe it's possible other suiters or a higher bid emerges.

Whether you are "buy-sell-or-hold" on **General Electric (GE)**, its strategic meeting next week will generate much discussion and investor interest – and hopefully a clear picture of John Flannery's long term vision.

### Stocks Still the Champ?

Clients often feel pressured by short term biases of the market. So at a recent client event we shared a story to demonstrate the truly amazing power of long term compounding. Instead of droning on and on about the same ol boring dividend growth charts... We did a little research to tell the tale of how the storied Pinehurst golf community was founded.

James Tufts, a wealthy Bostonian, secured land in 1895 for the tidy sum of... \$1.25 per acre. Tufts original vision was to create a high end health resort community. He purchased 598 acres totaling a whopping \$747.50.

Using real estate web services, we found an acre of land in the area now sells for roughly \$40,000 an acre! So we asked the investors how they would feel about parlaying \$747.50 into a cool \$24 million. Most agreed while they didn't have a 122 year time horizon they'd love to dial in that kind of return for future generations.

We did wonder, however, just "how high was Tufts annual rate of return"? We pulled out the financial calculator and low and behold we calculated an annualized rate of return of...8.95%. Thinking it had to be higher we checked 2 more times! Same result. We also posed the idea that stocks over a similar time period generated returns close to 10% exceeding Pinehurst land appreciation by over 1% annually. As you could imagine the additional 1% over that time would yield a far greater result.

Trying to make a true apples to apples comparison however is different because of course we don't know: incomes, the costs of clearing the land, real estate commissions, capital/infrastructure improvements, taxes, permitting fees, marketing just to name a few. But we do suspect this might change the gross return and of course would not account for the illiquidity associated with the investment (when compared to stocks).

The overall concept being, *time and compounding truly work wonders*. Investors who can take their eyes off day to day market fluctuations can harness this same power.

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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.

## Linking Real Estate's Appeal with Dividend Stocks:

Clients are still drawn to real estate for many positive and legitimate reasons. So many advisors we know cleverly relate how owning Berkshire's dividend growth stocks can be akin to owning an apartment building where the "tenants" are high quality companies like Microsoft, Johnson and Johnson, Cisco and others. And the "rents" realized by the owner of that building come in the form of a call option on the success of their business operations-growing dividends. They also cleverly deemphasize the value or volatility of the underlying building provided the rent checks grow each year and cover the investors cash needs every month. It's a "buy and grow rent" vs. a "buy and flip mentality." Occasionally we get a bad tenant or two (maybe some who aren't increasing rent because of an extra private jet or two) but they eventually come to their senses and get back on track. Otherwise we have decisions to be made about occupancy. Investors seem to relate well to this analogy and while cash flow is emphasized, there is a strong case to be made that, over time, the underlying asset will appreciate and will be "icing on the cake".

## UberAir: Next Big Thing?

Speaking of golf, will you someday fly on your long weekend golf trip on one of these?

Uber anticipates to be only 3 years away from this future...  
[https://www.youtube.com/watch?v=JuwOUEFB\\_IQ&sns=em](https://www.youtube.com/watch?v=JuwOUEFB_IQ&sns=em)

Have a great weekend.

-Gerry

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