The Berkshire Dividend Growth & Income SMA

Dividend Strategy Fact Sheet 6.30.18 - Dividend Growth Scorecard 6.30.18

Good Morning,
Some noticeable cracks have emerged atop the growth indices, with stocks like **Facebook (FB)** and **Netflix (NFLX**) posting sharp declines after recent earnings releases. **Apple's (AAPL)** earnings, on the other hand, seemed to be a catalyst. But broadly speaking, large cap value indexes are having a solid month vs. their growth counterparts – a welcomed relief for many advisors and clients who may be suffering from FANG* FOMO (Fear of Missing Out!).

Our view? Company performance and U.S economic growth should be the main driver of the "growth vs value" discussion – and on this basis we believe value should prevail. Why? Growth appears stretched which should inspire more attention and better price bidding to a broader base of stocks – not just technology stocks.

Last week's U.S. GDP report showed growth accelerated at its strongest pace in 4 years – 4.1%. Consumer spending and business investment seems brisk. Inventories are also low, which could foreshadow future activity in quarters ahead. In its announcement this week, the Fed used the word "strong" to describe the economy for the first time since 2006.

Earnings Report:
Q2 2018 earnings season is also providing on-going support to our theory.
The table below (Source: Bloomberg) measures earnings statistics of S&P 500 companies during this current release season (Q2 2018, through 8.2.18):

Sector (GICS)	Companies Reporting/Total	Sales Growth	Earnings Growth
All Securities	379 / 497	9.97%	24.53%
> Energy	25 / 31	21.15%	112.19%
> Information Technology	48 / 71	15.95%	38.29%
> Materials	20 / 24	15.11%	47.51%
> Real Estate	29 / 33	12.35%	5.89%
> Consumer Discretionary	43 / 75	9.56%	18.74%
> Industrials	61 / 70	8.41%	16.40%
> Health Care	50 / 62	7.73%	14.17%
> Consumer Staples	19 / 32	6.23%	9.49%
> Financials	63 / 68	5.99%	20.42%
> Telecommunication Services	2 / 3	1.14%	22.23%
> Utilities	19 / 28	0.82%	12.69%

Many industries are posting strong earnings growth. A skeptic might argue growth is being lead by transitory measures and better comparison from tax cuts, and lower regulation. Absolutely! These are legitimate tailwinds which should provide economic benefit to companies for quarters and years to come! But on average companies are growing the top line at nearly 10% which demonstrates strong organic demand.

Trade War:
Although fundamentals appear intact, threats of trade war have investors skittish. Many commentators we read seem to unanimously think a trade war is "bad" for the economy. Few seem to be talking about potential positives. But what if, after all is said and done, world leaders come to the table and agree to greatly reduce a wide variety of tariffs? Much like our belief lower taxes reduce the cost of capital and improve its mobility, we believe lowering the burden of overall tariffs across the globe would likely have the same effect. Perhaps leaders will coalesce around the theme of "I'll get rid of mine if you get rid of yours!"

How High Are Tariffs?
We went on the hunt for a simple snapshot of tariffs imposed by various countries across various industries:
Average Applied Tariffs for U.S., the EU and China

Interested in some historical perspective of Trade War?
http://www.visualcapitalist.com/history-u-s-trade-wars/

PS: In case you missed it...
Our mid year supplemental is a comprehensive guide to our Dividend Strategy:
Dividend Strategy Supplemental 6.30.18

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Berkshire Dividend Growth Strategy is available through various platform/custodial arrangements. Please call or email to discuss. - (570)825-2600 - Intended for institutional and advisory use only. Links to third party websites is not a guarantee, approval or endorsement of the information or products available on these sites. *FANG stock basket includes, FB, AMZN, NFLX, GOOGL.

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.

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. Upside/Downside capture ratios refer to a portfolios performance as a percentage of either positive returns (upside) or negative returns (downside) vs. an index. Standard Deviation is a measure of total risk. Alpha, Beta and capture ratios are represented as calculated by Morningstar.

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.

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