

The Berkshire Dividend Growth & Income SMA

[Dividend Strategy Fact Sheet 6.30.18](#) - [Dividend Growth Scorecard 6.30.18](#)

Good Morning:

Quality investment managers seek balance.

They uphold core principals but the best usually remain fluid and flexible in their approach

They tend to eschew words like "absolute" "always" and "never" as these may prove unwise because of the complex interplay of many different variables associated with investing. Rules based approaches may be good for closed-end mechanical disciplines (like engineering, science and math) but applying them in human, probabilistic fields like investing where idiosyncratic randomness may play a role can be perilous.

If investing could be simplified into a formula, everyone would likely follow it. Money would flow into the strategy, bid up the prices and the excess return from it would cease to exist or be "arbitraged away". Investing should not be "reductionist" where investors try to take complex systems and reduce them to simple rules of thumb.

Our strategy's core focus is dividend growth, but yield, stability of cash flow & total return of course play a role.

We seek to be comprehensive in our view of a business considering elements of: growth, yield, stability of cash flow and what a rational buyer would pay for the business.

They are all intertwined and go into our evaluation of the total opportunity set at both the asset class and company level.

For some time, we have intentionally avoided *higher yield* dividend names due largely to valuation concerns.

There are a few forces at work which inspire this commentary and have us considering purchases in a very select group of somewhat higher dividend yielding names.

- A general back up in rates has depressed the prices of stocks the market seems to perceive as "yield stocks." A short term respite from higher rates or a weakening dollar could create opportunity in the near term.
- Sector difficulties: Consumer staples (particularly food stocks) are enduring the double whammy of higher rates, and some fundamental issues unique to their industry.
- Growth vs. value divergence: we remain mindful of relative valuation dispersion between dividend growth stocks vs. dividend yield stocks.
- Bottom up cheapness: sometimes companies make mistakes, have temporary problems or fall out of favor. By employing what we believe is an above average time horizon we seek to capture mispriced situations.

We recently sought to increase a small position in AT&T (T) which incorporates a few of the elements we described. T is down in price from a host of factors including a challenging wireless phone environment as well a potentially challenging merger with Time Warner (TWX):

- Ultimately, we believe T's purchase of Time Warner (TMX) succeeds and creates value
- TMX: a unique set of assets that produces attractive, recurring cash flow to its shareholders.
- The assets T purchased may have already gone up in value based on how Disney and Comcast have bid up Fox TV assets
- T may leverage TMX by enhancing cash flow while improving and solidifying T's packaged offerings
- DOJ lawsuit, debt increase and the general uncertainty surrounding such a large merger have clouded the shares
- We believe the reduced share price, approximately 6% dividend yield and 2019 estimated price/earnings ratio near 10 warrant a position in client portfolios.

Advisor Summer Shape Up: Part 2

For some, summer is simply a time for fun, family and relaxation. For others the slower pace means reflection and the chance to regroup for a great 4th quarter – and beyond. How about a little bit of both?

As we articulated above, investing does not boil down to "one number, one rule," and guess what - neither does your happiness and success. Humans are the ultimate complex-adaptive system! The timing of this article could not be more perfect as it speaks to that very same concept:

<http://time.com/61989/are-you-making-the-most-out-of-life-heres-how-you-can/>

The article above proposes happiness is not just about piling up "more." Your life should amount something more meaningful than "*a pie eating contest where the reward is more pie!*" In our business, it's easy to get caught in the quest to maximize AUM. But maybe we need to focus on maximizing career satisfaction. Maybe the question "how can I maximize growth" should be replaced with:

Executing on these clear visions will likely maximize both happiness and the long term value of your practice.

So seek the best and forget the rest. Here's a great way to get started on the path of working with only your favorite clients.

<http://advisorchecklist.com/checklistblog/a-good-brand-will-repel-more-than-it-attracts.html>

Did all that require too much thinking?

Best ice cream innovations 2018: <https://www.thedailymeal.com/eat/best-new-ice-cream-flavors-summer-2018-gallery>

Great summer parties: <https://www.countryliving.com/food-drinks/g4381/summer-dinner-recipes/?slide=1>

Have a great weekend!

Regards,
Gerry

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Berkshire Dividend Growth Strategy is available through various platform/custodial arrangements. Please call or email to discuss. - (570)825-2600

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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.

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