



Berkshire

DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: Brush Fires + Your Advisor Super Power? - Oct 26th, 2018

Good Morning,

...a lot of news impacting equities this morning – both ways.

Alphabet and Amazon earnings seem to be creating downward pressure. A better than expected GDP (+3.5% vs. 3.3% expecting) is giving futures some relief as of this writing.

The Bigger Picture?

- We don't believe recent string of events is not something cataclysmic for equity markets.
- Economy & Earnings?
 - GDP this am +3.5% (healthy)
 - Inflation remains tame
 - S&P 500 eps growth estimates (Bloomberg Intelligence) + 16% next year
 - Core earnings (ie: an earnings estimates that strips out recent tax reform) estimated at +12% - (both very solid)
- Valuations - Berkshire portfolio now estimated at 13.5x next year's eps, 3.15% current yield

The recent spate of volatility is more akin to a string of manageable “brush fires” and the market is simply consolidating some heady gains over the past few years. And as emotions take over, it is once again creating an attractive entry point for long term investors. We do not agree with the market narrative which seems to think the sell-off in tech stocks is a health indicator of the overall market - (This is what happens when sectors/certain stocks get priced for perfection) – there was no room for error.

We've long been proponents that investors should focus on “investing for cash flow”, demonstrating how rising dividends can help immunize a client's future liabilities. But we've also been proponents of reminding clients that volatility is “part of the deal” and corrections happen virtually every year. We stand at the ready to reinforce the concepts that keep clients on track.

What's Your Advisor “Super Power”?

Common advisor refrain: “Clients continue to hammer me on fees”

A world of low cost alternatives and robo-advisors has become a reality for the industry and many financial advisors are feeling the pressures of fee compression.

So why are some advisors losing this battle why others are thriving?

Those who can't show and prove specific points of differentiation will continue to struggle. Those with distinct skills and the ability to articulate, quantify and continuously deliver on these skills will thrive. (and defend pricing)

Yet studies continue to show that advisors are not delivering! The majority of advisors still haven't acquired their super power that leads to premiums in client fees: "Over half of the millionaires surveyed said they are willing to pay more for an advisor who is able to help them navigate the recent tax reforms, while also minimizing their tax bill.": <https://www.financial-planning.com/news/financial-advisors-arent-talking-to-clients-about-tax-reform>

Superman could fly, the Hulk had strength, and Destiny had “precognition” (wouldn't that be great for advisors and managers!) What super power will you acquire that will make you a super hero for your clients?

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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.

Best Regards,
Gerry

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