



# Berkshire

## DIVIDEND STRATEGY

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"Casual Friday" Commentary

### Casual Friday: Rise Of The Machines? + Top Infographics 2018 – December 28<sup>th</sup>, 2018

Happy New Year.

For equity investors, 2018 was difficult to stomach. The first part of the year brought volatility from, ironically, funds betting on the direction of volatility itself. Then the market advanced, but it was led by a narrow group of growth stocks that left many active/value investors feeling left out. But December stirred up a destructive potion of events that have anxieties running high through year end:

Mix...

- A Market at all-time highs
- Over-valued growth stocks / "priced to perfection"
- Earnings expectations that may prove overly optimistic

...With

- Trade war worries
- Higher short term rates / flattening yield curve
- Political drama

And... an orderly pull back in prices would be natural, expected, and perhaps even welcome. But December was anything but orderly thanks to some potent accelerants:

- Low liquidity
- Low volume
- And a total proliferation of mindless algorithmic program trading and you've got a December many would like to forget

The Wall Street Journal is reporting that 85% of trading in the past month has been some sort of algorithmic/program/automated trading: <https://www.wsj.com/articles/behind-the-market-swoon-the-herdlike-behavior-of-computerized-trading-11545785641>

#### Our view?

It's usually not productive for investors to parse and predict the perplexing labyrinth of macro intricacies... Instead, what are the RIGHT big picture questions to consider (you and your clients) in a market like this?

- Why are we investing in the first place (likely income, growth of income)
- Did anything happen in the last 3 days or 3 months that would have a material and negative effect on a company's future ability to increase dividends? (we don't think so!)
- Are we paying prices well above fair value that could lead to a severe mark down of underlying principal? (always possible, but we think far from likely - of course near term it is possible to have more volatility and downside)

#### Current Berkshire Portfolio:

- Solid dividend growth in 2018 and good potential for increases in 2019
- 12.8 times 12m forward earnings
- Approx 3.5% dividend yield

Complain about machine driven volatility all you want, but volatility creates opportunity for advisors and managers to add value over the longer term.

**Berkshire** is a fee-based, SEC registered advisory firm serving the portfolio management needs of high net worth and institutional clients. Over the past 30 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.

"Side bar": We are hearing mutual fund tax horror stories where funds are kicking out big gains in a year of negative returns. No, the SMA where the manager and client control their own cost basis is not dead!

## Visual Capitalist - Top Infographics of 2018

To close out the year, we share top infographics of 2018:

- The extraordinary power of compound interest (our favorite, of course!)
- The relationship between money and happiness
- The business value of blockchain
- Facts to free you from your fear of market crashes

<https://www.visualcapitalist.com/our-top-infographics-of-2018/>

Each year presents its own unique challenges and opportunities. 2018 was no exception. One constant remains: everyone at Berkshire is extremely grateful to work in close partnership with you and tackle whatever 2019 brings! Here's to the bulls in 19!

Best Regards,  
Gerry

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