



Berkshire

DIVIDEND STRATEGY

Gerard Mihalick, CFA
gmihalick@berkshiream.com

46 Public Square
Wilkes-Barre, PA 18701

570.825.2600

"Casual Friday" Commentary

Casual Friday: 15 Trillion and Counting + "Finding the Alpha?" – August 9th, 2019

Stock volatility, inverted yield curves, trade issues, a big oil sell off and currency manipulation all hit the CNBC news feed this week. What continues to be a growing and fascinating discussion is the vast amount of negative yielding debt throughout the world. There's now \$15 trillion in negative yielding debt globally: [CNC Negative Yielding Debt Article](#) - Add the interest rate narrative to our aging demographic in the U.S. (one that controls significant wealth and needs income) and we can make the long term case for higher equity valuations particularly in dividend paying stocks.

Advisor question - "How do I build the case for active management with clients?"

Active vs passive has been a heated debated for years. Countless studies have been done with varying degrees of conviction for both styles...

We tend to see two separate issues stemming from this discussion:

- The debate has led to client benchmark obsession and has skewed their investing goals
- Investors measure short term active management performance rather than factors leading to longer term alpha

So how do advisors build the case for active management?

In the first case, most advisors are in tune with goals based planning for clients. When done right, advisors can refocus clients on what matters most. ie satisfying long term cash flow needs in retirement--not "did I beat the market this quarter." This creates more patience with clients and allows for potential long term alpha of active management to play out.

In the second case, the question is "how do I identify active managers that can add value over time and articulate these points to clients?" Hint: It's not screening for managers who beat the index last year. A couple of years back we came across a Dodge & Cox paper ["Understanding the Case for Active Management"](#). The study shares the common traits and factors of active managers who add long term alpha to investment portfolios:

- High active share
- Low fees and expenses
- Low turnover
- Risk avoidance
- Firm-wide focus on a core competency
- Close alignment of interests

There's more work involved in assessing managers this way, but if done right can be accretive to you and your clients. You'll also be able to articulate a compelling story about the manager you are selecting. In this index obsessed world, this is often used by advisors as a differentiating factor in practice.

Have a great weekend and give us a call with questions!

Contact Berkshire:

Gerard Mihalick, CFA, Portfolio Manager, gmihalick@berkshiream.com or (570) 825-2600
Jason Reilly, CFP®, VP Advisor Distribution, jason@berkshiream.com or (570) 825-2600

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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.

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