



# Berkshire

## DIVIDEND STRATEGY

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"Casual Friday" Commentary

### Casual Friday: Advisor Checklist For All Time Highs – January 24, 2020

Clients are likely feeling good and your business is probably coming off a record year. However, it's not time to get complacent. Instead, it's time to work hard and bank good-will you've probably earned during this bull-run.

Here are focused activities to bolster client relationships:

1. Have the "risk" conversation - Now! Remind clients what downside feels like in dollar terms. Quantify the dollar amount they have invested in equities and calculate the approximate dollar loss if the market declined 20-30% (a meaningful correction). And if they can't handle a one year loss of that magnitude, it's likely they need to rebalance back to their baseline allocation.
2. Talk down return expectations. Yes, this sounds basic after coming off the last decade. But despite lip service to the contrary, clients typically have very unrealistic return expectations even in normal times.
3. Scrutinize manager/fund returns even more closely. Did a winning strategy: Take on undue risk? Benefit from gains concentrated in a few possibly overvalued/risky positions? Gain from a macro tailwind that might now reverse? Own lower quality names?
4. Start talking about what conditions would begin to spark potential changes to their investment lineup. One simple sentence can prove you are proactive: "I'm contemplating a few changes to your portfolio".
5. If you haven't done a full financial plan, now is the time. It will help remind clients you do more than investment management – which will be critical if we go through another down cycle. Plus, you will likely uncover additional assets and/or discover client objectives you didn't know about. Remember – solving big problems means potentially landing big assets.
6. Talk about charitable giving – it's a great way to uncover client philanthropic passions. And while you are at it, consider making a contribution to the client's charity, volunteer for the next event, or help them fund raise.
7. Get the spouse or kids involved. You might ask "is there anyone else in your family who should know about what goes on here?" This way you start to build continuity and start to lock down future generations. Client attrition runs as high as 85% after death of a spouse or parent. Plus, you might find a financially successful child, and you can impress them with your approach. You don't want to be meeting the kids or widow/widower at the funeral.
8. Use the "Marie Kondo" de-cluttering method for clients and strategies – "if they don't give you joy, thank them, and but say goodbye". Streamline into your favorite clients and your highest conviction strategies you know inside and out.
9. Carefully dissect recent AUM growth: how much of the growth came from client wins, and how much came from asset appreciation. For the former, carefully dissect the steps of how you won those new assets, and see if you can replicate those conditions. This creates a disciplined repeatable process for client acquisition.
10. Consider lowering portfolio beta and focus on income generation.

Let us know other great ideas we should add to the list!

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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.

Our Q4 2019 marketing documents are available:

- [Berkshire Dividend Strategy Fact Sheet 12.31.2019](#)
- [Berkshire Dividend Strategy Scorecard 12.31.2019](#)
- [Berkshire 2019 4th Quarter Dividend Commentary](#)
- [Berkshire Dividend Strategy Guide 12.31.2019](#)

2019 Bullet-point Berkshire Portfolio recap for advisors and clients:

- 35 of 37 companies in the portfolio raised the dividend in 2019
  - General Mills (GIS) and Qualcomm (QCOM) did not raise dividend, but GIS retired a large portion of debt and QCOM bought back nearly 1/3 of its outstanding shares with excess free cash flow - Source: Bloomberg
- 2019 Average dividend increase: 10% - Source: Bloomberg
- Approximate dividend yield: 3.01% - Source: Bloomberg 12.31.2019
- Forward P/E: 15.8% – Source: Bloomberg 12.31.2019
- Upside Capture: 90% S&P 500...despite being underweight some top performing sectors like tech, utilities and REITS. - calculated as % of S&P return.
- A formula that would have given more boost to the portfolio last year? Owning lower yielding and/or higher beta names, "paying up for growth" and a relative overweight in aforementioned tech, utilities and REITS (all which look expensive to us).

Call/email us to discuss portfolio, business building ideas that are working or client specific cases.

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