



Berkshire

DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: Advisor Field Trip + "Time to Fly" – December 6, 2019

We're always excited when an advisor visits Berkshire's office. It allows an FA to directly meet with all Berkshire decision makers, experience our culture and see our operation first-hand. Last month, an advisor taking over a retiring FA's practice visited our office for a "strategy session." The retiring FA was running the traditional stock picker/transactional business.

The acquiring advisor shared his biggest challenges:

- How do I transition the practice to create scalability while maintaining customization and satisfied clients?
- How do I communicate to my "new" clients why use outside money managers?
- What if they don't want to follow this plan?
- How do I find a money manager who is a true partner in this endeavor: available, collaborative and open to ongoing communication?

Collectively, we created his playbook on how to transition the purchased practice from an advisor-directed book to a financial planning/wealth management business... and Berkshire will be supporting all along the way.

Inventory management to scale your practice...

Almost every advisor ends up at the same inflection point in their career. "How the heck did I end with so many tickers in my book of business!" When purchasing a practice, the problem is often compounded. Some may argue having a thousand tickers in a book of business is "customization", but it's likely not adding strategic "value" to your clients and it's certainly not adding value to your practice. In fact, when this occurs an advisor's time and attention is often relegated to less impactful activities:

- "I have to re-study this fund or stock for my review because I'm not familiar with it"
- "How do I reallocate this position now to get this portfolio in line with my best thinking without hitting my client with huge cap gains taxes"
- "How do I create a broader and more consistent communication strategy with my clients when they're all invested in slightly different ways"

Strict inventory management is one of the key focuses of the top financial advisors. They create a limited number of investment plans for **all clients**, culminate their best ideas and they stick to it with unwavering consistency. The benefits? They always go to market (prospects and clients) with intimate knowledge of their investment process, their conviction resonates with the client and they build enormous efficiencies in their overall practice. The challenge? Its like quitting a bad habit...you will "get to it later" as other pressing matters get in the way.

Another challenge? Sometimes, appointing a money manager means capital gains taxes as the manager makes wholesale changes. To ease that pain, Berkshire has a program where our PM will harvest gains over a two year period: [Berkshire's Tax Managed Transition Process](#)

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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.

We've helped a number of advisors think through the process and build out a plan for inventory management.

How do I tell my clients we will be using Outside Managers?

The biggest hurdle in transitioning a practice from advisor stock picking to outside money manager: "How do I justify this fee and investment change to my clients?" We helped this advisor think through his plan with: Berkshire's Playbook for [Transitioning Your Practice To Outside Managers](#).

Just as we see and use "specialists" for various issues/challenges in our lives, financial advisors can articulate the benefits of professional stock pickers to achieve better results and free up time to concentrate on bigger picture planning items. Advisor: "Instead of spending time deciding whether to buy Merck vs. Lilly or tech stocks vs. utility stocks, I will use that time to perform due diligence on a handful of money managers who do this all day, every day. We will likely achieve better results and I'll have more time to help solve your major priorities: retirement income, insurance and estate planning." Remember: ***When you solve big problems you land big assets.***

Some other common analogies to help tell the story?

- Would a Primary Care Physician perform open heart surgery or would the patient be referred to a cardiac specialist?
- Would a general contractor put the roof on a home or would he delegate to a best in class subcontractor?

What if the client doesn't want to follow the plan?

As advisors, we are trained to gather assets. But are advisors ever trained to turn away assets? Most branch managers and consultants fail to coach about the true silent killer in an advisor's practice...***Clients who don't follow your advice!*** Clients rightly tell advisors what direction they want to go, take but does a patient ever tell a doctor to perform surgery if the M.D. does not think it is warranted? And would a doctor perform that operation just because the patient asked him to? Of course not!

Remember the 3 conditions when deciding whether or not to work with a client. They need your advice, will pay for your advice and will act on your advice!

Turning away clients who don't follow your advice is hard and may lead to an initial loss of assets...But we've now seen countless instances where advisors quickly make up revenue when they "fire" clients that don't fit the business model. In this advisors case, he's likely to identify more assets through a holistic planning approach, generate more revenue through converting to fee based and create efficiency that will allow scale.

Every advisor will have their own unique way to say good-bye to a relationship but in the words of our visiting advisor, "If you don't like this, then you are not with me."

How do I find a money manager who is a true partner?

Berkshire: Redefining the Manager / Advisor Partnership:

- "Inside the huddle" access to Portfolio Managers for advisors and their clients
- Portfolio customization: Tax transition management, working around concentrated positions, etc.
- "Casual Friday" emails series: 52 ways to enhance conversations with clients
- Dividend increase notifications to keep clients focused ie. "investing for growing cash flow"
- Direct sales assistance and comprehensive practice management coaching

How do I make the case for dividends?

"Almost every investor needs cash flow now or cash flow later." Dividend Growth can provide a path to both. Our advisor will be able to discuss how dividend growth stocks have provided relative income stability through most elections, tax regimes, rate environments, corrections and recessions over the very long term. Then, instead of promising to side step corrections, show how a combination of quality dividend growth stocks and high-quality fixed income performs through one-year worst case scenarios at various allocations such as 80/20, 50/50 or 20/80 (equities to bonds). That way, when a correction does

occur, your phone won't be ringing off the hook with clients wondering "why is my account value down?" Dividend stocks plus realistic expectations = built in practice efficiencies.

If you are amidst a similar transition or would like to get to know us better, come visit us. In the words of an advisor: "At most big firms it feels like they just let you peek through the window. Berkshire let me walk in through the front door"

"Time to Fly"

How about this for a Christmas present? Gravity Industries created an "Iron Man like" jet pack that you have to see to believe: <https://www.youtube.com/watch?v=dHlf1rGo2HU>

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