Berkshire DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: "Time to Raise Cash?" + On-Going "Mega Wave"? – *Nov 15, 2019*

"Is now the time to raise cash?"

We got this call from an advisor... His client is nervous: "We're at all-time highs, a correction is coming." While this may or may not be representative of all clients, we do see a little irony. For years when the market was much lower, it seemed clients didn't want to commit money to equities because "things were bad and we have problems". As markets are soaring, rates are low, stocks are reasonably priced and the economy seems to be on solid footing, some clients are still finding reasons not to invest!

Keep Them Invested?

To keep clients on track, advisors often show them long term stock market charts with various crisis and panics superimposed. They articulate why most investors get it wrong when trying to time the market (even against the prism of many "panics") because the long-term trend is up.

Human innovation and technology advancements have always trumped fear. Also, stocks carry risk and therefore are discounted at about 10% a year and that gradually accretes upward. So over time, the odds stack up overwhelmingly in investors' favor. Essentially, trying to time the market is akin to swimming upstream.

"Leaving the Income Stream On"

Our twist on this concept? Here's a chart of Berkshire's actual dividend growth and market value over the last 10yrs, with a list of reasons investors were reluctant to invest/selling stocks: Berkshire Income Charts with Max Annual S&P 500 Draw-down

The point to share with clients is pretty self-evident. If they constantly tried to be in and out of the market, they would miss out on some serious compounding of dividends (and appreciation). Each year our portfolio grew income nicely despite these threats. There is always going to be volatility, but keep the income spigot flowing… And when the market draw-downs happened, Berkshire's downside was on average 70% of the market.

"Wall Street" vs. "Technology Mega Wave"?

Today, investors hear a pretty steady drumbeat from Wall Street. "Valuations are reasonable, earnings / economy reasonably good, and we are cautiously optimistic. Of course we have a risk of near term correction but we think stocks can do well over the long term..." We don't disagree, nor are these necessarily incorrect views, but they are somewhat narrow in scope and cover a relatively short time frame.

A longer-term view through the lens of human progress and technology, yields a broader more positive perspective. We are in midst of modern a day technology renaissance, one that could unleash massive productivity and prosperity in the world economy for decades. The first internet wave connected devices - phones, pc's and servers. It unleashed human learning. It's amazing virtually everything ever learned or needs to be learned can now accessed by a hand held device, tablet or PC! Millions of people across the globe are learning at the fastest rate in human history.

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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.

The next wave of connectivity (IOT) will unleash immense data that can be used for endless applications. This will allow companies to do things cheaper and better. Much like how the internet created amazing industries like networking, software, e-commerce and social media, the internet of things and big data will create huge new industries/applications with a $30 trillion economic impact in the upcoming decades. Which companies will likely fuel, lead and prosper in this paradigm shift? The same ones that have been dominating all the other great technology and business paradigms – leading U.S. companies. Its always been iconic American companies on the forefront of the world's great innovation and we see no reason for them stopping now! Will there be bumps, corrections and recessions? Of course! But our best advice to this advisor? Keep the client focused on cash flow through turmoil, take a long term view, and step out of the way and let great American companies compound capital over the next decade!

The Aging Advisor Workforce?

It's fairly common knowledge the advisor population is getting disproportionately older. The trend is impacting book buying/consolidation, recruiting and even usage of managed accounts: https://www.wsj.com/articles/brokerages-worry-about-aging-advisors-capacity-barrons-com-11573741899?tesla=y&mod=djem_WealthJournal

We would GREATLY APPRECIATE FEEDBACK – What are your views on industry age? - How is it affecting your business plan? - Where do you see opportunity? - What are best practices?

All responses kept in strictest confidence. Have a great weekend.

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