



Berkshire

DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: Updated YE Material + "A Great Decade?" – January 17, 2020

Good Morning and Happy New Decade!

First up...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).

2020 Outlook

Advisors are now asking - "What's your outlook for the market?" Berkshire tends to lean away from making specific macro / market predictions and instead focuses on identifying individual businesses offering the best value relative to the broader market. But through this course of research we do uncover broader observations... Despite hitting all time highs, we don't believe the market is over valued, especially when you consider:

- Ten year remains under 2% - Source: Bloomberg
- Central bankers around the world remain accommodation - Source: Bloomberg
- Estimates for US GDP, global growth still positive (1.8%, 3.1% respectively) - Source: Bloomberg
- Bottom up estimates have S&P 500 earnings growing over 9% in 2020

So, if you just woke up from a 10 year nap, saw these fundamentals, and had to "guess" the S&P 500 multiple, we expect current forward P/E of about 18 times would be considered "reasonable." Source: Bloomberg

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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.

Berkshire Portfolio Areas of Focus

- "Growth" hidden in "value" stocks - IOT and 5G will provide secular advantages for a number of companies in the portfolio
- Banks continue to offer a nice combination of: yield, stock buybacks, improving fundamentals and low valuations
- Energy looks very inexpensive, yet global energy demand continues to grow
- There is a catch-up trade to be made in value stocks

2009-2019: A great decade?

Our financial careers make it easy to focus on how the capital markets have changed over the last ten years. Here's a thoughtful article highlighting advances on the more human side of things: poverty, conservation, energy, technology etc. <https://spectator.us/just-best-decade-human-history-seriously/>

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

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