



# Berkshire

## DIVIDEND STRATEGY

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"Casual Friday" Commentary

### Casual Friday: Q1 Wrap + Corporate America Mobilizing – April 6, 2020

Good afternoon,

Berkshire is sending prayers of comfort to all who've had their lives, families and businesses disrupted. And we are extremely mindful for those who are experiencing the direct health and human impact of Covid-19 first hand.

#### Quarter End Perspective:

This quarter, equity investors have experienced one of the worst broad market price declines in some time. Mixed reviews from advisors suggest the environment is beginning to become more balanced. "This is an incredible long-term buying opportunity, I'm buying more equities" vs "I'm really nervous about this and I'm waiting for things to stabilize". This balance in conjunction with the massive deleveraging that occurred in Q1 may calm the markets in comparison to the 10% daily swings experienced over the past month.

Our Q1 performance is being finalized and we should have it published next week (call if you like to discuss preliminary data.)

#### Not all bad for investors? - Q1 2020 Dividend Growth

Although price declines have occurred in the Berkshire portfolio, we could point to a few positives for long term income investors:

- Income in the portfolio went up for the quarter (5 dividend increases in Q1 2020 and Zero dividend cuts)
- Current yield is roughly 4% vs 10 yr Treasury yield 0.60%
- We anticipate very limited cuts if any for the companies we own in the portfolio

Other positives?

- Unlike 2008, credit markets appear to be functioning and companies are able to issue large amounts of low interest rate debt
- "I'm going to leave that to the banks" Treasury Secretary Steve Mnuchin when asked on CNBC if he felt banks should be required to cut their dividends

#### Corporate America Mobilizing?

We're far from out of the woods, but we do get a sense America, particularly corporate America is mobilized against this virus. It's inspiring to see America's finest corporations demonstrating such leadership: innovating, donating and coordinating the fight. And we're fortunate to have some of these companies represented in the portfolio. These companies may accrue financial benefit **but more importantly, they will lead us to solutions to overcome the global threat:**

Johnson & Johnson (JNJ) announces human testing of a Coronavirus Vaccine:

<https://www.cnbc.com/2020/03/30/johnson-johnson-to-begin-clinical-trials-on-coronavirus-vaccine-candidate.html>

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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.

Abbott Laboratories (ABT) launches molecular point of care test to detect Coronavirus in as little as five minutes:

<https://abbott.mediaroom.com/2020-03-27-Abbott-Launches-Molecular-Point-of-Care-Test-to-Detect-Novel-Coronavirus-in-as-Little-as-Five-Minutes>

### Q1 2020 Changes in the portfolio: New Purchase - Apple Inc. (AAPL)

- \$200 Billion+ in cash on balance sheet (foundation for dividend and dividend growth and/or acquiring distressed assets)
- Dividend yield 1.20% - Relatively short dividend history but strong coverage and significant room to grow
- A company we always looked at owning, valuation/price currently now at attractive level
- We anticipate continued success w/ hardware and more aggressive growth in service

Source: Bloomberg

### Sell BP (BP) - Add to Chevron Corporation (CVX)

- Chevron upgrades the balance sheet strength from BP and allows us to stay in a sector that we feel is very attractively positioned once we are "back to normal"
- 6.75% dividend yield - management committed to payment
  - <https://www.nasdaq.com/articles/chevron-ceo%3A-we-can-use-debt-and-asset-sales-to-protect-dividend-2020-03-24>
- Purchase allows us to move to a more diversified, integrated oil play
- CVX's downstream refining and chemical businesses are attractive, add diversification
- While other major oils are invested for longer term projects to pay off, CVX is in a better position to generate free cash flow now

Source: Bloomberg

### New Purchase - Southwest Airlines (LUV)

- Coming in to crisis, one of the fastest growing airliners – EPS growing at 20%+ YOY
- Rapid historical dividend growth – current payout ratio < 15% of free cash flow
- We believe one of the best managed airliners in industry
- Strong balance sheet and healthy ROE components (low 20% range)
- Very possible Southwest does not accept assistance and there does not have to cut/suspend dividend

Source: Bloomberg

### Adding New Clients? / Feedback Please!

Some advisors are saying new business is grinding to a halt. Other say they are seeing opportunity to obtain new clients:

<https://www.investmentnews.com/cfp-business-covid-19-clients-190535>

*Are YOU finding opportunity to obtain new clients?*

If so, what's working? (All responses are confidential)

Stay safe. Everyone at Berkshire appreciates the opportunity to work with you and your clients

Gerry,

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