



# Berkshire

## DIVIDEND STRATEGY

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"Casual Friday" Commentary

### Casual Friday: "Dividend Comeback?" + Celebrating Mom Through Quarantine – May 08, 2020

Good morning,  
Morningstar manager rankings have been updated for period ending 3.31.2020. We are happy to report Berkshire maintains a 5-Star overall rating\*  
[Berkshire Morningstar – Investment Summary 3.31.20](#)

#### "Dividend Comeback?"

Our advisors have been taking advantage of client conference calls with the Berkshire team. Advisors have the opportunity to display a differentiated partnership they've built and the clients get a chance to have discussions directly with portfolio managers. Typical format? We discuss long term benefits of dividend investing, lend insight to exciting investment opportunities in the portfolio and reserve plenty of time for Q&A. The outcomes have been very beneficial and we encourage folks to reach out and schedule a call!

#### Most common question we are fielding? - "How will dividend stocks perform going forward?"

Dividend investing has proved effective over time - outpacing the broader market through many decades and over various market cycles. (source: Bloomberg) Companies that pay dividends often have strong excess cash flows, healthy balance sheets and entrenched businesses in the economy. In fact, the dividend component has rewarded investors with approx 40% of the total market return over the last 80 yrs. (source: Bloomberg) Dividends have provided a strong tailwind which investors should not ignore. But over the past number of years, investors have been bidding up the price of growth stocks. The likes of Amazon, Google, Netflix, Apple and Facebook, etc have attracted significant investor capital, leaving many "dividend stocks" behind in overall performance. We believe the upcoming market cycle will turn this tide and dividend investors will be rewarded. Compelling rationale highlighted below...

#### Seeking Yield

\$10's of trillions are controlled by the Baby Boomer generation. They are in or nearing retirement and many have a common investment objective... they are seeking income. Income investing is scarce these days with negative yields around the globe and the 10 Year Treasury currently yielding roughly 0.6%. We suspect investors will seek the yield/income of familiar US stocks providing the highest relative income ever compared to fixed income: [SP500 Dividend Yield vs 10Yr Treasury Yield 5.7.20](#)

#### Dividend Sustainability

Market observers are currently pricing in a 30% reduction in S&P 500 dividends for 2020. This has been a negative factor for dividend stocks through the 4 months of the year. "We're taking the under" on this assessment and instead believe companies will have the resolve to maintain dividend policy and continue growth in the upcoming years. There are areas of concerns - travel/leisure, reits, energy, select industrials. We have very limited exposure in these areas. By in large, we believe dividends are safe in the Berkshire portfolio and do not think there will be a material impact. Year to date, 11 of our companies announced dividend increases. Several companies have reaffirmed their dividend commitments. And since the pandemic began, we've even had 4 companies

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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.

raise dividends.

- Kinder Morgan Increases Dividend 5%
- P&G Declares Dividend Increase 6%
- Johnson & Johnson Increases Dividend 6.3%
- Apple Increases Dividend 6%

(Source: Bloomberg)

### **Growth vs Value**

An extensive amount of dividend paying stocks fall in the Russell 1000 Value Index. Value has been vastly under performing growth as of late. Investors have been flocking to any company displaying growth during the challenging market environment. Historically, coming out recession, economic growth becomes more prevalent across the broader economy and value stocks tend to outperform. When COVID-19 subsides we believe this will undoubtedly be the case. Importantly, the current relative valuations between growth and value are staggering. Growth is trading at the biggest premiums ever compared to their value counterparts:

- Russell 1000 Growth P/E 28 vs Russell 1000 Value 13.50
- Russell 1000 Growth P/B 7.45 vs Russell 1000 Value 1.63
- Russell 1000 Growth Dividend Yield 1.01% vs Russell 1000 Value 3.15%

### [Growth vs Value – Relative Price to Book 5.7.20](#)

(Source: Bloomberg)

### **Growth Hidden in Value**

Investors are all seeking growth. Although, "growth in plain sight" is often priced in to the stock. "Growth hidden under the surface" is more likely not priced in to the stock and can potentially be capitalized on. Today, almost all companies benefit from great technological advances – albeit some more indirectly than others. Innovation allows "traditional" companies to operate more efficiently and garner new sources of revenue. And we believe many of our companies present attractive risk/reward opportunities to directly participate in exciting new technologies and industries. (i.e. Tech, Health Care, Industrials, Communications and even Banking). Below we list some examples.

### **5G and IOT infrastructure and applications**

5G and IOT technologies are exciting aspects of our economy and will give us huge secular advantages... And we are just at the beginning stages of this transformation. Companies in our portfolio like QCOM, CSCO, MSFT, APPL, AT&T & Intel are poised to benefit in infrastructure build, hardware and security. Other companies in our portfolio will be the beneficiaries of vast efficiencies and productivity these technologies unlock.

### **5G Simplified**

20x faster than 4G & 100's x faster than 3G at transmitting data:

<https://www.visualcapitalist.com/the-future-of-5g-comparing-3-generations-of-wireless-technology/>

**Importantly, 5G will allow Internet of Things (IOT) economy to drastically accelerate.**

### **Internet of Things (IOT) Simplified**

- Devices connected with chips that communicate data
- These devices transmit data to allow for immediate and accurate decision making

### **IOT Applications are unlimited:**

- Autonomous vehicles
- Real time shipping / smarter logistics
- Precision, sustainable and more efficient agriculture
- Flexible and more efficient manufacturing
- Real time medical and cumulative medical records and treatment

Qualcomm created a great visual piece to express how 5G, IOT and the economy will be woven together:  
<https://www.qualcomm.com/media/documents/files/5g-vision-use-cases.pdf>

#### Economic benefit to global economies\*:

- \$12.3 trillion worth of goods and services enabled by 5G within 20 years
- This new infrastructure may support 22 million jobs
- \$3.5 trillion in revenue generated globally for companies

\*Source: Qualcomm - <https://www.qualcomm.com/invention/5g/economy>

So while some of our companies may not have quite the sizzle of more aggressive strategies, we believe there is absolutely "growth hiding in value!"

#### How To Celebrate Mom Though the Quarantine

Here are lists containing ideas to celebrate your mom despite the quarantine:

<https://www.accuweather.com/en/accuweather-ready/ways-to-celebrate-mothers-day-during-covid19-pandemic/736070>  
<https://dailycaring.com/coronavirus-mothers-day-celebrate-safely-with-thoughtful-activity-and-gift-ideas/>

Have a great weekend!

Gerry,

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*\*Morningstar Rating Morningstar Rating TM is calculated for investments with at least a three year history. It is calculated based on a Morningstar Risk- Adjusted Return measure that accounts for variation in an investment's monthly performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of investments in each category receive five stars, the next 22.5% receive four stars, the next 35% receive three stars, the next 22.5% receive two stars and the bottom 10% receive one star. The Overall Morningstar Rating is derived from a weighted average of the performance figures associated with the three-, five- and 10- year (if applicable) Morningstar Rating metrics. Morningstar will not calculate ratings for categories or time periods that contain fewer than five investments.*

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*purposes, the index is fully invested, does not include any trading costs, management fees, or other costs, and the reinvestment of dividends and other distributions is assumed. An investor cannot invest directly in an index. Gross returns are presented before management and other fees but after all trading expenses. Net returns are calculated by deducting actual management fees from gross returns. Returns reflect the reinvestment of dividends and other earnings. Valuations are computed and performance is reported in U.S. dollars. To receive a complete list of composite descriptions and/or a compliant presentation, contact Jason Reilly, CFP® Tel: 570-825-2600 or [info@berkshream.com](mailto:info@berkshream.com). Past performance does not guarantee future results.*

*Definitions: The S & P 500 Index is a market capitalization weighted index of the largest 500 U.S. stocks. It is a market-value weighted index (stock price times # of shares outstanding), with each stock's weight in the index proportionate to its market value. The index is designed to measure changes in the economy and is representative of most major industries. Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The index was developed with a base value of 200 as of August 31, 1992. Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. The index was developed with a base value of 200 as of August 31, 1992. You cannot invest directly in an index. BEst (Bloomberg Estimates) Earnings Per Share (EPS Adjusted) estimate returns Earnings Per Share from Continuing Operations, which may exclude the effects of one-time and extraordinary gains/losses. Beta is a measure of volatility vs. an index. Upside/Downside capture ratios refer to a portfolio's performance as a percentage of either positive returns (upside) or negative returns (downside) vs. an index. Standard Deviation is a measure of total risk. Alpha, Beta and capture ratios are represented as calculated by Morningstar.*

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