



# Berkshire

## DIVIDEND STRATEGY

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"Casual Friday" Commentary

### Casual Friday: "Market Darlings" + "Triple Play" Memorial Day – May 22, 2020

Good afternoon and Happy Memorial Day Weekend!

This one feels particularly important - Berkshire salutes.

Advisors continue to inquire about market concentration, growth vs value, what's driving returns and "what's next"...

And one advisor was reflecting on owning CSCO and MSFT during and after the tech bubble in 2000.

#### "Market Darlings" - The 5 Largest by Market Cap in 2000?

We shared a chart last week showing historically extreme index concentration in 2000 and now, in 2020. Microsoft (MSFT), General Electric (GE), Cisco (CSCO), Intel (INTC), Walmart (WMT) - At the height of "tech bubble" in 2000, these stocks represented roughly 19% of the total S&P 500 market capitalization. Fast forward 20 years, the market is more concentrated than in 2000. Microsoft (MSFT), Alphabet (GOOG), Apple (AAPL), Amazon (AMZN) and Facebook (FB) account for roughly 21% of the S&P 500 and 32% of growth index...

*(Source: Bloomberg)*

#### ...So What?

- This concentration could distort index returns - for better or worse
- Investors are paying pretty big premiums for these stocks (All of today's top 5 are in Russell Growth)
  - Price Earnings Ratio: Russell 1000 Growth 28 vs Russell 1000 Value 13.50
  - Price to Book Value: Russell 1000 Growth 7.45 vs. Russell 1000 Value 1.63
  - Dividend Yield: Russell 1000 Growth 1.01% vs. Russell 1000 Value 3.15%

*(Source: Bloomberg as of 5.15.20)*

Historical context from last time we observed valuation gaps and concentration at these levels?...

#### Total index returns for the following decade: 3/31/2000 – 3/31/2010

- Russell Large Growth (-35.75%) (Source: Bloomberg)
- S&P 500 -6.33% (Source: Bloomberg)
- Russell Large Value +35.89% (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.

## Returns for "Market Darlings": 3/31/2000 - 3/31/2010

- Microsoft (MSFT) (-32.39%)
- General Electric (GE) (-52.85%)
- Cisco (CSCO) (-66.33%)
- Intel (INTC) (-61.15%)
- Walmart (WMT) +11.05%

(Source: Bloomberg)

None of the "market darlings" had very inspiring returns over this period of time... but the other interesting thing they had in common?

*They all GREW EPS over this decade but multiples contracted significantly - leaving investors with negative returns in many cases*

(Source: Bloomberg)

## Overall investment thoughts / lessons:

- Concentration, for better or worse, can drive overall market returns
- Over time, valuation and company fundamentals matter (future growth in a stock can be over-estimated by investors)
- Companies, industries and the economy are adaptive - nothing is inevitable

## Triple Play for Memorial Day: Food, Inspiration and Financial Planning!

- Innovative Memorial Day Burgers! - [Best Ever Burgers for Memorial Day](#)
- A Navy Admiral's Advice: "If you want to change the world, start by making your bed" - [Life Lessons from Navy Seal Training](#)
- Still our favorite: Sometimes the simplest ideas work best - [Investment Plans on Napkin](#)

Have a great weekend!

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