Berkshire DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: Acquire, Buy Back or Payout? + To Zoom or Not To Zoom?

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Good morning,

Two Berkshire holdings made fairly major announcements worth discussing this morning:

- Intel (INTC) announced acceleration of $10 billion stock buyback program
- Johnson and Johnson (JNJ) announced its intention to borrow approx. $7 billion to fund the purchase of Momenta

These moves beg the question: in the context of a dividend growth investor, should each be doing these moves at the expense of growing the dividend more aggressively?

The term “good management” gets tossed around a lot. But what does it really mean? To us, we believe part of the assessment, "Is management making intelligent and most accretive decisions with shareholder capital?" These decisions are of critical importance to eventual shareholder return. ie. making acquisitions at good prices, buying back stock, issuing stock, reinvesting back in its own business, or paying a dividend.

"Good management", in our opinion, is being opportunistic and effectively executing on these capital decisions. In the case of INTC, management believes the best use of $10 billion dollars is to buy back shares. This will reduce INTC share count and the remaining shareholders now have a higher claim on the earnings. If INTC is buying below intrinsic value and the stock moves significantly higher, this capital decision will benefit shareholders more than paying cash now in a dividend.

In the case of JNJ, they believe Momenta is a very attractive acquisition that will deliver good earnings in future years. JNJ is financing this purchase almost entirely with debt - debt with very low cost. They will issue multiple tranches (some as long as 40 years!). At first glance, the debt in aggregate appears to carry an interest rate of less than 2.50%. If the acquisition is going to be successful, it makes sense they use long term debt at such low cost. Earnings will grow and dividends are likely to be more plentiful in the future. Appreciation of the stock could put more money in shareholders pockets then paying an higher cash dividend now. Think of it this way. I’m sure Berkshire Hathaway’s shareholders are very glad Buffett never paid a dividend and instead used it for some great acquisitions over the years.

So to "div, acquire, or buy back" the right answer is “time will tell” which is the right move.

“To Zoom or Not To Zoom”…and If Yes, How?

The pandemic is forcing and accelerating change across everyday life... Work from home. School from home. Why not conduct client meetings from home. Some advisors claim they are struggling because they can’t “go see clients." Some advisors are having meaningful success reinvigorating client relationships and creating efficiency in practice - They are reshaping the in-person client review through a series of video meetings. ie Zoom, GoToMeeting, Microsoft Teams etc.

Zoom type meetings have gained popularity as people seek increased interaction during the time of pandemic. Clients may appreciate you using leading technologies and a modern approach. Since many clients are working from home, they may have more

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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.

flexibility and this increases the chances they will meet with you. As an advisor, you can increase the number of meetings in a day and you can share a wider set of tools that can demonstrate expertise. A new format may inspire inactive clients to reconnect with you.

As an advisor friend in Pennsylvania summed up "Why have clients struggle to pick a day and time, drive, park and come into the same stuffy office going over the same old boiler plate plans. I'm having deeper interactions with a number of my top clients as well as those I haven't talked to in a long time."

Ideas for a Dynamic and Effective Meeting:

- Make your meeting interactive. Since everyone is looking at live pages vs. static pages in a book, clients can become more engaged in what you are showing them. One advisor we know is able to dynamically illustrate different financial planning scenarios on the screen and share different outcomes. Perhaps you can show asset allocation changes, suggest manager changes on the fly and show resulting portfolio attributes such as yield, income, P/E etc.
- Bring in a guest speaker – some advisors have had a Berkshire portfolio manager or other market strategist on the call. We would be happy to do so for existing clients.
- Invite other family members – remember 85% of children fire their parents' advisor so taking away geographic constraints allows you to meet and impress the kids before it's too late. Showing that you are in tune with modern communication helps build goodwill and you may find a financially successful family member wanting to do business.
- Virtual Wine & Cheese Party? Find out beforehand what your client likes and send a basket or bottle to enjoy during your video meeting. There are lots of possibilities so get creative!

Important Execution Tips:

- Get comfortable with the technology in advance – mute, waiting rooms, passwords, shared screens – get good enough to make changes on the fly without hesitation.
- USE the camera – way more personal and allows you and them to read each others body language. The whole point is to make it a better version of the in-person meeting. You don't want a glorified conference call.
- Dress like you would if your were meeting in person
- WEAR PANTS…don't be like this guy on Good Morning America who thought he was only being filmed from the waist up
  - https://www.youtube.com/watch?v=8n8ZY9le82A
  - https://www.youtube.com/watch?v=Sfn_SRU-qpE
- There are lots of other variables to consider such as camera spot, types of lighting
  - https://www.owllabs.com/blog/video-conferencing-etiquette

WE WANT to hear more best practices when it comes to leveraging technology - send me a note or call, please.

Regards,

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