



# Berkshire

## DIVIDEND STRATEGY

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"Casual Friday" Commentary

### Casual Friday: BinaxNOW + Time for "Active"? – August 28, 2020

Good Morning,

Abbott Labs (ABT) announced Wednesday evening their COVID antigen test received FDA authorization. Here's the rundown:

- Abbott's BinaxNOW™ COVID-19 Ag Card is a rapid, reliable, highly portable, and affordable tool for detecting active coronavirus infections at massive scale
- Test delivers results in just 15 minutes with no instrumentation, using proven lateral flow technology with demonstrated sensitivity of 97.1% and specificity of 98.5% in clinical study
- Abbott to offer a no-charge complementary phone app, which allows people to display their BinaxNOW test results when asked by organizations where people gather, such as workplaces and schools
- Company will ship tens of millions of tests in September, ramping to 50 million tests a month at the beginning of October

Source: [Abbott Labs Press Release](#)

We were obviously happy to see the development from a Berkshire holding, but more importantly, we believe the positive economic implications may be vast. "Reopening" stocks sprung higher on the news. Corporate America is fully mobilized and demonstrating incredible leadership: innovating, donating and coordinating the fight.

Our view - We'll get back to everything we've done in the past but we'll do it differently. Travel, vacation, entertainment all may be less convenient and suppress demand for some time, but adopted changes/precautions we are putting in to place will eventually become the "new normal". Just like after 9/11, airport or amusement park screenings were viewed as a nuisance - now their standard procedure.

#### The Case for Active?

Advisor quote - "I've been using mostly passive strategies with clients over the past number of years but now I'm seeing huge concentration in the indices, valuations are stretched and I want to move money to active managers like you... How do you articulate the case for active?"

The active vs passive debate has raged for years. Countless studies have been done but no clear winner has emerged.

Regardless, the rise of passive strategies have created behavioral problems for investors and their advisors:

1. Client benchmark obsession, skewing their investing goals
2. Fixation on short term active management performance rather than factors which lead to longer term alpha

*So how do advisors build the case for active management?*

In the first case, most advisors can win with goal based planning for clients. When done right, advisors can refocus clients on what matters most. ie satisfying long term cash flow needs in retirement. "Is my plan on track" vs. "did I beat the market this quarter" creates a whole different behaviors for advisors and clients. This increased client patience gives active management more time to play out and potentially create alpha.

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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.

In the second case, the question is "how do I identify active managers that can add value over time and articulate these points to clients?" Hint: It's not screening for managers who beat the index last year. A couple of years back we came across a [Dodge & Cox paper "Understanding the Case for Active Management"](#). The study shares the common traits and factors of active managers who add long term alpha to investment portfolios:

- High active share
- Low fees and expenses
- Low turnover
- Risk avoidance
- Firm-wide focus on a core competency
- Close alignment of interests

There's more work involved in assessing managers this way, but if done right can be accretive to you and your clients. You'll also be able to articulate a compelling story about the manager you are selecting. In this index obsessed world, this can be used by advisors as a differentiating factor in practice.

### **Bonus: Dividend Playbook**

Our readers are likely dividend aficionados and always eager to find ways to articulate the dividend story. While not our own creation, this presentation (from The Visual Capitalist) is a fresh take on the power of dividends. There are many great concepts and fun trivia to share with clients. Who knew the first dividend was paid in the year 1260! <https://www.visualcapitalist.com/power-dividend-investing/>

Best Regards,  
Gerry

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