



Berkshire

DIVIDEND STRATEGY

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"Casual Friday" Commentary

Casual Friday: "Earnings Tweet" + Macro "Mix" – July 31, 2020

Good Morning,

A lot has gone on this week, we'll keep to a "twitter style" and bullet point format.

Berkshire Portfolio Change

Sell - Wells Fargo (WFC):

- No longer fits "dividend growth" discipline - Cut dividend to roughly 1.5% per DFAST guidance
- Tax loss harvest, use capital to upgrade in space and monitor/revisit the company down the road
- WFC offers attractive valuation and opportunity for new management to turn the business around - but the asset cap, residual effects of fake accts scandal and attrition continue to challenge the bank
- Proceeds - Add to Bank of America - Rational: [Casual Friday April Optimism – May 1, 2020](#)

(Source: Bloomberg)

Macro / Markets Mix:

- Q2 2020 GDP craters 32.9% YOY - Beats expectations
- Fed stays course - "what ever it takes..."
- Congress continues debate for next relief package
- Growth and Value battling for leadership this month - ie. one day growth outperforms by 1.50% the next day Value by 1.50%
 - (We saw as high as 3% daily difference last week - these are huge swings)
- Growth has outperformed Value by 28% YTD
- Investors on average are expecting 12% returns annually
 - [Natixus Survey](#)
- Regression analysis of Shiller P/E on future returns
 - Expect +1.28% annually from "Growth" over next 10 yrs
 - Expect +6.52% annually from "Value" over next 10 yrs
- Concentration - 5 stocks now make up nearly 40% of the R1000 Growth index
- Half way point for Q2 2020 earnings season - 254 reported, 215 beat expectations, 37 miss, remainder matched

(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.

Berkshire Earnings Season:

- 29 of our 37 companies have reported as of this morning
- 25 companies beat expectations
- 4 companies missed

| Name | Date | Actual | Estimate | Surprise | Berkshire Earnings "Tweet" |
|------------------------------|-----------|--------|----------|----------|-----------------------------------|
| General Mills Inc | 7/1/2020 | 1.10 | 1.064 | 3.40 | #aggressivelypayingdowndebt |
| JPMorgan Chase & Co | 7/14/2020 | 1.38 | 1.007 | 37.00 | #highertradervenue |
| PNC Financial Services Group | 7/15/2020 | (1.90) | 0.715 | (365.70) | #increasedloanlossreserves |
| Johnson & Johnson | 7/16/2020 | 1.67 | 1.50 | 11.30 | #electivesurgeriespostponed |
| Bank of America Corp | 7/16/2020 | 0.37 | 0.252 | 46.80 | #reaffirmsdividend |
| Abbott Laboratories | 7/16/2020 | 0.57 | 0.418 | 36.40 | #leaderinCOVIDtesting |
| Coca-Cola Co/The | 7/21/2020 | 0.42 | 0.40 | 5.00 | #beatlowexpectations |
| Lockheed Martin Corp | 7/21/2020 | 5.79 | 5.696 | 1.70 | #raisedguidance |
| Microsoft Corp | 7/22/2020 | 1.46 | 1.363 | 7.10 | #cloud+17% |
| Kinder Morgan Inc | 7/22/2020 | 0.17 | 0.166 | 2.40 | #naturalgasimpairmentcharge |
| Southwest Airlines Co | 7/23/2020 | (2.67) | (2.766) | 3.50 | #nooneflying |
| M&T Bank Corp | 7/23/2020 | 1.76 | 1.796 | (2.00) | #NIMdeclined |
| AT&T Inc | 7/23/2020 | 0.83 | 0.79 | 5.10 | #DirectTVwoes |
| Kimberly-Clark Corp | 7/23/2020 | 2.20 | 1.803 | 22.00 | #tissuepaperindemand |
| Nucor Corp | 7/23/2020 | 0.43 | 0.135 | 220.30 | #constructionbacklog |
| Intel Corp | 7/23/2020 | 1.23 | 1.118 | 10.00 | #oopschipdelay |
| Honeywell International Inc | 7/24/2020 | 1.26 | 1.197 | 5.30 | #leveragingtechnology |
| Pfizer Inc | 7/28/2020 | 0.78 | 0.685 | 13.90 | #vaccinecandidate |
| McDonald's Corp | 7/28/2020 | 0.66 | 0.741 | (10.90) | #expectedmorefromdrive-thrusiness |
| Amgen Inc | 7/28/2020 | 4.25 | 3.79 | 12.10 | #treatmentdelays |
| Chubb Ltd | 7/28/2020 | (0.56) | (0.72) | 22.20 | #bigCOVIDrelatedcosts |
| Norfolk Southern Corp | 7/29/2020 | 1.53 | 1.334 | 14.70 | #lessautoandcoalshipment |
| QUALCOMM Inc | 7/29/2020 | 0.86 | 0.70 | 22.90 | #huaweideal |
| Procter & Gamble Co/The | 7/30/2020 | 1.16 | 1.011 | 14.70 | #demandforcleaningproducts |
| Waste Management Inc | 7/30/2020 | 0.88 | 0.809 | 8.80 | #"CFOclaims-Rocksoliddividend" |
| Apple Inc | 7/30/2020 | 2.58 | 2.072 | 24.50 | #stocksplit4for1 |
| Merck & Co Inc | 7/31/2020 | 1.37 | 1.067 | 28.40 | #keytruda+29%YOY |
| AbbVie Inc | 7/31/2020 | 2.34 | 2.218 | 5.50 | #humirastrength |
| Chevron Corp | 7/31/2020 | (1.59) | (0.904) | (75.90) | #\$8Billionwritedown |

(Source: Bloomberg)

Best Regards,
Gerry

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