



# Berkshire

## DIVIDEND STRATEGY

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"Casual Friday" Commentary

### Casual Friday: Div Increase + What's Obvious Now? - 10.30.2020

#### Dividend Increase Alert

AbbVie (ABBV) increased the dividend by 10% - ABBV current dividend yield is roughly 6%. <https://www.marketwatch.com/story/abbvie-beats-earnings-expectations-raises-its-outlook-and-boosts-dividend-2020-10-30>

#### What's Obvious Now?

Common question from advisors over the past few weeks? - "How is your portfolio positioned for the upcoming election?" "What changes should we make?" Most clients seek tidy, linear responses. X happens so then y occurs...Berkshire's response - predicting binary outcomes with accuracy tends to be far more elusive than consensus thinks.

**Consider headlines from 2016:** *"Economists: A Trump win would tank the markets If GOP nominee pulls off a Brexit-like surprise, Wall Street would face a Brexit-like stock plunge."* - Politico 2016

<https://www.politico.com/story/2016/10/donald-trump-wall-street-effect-markets-230164>

2020 version? Will next week bring a "Blue Wave" of policy makers? If so, how much of the proposed policy changes are priced into the markets? If Democrats take the Senate by a small margin, will this be enough to implement policy? (there are a number of Democratic Senators that vote against consensus on some issues) And of course can policy changes or outcomes create unintended consequences that go against consensus thinking.

Examples:

- Tougher regulation on fossil fuel companies: is it obvious that higher regulation would be horrible for demand (bad for energy stocks), or might this create a supply issue and drive prices higher for a period of time (good for energy stocks)
- Wasn't it obvious government intervention in healthcare would be horrible for drug pricing, and margins? Remember what actually happened? Volumes surged, resulting in net positive outcomes for many healthcare stocks.
- Wasn't it obvious a Trump victory in 2016 was going to be a negative for the economy due to uncertainty about policy?

With this type of thinking, questions beget more questions and direct answers can become very elusive. Lastly, will the results actually meet what is already priced into expectations? i.e. Political prognosticators in 2016 weighed heavily in favor of a Clinton victory. Economists were warning of a dire outcome for the markets if Trump were to win. So, the markets were

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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.

shocked, initially dropping the DJIA over 800 pts. The market thereafter rallied for a number of years confounding the macro mavens.

**Potential for higher taxes:** A "Blue Wave" creates a possibility for corporate tax increases - proposed 21% would move to 28%. If this were to occur, essentially a new shareholder (which is not adding to the bottom line) has a higher claim on company earnings, diluting shareholder interests. This will likely push earnings and multiples lower and may put downward pressure on stocks.

So in the next 30 days, one should expect the unexpected, but eventually the market will digest the news, companies will adapt and likely create opportunities to reallocate the portfolio. We will do so, company by company seeking to find the best combination of yield, growth and value. We expect over time, stocks will gravitate upward like they have usually done throughout their history.

### **"Politics" vs. "Technology Mega Wave"?**

We've found over the years; political landscapes tend not to change the outcomes of secular growth trends in the economy. If you step back and take a longer-term view through the lens of human progress and technology, you'll likely yield a broader more positive perspective. We are in midst of modern a day technology renaissance, one that could unleash massive productivity and prosperity in the world economy for decades. The first internet wave connected devices - phones, PC's and servers. It unleashed human learning. It's amazing virtually everything ever learned or needs to be learned can now accessed by a hand-held device, tablet or PC! Millions of people across the globe are learning at the fastest rate in human history.

The next wave of connectivity (IOT) will unleash immense data that can be used for endless applications. This will allow almost all companies to do things cheaper and better. Much like how the internet created amazing industries like networking, software, e-commerce and social media, the internet of things and big data will create huge new industries/applications with a \$30 trillion economic impact in the upcoming decades. Which companies will likely fuel, lead and prosper in this paradigm shift? The same ones that have been dominating all the other great technology and business paradigms – leading U.S. companies. It's always been iconic American companies on the forefront of the world's great innovation and we see no reason for them stopping now! Will there be bumps, corrections and recessions? Of course! Our best advice? Timing the market and making overly aggressive calls on outcomes are potential pitfalls that can erode performance over time. Take a long-term view and don't lose sight of how important it is to simply stay the course in equities.

### **Leverage Technology in Your Practice?**

Regardless of the path of the pandemic, it appears video conferencing is here to stay. Here is an article outlining ways to leverage video conferencing for better client meetings.

["To Zoom or Not To Zoom?"](#)

Have a great week!

Best Regards,  
Gerry

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