



# Berkshire

## DIVIDEND STRATEGY

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"Casual Friday" Commentary

### Casual Friday: 180 Reversal? + "A Dollar And A Dream" March 12<sup>th</sup> 2021

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Markets are greeted this Friday with another noticeable bump in bond yields. Some bond investors, who sought safety and nominal yields during the pandemic, are now facing negative bond returns YTD with the Barclays aggregate bond index -2.8% as of 3.11.2021. (Source: Bloomberg) Nasdaq futures appear under pressure again this am relative to the DOW and S&P500.

Bigger picture - It's about a year since the market bottom and the start of the official shutdown. What a difference a year makes. Reflecting on commentaries from March 2020, something very specific stood out... In one year, the market and the market narrative has done a complete 180 reversal:

- Long rates have gone up significantly and yield curve is steepening
- We're now talking about inflation - i.e. Too much liquidity vs potential financial crisis then
- "Reopening" trade is on / Value outpacing Growth
- WTI oil is \$65 not -\$40
- Many equity indices are near or hitting highs
- Many bond investors are experiencing losses

(Source: Bloomberg)

For Berkshire's portfolio, we're happy to report the portfolio in general is benefitting from the reversal. Last year's headwinds have become this year's tailwinds. We believe this market environment could persist for some time. For Advisors... Take a victory lap for those who hung in there, bought the dip and kept clients focused on a long term well-constructed financial plan! Don't let your clients underestimate the importance of your advice over the past year.

### Portfolio Change

Sell Coca Cola (KO) - Buy Pepsi (PEP)

Rationale: KO has a potential tax liability. Profit allocations in the bottling business are currently being disputed by the IRS. Liability could range from \$3-23 billion, not an immaterial number and one that even the best tax experts can't agree on a clear outcome. This liability could impact KO's financial flexibility including future dividend increases.

With the proceeds, we purchased Pepsi (PEP). The purchase lets us: stay within a reopening trade, gives us a similar business profile, and maintain quality. We also like Pepsi's diversity in the snack and food business compared to KO's business entirely focused on beverage. Valuations and balance sheets are roughly similar, but where we gain incremental excitement... Pepsi has historically grown the dividend faster over a 3-year and 5-year period and we believe this path will continue:

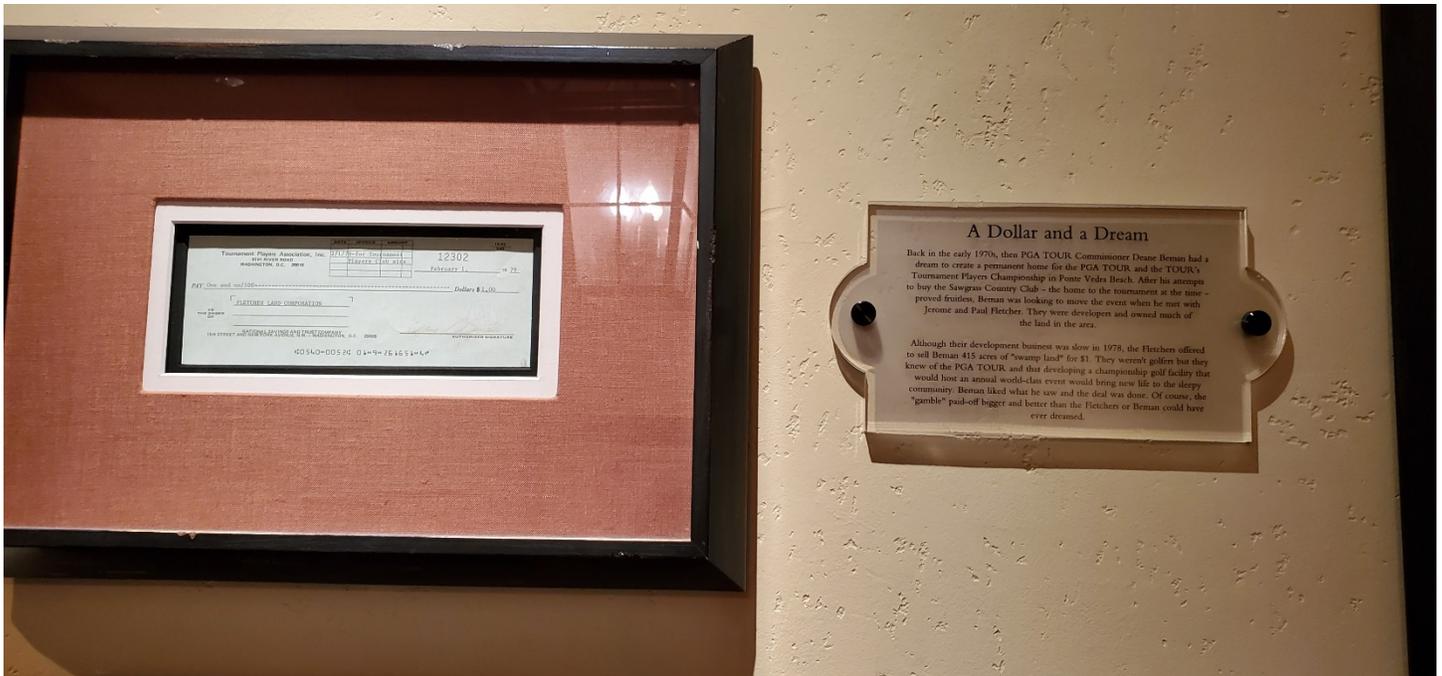
- 5yr historical Dividend Growth: PEP 8.5% vs KO 6.5%
- 3yr historical Dividend Growth: PEP 7.6% vs KO 3.5%
- Pepsi maintains a current dividend yield of around 3.06%

We don't view the trade as a "game changer" by any means but we believe this reduces risk, gives us "cleaner" and higher dividend growth prospect and we are paying similar valuations for the swap.

(Source: Bloomberg)

### "A Dollar and a Dream"

The Player's Championship is going on this weekend at the famed TPC Sawgrass. Outside of the couple of weeks leading in the tournament, the course, clubhouse and restaurants are actually open to the public. It's definitely worth the visit just to check out the clubhouse and take in the history. One really interesting fact - the land (415 acres) was bought for \$1! The check is on the wall in the clubhouse:



More about the history of Sawgrass:

<https://tpc.com/sawgrass/history/>

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