

BRADYCO

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A strong 2023

Despite four interest rate hikes by the Federal Reserve Bank (totaling 1%) which resulted in a Fed Funds upward rate of 5.5%, the stock market -- as represented by the S&P 500 index (including dividends) -- rose 26.3% during 2023 while the tech heavy NASDAQ index was especially strong (+44.6%) after falling (-32.5%) in 2022. Overall, the S&P 500 has had a strong 5-year performance (+15.7%), but it has been volatile. The stock market rose strongly from 2019 to 2021, but then dropped by 18% in 2022, before rebounding in 2023.

The S&P 500's 2023 performance was largely due to the results of the so-called "Magnificent Seven:" Alphabet (aka Google), Amazon, Apple, Meta (aka Facebook), Microsoft, Nvidia and Tesla. All seven are large, multinational technology-driven companies with a strong connection to AI (Artificial Intelligence).

Berkshire after Buffett

In July 2016, I wrote about how Berkshire Hathaway might be governed after Warren Buffett retires. Eight years later, 93-year-old Mr. Buffett shows no signs of stepping down from his role as Chairman and CEO of Berkshire. Still, the long-term management structure of Berkshire Hathaway has become much clearer.

The likely senior management that will run Berkshire following Mr. Buffett's retirement is already in place. The plan is to divide Mr. Buffett's job into three positions: The next CEO, who will be the public face of Berkshire and will be involved in both capital allocation and the supervision of divisional leaders, will be Vice Chair, Greg Abel. Abel, age 61, has been running Berkshire's operations for several years now and was previously the CEO of one of its largest divisions, Berkshire Energy. Berkshire's investments will be managed by Todd Combs and Ted Weschler (Combs is 53 while Weschler is 61). Todd and Ted were hired in 2010 and 2011 to help Buffett manage Berkshire's over \$300 billion stock portfolio. The last time it was disclosed (in May 2022), they were managing about 10% of Berkshire's portfolio (roughly \$34 billion). Another Vice Chair, Ajit Jain, 72, will continue to manage Berkshire's insurance operations.

Berkshire Hathaway's other Vice Chair, Charlie Munger, passed away in December 2023 roughly a month shy of his 100th birthday. While Mr. Munger's wisdom will be missed, the impact he has already had on the company's philosophy and its culture will endure.

Finally, Mr. Buffett has suggested that the Board elect his eldest son, Howard, 69, to succeed his father as Chair of the Berkshire Hathaway Board of Directors. I believe Warren Buffett thinks that in the unlikely event that his successor as CEO does not work out, his son would be the best person

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to lead the effort to resolve this problem. He also believes that Howard would be diligent about retaining Berkshire's unique corporate culture.

Buffett wrote about Berkshire Hathaway's future in a press release dated 11/21/23: "Berkshire... will inevitably encounter human errors in judgment and behavior. These occur at all large organizations, public or private. But these mistakes are unlikely to be serious at Berkshire and will be acknowledged and corrected.... In the short-term, Berkshire's distinctive characteristics and behavior will be supported by my large Berkshire holdings. Before long, however, Berkshire will earn whatever reputation it then deserves. Decay can occur at all types of large institutions, whether governmental, philanthropic or profit-seeking. But it is not inevitable. Berkshire's advantage is that it has been built to last."

With or without Mr. Buffett, I feel good about the future of Berkshire Hathaway.

Expiring Tax Cuts

In 2017, Congress and then President Trump enacted the "Tax Cuts and Jobs Act" which contained changes to individual and family taxes which expire in two years on January 1, 2026. Among the expiring provisions are:

- tax brackets: several brackets will change, and the highest tax rate would increase from today's 37% to 39.6%
- standard deduction: would fall by more than 50% while state & local taxes and professional fees, including mine, would be fully deductible
- estate and gift tax exclusion: would decline from \$13.6M per person to roughly \$6-7M per person

With closely contested elections for the US House of Representatives, the US Senate, and the Presidency coming up this fall, there is no consensus on whether there will be any changes to our tax code before these provisions expire. It is worth noting that it would cost \$3.5 trillion over a 10 yr. period to renew all of the expiring provisions according to the Congressional Budget office and Congress's Joint Committee on Taxation.

What's Next?

The stock market's strong 2023 has been followed by strength in January 2024 with the S&P 500 setting a new all-time high on several days. America's economy remains strong with good GDP growth and relatively low unemployment, while inflation readings have declined prompting the Federal Reserve Bank to suggest that cuts in the Fed Funds rate are likely in 2024.

Our approach has always been to ignore the short-term economic noise and focus on the long-term trends that impact our investments. That strategy has served us well and will continue.

Thank you for your confidence.

