BERKSHIRE
ASSET MANAGEMENT

April 2012

46 Public Square, Suite 700
Wilkes-Barre, PA 18701
Ph. 570.825.2600

www.berkshiream.com

DIVIDEND STRATEGY

First Quarter 2012 Commentary

"Do you know the only thing that gives me pleasure? It's to see my dividends coming in." – John D. Rockefeller.

With all due respect to John D., the only thing that gives us more pleasure than seeing dividends come in, is seeing dividends grow. As we continue to have success with the Berkshire Dividend Strategy, we remind our investors that intelligent dividend investing is three fold: current dividends, safety of dividends, and importantly growth of dividends. It is the growth component of that equation that will afford our investors standard of living increases and a good hedge against inflation.

1st Quarter Performance:

World stock markets picked right up where they left off late last year – on a sharp uptrend. The S&P 500 rose over 12%, again outpacing gains of many other world indexes.

Due largely to its conservative positioning, the Berkshire Dividend Strategy gained less than the market. Clearly investors were in a mood to pay for riskier assets. On the plus side of our ledger, our allocation to recovering financial stocks paid off handsomely. During the quarter, JP Morgan once again showed what the future might look like for other financial institutions as it raised its dividend and pledged to buy back a substantial amount of stock.

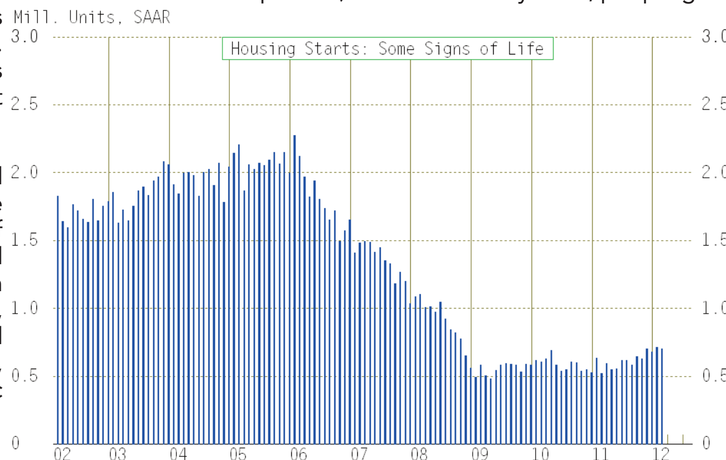
Our allocation to technology stocks also held back performance as the market favored riskier names in that sector.Many technology names in this sector don't pay a meaningful dividend, but should as many balance sheets are under leveraged. We will continue to evaluate the dividend growth potential of the entire sector.

Some of our holdings with high dividends, super high-quality balance sheets and relatively simple businesses (like consumer staples) provided attractive, yet more modest, gains. Conservative stocks did not pay off well in this quarter, although we still think these are of great value and will provide an acceptable blend of dividend growth and appreciation for years to come.

Outlook:

The U.S. economy, the world's true economic engine, continued to show signs of modest recovery. The housing and auto sectors continued to improve, translating into decent job growth. In the case of housing, prices are beginning to stabilize and even rising in many areas of the country. High-quality real estate assets are being purchased by opportunistic cash buyers or hedge funds.

Some "basket cases" remain (like Stockton, California, parts of Florida and Las Vegas) but nationwide prices appear to be on the mend. Much has been written about "shadow inventory," meaning there are many more homes about to come onto the market due to foreclosure. Some estimate there are 3.4 million homes facing possible foreclosure. Counterbalancing that risk, however, is "household formation" which is "pent up" due to the recession (think kids returning home to live with their parents). As the economy turns, people get jobs, move out, start families of their own, buy homes, etc. Household formation has been running below half what it usually does.



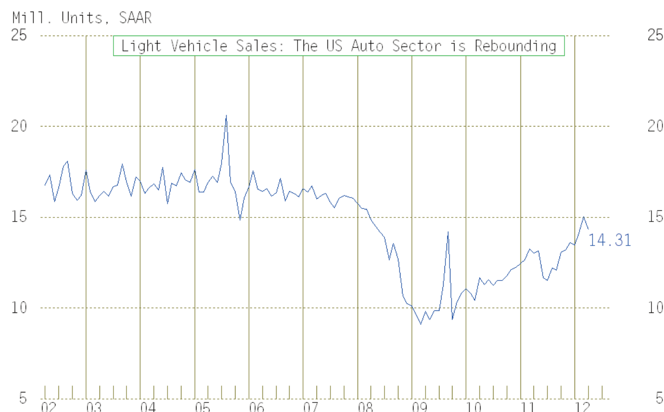
Additionally, the Fed continued to be very accommodative and, through its purchase of long-dated treasuries, has had success in keeping long-term interest rates low. Housing is, once again, very affordable and buyers have been swooping in, resulting in a positiveeconomic effect on prices.

Berkshire is a fee-based, SEC registered advisory firm serving the portfolio management needs of high net worth and institutional clients. Over the past 20 years, we have successfully implemented highly focused equity, fixed income and balanced portfolios. Our guiding principle is a belief that success is achieved by combining rigorous, well crafted investment processes with an exceptional level of client service and attention to detail. Asset Management with a Difference... Diligence, Integrity and Focus.

IN THIS REPORT

- US stocks post broad gains in 1q 2012
- Modest rebound in auto, housing sectors
- Banks continue to show improvement
- Risks remain: Europe, China
- Valuations still appear attractive

The U.S. is also seeing good gain in the number of cars and trucks being built although, the average age of the U.S. auto fleet is quite old. At the depth of the recession, the economy was producing fewer than 10 million cars annually. Now, we are back to around 14 million annually.



Before we can sound the "all clear" sign, some risks remain – and the market has again become skittish as we start the second quarter. Moving forward, the Fed has indicated it will not be as active with its printing press. This shift to a slightly more hawkish stance led to a sell off. In hindsight, it is clear that some of the market's rapid advance from the October lows has been driven by the Fed's ultra-loose policies.

Next up: Europe, which continues to be a fiscal and monetary morass. The market is somewhat calmer now that the Greeks have restructured their debt (again). The market clearly liked the Long Term Refinancing Operation (LTRO), a program put in place by the European Central Bank. Under this program, the ECB will make 3-year, ultra-low interest and non-recourse loans for private banks on the continent. The ECB's hope? These banks will borrow at low rates and buy high-yielding sovereign debt of their home country. If this all seems: 1) like they're printing funny money by simply crediting accounts and 2) just a little bit circular, you are correct - on both counts. It is not a long-term solution but it does buy time. While yields on country debt like Italy and Spain went lower early in the quarter, they are starting to grind ever higher.

China, once viewed as a "can't miss" economic growth and profit opportunity, is showing signs of a slowdown. At one point, investors expected double digit economic growth as if the Chinese had some secret sauce. Growth expectations have fallen from 12% to 7.5%, which should put even more downward pressure on commodities and energy prices. Its centrally-planned economy has forced banks to lend to projects that may not be economically viable but fit a quasi-socialist agenda of full employment. Look what happened when the U.S. tried to use the tax code to steer more capital to facilitate broader home ownership via sub-prime loans.

State-run banks regularly sweep bad loans under the carpet. We've seen research reports and accounts of the Chinese "ghost cities" vast communities: houses, shopping malls, office buildings with no one occupying them. Call us skeptical of a "soft landing."

Many of these geo-political issues are big wild cards, subject to a wide range of outcomes and extremely hard to predict. What we do know is that, by any measure, most of the stocks in our portfolio are dependable cash generators, not expensive (13 times 2012 earnings) and provide good upside at these prices – regardless of what's happening in the rest of the world.

Commentary Disclosures:

Investment Risk: All investments are subject to risk, including possible loss of principal. Because Berkshire Asset Management, LLC's investment style expects to hold a concentrated portfolio of a limited number of securities, a decline in the value of these investments would cause the portfolio's overall value to decline to a greater degree than a less concentrated portfolio. Our equity investment style may focus its investments in certain sectors or industries, thereby increasing the potential vulnerability to market volatility.

The views expressed in this commentary reflect those of Berkshire Asset Management, LLC (Berkshire) as of the date of the commentary. Any views are subject to change at any time based on market or other conditions, and Berkshire disclaims any responsibility to update such views. These views are not intended to be a forecast of future events, a guarantee of future results or investment advice. Because investment decisions are based on numerous factors, these views may not be relied upon as an indication of trading intent on behalf of any portfolio. The information contained herein has been prepared from sources believed to be reliable, but is not guaranteed by Berkshire as to its accuracy or completeness. Past Performance is no guarantee of future results.

References to particular securities are intended only to explain the rationale for the portfolio manager's action with respect to such securities. Such references do not include all material information about such securities, including risks, and are not intended to be recommendations to take any action with respect to such securities.

BERKSHIRE
ASSET MANAGEMENT