

**TED AND TODD ARE MAKING BERKSHIRE MOD!**

I have been a shareholder in Berkshire Hathaway since 2011 (see opinion piece 73) and I would like to remain a shareholder for many years to come but in order to do this I need to be convinced that the decision makers at the company will continue to make good investments and I also need to believe that the share price has not become too expensive. I have therefore been watching with great interest a couple of recent investment decisions as well as comments Warren made about buying Berkshire Hathaway shares.

First of all, I want to comment on two investment decisions - one that is substantial and one that is small. The substantial investment is the investment in Apple. The small investment is the investment in the Indian payment technology company Paytm.

I find these investments interesting because it appears as if Todd Combs came up with both of them and it's also interesting that both of them have a link to new payment technologies.

In the case of Apple, Todd appears to have convinced Warren that Apple is more than just a device maker / technology company. Warren is now convinced that people cannot live without Apple and that more and more people will find themselves addicted to their services. I think that one of the services he believes people will be increasingly addicted to is Apple Pay.

The funny thing is that I have been reading a number of articles about electronic payment systems like Apple Pay and the move to a cashless society. A couple of months ago I read an article in the FT highlighting the fact that many young people in China now never use cash. They can now pay for everything with their smart phone, with apps provided by some of the leading Chinese e-commerce companies like Alipay as well as with Apple Pay.

Around the same time, I read another FT article that spoke about the situation in Sweden where they are also moving away from the use of cash and if current trends persist there won't be any notes in circulation by 2030.

I have to admit that when it comes to paying for things I am still a bit old fashioned because I tend to pay for low value items with cash and use a credit card to pay for more expensive items (I even write a cheque on the odd occasion). I have not even attempted to look into the idea that I could be using an app on my phone. Having read those articles however, I realise that it is probably only a matter of time before I will change my ways (but this will be with an Android phone because I refuse to pay up for an iPhone).

The extent of the opportunity in front of Apple Pay was also brought home to me on my summer holidays in Croatia when I took out my credit card to pay the bill in a restaurant only to be told that they wanted cash! This was not a restaurant in a rural area, this was a restaurant in a major tourist town. This happened in two of the restaurants we went to so it doesn't seem to be that we went to the only restaurant in town that doesn't take credit cards. This brought home the reality that there is still a long way to go before cashless payments dominate and that there is still a massive

opportunity for any company that can become the leading player in this rapidly growing market.

I presume this is part of the thinking behind the second investment, the small investment in the Indian company Paytm. I guess Todd believes that Apple Pay will not be the only winner in this space. I presume he thinks Paytm has a reasonable chance of being the market leader in India.

Todd unfortunately does not give many interviews. If you go and look at YouTube you will struggle to find him. You will not find him explaining his views on Apple or Paytm or explaining how he thinks payment technologies will evolve. All I have been able to find is a couple of short interviews with him saying things like he reads and reads and reads, describing this as being the way to compound his knowledge and also saying that he uses the knowledge and expertise of executives within the Berkshire Hathaway group. He suggests that having access to the Berkshire executives gives him access to leading experts in their field. This is such a contrast with Warren because Warren is constantly giving interviews. (Somebody has even gone to the trouble of putting together all the interviews where Warren talks about Apple (it can be found at: <https://www.youtube.com/watch?v=BzjMFwo4Djk>))

Time will tell whether these are great decisions but they do indicate that the culture of the Berkshire organisation is to remain flexible and adapt to a changing world. I am therefore willing to back the new members of the management team.

#### **Todd Combs with the founder of Paytm, Vijay Shekhar Sharma**



It is one thing to suggest that recent investment decisions prove a wonderful willingness to modernise on the part of the leadership team but it is another thing to

suggest that a \$500bn company whose share is trading at all time high prices remains good value.



Could it be that the share price already reflects the implications of buying Apple and Paytm? This is the question I was asking myself up until the point where Warren answered the question for me. In an interview with CNBC on his 88<sup>th</sup> birthday he was asked about the change in policy that allows him to buy back shares whenever he decides rather than when the company is valued at or below 1.2x book value. He was asked if he had actually used this flexibility and actually bought any shares. He answered by saying that he had been buying back shares. (Here is the link to the interview and the relevant discussion starts around the 12<sup>th</sup> minute:

[https://www.youtube.com/watch?v=9kke\\_CGNpFE&t=4s](https://www.youtube.com/watch?v=9kke_CGNpFE&t=4s))

The most important thing he said was that he would only buy if he believed the share price at that time was at a significant discount to his calculation of intrinsic value. In other words, Warren told us that he believes that in August there was sufficient margin of safety to buy Berkshire Hathaway shares. This was music to my ears because it means not only is Berkshire going Mod but it is also cheap and this is a great combination!

### **Conclusion**

I intend to remain a shareholder in Berkshire and I hope I can look forward to many more years of decent returns.