



## BUYING BERKSHIRE

I have mentioned Warren Buffett so many times that it might surprise readers to hear that I have only just bought some Berkshire Hathaway shares. In this opinion piece I will explain why it took until now to make the momentous decision.

First of all Buffett has always indicated that he has a rough idea in his own mind of what he believes Berkshire to be worth. He has also been prepared to let people know whether he thinks the Berkshire share price is cheap or dear relative to what he believes it to be worth.

Here is one section from his 1999 “Owner’s Manual” indicating some of his thoughts on the value of Berkshire relative to the share price:

*When we sold the Class B shares in 1996, we stated that Berkshire stock was not undervalued - and some people found that shocking. That reaction was not well-founded. Shock should have registered instead had we issued shares when our stock was undervalued (We did not, however, say at the time of the sale that our stock was overvalued, though many media have reported that we did.)*

He also goes on to explain how he thinks about and defines value:

*Inadequate though they are in telling the story, we give you Berkshire's book-value figures because they today serve as a rough, albeit significantly understated, tracking measure for Berkshire's intrinsic value.*

He also explains why book value understates value:

*book value far understates Berkshire's intrinsic value, a point true because many of the businesses we control are worth much more than their carrying value.*

In other words Buffett told us that Berkshire is worth substantially more than book value and would therefore be really cheap if it was selling at book value.

In 1999 he also told us that there is a share price that would be cheap enough for him to want to buy:

*You should be aware that, at certain times in the past, I have erred in not making repurchases. My appraisal of Berkshire's value was then too conservative or I was too enthused about some alternative use of funds. We have therefore missed some opportunities..... We will not repurchase shares unless we believe Berkshire stock is selling well below intrinsic value, conservatively calculated..... Recently, when the A shares fell below \$45,000, we considered making repurchases*

Having read the above made me think that the time to buy the shares would be when Buffett himself was buying because it would force price discipline on me (and I have written in the past about how I have at times struggled to be disciplined on the purchase price decision). The potential problem with this decision was the implication that if Buffett never bought the shares then I would never own them for myself! You can therefore imagine my delight when the following press release was issued on September 26<sup>th</sup>:

*Our Board of Directors has authorized Berkshire Hathaway to repurchase Class A and Class B shares of Berkshire at prices no higher than a 10% premium over the then-current book value of the shares. In the opinion of our Board and management, the underlying businesses of Berkshire are worth considerably more than this amount, though any such estimate is necessarily imprecise. If we are correct in our opinion, repurchases will enhance the per-share intrinsic value of Berkshire shares, benefiting shareholders who retain their interest.*

In November I was also encouraged when I saw the following in the Berkshire quarterly report:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program
<u>Class A Common Stock</u>			
September 26, 2011 through September 30, 2011	15	\$107,461.67	15
<u>Class B Common Stock</u>			
September 26, 2011 through September 30, 2011	227,669	\$71.45	227,669

This shows that as soon as authorisation was given Buffett started to purchase. It also shows that Buffett thinks the A shares are cheap around \$107,000 and the B shares around \$71. This was my trigger to buy.



In the past I have mentioned that Buffett is no longer a young man and although he is incredibly sprightly at 81 there is a limit to just how many years of good health he still has. I was therefore also delighted in September to read that he has made progress in finding people to replace him. (Hopefully they won't be needed for many years!) In 2007 Berkshire Hathaway began a search to add as many as three investment professionals to manage a portion of the equity portfolios of Berkshire's insurance

*subsidiaries. The search was intensified when Lou Simpson, who had long been responsible for GEICO's equity portfolio, elected to retire in 2010. The first to join Berkshire was Todd Combs, who came to the company in 2010. Todd has proved to be an outstanding choice. Today Ted Weschler, 50, of Charlottesville, Virginia, has announced to his limited partners that he will be winding up his fund in order to join Berkshire early in 2012. These two investment managers will each have responsibility for a segment of Berkshire's present equity holdings. Warren Buffett, Berkshire's Chairman, will continue, however, to manage most of the funds until his retirement. After Mr. Buffett no longer serves as CEO, Todd and Ted – possibly aided by one additional manager – will have responsibility for the entire equity and debt portfolio of Berkshire, subject to overall direction by the then-CEO and Board of Directors. With Todd and Ted on board, Berkshire is well-positioned for successor investment management at the time Mr. Buffett is no longer CEO.*

I hope he has found the right people because eventually they will be needed.

I don't think there is any point in talking about all the underlying Berkshire businesses. All I want to do is marvel at the willingness of the man to adapt. The purchases of Burlington Northern and IBM clearly are new areas and I hope they prove to be further evidence of the genius of the man.

In conclusion I just want to say that I am now a shareholder and I hope my patience in waiting to buy will prove to be rewarding.