Warren Buffet - 2015

2014 Annual Report

Berkshire's Performance vs. the S&P 500 (1965 - 2014)
- Per share market value of Berkshire shares - 21.6% (CAGR)
- Per share market value of S&P 500 - 9.9% (CAGR)
- Overall gain of Berkshire shares - 1,826,163% vs 11,196%

Over past 50 years, per-share book value has grown from $19 to $146,186!!! Warren Buffet uses book value as the number that 'really counts,' ***intrinsic business value*****.** Further, he believes over time stock prices and intrinsic value **converge**.

- In an operating sense, Berkshire is not a giant company but rather a collection of large companies.

Bershire now owns 9 companies, if independent, would be listed on Fortune 500. That leaves 490+ "fish in the sea. Their lines are out."!!

Major sectors of their operations:

Insurance - core of their business
- 1967 - acquired National Indemnity for $8.6 million. Today, it's worth $111 billion (that's a '**B**')
- GEICO is probably the most famous acquisition. WB invested over 64 years ago and this is what he says about it "No one *likes* to buy auto insurance, but almost everyone likes to drive. Savings matter, and GEICO delivers. Market share today is nearly 11% vs 2.5% in 1995.

Regulated, capital intensive business.
- BNSF (railroad) and Berkshire Hathaway Energy are main components.
- BNSF moves more ton miles of goods than anyone else in America.
- BHE has 6% of wind energy/7% of solar energy, and owns 2 pipelines that deliver 8% of natural gas consumed in America.

Manufacturing, Service & Retailing
- Sells everything from 'lollipops to jet airplanes'
- Revenues of $97B/net earnings of $4B in 2014

Finance & Financial Products
- Leasing operations, i.e. railcars, containers & cranes
- Option to buy anytime before 2021 700m shares of Bank of America for $5B. At end of 2014 worth $12.5B

Warren Buffet Thoughts

- WB defines investing as “the transfer to others of purchasing power now with the reasoned expectation of receiving more purchasing power – after taxes have been paid on nominal gains – in the future.

- There is an important message for investors in the disparate performance between stocks and dollars. The unconventional, but inescapable, conclusion to be drawn from the past fifty years is that it has been far safer to invest in a **diversified** collection of American businesses than to invest in securities – Treasuries, for example, whose values have been tied to American currency.

- Stock prices will always be far more volatile than cash-equivalent holdings. Over the long term, currency-denominated instruments are riskier investments – far riskier investments – than widely-diversified stock portfolios that are bought over time and that are owned in a manner invoking only token fees and commissions.

- Active trading, attempts to “time” market movements, inadequate diversification, the payment of high and unnecessary fees to managers and advisors, and the use of borrowed money can destroy the decent returns that a life-long owner of equities would otherwise enjoy.

- “Market forecasters will fill your ear but will never fill your wallet. Most advisors are far better at generating high fees than they are at generating high returns.”

WB THOUGHTS (2)

- "Forget what you know about buying fair businesses at wonderful prices; instead, buy wonderful businesses at fair prices."

- "If the conglomerate form is used judiciously, it is an ideal structure for maximizing long-term capital growth." However, WB cites numerous examples of conglomerates that fail, i.e. LTV. Jimmy Ling, who was CEO of LTV in the late '60s was quoted as saying " acquisitions must meet the test of the 2 plus 2 equals 5 (or 6) formula." WB's suggestion: "Whatever their line, never forget that 2+2 will always equal 4. And when someone tells you how old-fashioned that math is --- zip up your wallet, take a vacation and come back in a few years to buy stocks at cheap prices."

- "Financial staying power requires a company to maintain three strengths under all circumstances: (1) a large and reliable stream of earnings; (2) massive liquid assets and (3) no significant near-term cash requirements. Ignoring that last necessity is what usually leads companies to experience unexpected problems."

- "Cash is sometimes thought of as something to be minimized – as an unproductive asset that acts as a drag on such markers as return on equity. Cash, though, is to a business as oxygen is to an individual: never thought about when it is present, the only thing in mind when it is absent."

- Final thoughts on reading this annual letter. WB is thinking hard about his replacement. He believes he has a 'system' in place that will continue to work even without his presence. He clearly takes the long view and recommends this to others. His letter is great reading. He is unique in many ways, but his success in business (and a little luck along the way) is a proof point for all investors.