Intelligent Investing

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The Pilgrimage

Over the weekend Berkshire Hathaway held its Annual General Meeting in Omaha, Nebraska. For years hundreds, then thousands, and now tens of thousands of investors have attended (over 40,000 reportedly went this year) in what has become a kind of capitalist pilgrimage. Apart from the dozens of stalls selling discounted products from company owned businesses to the thousands of attendees why do people make the trip from all over the world? A major reason is the legendary question and answer session following the AGM formalities and this usually runs for several hours with Warren Buffett and Charlie Munger sharing their collective investment wisdom. We'll cover just a selection of interesting comments from this years' Q&A.

Despite being the greatest investor of his lifetime Buffett is on record as saying he would like to be remembered as a teacher, as he had benefitted from many great teachers, although he noted most weren't employed as actual teachers. Buffett, at 87, was not surprisingly asked several questions about succession planning and said "I'd like to think I'll be missed a little, but you won't notice it" before noting a former Berkshire Hathaway manager, Rose Blumkin, made it to 103 before retiring. Berkshire has a succession plan, but it appears neither Warren, or Charlie, have any desire to retire just yet.

Both Buffett and Munger, at 94, lived through World War Two and Buffett recounted his first stock purchase in March 1942 as an 11-year old when the newspapers were full of headlines of the Japanese charge through South-East Asia towards Australia. The War looked bleak in Asia and Europe. Buffett asked his father to buy 3 shares of City Service Preferred stock, which was around $40 and represented several years of Warren's savings from activities such as selling Coke by the bottle at school (the stock had fallen from US$84 a year earlier). While at school the next day the 3 shares were purchased at $38.25. The stock fell further to $27 in the following weeks before eventually being acquired for over $200 a share. Unfortunately, Buffett sold in July 1942 at $40 a share for a profit of $5.25. Buffett's point was that in the middle of 1942 the US was going to win the war despite being caught by surprise by the Japanese and what an investor needs to do is focus on the long term, not the news of the day. He also noted that US$10,000 invested in 1942 when the headlines were of Japanese victories would today be worth over US$51 million. The long-term upward course of American business has been the deciding factor, not whether you understand any financial jargon. Owning the market has been enough to deliver very good returns if you don't panic when the news of the day is bad (think 2008-09) and stay invested. If you outperform like Berkshire has over the past five decades' then that is great but the key is to stay invested for the journey. Interestingly Buffett was asked why they hadn't invested in Microsoft stock. The answer "stupidity" at least in earlier years. As Bill Gates is now on the Berkshire Board Microsoft is off the list of purchase candidates because Buffett does not want the perception that if they buy it could be based on inside knowledge.

The language was more colourful when Warren and Charlie were asked about crypto-currencies like Bitcoin. Both dislike cryptocurrencies and Munger said trading them was like "trading turds" because everyone else is and that Bitcoin was a "noxious poison". In an interview Buffett expanded on why cryptocurrencies are a speculation, and not an investment. He used the analogy that if the Government banned the trading of farms there would still be investors that would buy and hold farms for the income they provide. Cryptocurrencies are a greater fool theory 'asset' where when you buy you receive no income and can only hope to sell for more to someone buying who hopes to sell to someone else.

Buffett, known for optimism, believes the current US-China trade tensions will not develop into a full-blown trade war as the US and China are "too intelligent" to do anything too damaging and that the two countries are set to be the two superpowers for "a long long time". Let's hope the wise old heads are right as they have been most of their lives and economic sanity prevails for a long time to come.

The companies mentioned above are named to further the discussion. This should not be construed to be personalised advice nor a recommendation to invest in these companies. Please contact Kinnell & Co. regarding how best to take advantage of the trends discussed above.

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