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The Best of 50 Years at BERKSHIRE HATHAWAY

The annual Berkshire Hathaway letters written by Warren Buffet are a must read for capitalists and investors across the globe. They are simply articulate, wise and profound. This year marked the 50th anniversary of Berkshire. Both Buffet and his partner, Charlie Munger, provided recollection on their years at Berkshire and on their opinions regarding the future at Berkshire.

There is much to learn from the process and strategies Buffet and Munger have deployed in the past 50 years. We offer some of the insight we thought was particularly valuable to us as financial advisors and investors.

"During the 1964-2014 period, the S&P 500 rose from 84 to 2059, which, with reinvested dividends, generated the overall return of 11,196%... Concurrently, the purchasing power of the dollar declined a staggering 87%. That decrease means that it now takes $1 to buy what could be bought for $.13 in 1965...The unconventional, but inescapable conclusion to be drawn from the past 50 years is that is has been far safer to invest in a diversified collection of American business than to invest in securities – Treasuries, for example – whose values are tied to American currency."

"Stock prices will always be more *volatile* than cash equivalent holdings. *Over the long-term,* however, currency-denominated instruments are *riskier* investments – *far* riskier investments...Volatility is *far* from synonymous with risk...It is true, of course, that owning equities for a day or a week or a year is far riskier (in both nominal and purchasing-power terms) than leaving funds in cash equivalents...For the great majority of investors, however, who can – and should - invest with a multi-decade horizon, quotational (price) declines are unimportant. For them, a diversified equity portfolio, *bought over time,* will prove far less risky than dollar-based securities."

"If the investor instead fears price volatility, erroneously viewing it as a measure of risk, he may, ironically, end up doing some very risky things... Investors, of course, can, *by their own behavior,* make stock ownership highly risky."

Buffet's first investment in Berkshire was the Berkshire textile business. Ironically, "During the 18 years following 1966 (the year of purchase), we struggled unremittingly with the textile business, all to no avail. But stubbornness – stupidity? – has its limits. In 1985, I finally threw in the towel and closed the operation."This was not the only business to be closed by Berkshire in its 50 years. Make enough investments and you will make some that don't meet your expectations. Losing some money is quite different than losing all your money. The risk of investing in non-diversified investments; e.g. individual stocks or businesses, is that you can lose all your money.

On the difference between making short-term investments and enduring investments that last the long-term, "Selecting a marriage partner clearly requires more demanding criteria than does dating..."From my perspective, though, Charlie's most important architectural feat was the design of today's Berkshire. The blueprint he gave was simple: Forget what you know about buying fair businesses at wonderful prices; instead, buy wonderful businesses at fair prices."

> *"When the phone don't ring, you'll know it's me."*
>
> Gordon Cormier

The value of compounding and an enduring investment, Berkshire paid $25 million in 1972 for See's Candies and subsequently invested an additional $40 million over time. See's has earned $1.9 billion pre-tax to date! Pre-tax earnings alone have returned approximately 9% compounded to shareholders. And they still own a business with revenues of $400 +/- million!

This is what we would take from looking back at the successes (and failures) of Buffet and Munger over the last 50 years.

1. A financial partnership of intellectual giants with collegial communication is the cornerstone of success.
2. The best financial leaders are great capital allocators and possess intuitive understanding of human behavior (good people skills).
3. The best financial managers are focused on maximizing long-term results.
4. The best financial managers are focused on their skill set and surround themselves with others of equally good, but diversified skill sets.
5. Patience, optimism and compound interest will make for great long-term results.

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Diversification and strategic asset allocation do not ensure a profit or protect against a loss. Investments are subject to market risk, including possible loss of principal. Gross Domestic Product (GDP) is the annual market value of all goods and services produced domestically by the US. Alternative investment strategies involve greater risks and are only appropriate for the most sophisticated, knowledgeable and wealthiest of investors. High-yield bonds are not suitable for all investors. When appropriate, these bonds should only comprise a modest portion of your portfolio.

The S&P 500 is an unmanaged index of 500 widely held stocks. The MSCI Emerging Markets Index is designed to measure equity market performance in global emerging markets. The Russell 2000 index is an unmanaged index of small cap securities which generally involve greater risks. Barclays Capital U.S. Aggregate Bond Index is made up of the Barclays Capital U.S. Government / Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million. The MSCI EAFE (Europe, Australia, and Far East) index is an unmanaged index that is generally considered representative of the international stock market. These international securities involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. The Dow Jones-UBS Commodity Index aims to provide broadly diversified representation of commodity markets as an asset class. It is not possible to invest directly in an index. The Vanguard REIT Index is a real estate investment trust fund that offers investors wide exposure in the real estate sector at a low price. The fund holds each of its stocks in approximately the same proportion as the weighting in the MSCI US REIT Index. It is not possible to invest directly in an index.

The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities.

The value of fixed income securities fluctuates and investors may receive more or less than their original investments if sold prior to maturity. Bonds are subject to price change and availability.

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