

What is Berkshire Hathaway?

Berkshire Hathaway (BRK.B) is something of an enigma. It is much in the news these days because of the release of its annual report. But, there is almost no analytical coverage of the stock by the usual sources. Even www.seekingalpha.com offers scant commentary. Most of the information available on the stock comes from comments offered on cable TV. So, what is Berkshire Hathaway?

- At its core, Berkshire is a property/casualty insurance company. As such it is subject to all the variables and complexities of that industry, such as pricing cycles and adverse events that result in large payments to the insured. Basically, such insurance stocks are difficult investments for individual investors to analyze and follow.
- But, Berkshire is not just any insurance company. It's *Warren Buffett's* insurance company and, as such, it is a manifestation of his outsize persona. The fact that Buffett has reached octogenarian status casts a cloud of uncertainty about the company's future and Wall Street hates uncertainty. There are three factors that make Berkshire a very unpopular investment these days: Its legendary past success has caused the company to grow to a size where future growth will inevitably be limited simply because of its giant scale; its complexity makes stock analysis difficult; and how the company will be managed when Buffett does leave the helm is a major source of concern.
- One way to conceptualize Berkshire is to regard it as a closed-end fund with an unknown discount to net asset value and no management fee; not very enlightening.
- Another way to conceptualize Berkshire is purely philosophical. Uber-guru Jeremy Grantham is enamored with timber as a long-term investment. Grantham likes timber because it steadily increases in value with no outside input that creates expense, other than real estate tax on the timberland. Carbon dioxide from the atmosphere, rainfall, sunlight and nutrients from the soil are all free.

Perhaps Berkshire can be envisioned as analogous to timber. Its book value (probably the best metric by which to value the stock) grows steadily but unevenly, much like growth rings visible when a tree is cut. And, it requires no external financial inputs. Berkshire generates a river of cash, all of which is retained for reinvestment since it pays no dividend. Berkshire has no need to depend on access to capital markets. In fact, capital markets come to Berkshire in times of distress.

- Recently, Buffett has discussed a first-ever stock buy-back as an expression of his strong belief that the current stock price does not adequately reflect its underlying asset value.
- Buffett has worked for decades to make Berkshire a financial fortress. By his reckoning, under any worst-case scenario short of nuclear war, Berkshire will remain standing. For investors who are reluctant to commit to the risks of equity markets, at its current out-of-favor valuation, Berkshire might just be one of the safest ways to invest. True, Berkshire's future cannot replicate its past, but that does not necessarily make it a bad investment at the right price. And, somewhere near the current quote might not be a bad price. All will be revealed in the fullness of time.

*This commentary does **not** constitute a recommendation to either buy or sell the stock mentioned. This stock is followed by prominent research services that can be accessed through the Fairfax County Public Library website at www.fairfaxcounty.gov/library. Do your own due diligence before making financial decisions.*