Kokkie Kooyman

50 years of Berkshire Hathaway

lessons from

50 years

of Berkshire Hathaway

Berkshire Hathaway

Compound Growth in shareholder wealth of 19.7% over **50 years**

	Berkshire Hathaway (Share)	Berkshire Hathaway (NAV)	S&P500	Treasury Bond (10yr)
Rate	21.7%	19.5%	9.9%	6.8%
Age 41	1	1	1	1
Age 61	103	57	4	3
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summary:

Studying Warren Buffett I've realised that investors most common mistakes are:

Covert:

Focus on the short-term and over-confidence

Overt:

- Under appreciate the **long-term** importance of individual company dynamics,
- Place too **much reliance on macro-economic forecasts**, and
- Forget the negative drag of complexity.

Relax and listen
talk is available

SIM Global
Market Review

Slides extracted from special Berkshire Hathaway issue of SIM Global Market Review sent out 27 May 2015

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Market review
Issue 12 | December 2014

2014, a difficult year

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Notes: The amazing 30%+ return of the three Asian indices despite widely diverging fundamentals (Thailand had a military coup and is facing a rapidly deteriorating economy whilst India and Indonesia have had positive election outcomes with in India's case leading to 2015 GDP growth forecasts being upgraded)

Had you invested only in Asian banks with a smattering of US Banks you would have generated excellent returns (*Why, Oh, why was I invested in Sberbank? – we'll come back to that later*). The table and graph above demonstrate the role country and industry selection played in 2014. India or airlines: your investors are smiling; but Russia and oil companies means gnashing of teeth.

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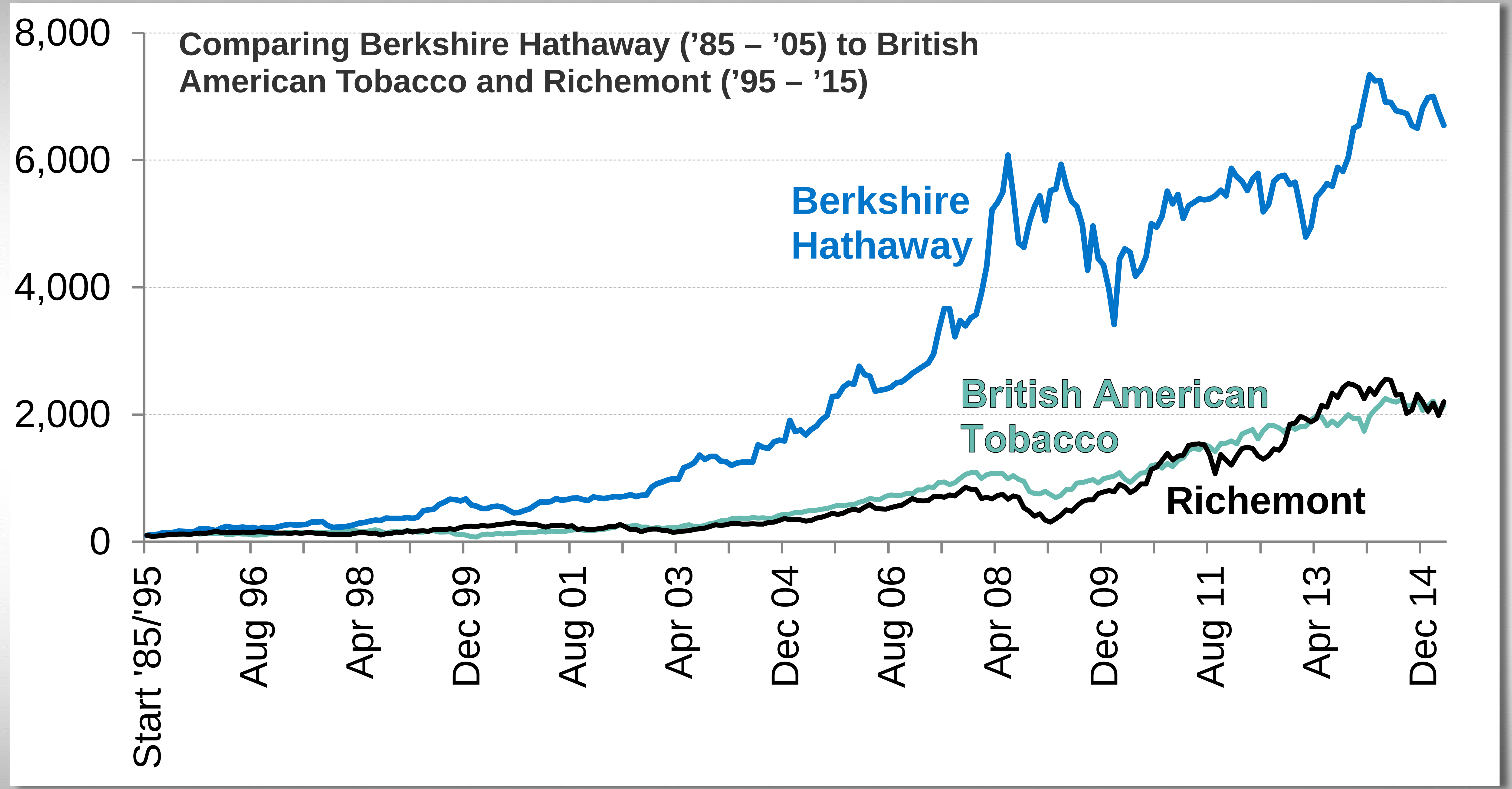
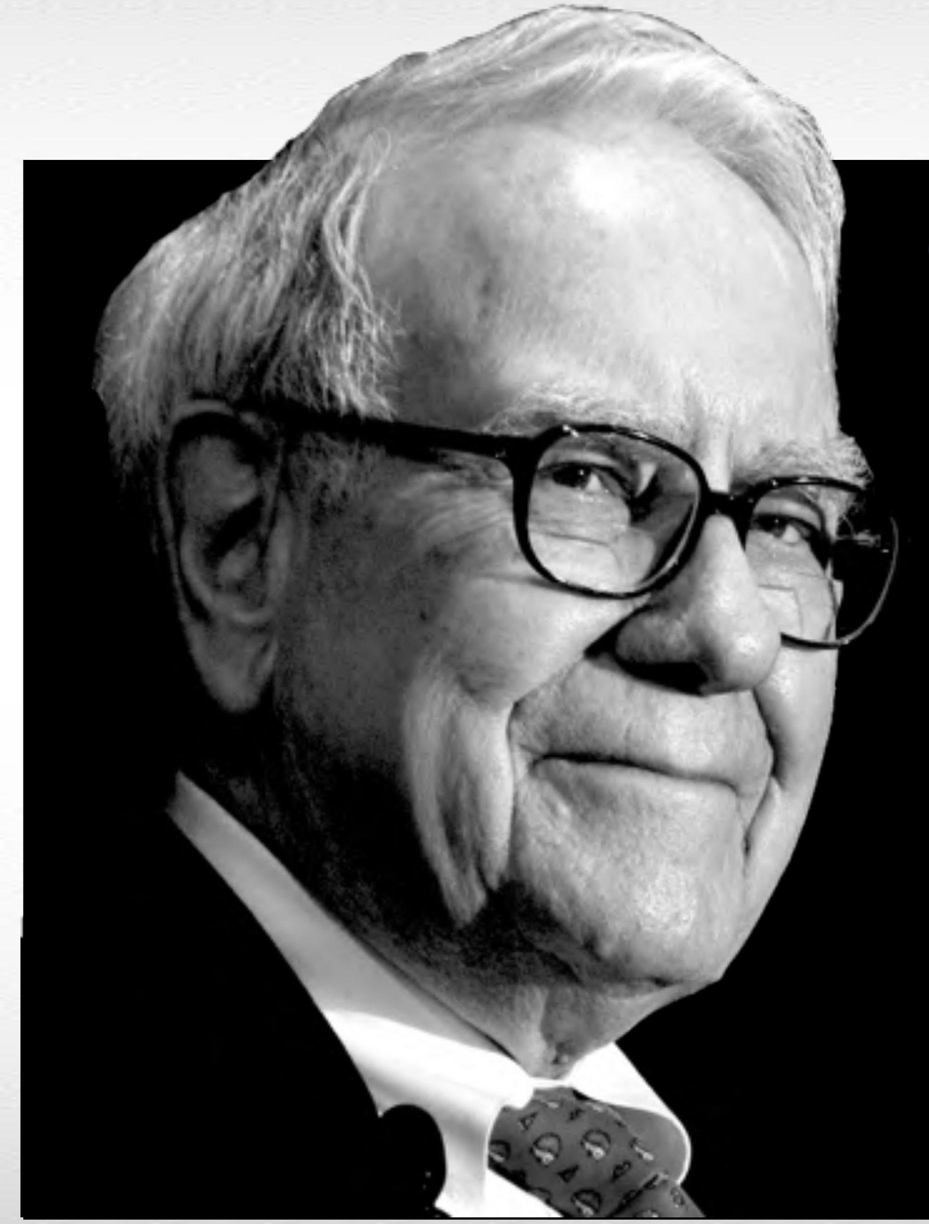
Berkshire Hathaway

Track Record

Since 1985 / 1995



investing …



One of Warren Buffett’s main insights

“ Getting the odds in your favour ”

besides his investment acumen, what made him so successful?

… background

Integrity → Trust	Tax Efficient	Structure	Low friction costs	Operating efficiencies

"Remember that reputation and integrity are your most valuable assets – and can be lost in a heartbeat."
Charlie Munger

working with people you can trust gets the odds of success in your favour

the role of integrity and trust …

Integrity & Trust		
The integrity of the person you employ and those you do deals with are vital.	*"I've never done a good deal with a bad person."*	*"If you can't do a deal on a one page agreement without lawyers it's not worth attempting."*

… doing deals with people you can't trust entails risks you can't quantify

getting the "odds" (or probabilities) in your favour …

Invest when valuation is attractive

When you have a good margin of safety
Think and act long-term
Don't invest in shares…   invest in companies…

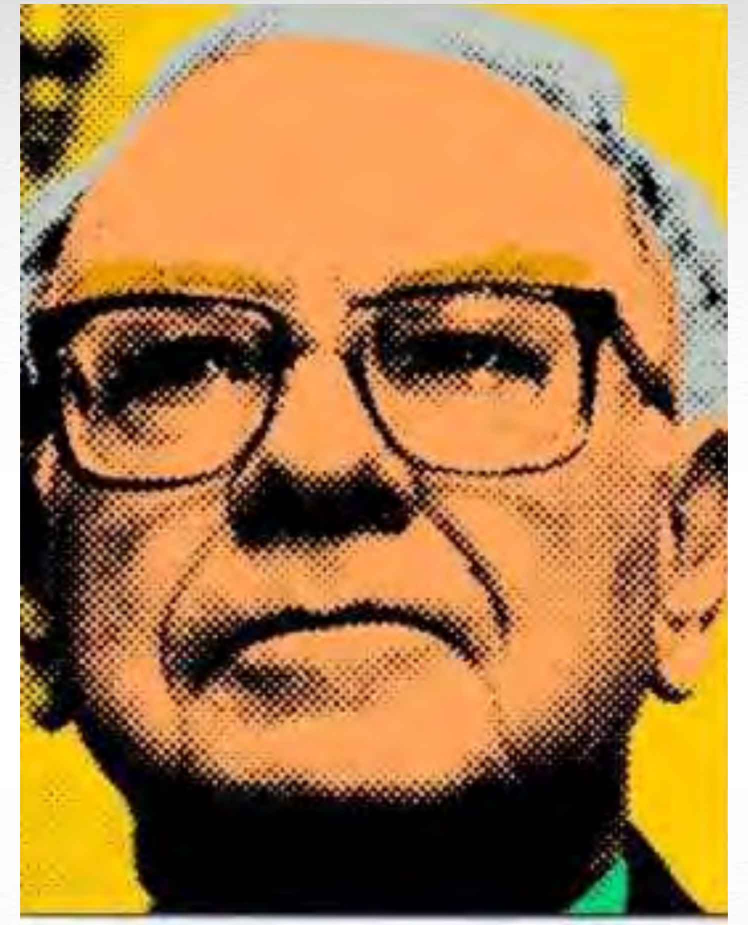
Invest in quality companies

With ethical managements that understand their business, can lead and motivate people, and allocate capital rationally

Don't base decisions on macro economic forecasts

Avoid risks/factors with binary outcomes you can't forecast

… short-term thinking changes the odds against you *price is what you pay, value is what you get …*



"Paying a fair price for a wonderful company is better than paying a wonderful price for a fair company"

or in the words of his grandfather Ernest Buffett:

"Good meat priced right is better than poor meat priced cheap."

ERNEST BUFFETT

reason for success …

“A bird in the hand is worth two in the bush”

His understanding of the probability and pay-offs associated with positive or negative outcome of a decision.

He jokingly says that most investors prefer a blind date to the girl next door.

Buffett understands the value of the girl next door in terms of risk and effort *few good opportunities available*

All you have to do is sit there and wait. There's no easier game than stocks. You have to be sure you don't play too often

avoid actions that reduce potential returns on capital

But when you see a good opportunity don't hesitate to go big

ignore the macro …

The First Law of Economics is: For every economist, there exists an equal and opposite economist.
Second Law of Economics is: **They are both wrong.**

David Wildasin, Professor of Economics, University of Kentucky

We've never let concerns about the macro outlook keep us from buying a good company

Warren Buffett

the probability of getting macro forecasts right is low, basing decisions thereon reduces your odds…

“I am certainly ***not going to predict*** what general business or the stock markets are going to do in the next year or two as **I don’t have the faintest idea**.

You can be **quite sure** that over the **next 10 years** **there will be good and bad years.**

There is no reason to get excited or depressed about the sequence in which they occur, **nor should it matter for the long-term investor.**”

Source: Buffett Partnership Letters, 1959 – 1968)

investing in shares should be the same as investing in a farm …

Once you've done your homework on the quality of the land and the probable yield, and you then get the opportunity to buy a good farm in the area, you're not going to look at the rainfall predictions for the next few months, nor, after having purchased, are you going to let yourself be affected by watching the daily prices of the surrounding farms.

needless to say …

Investing in cash generative businesses with moats means you ignore most of the market

This (or differing from the index) has never been their concern

Risk

- *'The only risk we worry about is losing capital'*
- It is the investment philosophy that should keep losses low

Investing in companies managed by ethical and rational businessmen improves the odds of good long-term returns significantly

50-years …

Change in investment philosophy lead to it being possible for two men to create the 5th largest company in the world

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The Munger-induced change in investment philosophy that laid the foundations for future efficient Berkshire Hathaway was profound & under-appreciated

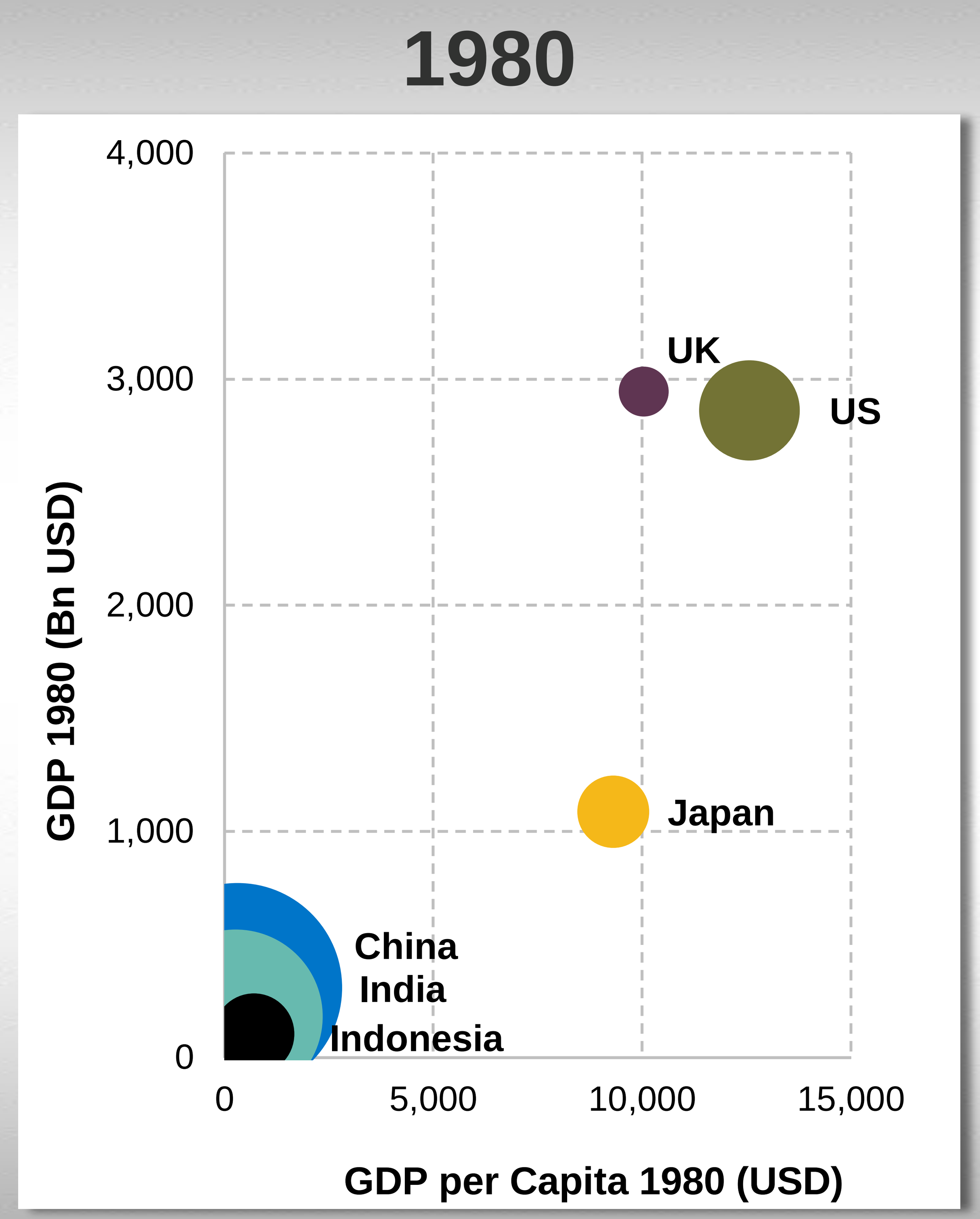
Investing in Emerging Markets: Good Odds?

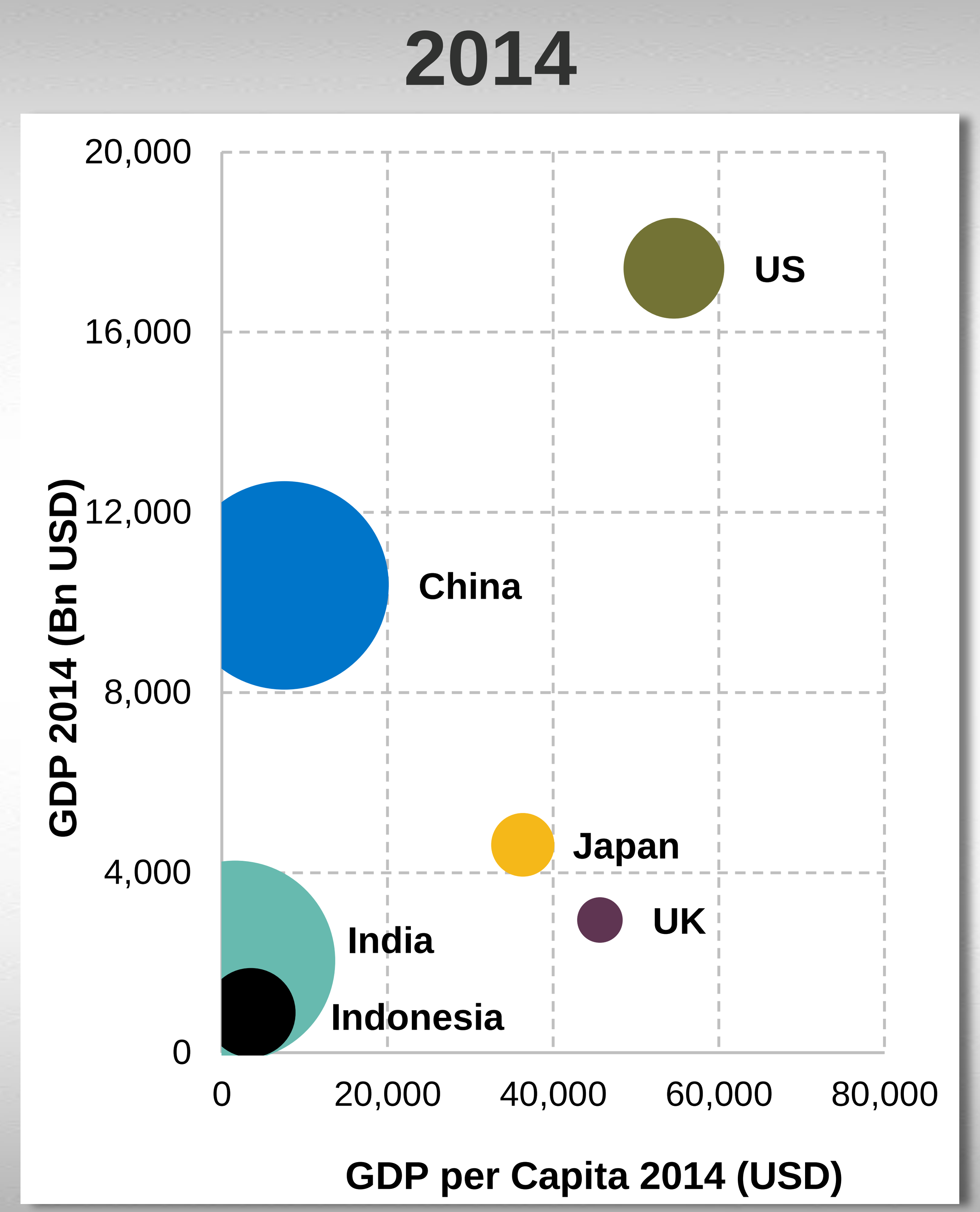
A changing world order

	Population 1980 (mil)	Population 2014 (mil)	GDP Per Capita '80 (USD)	GDP Per Capita '14 (USD)	GDP 1980 (USD)	GDP 2014 (USD)	Forecast GDP 2020 (USD)	Mkt Cap (bn USD)	Current MSCI All Country World Weightings Index
China	*987*	*1,368*	*313*	*7,589*	*309*	*10,380*	*16,157*	*5,603*	2.3%
India	*682*	*1,260*	*266*	*1,627*	*181*	*2,050*	*3,640*	*1,263*	0.7%
Indonesia	*147*	*251*	*707*	*3,534*	*104*	*889*	*1,307*	*380*	0.3%
Japan	*117*	*127*	*9,313*	*36,332*	*1,087*	*4,616*	*4,933*	*3,101*	7.2%
UK	*56*	*65*	*10,039*	*45,653*	*566*	*2,945*	*3,731*	*2,980*	7.1%
US	*228*	*319*	*12,576*	*54,597*	*2,862*	*17,419*	*22,489*	*19,434*	52.4%

a pond is growing - more fish?

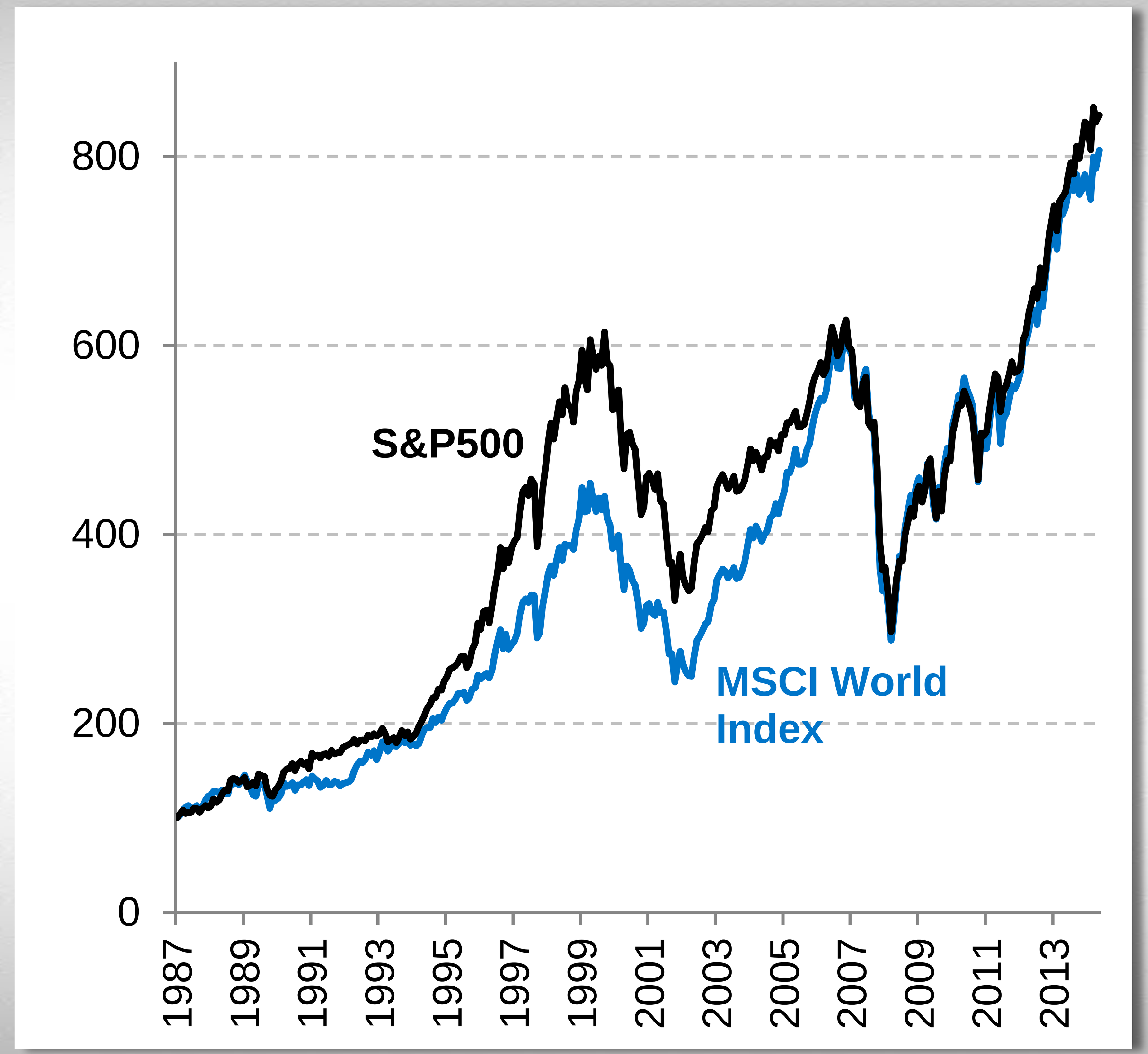
A changing world order

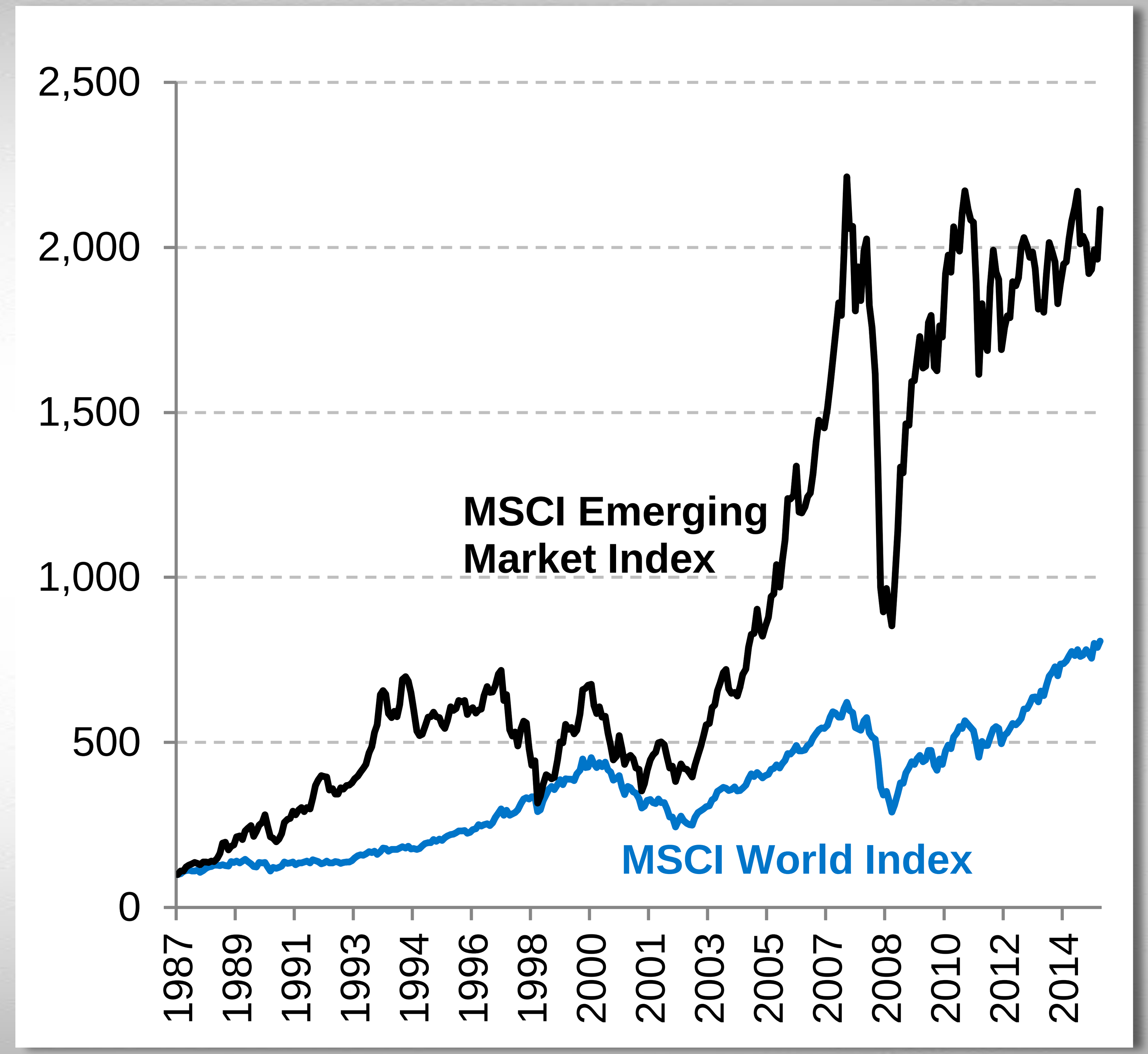




MSCI World a misleading Index

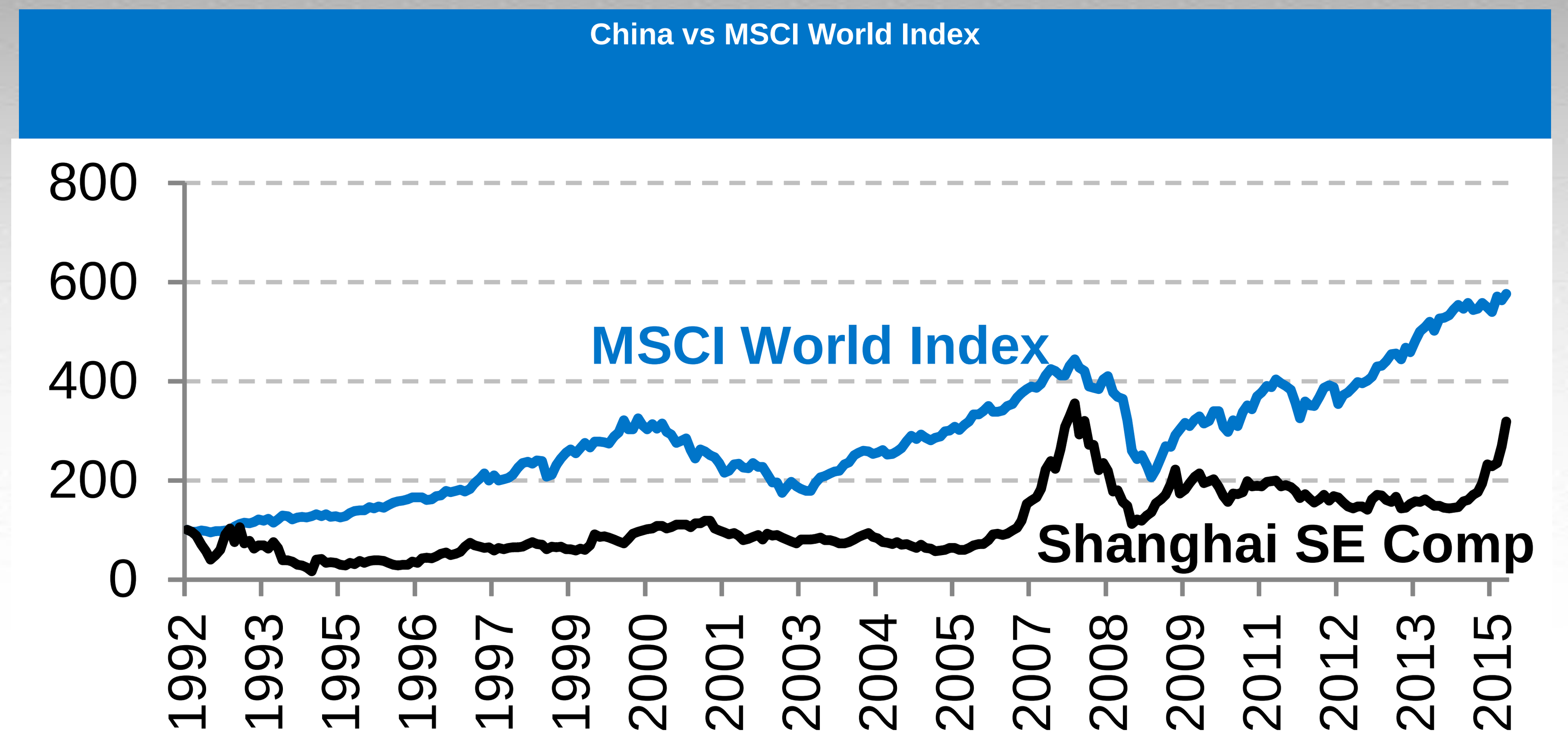
investors have lost out because of it ...

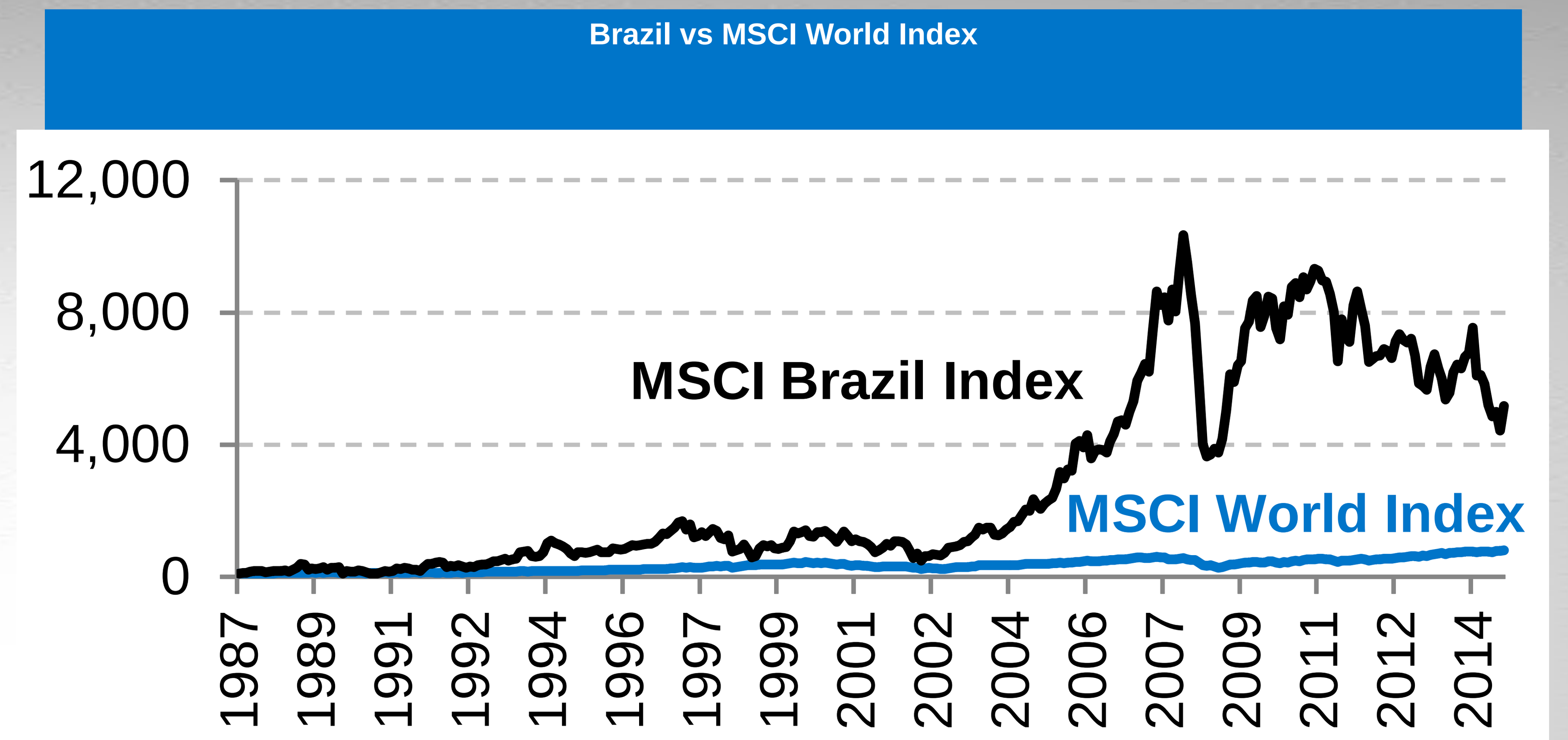


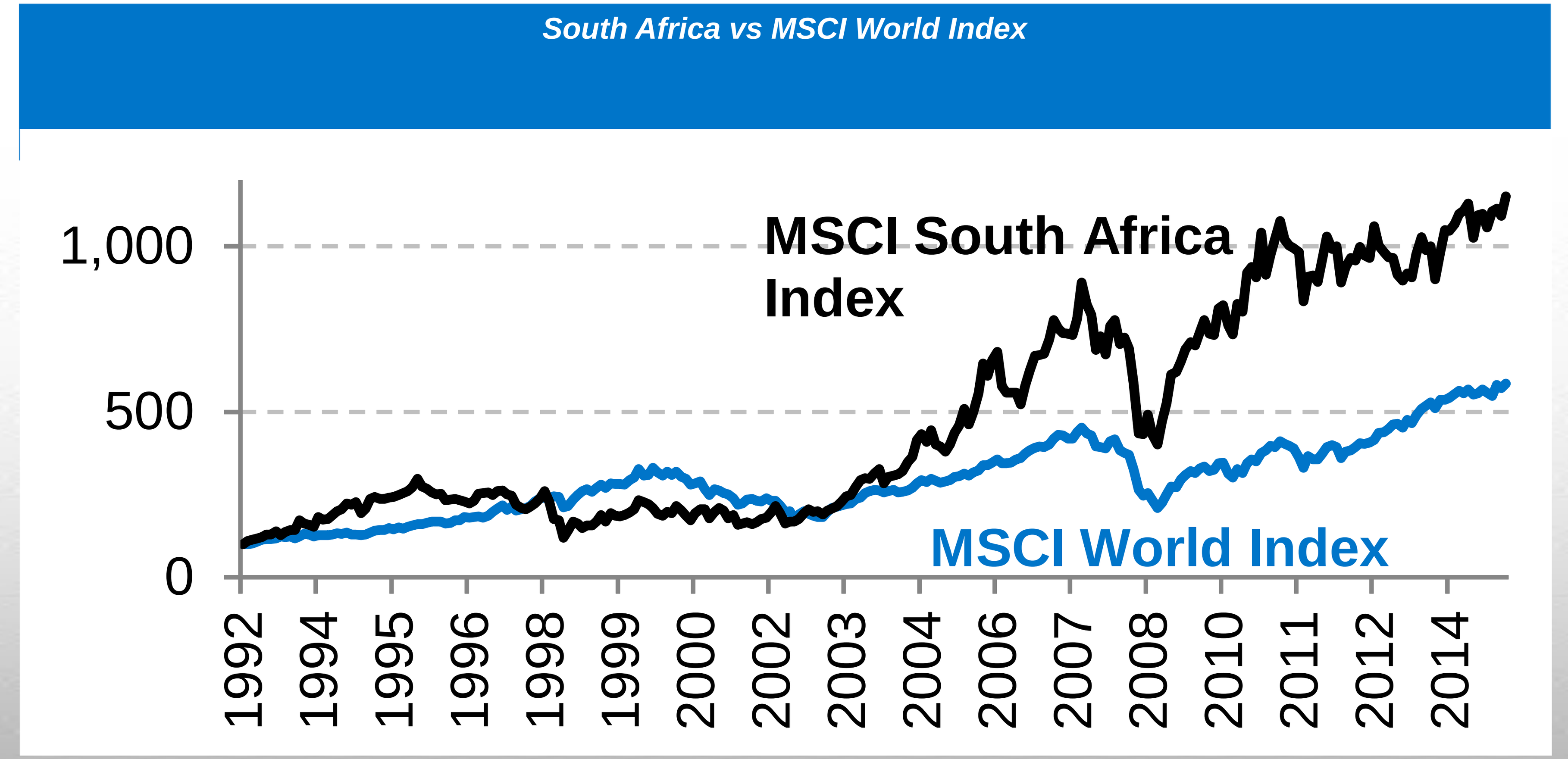


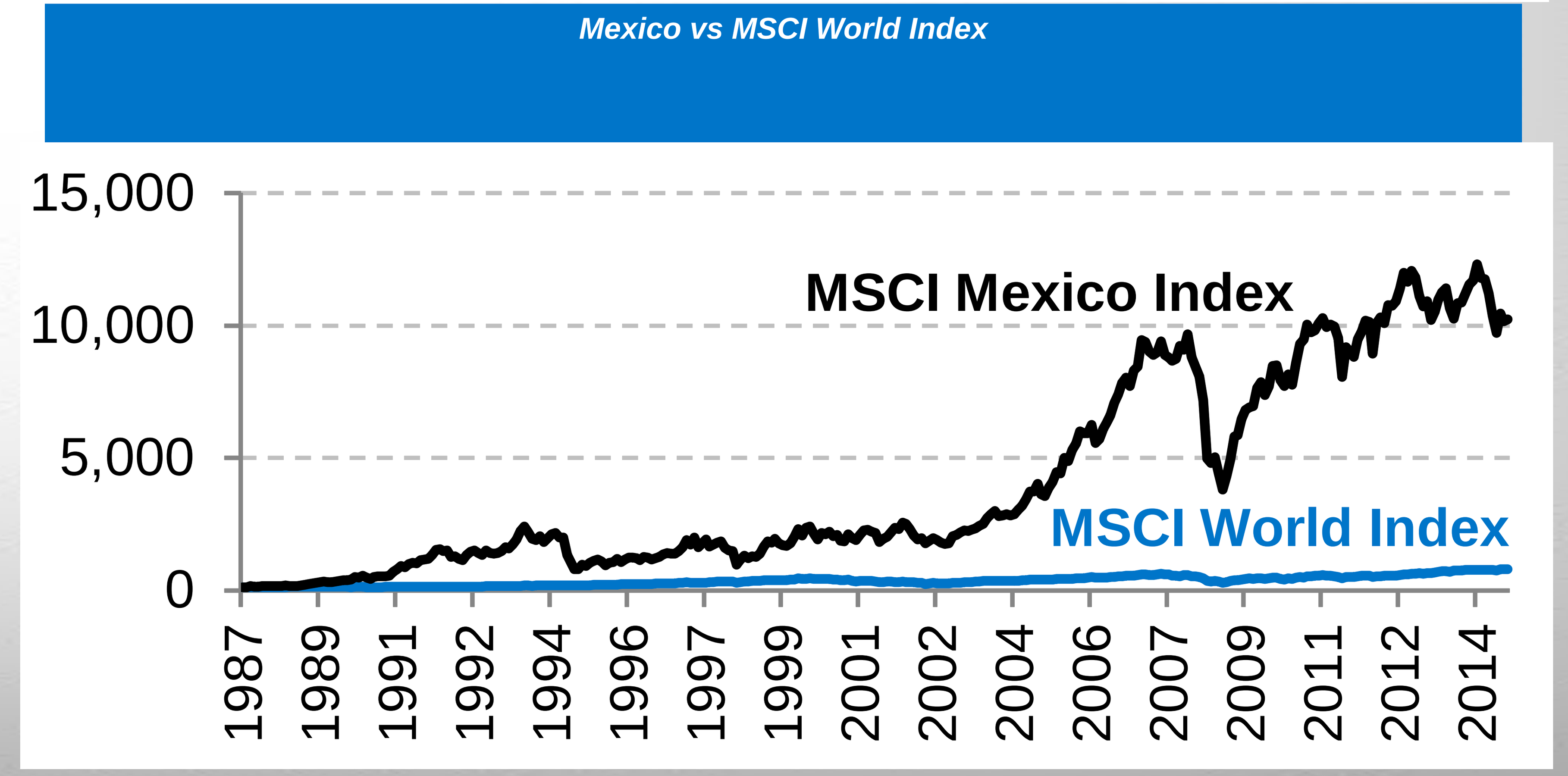
Risk: EM's add extra layers of complexity

each market behaves quite differently …
Greece is not Germany









however …

the criteria that identify winners & losers are the same in EM & DM

	NAV per Share		
	2004	2014	Compound growth rate
AIG	548	77	-86%
Citi	120	57	-53%
Bank of America	13	14	11%
Royal Bank of Scotland	16	3	-78%
Wells Fargo	8	27	243%
Axis Bank (India)	21	188	811%
Bank Rakyat Indonesia	529	3,953	647%

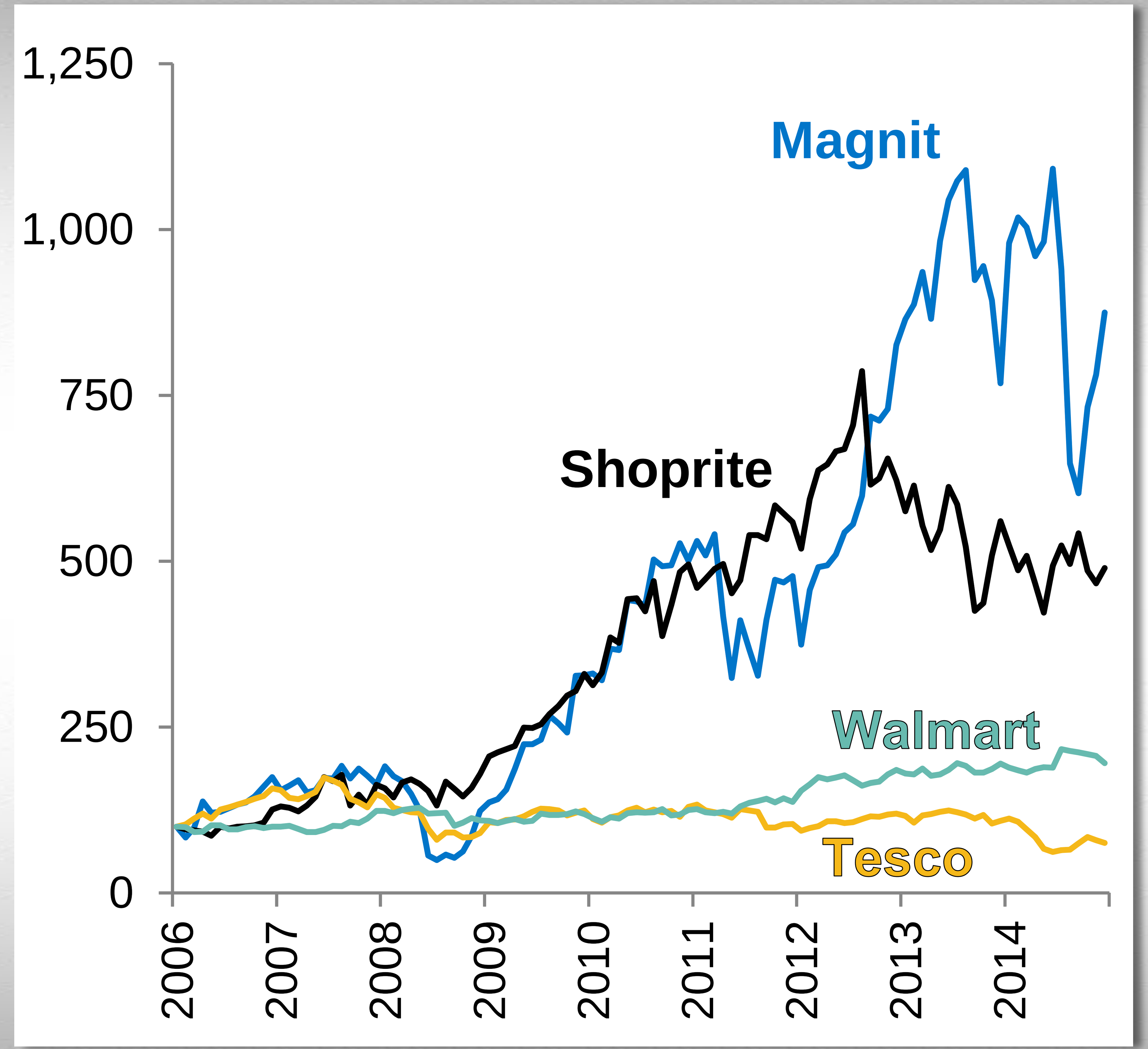
in fact: competitive pressures in DM's

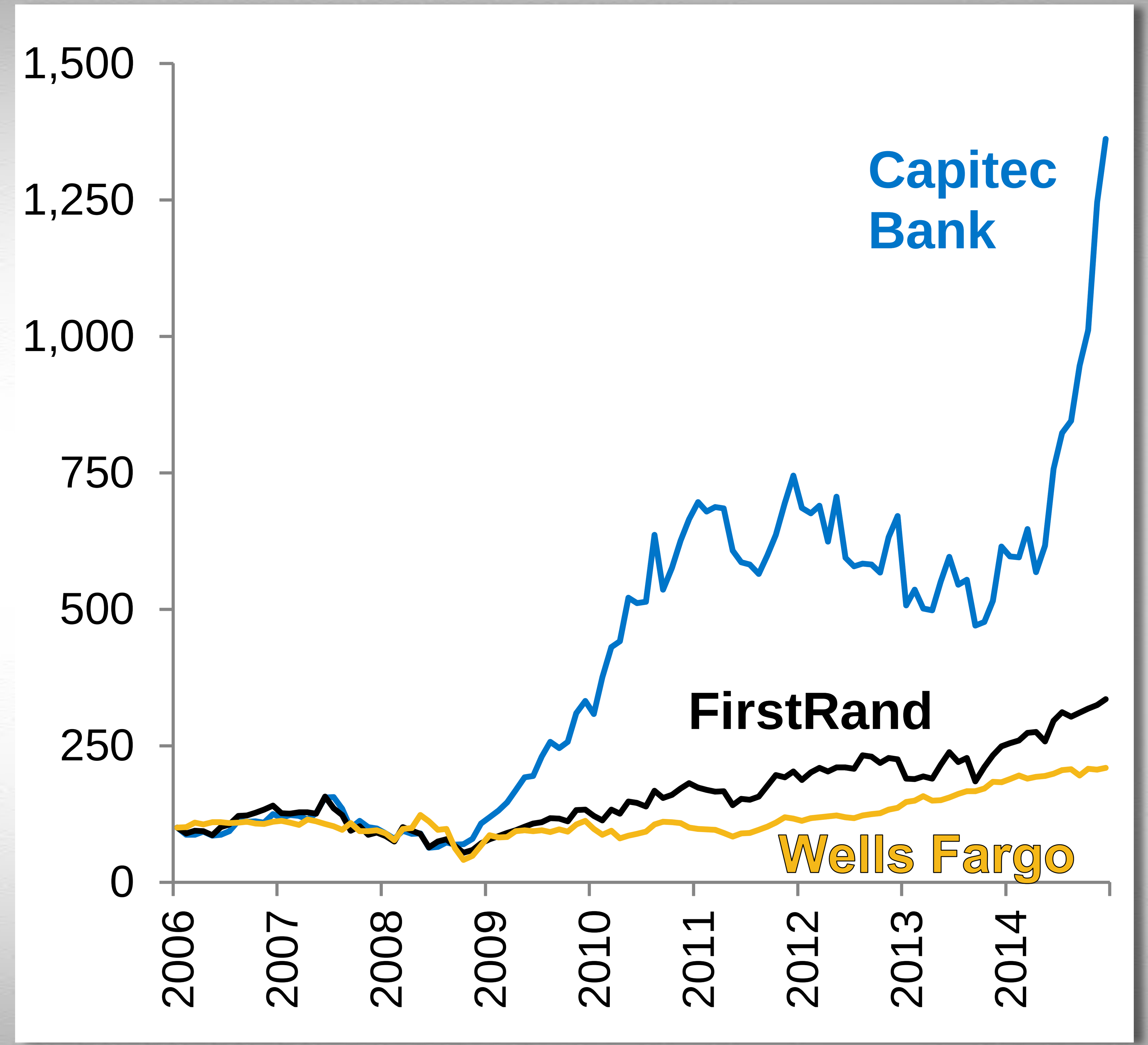
lead to value destructive behaviour

- Mergers & Acquisitions
- Share buy-backs

Shareholder Value Destroying

there are enough EM companies that tick Warren's boxes; the extent of outperformance improves the odds





Summary: Compound return of 19.7% over 50 years -

How did they do it?

Getting the odds in their favour:

- Focus on the long-term importance of individual company dynamics,
  - quality businesses run by ethical management who understand their businesses and allocate capital rationally
  - never overpay
- Ignored macro-economic forecasts, and
- Kept the structure and thinking simple.

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