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Berkshire Hathaway: No Urgency in the Urgent Zone

Dear fellow investors,

To us, Warren Buffett is the greatest value investor of our time. He wrote the annual letter to his Berkshire Hathaway (BRK.B) shareholders on February 22, 2020. This letter happens to coincide with some of his worst relative performance in the last year to five years. It comes in a brutal stretch for value and within recent demoralization of those of us who agree with his investing style. Why, in this letter, did Mr. Buffett shed no light on the current circumstances in the stock market? What is the difference between now and 1969-1972 when euphoric markets caused him to drop out for a while, close his partnerships and rebuild the value investing practice inside of a textile mill shell called Berkshire Hathaway?

Buffett shared that he and partner, Charlie Munger, are close to finishing their obituary at 89 and 96 years of age, respectively. Buffett describes it as the "urgent zone." Life is about writing your obituary and these men are accomplished, needing no more success or accolades to finish theirs. We admire their body of work but must come to a realization. They are preparing us to go somewhere else for stock market and economic wisdom and are wisely forcing us to draw from what we've learned from these two kind teachers.

First, Buffett focused on the compounding of retained earnings. This is a reminder to value investors that long durations are needed in the public markets to recognize the value being created. He credited John Maynard Keynes for disseminating this concept to students. A good start is to look for solid companies which plow back a meaningful part of what they make and have favorable economics going forward. Berkshire Hathaway has a solid succession plan and is an "all in bet on the U.S. economy" at a time that 90 million millennial Americans will form households and drive our economy.

For our portfolio, the first example of using retained earnings to create wealth that came to mind is Amgen (AMGN). Amgen is plowing 17% of gross sales back into research and development each year. They also retain earnings above and beyond those figures while buying back copious shares and paying whopping dividends. A younger Warren Buffett might be very excited about a company like Amgen.

Second, if Buffett holds our hand right now, can we walk on our own when he and Charlie are long gone? My dad died in 1983 when I was 25 years old. We raised five kids and now have 10 grandkids and operate all the time without being able to check in with him for advice. Value investing has been led and taught by Mr. Buffett, but the sign of a great teacher is the ability to step back and let the students figure things out for themselves.

There's no urgency for long duration value investors because we know the odds and time are on our side. Value has beaten growth by 3% per year on average over 90 years for a reason. Luck evens out over long stretches

of time and what you pay for your luck ends up mattering. Does it do us any good for Buffett to point out the ridiculously over-played price movement in the Tesla's and Virgin Galactic's of this world, or the speculative euphoria surrounding the extrapolation of future success for the popular technology companies? We should be able to figure that out on our own without Buffett lecturing everyone this summer in Sun Valley.

Third, the odds are stacked heavily in favor of Berkshire Hathaway and value investing. This is the cheapest BRK.B has been (price-to-book, to interest rates, etc.) that we have ever seen. There is no Buffett premium, like in years past, because Charlie and Warren are in the urgent zone. Most investors have gone agnostic on value with the S&P 500 Index or have overweighted the FAANG stocks (Facebook, Apple, Amazon, Netflix, Alphabet) near their peak of popularity in hopes of surviving until the mania breaks. A reflective gentleman in the urgent zone like Buffett doesn't want to leave this earth right after blistering the current foolishness. This is despite the fact that we believe that the Red Sea is parting right now in favor of BRK.B and value investing in general.

Lastly, Warren Buffett was 39 years old in 1969 when he broke up his partnerships and sent Berkshire shares and cash out to his partners. At that point he had very little interest in making friends. He could see the foolishness around him, which was about to shift from the Go-Go 1960s mania to the maniacal Nifty-Fifty growth stocks of 1972. Other than educating shareholders/partners back then, he wasn't into educating thousands of investors at the annual meeting or through his annual letter. He was focused on shifting what he did inside of Berkshire Hathaway to take maximum advantage of the value investing opportunities of the future.

Therefore, while Mr. Buffett pulled his punches in the 2019 annual letter on current foolishness and made no effort to explain or reinforce his shareholders and value investors in general, he did what any good dad does for their kids. He has given us a lifetime of shared wisdom and instruction to fall back on and effectively told us we are on our own. Investors urgently need to go forward in their value disciplines at a time when value investing has rarely looked more valuable in the marketplace, even though Warren Buffett has no urgency in the urgent zone!

Warm regards,

William Smead