



Missive

MAY 5, 2025

Thank You Warren Buffett

Dear fellow investors,

In light of the announcement that Warren Buffett is stepping down, we thought it very useful to share some of the keynote talk I did at the University of Nebraska-Omaha Business School last Friday night (thanks to its wonderful director, Robert Miles). It was created two weeks prior, before anyone had any idea that Buffett was stepping down.

The talk started as a history of how we came to know of the 'Oracle of Omaha' and focused on how much gratitude we have for Warren Buffett and Charlie Munger. Remember, our podcast, led by Cole Smead, is called "A Book With Legs" in honor of Cole's favorite Berkshire stock picker. However, my talk was directly connected to Buffett, and now that he is stepping down, it is even more pertinent.

I personally got into the investment business in Seattle at Drexel Burnham Lambert and was hired by Charles W. Easter and his sidekick, Floyd U. Jones. By 1985, I was training rookie stockbrokers and handling my own clientele. All my previous training in taking financial risks was in handicapping greyhound races in Gresham, Oregon in high school and college. Buffett got his start handicapping horses and selling a tip sheet in Omaha. What follows is a replay of much of my talk.

In 1984, we hired Floyd's son, Steve, as a trainee, and he went to the Berkshire Hathaway meeting in 1985 with about 400-600 other folks. Floyd was my stock picking mentor, and Steve helped connect us to Warren Buffett's writing and teaching. In retrospect, it is one of the greatest blessings of my career and has extended itself to blessing Cole and the entire Smead Capital Management corporation.

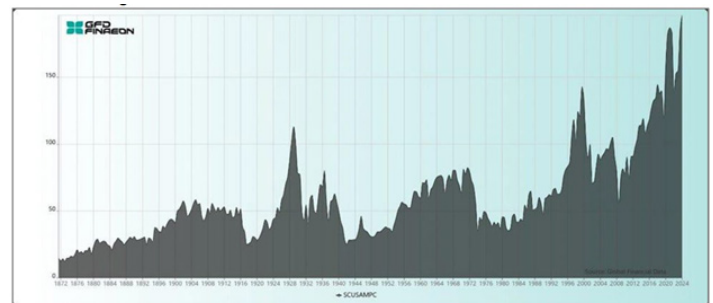
My first chance to get deeply involved with both the logic and wisdom of Berkshire was the day that the U.S. bombed Baghdad and CNN showed it on TV. I stayed in the office and convinced as many people as possible to buy \$3,500 Berkshire "A" shares. We have owned BRKA/BRKB continuously since then. Over the years, we have read everything printed about Buffett and Munger and read the annual letters of Berkshire Hathaway over and over to commit those generous lessons into our portfolio management discipline. Our eight criteria for common stock selection are closely tied to Buffett's discipline.

In 1993, Smith Barney allowed us to run separate accounts with an annual fee, and Berkshire went into every account and has been owned by our legacy investors straight through to today. By the time we started Smead Capital Management in 2007-2008, it was natural to carry forward owning Berkshire and draw as much wisdom from Buffett and Munger as possible. We started attending the annual meeting in 2009 and have been in person 15 times during that stretch.

A few years back, my mentor Floyd Jones died. After he died, he gave \$300 million to charities in Seattle and across the country. Floyd was extremely generous, like Buffett has been, and he loved that they both came from the Midwest. We try to emulate our mentor's generosity each year.

Lastly, during my talk I tried to help the audience understand why Buffett has been a heavy seller of stocks the last two years and built an enormous cash pile of around \$340 billion. There have been four major pivots in Buffett's time with Charlie Munger at his side. In 1969, he sold everything besides BRKA and returned the money to his partners. In 1999, he warned investors at the Allen and Co. Sun Valley conference of the impending extended underperformance of the S&P 500 Index from 1999 to 2009.

The third pivot was September 30, 2008. Buffett wrote a letter to the editor of *The New York Times* saying, "Buy American, I am!" Buffett said that he had \$2 billion of his own money, and with his favorite stock market indicator flashing a go signal, he started buying. The stock market bottomed in March of 2009, five months later. See the chart below of Buffett's favorite indicator:



Source: Global Financial Database, Meb Faber

Thank You Warren Buffett

Last, but not least, is Buffett's recent pivot to cash. Buffett has said that he could do well with smaller amounts of money, which has encouraged us. For investors like us, there has rarely been a value spread between our portfolio and the S&P 500 Index as big as this! We agree with Buffett that there are few \$25-50 billion opportunities in the stock market. It doesn't take a rocket scientist to see that the recent stock market pullback did nothing to cure the overall stock market's historically expensive position in relation to history. However, there are very attractive opportunities in the \$50 million-\$100 million range. This is the initial investment opportunity that our investors need.

We love and admire Buffett and Munger. I've always said, "I'd rather know who is smart than to be smart!" We will miss his regular communication, but we believe 40 years of his generous education will serve us well for decades to come.

Play The Long Game,



Bill Smead
Chief Investment Officer

The information contained in this missive represents Smead Capital Management's opinions and should not be construed as personalized or individualized investment advice and are subject to change. Past performance is no guarantee of future results. Bill Smead, CIO wrote this article. It should not be assumed that investing in any securities mentioned above will or will not be profitable. Portfolio composition is subject to change at any time and references to specific securities, industries and sectors in this letter are not recommendations to purchase or sell any particular security. Current and future portfolio holdings are subject to risk. In preparing this document, SCM has relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources. A list of all recommendations made by Smead Capital Management within the past twelve-month period is available upon request.

©2025 Smead Capital Management, Inc. All rights reserved.

This missive and others are available at www.smeadcap.com.



smeadcap.com

2502 East Camelback Road
Suite 210
Phoenix, AZ 85016

Sales Desk US 877.701.2883
Sales Desk UK +44 (0)20.8819.6490
info@smeadcap.com