

➤ The Investment Perspective – June 2024



“Neither the investing method nor the fundamentals of the business are right or wrong because the mood of the market is favourable or unfavourable toward the “stock”. That is because when you really think about it, “stocks” (shares) are all about the financials and the trading price, the share price...the cash up value. What matters more is the economics of the business.”

-Peter Flannery

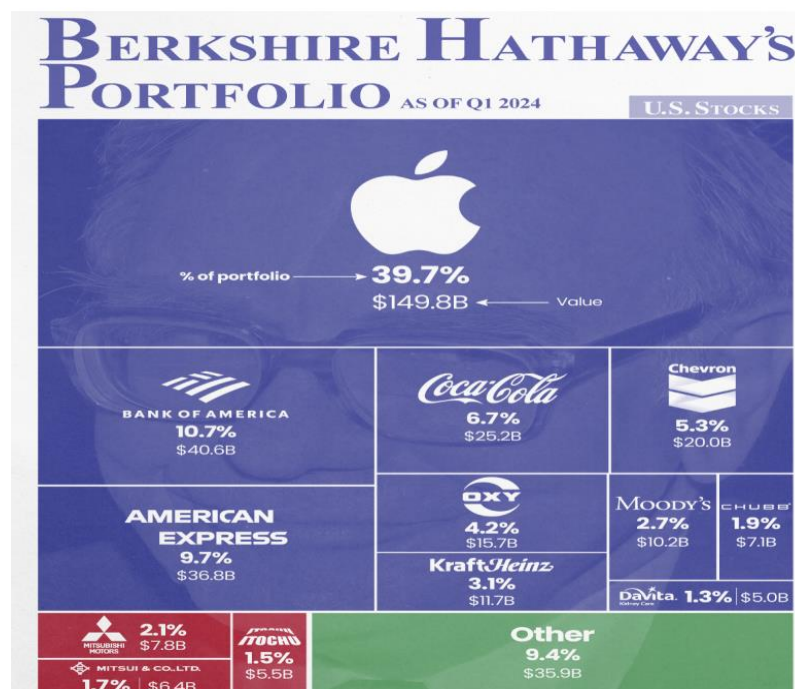
Peter Flannery CFP FA

BRK-Where to from here?

Warren Buffett is arguably the most successful investor in the world, on a number of levels. But he is aged 93, still in great shape, but not getting any younger.

As investors, where are we heading with Berkshire Hathaway?

Warren Buffett is unique. Here is how we know just how much this is so ...



The table above shows the weighting of each of the main holdings in Berkshire Hathaway. Source: Visual Capitalist.

The point ... is the portfolio concentration. Apple makes up 39.7% of the total of Berkshire Hathaway investments (even after some Apple shares were offloaded recently).

It is difficult to locate another investment of this size with this level of portfolio concentration. The market capitalization (the size) of BRK is US\$862 billion. The top five holdings make up over 70% of all investments across the Berkshire Hathaway portfolio.

It's (almost) all Apple

The data we used to create this graphic can be found in the following table. Positions worth less than \$5 billion were included in "Other".

Company	% of Portfolio	Value (As of 05-23-2024)
 Apple Inc	39.7	\$149.8B
 Bank of America	10.7	\$40.6B
 American Express	9.7	\$36.8B
 Coca-Cola	6.7	\$25.2B
 Chevron	5.3	\$20.0B
 Occidental Petroleum	4.2	\$15.7B
 Kraft Heinz	3.1	\$11.7B
 Moody's	2.7	\$10.2B
 Mitsubishi Corp	2.1	\$7.8B
 Chubb	1.9	\$7.1B
 Mitsui & Co	1.7	\$6.4B
 Itochu Corporation	1.5	\$5.5B
 DaVita	1.3	\$5.0B
 Other	9.4	\$35.9B
Total	100	\$377.9B

The table above lists the largest holdings in Berkshire Hathaway. Source: Visual Capitalist

That level of portfolio concentration requires talent, skill, experience and an understanding of business economics (not stocks), that few possess.

Berkshire Hathaway is 'solid'.

Berkshire Hathaway receives US\$10 billion of cash from the company's holdings every quarter. That equates to US\$40 billion each year ... and growing.

Investors preferring to play safe by (blindly) placing their money in a bank, likely don't understand the earning power at Berkshire and the sustainability of it. Where else can you find a more secure investment (no it is NOT a bank)?

As investors, Berkshire doesn't try to hit home runs or outsmart the random markets. They do, by nature, position for tough times and uncertain conditions.

The problem.

As victims of their own success, it has become difficult 'to move the needle' with one or two new investments because the operation is now so large.

Growth has been spectacular with an average return of approx 19.2% per annum over 50 + years.

BRK-A shares now trade at circa US\$627,400 per share.

Fletcher Building shares in New Zealand trade at NZ\$3.01.

Mainfreight Shares trade at NZ\$69.05.






Fonterra shares trade at NZ\$2.74.

The size of the business may mean that investment performance in the future may not be as good as in the past.

Still, the future for BRK looks sound.

Warren Buffett and Charlie Munger cannot be replaced. However, the succession plan is in place.

Berkshire Board Profiles

 <p>Greg Abel</p> <p>Buffett's chosen successor has been on the board since 2018 when he was made vice-chair. The Canadian cut his teeth in the energy and utility industries and joined Berkshire following its takeover of MidAmerican Energy.</p>	 <p>Warren Buffett</p> <p>Chair and chief executive of the company he took control of in 1965. Through his high-vote class A shares, the billionaire investor controls 31.2 per cent of the voting rights at the conglomerate.</p>	
 <p>Ajit Jain</p> <p>Jain is one of Berkshire's top executives, overseeing its sprawling insurance operations. He joined the company in 1986 from consultancy McKinsey. Jain, credited with the underwriting skills that supercharged Berkshire's growth, was once tipped as a potential successor to Buffett.</p>	 <p>Howard Buffett</p> <p>The son of Warren and Susan Buffett, he has been on the board since 1993. Buffett has said he would like his son, who runs his own charity, to eventually become Berkshire's non-executive chair.</p>	 <p>Susie Buffett</p> <p>The daughter of Warren and Susan Buffett, she joined Berkshire as a director in 2021. She is the chair of two charities that have helped support abortion access and reproductive health initiatives.</p>

Above are some key players in Berkshire Hathaway. Source: Elevation Capital.

Warren Buffett has prioritised company culture. The team have been selected with this in mind, headed by Howard Buffett, Warren and Susan Buffett's son.

"Culture eats strategy for lunch". This is a well-known business cliché. It is true. Good company culture is key to company success.

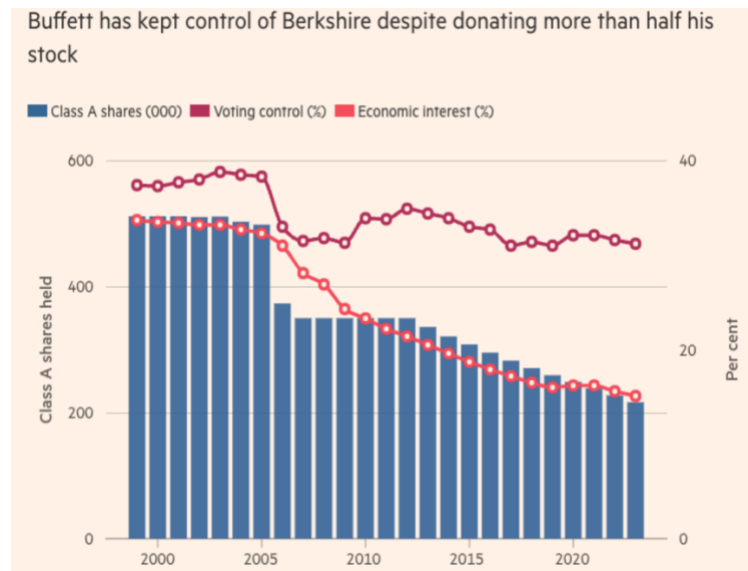
Charlie Munger once said that excessive risk-taking, inappropriate remuneration structures, and too much leverage are things that can lead to 'dumb outcomes' and are all 'off limits' at Berkshire Hathaway.

Outside pressure to change?

There has been pressure at times from outside the company for some changes to how things are done at Berkshire (e.g. quarterly updates, release some of the cash by paying a dividend). Buffett has resisted these demands for decades - rightly so.

One of the 'secrets' to Berkshire's success has been the retention of earnings for reinvestment rather than paying dividends. Other companies could learn from this (but then they have a different agenda!).

Warren Buffett still holds a strong grip of control over Berkshire.



The above graph shows Warren Buffett's control over Berkshire Hathaway

Warren Buffett still holds strong control. He has given away approx. 25% of the company to friendly interests (e.g. The Gates Foundation, The Susan Thompson Buffett Foundation). In addition, many of the shareholders are long-standing and loyal. This means that his preference for how the company is run may not change for many years after his passing.

The business is well-positioned for the future.

Berkshire Hathaway is well-positioned on a number of levels (e.g. governance, management, operations, and as a secure investment).

Markets however may sell down Berkshire Hathaway shares upon Warren Buffett's eventual passing, although, as mentioned just now, many shareholders are longstanding and loyal.

As an investor, if you prefer an advanced approach to investing and favour maximising ROI over investing security/reliability, you may consider other smaller options elsewhere. Scaling back BRK might be an option to consider in the future.

Meantime, Berkshire and the businesses that make up their investment portfolio are 'best of breed' so to speak. They are quality and will continue to grow in the future, although possibly in aggregate, not as fast as in the past.

"You can't tell who is swimming naked until the tide goes out"

-Warren Buffett

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