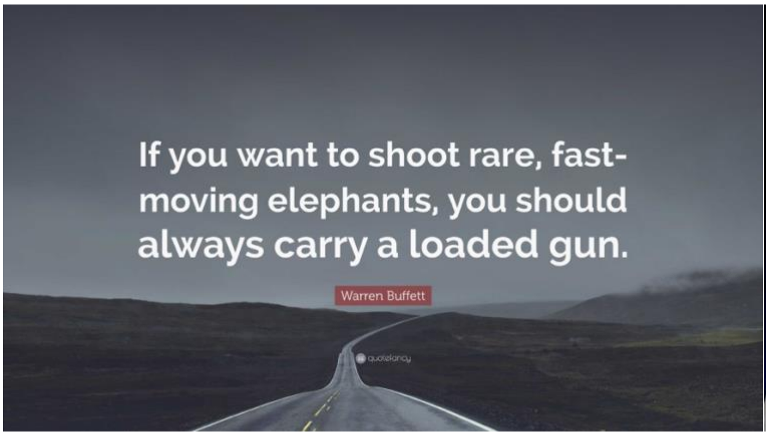
➢ The Investment Perspective – May 2025

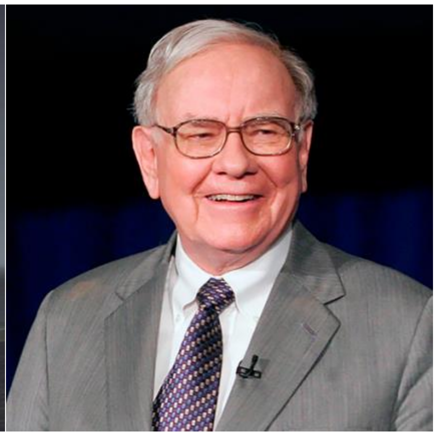
Peter Flannery CFP FA

"The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage."

- Warren Buffett

Warren Buffett hangs up the elephant gun





After over 60 years as arguably the most successful investor ever in listed and private equity assets, Warren Buffett is stepping down, handing the reins of Berkshire Hathaway over to Greg Able.

What does this mean for us?

Two things come to mind:

1) Berkshire Hathaway was challenged in recent years, keeping up with historical investment growth, even with Warren Buffett's elephant gun. They became victims of their own success. Huge growth, over many years, consistently. Becoming so large that their options for investing diminished. They need very large positions to 'move the needle'. However, Berkshire Hathaway remains a sound and worthy investment. Berkshire has also been investing in Japan where quality businesses are available as well as better pricing than many US based options.
2) We can continue with the key learnings on his and Charlie Munger's investing method. They are fundamental and will serve us well in the future, but we need the right mindset to be able to use them purposefully and successfully. Things like the high return on equity, low dividend payout ratio, sound business economics, concentrated portfolio, the long attention span, being

prepared to invest differently to ‘the herd’, especially when the market noise and industry experts mindlessly pontificate otherwise.

In short, Warren Buffett’s investing magic lives on, providing we diligently apply the tools that have been given to us all. That means ‘swimming upstream’ at times, but knowing that the fundamentals will keep our investments secure and provide long-term growth.

The business, not the stock

The stock could be generally characterised as for example, the trading price, trading price movement, dividend yield, p/e ratio, PEG ratio, quarterly / annual earnings, technical analysis (e.g. 200 day moving average around the trading price), revenue and earnings outlook next 12 month's and the ‘news’ that emerges that might affect the trading price. Analysts can carry out a number of different types of analysis (e.g. discounted cash flow analysis), usually looking to work out where the trading price might be in the short term.

The health and direction of the sector in which a stock exists will likely also be taken into account. The idea is to buy hold or sell in an attempt to ‘second guess’ or beat the market. For example fund managers and brokers may look to chase rising trading prices of stocks in a growing and popular sector. They are right – until they are not.

The Business may include some specific analysis outlined above and will also consider the underlying business economics.

The durable competitive advantage, otherwise known as the moat, is a good example a business economic. The reality is that this economic is rare, very rare. But when it can be located, it signals a business that has strong product / service pricing power which translates to strong profitability. That means investors have the opportunity to make more money long term compared to others who invest in stocks that might be bought, held or sold based on more superficial metrics (e.g. trading price movement, the latest earnings result not meeting market expectations).

The eco system (collection of products and services) is another example of a useful business economic. A business with one product or service means high risk, especially if that product or service fails to perform. Apple and McDonald’s are good examples of businesses with good eco systems.

One service or products leads to another. The hamburger … would you like chips with that …means McDonalds makes money on two products (the burger and the chips). If the customer wants chicken nuggets then that is more profit for the business.

Apple offers a range of products and services, each one enhancing the eco system and enhancing the user experience. Also their products and services are easy to use – ‘plug and play’.

By the way, whilst Apple faces challenges from time to time, it was the first US trillion dollar company by market capitalisation. At one-time, it made up 50% (market capitalisation) of Berkshire Hathaway's portfolio.

60 years

60 years is a length of time that provides some serious compounding of capital. Indeed, time is the friend of a quality business.

60 years is also a length of time that brings a greater probability of investing mistakes. The longer we invest the harder it is to generate double digit returns.

The unique ‘value’ methodology as per Warren Buffett and Charlie Munger has been key to their success.

It’s NOT buying cheap stocks. It is buying <u>quality businesses</u> at favourable trading prices.

60 years. Take a look at the result …

Berkshire's Performance vs. the S&P 500

Year	Annual Percentage Change: in Per-Share Market Value of Berkshire	Annual Percentage Change: in S&P 500 with Dividends Included
1965	49.5%	10.0%
1966	(3.4)	(11.7)
1967	13.3	30.9
1968	77.8	11.0
1969	19.4	(8.4)
1970	(4.6)	3.9
1971	80.5	14.6
1972	8.1	18.9
1973	(2.5)	(14.8)
1974	(48.7)	(26.4)
1975	2.5	37.2
1976	129.3	23.6
1977	46.8	(7.4)
1978	14.5	6.4
1979	102.5	18.2
1980	32.8	32.3
1981	31.8	(5.0)
1982	38.4	21.4
1983	69.0	22.4
1984	(2.7)	6.1
1985	93.7	31.6
1986	14.2	18.6
1987	4.6	5.1
1988	59.3	16.6
1989	84.6	31.7
1990	(23.1)	(3.1)
1991	35.6	30.5
1992	29.8	7.6
1993	38.9	10.1
1994	25.0	1.3

Note: Data are for calendar years with these exceptions: 1965 and 1966, year ended 9/30; 1967, 15 months ended 12/31.

14

Berkshire's Performance vs. the S&P 500

Year	Annual Percentage Change: in Per-Share Market Value of Berkshire	Annual Percentage Change: in S&P 500 with Dividends Included
1995	57.4%	37.6%
1996	6.2	23.0
1997	34.9	33.4
1998	52.2	28.6
1999	(19.9)	21.0
2000	26.6	(9.1)
2001	6.5	(11.9)
2002	(3.8)	(22.1)
2003	15.8	28.7
2004	4.3	10.9
2005	0.8	4.9
2006	24.1	15.8
2007	28.7	5.5
2008	(31.8)	(37.0)
2009	2.7	26.5
2010	21.4	15.1
2011	(4.7)	2.1
2012	16.8	16.0
2013	32.7	32.4
2014	27.0	13.7
2015	(12.5)	1.4
2016	23.4	12.0
2017	21.9	21.8
2018	2.8	(4.4)
2019	11.0	31.5
2020	2.4	18.4
2021	29.6	28.7
2022	4.0	(18.1)
2023	15.8	26.3
2024	25.5	25.0
Compounded Annual Gain – 1965-2024	19.9%	10.4%
Overall Gain – 1964-2024	5,502,284%	39,054%

15

2023	15.8	26.3
2024	25.5	25.0
Compounded Annual Gain – 1965-2024	19.9%	10.4%
Overall Gain – 1964-2024	5,502,284%	39,054%

Look closely, you will see the compounded annual gain from page 15 of the 2025 annual report … 19.9% per annum: 1964 – 2024.

“Buy the business, not the stock. Don’t buy too many. Concentrate the portfolio”.

Charlie Munger

"The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage."

Warren Buffett