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ASSET MANAGEMENT

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SIX OBSERVATIONS FROM THE BERKSHIRE HATHAWAY ANNUAL GENERAL MEETING

The entire Sanford DeLand investment team attended the AGM this year which was, due to Covid, the first in-person event since 2019. Present were long-time attendee Keith Ashworth Lord (CIO and manager of the UK Buffettology Fund) and first timers Eric Burns (Chief Analyst), David Beggs (Investment Analyst) and Chloe Smith (Investment Analyst).

Attending the Berkshire weekend is like going to church, you're unlikely to learn anything you've not heard before but it sure is helpful to hear the sermon again. With that in mind, here's a summary of six key takeaways:

The jamboree attracts people from all walks of life – it's humbling

Described as Woodstock for Capitalists, you'd be forgiven for thinking that the suits dominate. But this is truly an event where the world's great and good (Bill Gates, Tim Cook, Jamie Dimon) rub shoulders with the *mom and pops* and it's the latter to whom Buffett and Munger show greatest loyalty. People like Bob and Sandy from Iowa, who we sat with at the Columbia University Business School Dinner the night before, who had the foresight to plough their savings into Berkshire a decade or more ago ("*I nearly divorced him*") and who are now reaping the rewards of that wonderful compounding of the return. People of modest means who are now sat on investments of literally millions of dollars. It is humbling for anyone in the fund management industry to hear such stories as it reminds us why we do what we do.

Cash remains king. Despite what the crypto fanatics tell you

At a time when the value of cash is being questioned, it was pertinent that the presentation started with the image of a \$20 bill, explaining what cash is and, perhaps more importantly, what cash can facilitate. Cash has stood the test of time and is, and always will be, the main tool for purchasing. In a nod to current high levels of inflation, there was a lesson on how, despite its purchasing power diminishing, it still has utility value and is the only thing that will pay the bills. There was an obvious read across to cryptocurrencies here, although it wasn't until the afternoon session that Warren elaborated. "Whether [Bitcoin] goes up or down in the next year, or five or ten years, I don't know. But the one thing I'm pretty sure of is that it doesn't produce anything," he said. "It's got a magic to it and people have attached magics to lots of things." Perhaps the best quote belonged to Charlie, a long-standing crypto sceptic, "In my life, I try to avoid things that are stupid, and evil, and make me look bad in comparison to someone else, and Bitcoin does all three" before opining that its value is likely to go to zero.

The stock market has become 'almost a mania of speculation'

Charlie noted that the stock market had become "almost a mania of speculation." He was referring here to the plethora of retail brokerage platforms, particularly in the US, as well as high frequency trading and the derivatives that underlie some index trading and ETFs. This phenomenon accelerated during lockdown thanks to a combination of furlough cheques and people with time on their hands. It is made worse by the way the providers get paid for order flow or for writing calls on the stock; all

to the detriment of the investor. Best line: “We’ve got people who know nothing about stocks, being advised by stockbrokers who know even less”. Big laughs.

Finding great businesses is so much trouble these days – but it might be getting easier

After noting in February’s Letter to Shareholders that there is “little that excites us” in the market, a number of opportunities presented themselves over the following weeks. In March, Berkshire revealed a 14% (\$7bn) stake in oil giant Occidental Petroleum, followed by further investments in HP, Chevron and Activision Blizzard. It also announced the \$11.6bn acquisition of Allegheny, a company Warren has followed for 60, *yes 60*, years. Despite these investments – coupled with the \$3.2bn spent on share buybacks during the quarter – Berkshire still holds a mighty \$106bn in cash. Perhaps somewhat ominously, Warren said he always wanted Berkshire Hathaway to be in a position to operate “should the economy stop”.

The key takeaway from the Occidental purchase was that they were able to build such a large stake so quickly – something that Warren puts down to the part that day traders, who treat shares as casino chips rather than investments, play in today’s market. Warren’s quote “Imagine trying to buy 14% of the farms in this country. 14% of the apartment houses. 14% of the auto dealerships, or just anything, when already 40% were locked up some other place. It defies anything Charlie and I have seen, and we’ve seen a lot.”

Investing in yourself is the best investment anyone can make

Perhaps the best advice of all is to invest in anything that develops yourself. In response to a question from a younger audience member, Warren replies that the best thing anyone can do is be exceptionally good at something. Whatever abilities you have cannot be taken away from you, they can’t be inflated away from you. Figure out what you like as that’s what you are likely to be good at and the world will pay for that expertise. Sage advice indeed.

These two will be a hard act to follow

Warren at one point observed that the two of them have a combined age of 190. That leads you to ponder, as some have been doing for years now, what comes after. It is inevitable that one of them will be absent from a Berkshire meeting someday soon and that will be a day of great sadness. The rapport and interplay between them is right up there with Morecambe & Wise or The Two Ronnies and it is hard to see anybody filling that void. While Greg Abel and Ajit Jain are excellent managers and very accomplished business people in their own right, they are no show ponies. We have honestly no idea how that will be resolved.

Finally, the event reinforces the need to shut out all extraneous noise and distraction and to focus 100% on the things you can control – the quality of the businesses you buy and the price you pay. This is as relevant now, in the current market, as it’s ever been.

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