Warren Buffet and Berkshire Hathaway's Annual Letter - My Thoughts

By Wes McComb

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Warren Buffet released his annual letter to shareholders last week. This must-read missive by the world's most legendary investor always, always has great insights. His ability to put complex ideas into language that we can all understand is a gift that is almost as great as his investment track record. He is now 90 years old and as sharp as ever even though he seems to live on Coke, peanut brittle and hamburgers. I highlight below seven of his main points in this year's letter.

1) Never bet against the US (I think Canada should be included so we will paraphrase this as North America). He acknowledges that innovation the world over is creating unprecedented prosperity. However, American history shows that there has never been another incubator like it to unleash human potential.
2) He likes to own 100 % of companies but being a minority owner of a great company is better than owning an entire marginal company. So do research initially to find those great companies and add to them at opportune times. Warren considers this program easy and quotes Ronald Reagan " it is said that hard work has never killed anyone, but I say, why take a chance?"
3) He discusses that "investing illusions" can last a long, long time. He mentions this in the context of conglomerates buying other companies with inflated share prices, but we are starting to see these illusions appear in other parts of the market.
4) Bonds are not good investments today. Many investors still seek income from bonds and some, such as insurance companies and pension funds have to own some bonds, and this may cause problems. He reminds us of the Savings and Loans debacle, and in Canada some of our trust companies did the same thing, where they invested in higher risk bonds in order to achieve higher yields. This decision caused the demise of many old, blue chip names.
5) He admits to making mistakes. He has done this in many past letters to remind us that investing is an art as well as a science. Overpaying, misjudging management's abilities or integrity, industry changes and a myriad of other issues can cause the initial euphoria of the buyer to quickly fade.
6) Operating Income is the most important item when considering Berkshire's earnings. Realized and unrealized gains/losses and write downs are not nearly as important at OI.
7) The last point that I noticed was his shout out to professional money managers. These custodians of wealth move their client's money to investments that their analysis considers to be the best place to reach their customers goals. Warren calls it "an honorable, though difficult, occupation." It is gratifying to be appreciated by one of the greatest investors of our time whose integrity and reputation are above dispute.

Until next time. Enjoy the first week of March!