"BRK WILL NOT COME CLOSE TO THE PAST 50 YEARS"

Authored by Warren Buffett, Excerpted from Annual Letter to Shareholders, Feb 2015 @ PP 34-36

The Next 50 Years at Berkshire

Now let's take a look at the road ahead. Bear in mind that if I had attempted 50 years ago to gauge what was coming, certain of my predictions would have been far off the mark. With that warning, I will tell you what I would say to my family today if they asked me about Berkshire's future.

First and definitely foremost, I believe that the chance of Permanent Capital Loss for patient Berkshire shareholders is as low as can be found among single-company investments. That's because our per-share *intrinsic business value* is almost certain to advance over time.

This Cheery Prediction comes, however, with an Important Caution:

If an investor's entry point into Berkshire stock is unusually high – at a price, say, approaching double book value, which Berkshire shares have occasionally reached – **it may well be many years before the investor can realize a profit. In other words, a sound investment can morph into a rash speculation if it is bought at an elevated price.**

Berkshire is not exempt from this truth.

Purchases of Berkshire that investors make at a price modestly above the level at which the company would repurchase its shares, however, should produce gains within a reasonable period of time. Berkshire's directors will only authorize repurchases at a price they believe to be *well below* intrinsic value. (In our view, that is an essential criterion for repurchases that is often ignored by other managements.)

For those investors who plan to sell within a year or two after their purchase, I can offer *no* assurances, whatever the entry price. Movements of the general stock market during such abbreviated periods will likely be far more important in determining your results than the concomitant change in the intrinsic value of your Berkshire shares. **As Ben Graham said many decades ago: "In the short-term the market is a voting machine; in the long-run it acts as a weighing machine."**

Occasionally, the voting decisions of investors – amateurs and professionals alike – border on lunacy.

Since I know of no way to reliably predict market movements, I recommend that you purchase Berkshire shares *only* if you expect to hold them for at least five years. Those who seek short-term profits should look elsewhere.

Another warning: Berkshire shares should not be purchased with borrowed money.

There have been three times since 1965 **when our stock has fallen about 50% from its high point. Someday, something close to this kind of drop Will Happen Again, and no one knows when. Berkshire will almost certainly be a satisfactory holding for *investors*. But it could well be a Disastrous Choice for speculators employing leverage.**

“BERKSHIRE IS NOT EXEMPT”

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I believe the chance of any event causing Berkshire to experience financial problems is essentially zero. We will always be prepared for the thousand-year flood; in fact, if it occurs we will be selling life jackets to the unprepared. Berkshire played an important role as a “first responder” during the 2008-2009 meltdown, and we have since more than doubled the strength of our balance sheet and our earnings potential. Your company is the Gibraltar of American business and will remain so.

Financial staying power requires a company to maintain three strengths under *all* circumstances: (1) a large and reliable stream of earnings; (2) massive liquid assets and (3) *no* significant near-term cash requirements. Ignoring that last necessity is what usually leads companies to experience unexpected problems: Too often, CEOs of profitable companies feel they will always be able to refund maturing obligations, however large these are. In 2008-2009, many managements learned how perilous that mindset can be. Here’s how we will *always* stand on the three essentials. First, our earnings stream is huge and comes from a vast array of businesses. Our shareholders now own many large companies that have durable competitive advantages, and we will acquire more of those in the future. Our diversification assures Berkshire’s continued profitability, even if a catastrophe causes insurance losses that far exceed any previously experienced.

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Next up is cash.

At a healthy business, cash is sometimes thought of as something to be minimized – as an unproductive asset that acts as a drag on such markers as return on equity. Cash, though, is to a business as oxygen is to an individual: never thought about when it is present, the only thing in mind when it is absent. American business provided a case study of that in 2008. In September of that year, many long-prosperous companies suddenly wondered whether their checks would bounce in the days ahead. Overnight, their financial oxygen disappeared. At Berkshire, our “breathing” went uninterrupted. Indeed, in a three-week period spanning late September and early October, we supplied $15.6 *billion* of fresh money to American businesses.

We could do that because we always maintain at least $20 billion – and usually far more – in cash equivalents. And by that we mean U.S. Treasury Bills, not other substitutes for cash that are claimed to deliver liquidity and actually do so, *except* when it is truly needed. When bills come due, only cash is legal tender. Don’t leave home without it.

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The bad news is that Berkshire’s long-term gains – measured by percentages, not by dollars – cannot be dramatic and *will not come close* to those achieved in the past 50 years. The numbers have become too big. I think Berkshire will outperform the average American company, but our advantage, if any, won’t be great.

Eventually – **probably between ten and twenty years from now – Berkshire’s earnings and capital resources will reach a level that will not allow management to intelligently reinvest all of the company’s earnings**.

At that time our directors will need to determine whether the best method to distribute the excess earnings is through dividends, share repurchases or both. If Berkshire shares are selling below intrinsic business value, massive repurchases will almost certainly be the best choice. You can be comfortable that your directors will make the right decision.

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“BERKSHIRE IS NOT EXEMPT”

CARLOS’ REPLY TO BUFFETT 2015

Sometimes a Man can be Measured by the Totality of his Life. By that Measure, Warren Buffett Stands Tall. His Success is NOT an Accident; rather the Fruits and Labor of a Talented and Gifted Man over a Long and Productive Life. Those Who **Bet on the Man** long ago were Right to Have Done So, as History Reflects, and Has Amply Rewarded. **He Stands Above by that Measure as Well**.

The True Master, Jesse Livermore, teaches that when it comes to Capital, there is only One Side: The “Right Side”.

To the Timely Question of a **“Permanently High Plateau”** in His Wake ……….

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Buffett: The chances of ‘Permanent Capital Loss’ in Berkshire……are ‘Low’…

Carlos: The **Chances that the DOW would fall to a Bottom of -89 %** were Low too in 1929; the last time Market Cap to GDP, Capital/Wages, Debt to GDP, Financialization, etc., were at the Metrics they are today.

In fact, chances were so ‘Low’ that even ***Jesse Livermore AND Ben Graham*** didn’t believe, nor importantly, Position for that to happen.

You Pay Homage to Ben Graham, and I to Jesse Livermore. Yet a Man must learn ALL the Lessons his Mentor teaches, both in Correctness **AND** in Error.

Buffett: I Know of No Way to Reliably Predict Market Movements……

Carlos: You have the Question and the Context Wrong, as do many others. One does NOT and CANNOT “Reliably Predict” Market Movements; it is NOT the Market that matters however, but rather **Individual Instruments Relative to Time.**

Each Instrument, Berkshire included, operates on its own Timeline. This is **“The Gravity of Capital”**, and it indeed can be discerned with Sufficient Clarity to establish “approximate” Entry and Exit.

Approximate is Enough to Extract High Yield, Regularly and Consistently over Time.

Remember your Friend and Fellow Great Mind, Walter S. ?

“Berkshire is not Exempt”

The true Giants of Markets past were Jesse Livermore and WD Gann. Together they formed a Foundation of Knowledge of Human Nature and Time which Another Man COULD and HAS come along to Assimilate, Synthesize and Elevate to a Higher Level of Knowledge and Application.

Time and Price are the Primary inputs to ANY Position; Judgment being Subordinate to BOTH. **“Position” Defined as any Application of Capital Seeking Yield.**

It is the **Ultimate Arrogance of ANY Man** to believe that their Judgment is Superior to Time. ***“All the King’s Men”*** will NOT overcome this, and in the Vacuum, Exacerbate it:

“Diversification” eventually causes the Over Application of Judgment, Resulting in Diminishing Yield Relative to Time.

Buffett: This kind of Drop (-50%) WILL Happen again…no one knows when…..

Carlos: Indeed it will……But **“When”** is NOT Necessary to Know…….Only **“Will”** as you **Yourself Acknowledge is to Come**. ***If I am a Longtime Shareholder Why should I hold your Stock when You Yourself Tell Me it will be Cut in Half, and the Best Days in the Stock are Behind Me ? If a New Buyer, Why Take the Risk Holding for 5 Years ?***

For what reason ? Out of Loyalty or Fealty ? ***This is about Capital, not You, Me or any other Man.*** This is what the True Master taught, and indeed Capitalism at the Core.

Think Xerox, Air Reduction, RCA, et al. The “et al” is too numerous for anyone to recite.

Buffett: Berkshire’s Gains Will Not Come Close to….The Past 50 Years…..

Carlos: We agree on this Point, Fully. So Why should a Shareholder stay on ?

The Next Apple will Outperform Berkshire without breaking a sweat. And there are a Slew of them out there NOW, as indeed **I Agree: America is the “Mother Lode”.**

At the **Real Bottom** there will more than one can imagine. You cite various numbers Relative to Select Periods of Time. ***Starting that Time Point from the 1932 Low ?***
We will see that kind of Low again, as you and Charlie tacitly imply.

Why should a Shareholder stay on ?

"Berkshire is not Exempt"

Buffett: If Shares are Selling Below Intrinsic Value, Massive Repurchases will be best:

Carlos: This sounds very reassuring, and probably is, when one ignores Basic Math. I am sure you would agree Basic Math is most "Fundamental" of ALL.

Ergo, **How Much "Cash" does Berkshire have as a Percentage of TOTAL Market Cap ?**

The inexorable follow-up: ***if Berkshire has to Defend its Stock Price through Repurchases, how will it Build its Future without that Cash ?***

The "Intrinsic Value" of ALL of the Companies of the DOW in July 1932 ?

Perhaps **11 % of Highest "Value"** is the "Lunacy" Charlie Speaks of.

And The **"Value"** of the **Time** to Get ***Back to Par*** ?

"Intrinsic Value" is thus **a Measurement Relative to Time.**

Conclusion

The True Master and My Mentors, as well as Experience have taught me that there is **No Limit in Price** and only Fools try to call **"Tops";** but there is a **Limit in Time**. This is the **Most Important Piece of Knowledge** any Market Participant can have.

From the Highest Price Point in Berkshire, the Stock will be at least Cut in Half, and will NEVER reach that High Point again.

There are only three kinds of **Holders of Berkshire** now: **Suckers, Losers and Gamblers:**

The Suckers & Gamblers Buying, and The Losers Holding.

As the inevitable **Financial Reckoning reaches its Full Bloom**, the events that flow therefrom will create an **Acrimony, Dissent and Disillusionment** amongst **"Believers"** which will Lead to the **Breaking up of Berkshire**, and the **"Bull Market" will be in Blame, not Valuation**.

As the True Master taught Long Ago: ***"Buy Cheap and Sell Dear".***

Berkshire will illustrate the Timelessness and Wisdom of these Words, in a Stark and Spectacular way. Stay Tuned as History Validates. For those who Don't Want to Lose, You Do Have a Choice.