

Taking Stock: While Buffett leads, Berkshire won't be buffeted

by *Malcolm_Berko*

Dear Mr. Berko: I own one share of Berkshire Hathaway that I got from my dad in 2002 when it was selling for \$67,000 a share. I'd like to know the businesses it owns; I know it owns such as Precision Steel Warehouse, where I used to work for nine years. And please tell what those private businesses are worth. Berkshire also owns big public companies. Would you tell me what their names are and what are all those different stocks are worth? My broker thinks the stock is too high and wants me to sell it and invest in six no-load funds that you recommended. Why would he think that Berkshire is too high? Now do you think I should follow my broker's advice and sell the stock? My wife and I very much appreciate your column and trust your answer.

R.S.

Springfield, Ill.

Dear R.S.: Berkshire Hathaway Inc. (BRK.A-\$143,400) has three main businesses: insurance, non-insurance operations and investments.

This company owns tens of million of shares of: American Express, Coca Cola, Procter & Gamble, Wells Fargo, Moody's, the Washington Post, Anheuser Busch, Johnson & Johnson, Wal-Mart, Conoco Phillips, US Bancorp, Burlington Northern and a large number of smaller positions in publicly traded companies worth less than \$1 billion. Berkshire's portfolio of public companies has a market value as of Dec. 28 of \$80 billion, give or take a few hundred nickels.

Berkshire also owns 100 percent of the following private corporations: American Brick (largest brick company in the U.S.), Benjamin Moore Paints, the Buffalo News, Cooper Tire & Rubber, Flight Safety (largest aviation and maintenance training company in the world, except for the U.S. Army, Navy and Air Force), Forest River (largest maker of recreational vehicles and cargo trailers in the U.S.), Fruit of the Loom, Justin Brands, GEICO Automotive, General Re, Helzberg Diamonds, H.H. Brown Shoe, International Dairy Queen, Mid American Energy (7 million electric and gas customers plus 40,000 miles of pipeline), Johns Manville, XTRA Corp (largest lessor of over-the-road trailers), Shaw Industries, The Pampered Chef, Scott Fetzer Companies, See's Candies and a couple dozen other names that may not be as familiar to you. It's estimated that the value of these private companies is around about \$165 billion, give or take a few hundred dimes.

And finally, BRK.A has about \$40 billion in clean, cool, green cash. So all those numbers added together total just about \$285 billion, which is a nice round number for a 78-year-old recently married bridge enthusiast who is the richest alumnus of the University of Nebraska.

But this amazing stock trades for \$143,400 a share, which is \$54,400 or 62 percent over its book value of \$89,000 a share. Perhaps your broker believes that number is too rich!

Berkshire is also valued at 20 times earnings which is a mite higher than other insurers that trade between nine and 11 times book value. So perhaps your broker believes a price to earnings multiple of 20 is also too rich.

Perhaps your broker might be influenced by Credit Suisse, Barons and Goldman Sachs who collectively believe BRK.A's target price for 2008 will be between \$125,000 and \$130,000 a share.

BRK.A at \$143,400 a share may be richly priced, but the stock has also been richly rewarding for long-term investors. When you inherited BRK.A from your father it was trading at \$67,000. In the worst-case scenario, you've more than doubled your money in five years, which is a 16 percent compounded annual return. That's not unimpressive and certainly better than those good no-load funds I recommended.

Some statistics may indicate that BRK.A is overpriced but as long as Buffett is at the helm you should keep the stock. Buffett's persona and charisma are the reasons for Berkshire's huge 62 percent premium.

The best time to sell BRK.A is nine months before Buffett ends his passage on Earth. So it might help to become very friendly with his personal physician.

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