

KIM: Buffett lauds market system, immigrants for America's abundance

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INVESTING

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Fans of Berkshire Hathaway CEO Warren Buffett eagerly await the last Saturday in February for his annual letter to shareholders to be posted. With U.S. stocks and political divisions running at record levels, Buffett offered some cool-headed historical perspective and timeless investment advice in his 2016 letter <http://www.berkshirehathaway.com/letters/2016ltr.pdf>.

According to Buffett, “One word sums up our country’s achievements: miraculous. From a standing start 240 years ago—a span of time less than triple my days on Earth—Americans have combined human ingenuity, a market system [‘an economic traffic cop ably directing capital, brains and labor’], **a tide of talented and ambitious immigrants**, and the rule of law to deliver abundance beyond any dreams of our forefathers. Starting from scratch, America has amassed wealth totaling **\$90 trillion**.”

Buffett is both optimistic and opportunistic by nature and has always walked the talk of, “be fearful when others are greedy, and be greedy when others are fearful.”

He explained Berkshire’s strategy as, “Some years, the gains in underlying earning power will be minor; very occasionally the cash register will ring loud. Charlie [Munger, Berkshire’s Vice Chairman] and I have no magic plan to add earnings except to dream big and to be prepared mentally and financially to act fast when opportunities present themselves. Every decade or so, dark clouds will fill the economic sky, and they will briefly rain gold. When downpours of that sort occur, it’s imperative that we rush outdoors carrying washtubs, not teaspoons. And that we will do.”

Indeed, during the darkest hours of the financial crisis, Wall Street behemoth Goldman Sachs found itself in dire, immediate need of a capital infusion. Buffett grabbed his washtub and checkbook and dictated terms of a deal whereby Berkshire bought \$5 billion of preferred stock with a 10% dividend yield (worth a juicy \$500 million/year to Berkshire) and warrants to purchase \$5 billion of common stock at a discount. Buffett earned billions for his shareholders and Goldman remains one of Berkshire’s largest holdings.

With the Dow now at 21000, it’s hard to imagine just over a year ago stock prices were collapsing (reaching a 2-year low) amid fears of an economic slowdown in China would spread to the rest of the world. Then I wrote of the “bull market” for apocalyptic forecasts, featuring market pundits competing in a high-stakes arms race to call the next market meltdown.

Regarding these Chicken Littles who predictably materialize whenever stocks hit an inevitable rough patch, Buffett recently opined, “American business—and consequently a basket of stocks—is virtually certain to be worth far more in the years ahead. Innovation, productivity and an abundance of capital will see to that. Ever-present naysayers may prosper by marketing their gloomy forecasts. But heaven help them if they act on the nonsense they peddle.

“Moreover, the years ahead will occasionally deliver major market declines—even panics—that will affect virtually all stocks. No one can tell you when these traumas will occur—not me, not Charlie, not economists, not the media.

“During such scary periods, you should never forget two things: First, widespread fear is your **friend** as an investor, because it serves up bargain purchases. Second, **personal** fear is your enemy. It will also be unwarranted.”

Wise counsel, indeed!

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