# Is it Time to Buy Canada's Berkshire Hathaway?

## Description

Many investors know of Warren Buffett's investing prowess, and his holding company, **Berkshire Hathaway Inc**. (NYSE: BRK-B), has made investors rich. From 1965 to 2013, Berkshire Hathaway's book value has grown by an annual compound rate of 19.7%, trouncing the S&P 500 by nearly 10 percentage points per year.



But Mr. Buffett is not getting any younger. At the age of 83, he has not yet announced a successor. When that time does come, and he is replaced by one or several individuals, it will be difficult to replicate his success for one important reason.

Berkshire Hathaway is huge. Its market capitalization is one of the largest in the U.S., and it has the fourth highest revenue. As companies get larger, it becomes much more difficult to identify opportunities to maintain high growth rates.

Over the past decade, Berkshire Hathaway has grown its book value per share by an average of 10.7% annually. But double-digit growth will be exceedingly difficult to maintain since large, quality acquisitions, or "elephants" as Mr. Buffett and his partner Charlie Munger call them, are becoming increasingly rare.

Now is the time to invest in the *next* Berkshire Hathaway. Canada's own **Power Corporation** (TSX: POW) may be just what investors need to power their portfolios to market-beating results. Power Corporation is a diversified international management and holding company with interests in financial services, communications and a few other business sectors. Its principal asset is a controlling interest in **Power Financial** (TSX: PWF) through which it owns controlling stakes in **Great-West Lifeco** (TSX: GWO) and **IGM** (TSX: IGM).

Here are three reasons you should consider adding Power Corporation to your investment portfolio.

### 1. Long-term focus

Like Warren Buffett, the leadership of Power Corporation is more interested in delivering results over the long term than in meeting the daily demands of financial analysts and short-term investors. After the passing of Paul Desmarais last year, the legendary founder of Power Corporation, the company is now led by his two sons, Paul Desmarais Jr. and André Desmarais. Both have carried on their father's tradition of investing for the long term.

And that long-term orientation has served investors well. Over the past 15 years, Power Corporation has provided shareholders with a 7.6% compound annual growth rate. And the TSX composite index? Over the same time period, it has grown 6.5% annually. A difference of just 1.1 percentage points will make a dramatic difference in the value of your investment portfolio over 10 to 15 years.

**2. Attractive valuation**

Today, Power Corporation is definitely value priced. A trailing price-to-earnings ratio of 14.3, dramatically lower than its average of 24.8 over the past five years, and a forward PE ratio of just 11.2, are just a few of the many measures that suggest Power Corporation should be on the shopping list of every value investor.

Maybe most important, Power Corporation's forward PEG, useful in determine a stock's value while taking into account a company's earnings growth, is hovering around 1.0. This compares very favourably with its five year average of 2.1, and the average for a group of insurance companies at 1.3.

**3. High dividend yield**



Unlike Berkshire Hathaway, Power Corporation believes in giving back to investors with a dividend. It has an annual dividend of $1.16 per share, which equates to a yield of 3.9% at its current stock price. And with a payout ratio of approximately 65%, the management team still has the financial resources to make additional acquisitions to drive revenue and profitability.

**Foolish bottom line**

If you believe in the long-term prospects for the money management industry and the life insurance business, you should consider investing in Power Corporation. Demographics, in particular the aging of the developed world's population and the retirement of the baby-boom generation, favor the accumulation of wealth and savings, and the need for money management services.

When interest rates begin to rise, yields on insurers' investment portfolios will increase, boosting profitability and shareholder returns. All positive signs for Canada's own Berkshire Hathaway.

**CATEGORY**

1. Investing

**TICKERS GLOBAL**

1. NYSE:BRK.B (Berkshire Hathaway Inc.)
2. TSX:GWO (Great-West Lifeco Inc.)
3. TSX:IGM (IGM Financial Inc.)
4. TSX:POW (Power Corporation of Canada)

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