



3 Timeless Investing Lessons From the Berkshire Hathaway Inc. Annual Meeting

Description

I scratched an item off my bucket list last week as I made the pilgrimage to Omaha, Nebraska, to hear Warren Buffett and Charlie Munger wax poetic about business, investing, and life in general.

With Buffett and Munger being 85 and 92, respectively, this year's trip took on a bit of urgency for me. Not only did I want to experience the atmosphere of what people call "Woodstock for capitalists," but I wanted to make sure I did so while Buffett and Munger were as sharp as ever.

The two didn't disappoint. I had high expectations going in and, if anything, they exceeded them. Buffett was his usual self, a mixture of funny, insightful, and just a little bit cautious. Munger made up for his lack of words with short, poignant answers that left the crowd buzzing.

I had second thoughts about going to Omaha. The trip was expensive, at least compared to comparable cities. I would have never gone to the city if it wasn't for **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B). It was even somewhat annoying getting to Omaha in the first place, a trip which entailed transfers at out of the way airports.

But now that I'm back, I can confidently say the trip was worth it. Here are the three big investing lessons I learned that made the trip worth every penny to me.

Don't waste time

One of the questions from the audience had to do with cattle farming. To paraphrase, the person asking the question was about to take over his family's cattle business and wanted to know Buffett and Munger's opinion of investing in cattle.

Munger responded quickly, telling him cattle ranching was among the worst businesses he could think of. Buffett elaborated a little, basically saying the same thing Munger did, but with a little more tact.

What struck me about that exchange is how Munger thinks. Munger has clearly done the work on investing in cattle before, and came to a simple conclusion. Businesses that can't set their own pricing—which is most commodity businesses—are bad investments. It's tough to get ahead when

there's no way you can differentiate your product from the rest.

It's a lesson I took very personally. I've spent countless hours scouring balance sheets and income statements for lousy businesses—time I'm never going to get back.

It's also a lesson that investors of **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) should also heed. Thousands of collective hours have gone into analyzing everything from the company's land holdings to its debt. And yet a positive result for shareholders really comes down to one thing—the price of oil. At least according to Munger's definition, it would be a lousy business.

The advantage for retail investors

One question to Buffett and Munger was about Berkshire's move from capital-light to capital-intensive businesses. Recent acquisitions like Berkshire Hathaway Energy and BNSF Railroad need huge capital expenditures just to keep up with competitors.

The reason, according to Buffett, is simple. As Berkshire has grown, small capital-light businesses just won't move the needle any longer. The company has plenty of excess cash flow—income that can be invested in these kinds of projects.

Buffett knows size is a huge anchor on performance. Somebody with \$1 million in capital can invest exclusively in smaller businesses with good prospects. Somebody with \$100 billion can't.

Buy quality businesses

The final and perhaps most important lesson I got from Omaha was just a reminder of what Buffett has preached for decades now. If you buy good businesses with great growth prospects, the rest will take care of itself.

The issue is identifying those companies. One company I personally plan to hold for a very long time is **Extendicare Inc.** ([TSX:EXE](#)), one of Canada's largest owners and operators of assisted-living homes.

Extendicare has huge growth potential (have you looked at the demographic trends lately?), a solid balance sheet to fund expansion plans, and a dominant position in home healthcare, a market that is set to get much bigger. Oh, and the company pays a 5.2% dividend to investors as they wait.

CATEGORY

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