



Better Buy: Berkshire Hathaway Stock or Brookfield?

Description

Berkshire Hathaway (NYSE:BRK.B) stock is an indisputable core holding for the diversified portfolios of many long-term investors. It's often quoted to have delivered excellent market-beating returns for the long haul.

On the third page of its latest annual report, you would see that its compound annual return from 1965 to 2021 was 20.1%, almost double that of the U.S. market (**S&P 500**) returns of 10.5% in the period. However, many investors don't know that much of those gains were earned in the early days when the company was much smaller and each investment Berkshire made, at that time, drove a big impact on the company's bottom line.

Berkshire's returns are not as great as they used to be

Surely enough, when we backtest results for the past 20 years, Berkshire Hathaway returned only 9% per year. This is not a bad return versus the S&P 500 benchmark return of just less than 8% in the period. However, as you can see, the 9% return is a far cry from the 20%.

Like Berkshire, **Brookfield** ([TSX:BN](#)) employs a value investing strategy. Like Berkshire, it invests in quality businesses. However, Brookfield is much smaller. After spinning off its asset management business, Brookfield's enterprise value is about 42% the size of Berkshire's.

They also manage their businesses differently.

How Berkshire manages its businesses

Berkshire is a holding company and employs a decentralized management model. It has carefully selected and bought whole businesses, while keeping the original management team who has been managing the quality businesses just fine.

For example, Berkshire's wholly owned businesses include the BNSF Railway and insurance company

GEICO. Additionally, it has an electric utility with wind, solar, and transmission assets in the United States. It also owns a diversified investment portfolio, including fixed-income investments in United States. Treasury Bills, U.S. government bonds, foreign government bonds, corporate bonds, and stocks. Furthermore, it toggles the size of its cash position throughout the ever-changing macro environment.

Berkshire can trade its stock holdings without warning. However, it also has stocks like **Coca-Cola** for which it is a long-term investor. It continues to hold a 9% stake in the company and makes massive returns on its original investment on dividends alone each year, because it was an early investor.

How Brookfield manages its businesses

Brookfield prefers to operate its businesses. It has the operating expertise to optimize assets to improve margins. Its acquired assets may also be considered for its ongoing capital-recycling program. Given the opportunity, it could buy [undervalued stocks](#) and take profit at higher valuations later or buy the underlying businesses outright.

For example, through its publicly trading subsidiary **Brookfield Infrastructure Partners**, Brookfield accumulated enough shares for just under a 20% stake in Inter Pipeline during the 2020 pandemic market crash before buying the entire business outright in 2021.

According to *Factset Research Systems's* data, in the past two decades, Brookfield stock returned about 15.7% annually, which was 74% better than Berkshire stock. In this period, it also made a number of spinoffs or mergers, including spinning off its infrastructure, renewable, reinsurance, and asset management businesses. It also spun off and merged again with its properties business that largely comprised of trophy assets in retail and office properties. The market simply didn't see the value it did.

Which is a better buy today?

Because I expect Brookfield to offer higher growth potential, it also adds to investors' overall returns with a growing dividend (even though it's a small yield of about 0.90% now), and it trades at a bigger discount, I'm inclined to recommend Brookfield as a better buy today.

That said, Berkshire Hathaway has no competition in its long-term track record of excellence. Overall, it has outstanding capital allocation and will likely continue to be a company that provides market-like [diversification](#) but market-beating returns. If these are the characteristics you're looking for, you might still buy Berkshire stock today as a core holding. The stock trades at a slight discount.

CATEGORY

1. Investing
2. Stocks for Beginners

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2. TSX:BN (Brookfield)

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