Buffett's Annual Letter: Sins of Omission!

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Warren Buffett's annual letter was great in all the easy ways and disappointing in the ways that matter the most to his shareholder partners. Last week, Charlie Munger reiterated the idea that successful investing is "an unusual combination of patience and aggression." The communication of the May 1, 2020 Annual Meeting and this letter tell us that the aggression was absent in the spring and appears to be in hiding in January of 2021.

We love Warren Buffett for all he has done to teach us some of the best disciplines in value investing. However, this letter exposes some severe questions and potential problems for ongoing ownership of Berkshire Hathaway. The sum of the parts looks very attractive, but the long-term future of the business model is threatened. Sins of omission are the most damaging in the investing process. Here is a short list of things Buffett didn't communicate to partners:

1. Buffett didn't give himself a D- for capital allocation as he did in the 1999 annual letter.
2. Did he mention why he maintained a nearly 25% position in cash and why he didn't allocate more cash to his star stock pickers? It reminds us of an old song,[1] "Has anybody here seen my old friend[s]" Ted and Todd. "Can you tell where [they've] gone?" How'd they do? Why do they own what they own? Did they buy in May when Warren was fearful (mortified) and he should have been greedy? Has Berkshire accounted for lost opportunity cost on investments they didn't make in the spring, compared to losing money on Precision Castparts? Time and time again, the sins of omission are the most powerful for partners. Why were Warren and Charlie acting like trustees when they were concerned about ultra-wealthy partners with 90-100% of their net worth tied up in Berkshire and not concerned with practicing the discipline of being greedy when others are fearful? In that way, a new crop of people (partners) could become wealthy alongside Warren, Charlie and long-time partners.
3. Why did he criticize stock pyramiding conglomerates from way in the past and draw zero comparisons with the "promotional skills and accounting chicanery" practiced by present day glam tech companies? Charlie said last week that he would quote Samuel Johnson in comparing Bitcoin to Tesla (TSLA). He said, "It is like comparing a flea to a louse!" Where was Warren? This sin of omission leaves partners in a position to not know how to deal with what appears to be one of the greatest "frenzies" in Buffett's lifetime for speculative revenue-growth stories and other "chicanery." He did not spare them at the Allen and Co. Summit in 1999. Why spare them now? Back then, he shared his thoughts with Carol Loomis and the public via *Fortune* magazine and now won't tell his supposedly intimate partners.
4. Succession at Berkshire Hathaway looks less defined today than it did 10 years ago. To quote May West, Buffett "used to be Snow White, but I [he] drifted." First, the massive cash hoard will be in the hands of someone who has never communicated their company picking discipline to us or regularly disclosed their thinking for the benefit of partners. We don't criticize his acquisition of Precision Castparts, because everyone makes mistakes of aggression. However, we need to be consistent in pursuit of investments like Buffett quoted Phil Fisher as saying. We have no way of knowing whether the cash hoard is outright bearishness (which would make sense now) or if the company has trapped itself out of bargains due to sheer size. As value stock pickers, we should be glad that the greatest stock picker of our lifetime is no longer our competitor. It seems like Buffett is less concerned with succession today than he was ten years ago. Maybe he has perfected Charlie Munger's thought and knows where he is going to die and isn't going to go there.
5. Why did he refrain from talking about all the investments that are potentially very damaging to your net worth like long-term Treasury Bonds, SPACs, IPOs, glam revenue growth stories, etc.? He talked about "tools for fostering overvaluation-promotional techniques and imaginative accounting maneuvers" and left us all to guess who and what he was referring to currently. By explaining those, you would have stronger hands among your partners and not leave so many Berkshire shares in the hands of doomed passive investments like he is preparing to leave his widow with. Let's face the facts as we see them. The S&P 500 Index is as expensive in almost every way that you would measure, except compared to the miserable bond investments that Warren was happy to pick on. Partners weren't allowed to know Warren and Charlie's thoughts on how crushing inflation can be to these same investments and where we are in the historical continuum.

6. He picked on Wall Streeters (journalists, analysts, investment and chartists) and never mentioned the bloodshed in 2000-2003 wrought on investors by these same groups. We have an idea, let's get market advice from unlicensed celebrities and people banned from the investment business! Do today's journalists fan the flames of mania? What we all need is people in Manhattan telling us what "normal" looks like. We prefer "the miracles in Middle America," but Warren was unwilling to expound.

In Warren's defense, he did appear to endorse buying large amounts of his own shares at the expense of more overvalued companies. We would urge him to keep going on this and open up the lines of communication with his partners so that they don't have to read "between the lines" to understand what he is thinking. Fortunately, Charlie Munger is still around to call it like he sees it. Do what Warren does, not what he says, is what we believe is most likely to prevent stock market failure. Maybe in May he will talk about his foray into energy and pharmaceutical stocks. We like that aggression!

[1] "Abraham, Martin and John" by Dion

Warm regards,
William Smead

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