

*** Cash Alternative ***

Berkshire Hathaway

Elevator Pitch

The world's greatest business selling at a significant discount to its lowest quartile calculated since December 1996.

Cash Alternative

Berkshire Hathaway is a ballast of safety. Therefore, we see Berkshire as a cash alternative – one where we would be happy never to see the cash again.

Business

It goes against our nature to dissect a company of such complex mechanics. Especially when we're fishing with the Trawlers here. As such, our approach is purely mathematical. Since the date of my birth, Berkshire Hathaway has traded in a range as defined below:

	Min.	Low	Mid.	High	Max.
PB Ratio	1.09	1.31	1.43	1.61	2.64

As such, we define our actions as follows:

- (a) If the stock is oddly cheap BUY
- (b) If the stock is oddly expensive DO NOT BUY

Now, it is unlikely that treasure is often not buried. Therefore, if we simply wait for Berkshire to become the cheapest it has ever been, we may never own Berkshire. As ardent advocates of Berkshire Hathaway, we wish never to sell irrespective of the news. But we can easily define two scenarios where we ought to act:

PB	Action
< 1.25	Buy
> 1.85	Do Not Buy

With these measures in place, we will certainly not become quantitative day traders competing with Jim Simons. The option to buy Berkshire Hathaway has occurred just three times in my lifetime: (i) 2009; (ii) 2011/12; and (iii) 2020.¹ Further, there were just two times we would have even considered (not action) but considered selling Berkshire Hathaway: (i) 1997/1998; and (ii) 2001.²

Valuation

Berkshire Hathaway currently trades at a PB ratio below 1.25 hence our most recent decision to buy.

Catalysts

A difficult but honest prediction is the next time we believe we will get another buying opportunity will be one of the saddest. This is an *inverse* catalyst as we are only looking to buy. We will remain investors in Berkshire for the remainder of my life.

Risks

The above 'inverse catalyst' is one of the largest risks I deem embedded in this stock. The rest we will leave to the 'Trawlers'.

¹ (i) Jun 2009 to Dec 2009; (ii) Jun 2011 to Dec 2012; and (iii) Mar 2020 to Dec 2020.

² (i) Jun 1997 to Sep 1998; and (ii) Sep 2001 to Dec 2001.