

The Daily Dispatch

Friday Special Feature

September 04, 2020

Warren Buffett: An appreciation

By: Tim Koller—McKinsey & Company (Published on August 2020)

As Warren Buffett turns 90, the story of one of America's most influential and wealthy business leaders is a study in the logic and discipline of understanding future value.



Patience, caution, and consistency. In volatile times such as these, it may be difficult for executives to keep those attributes in mind when making decisions. But there are immense advantages to doing so. For proof, just look at the steady genius of now-nonagenarian Warren Buffett. The legendary investor and Berkshire Hathaway founder and CEO has earned millions of dollars for investors over several decades (exhibit). But very few of Buffett's investment decisions have been reactionary; instead, his choices and communications have been—and remain—grounded in logic and value.

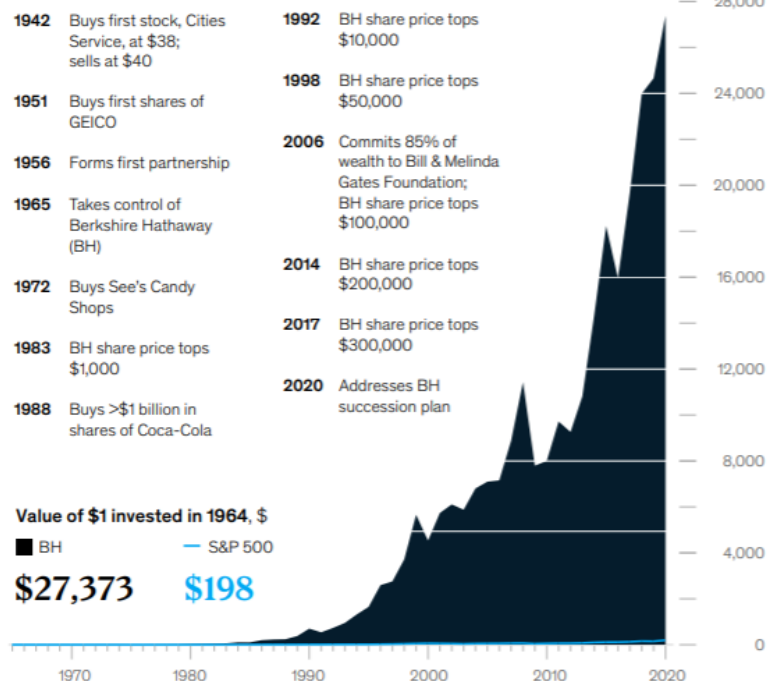
Buffett learned his craft from “the father of value investing,” Columbia University professor and British economist Benjamin Graham. Perhaps as a result, Buffett typically doesn't invest in opportunities in which he can't reasonably estimate future value—there are no social-media companies, for instance, or cryptocurrency ventures in his portfolio. Instead, he banks on businesses that have steady cash flows and will generate high returns and low risk. And he lets those businesses stick to their knitting. Ever since Buffett bought See's Candy Shops in 1972, for instance, the company has generated an ROI of more than 160 percent per year¹ —and not because of significant changes to operations, target customer base, or product mix. The

company didn't stop doing what it did well just so it could grow faster. Instead, it sends excess cash flows back to the parent company for reinvestment—which points to a lesson for many listed companies: it's OK to grow in line with your product markets if you aren't confident that you can redeploy the cash flows you're generating any better than your investor can.

Exhibit

Warren Buffett's decisions, grounded in logic and value, have earned millions of dollars for investors.

Timeline of Warren Buffett's career



As Peter Kunhardt, director of the HBO documentary *Becoming Warren Buffett*, said in a 2017 interview, Buffett understands that “you don't have to trade things all the time; you can sit on things, too. You don't have to make many decisions in life to make a lot of money.”² And Buffett's theory (roughly paraphrased) that the quality of a company's senior leadership can signal whether the business would be a good investment or not has been proved time

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and time again. “See how [managers] treat themselves versus how they treat the shareholdersThe poor managers also turn out to be the ones that really don’t think that much about the shareholders. The two often go hand in hand,” Buffett explains.³

Every few years or so, critics will poke holes in Buffett’s approach to investing. It’s outdated, they say, not proactive enough in a world in which digital business and economic uncertainty reign. For instance, during the 2008 credit crisis, pundits suggested that his portfolio moves were mistimed, he held on to some assets for far too long, and he released others too early, not getting enough in return. And it’s true that Buffett has made some mistakes; his decision making is not infallible. His approach to technology investments works for him, but that doesn’t mean other investors shouldn’t seize opportunities to back digital tools, platforms, and start-ups—particularly now that the COVID-19 pandemic has accelerated global companies’ digital transformations.⁴

Still, many of Buffett’s theories continue to win the day. A good number of the so-called inadvisable deals he pursued in the wake of the 2008 downturn ended paying off in the longer term. And press reports suggest that Berkshire Hathaway’s profits are rebounding in the midst of the current economic downturn prompted by the global pandemic.⁵

At age 90, Buffett is still waging campaigns—for instance, speaking out against eliminating the estate tax and against the release of quarterly earnings guidance. Of the latter, he has said that it promotes an unhealthy focus on short-term profits at the expense of long-term performance. “Clear communication of a company’s strategic goals— along with metrics that can be evaluated over time—will always be critical to shareholders. But this information ... should be provided on a timeline deemed appropriate for the needs of each specific company and its investors, whether annual or otherwise,” he and Jamie Dimon wrote in the Wall Street Journal.⁶ Yes, volatile times call for quick responses and fast action. But as Warren Buffett has shown, there are also significant advantages to keeping the long term in mind, as well. Specifically, there is value in consistency, caution, and patience and in simply trusting the math—in good times and bad.

Sources:

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¹ Theron Mohamed, “Warren Buffett’s favorite business is a little chocolate maker with an 8000% return. Here are 5 reasons why he loves See’s Candies,” *Markets Insider*, July 12, 2019, markets.businessinsider.com.

² “Peter Kunhardt,” *Charlie Rose*, January 31, 2017, [charlierose.com](https://www.charlierose.com).

³ Tae Kim, “Warren Buffett on judging management: ‘See how they treat themselves versus how they treat the shareholders,’” *CNBC*, May 9, 2018, [cnbc.com](https://www.cnn.com).

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⁵ Geoffrey Rogow, “Berkshire Hathaway’s profit jumps on market rebound,” *Wall Street Journal*, August 8, 2020, [marketwatch.com](https://www.marketwatch.com).

⁶ Jamie Dimon and Warren E. Buffett, “Short-termism is harming the economy,” *Wall Street Journal*, June 6, 2018, [wsj.com](https://www.wsj.com).

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Warren Buffett and the \$300,000 Haircut

By: Jason Zweig—The Wall Street Journal (Published on August 28, 2020)

There's a reason the Oracle of Omaha is an ultrabillionaire as he turns 90: He grasped the power of compounding at the age of 10. The sooner the rest of us fully understand it, the better of we'll be.



- Berkshire Hathaway Chairman Warren Buffett accumulated nearly 90% of his wealth after the age of 65.

PHOTO: ANDY KROPA/INVISION/AP

This Sunday, Warren Buffett turns 90. The chairman of Berkshire Hathaway Inc. is one of the most successful investors of all time, having amassed a net worth estimated at \$82 billion. Yet he accrued nearly 90% of that sum after the age of 65. Investing well is important, but investing well for a long time matters even more. “I’ve long recommended,” Mr. Buffett told me in an email earlier this month, “what I called ‘The Methuselah Technique.’” That, as he explained in a letter he wrote to the investors in his limited partnership on Jan. 18, 1965, is the combination of a long life and a stable, attractive investment return. Mr. Buffett made his first investment, three shares of Cities Service Co., more than 78 years ago.

“The model seems to be working,” Mr. Buffett quipped in his email, “but I’m only about 9% of the way home.” (At 90, he will be approximately 9% of the age of 969 ascribed to Methuselah in the Bible.)

From the earliest age, Mr. Buffett has understood that building wealth depends not only on how much your money grows, but also on how long it grows.

Around the age of 10, he read a book about how to make \$1,000 and intuitively grasped the importance of time. In five years, \$1,000 earning 10% would be worth more than \$1,600; 10 years of 10% growth would turn it into nearly \$2,600; in 25 years, it would amount to more than \$10,800; in 50 years, it would compound to almost \$117,400.

“That’s where the money is,” he recalls telling himself, according to “The Snowball,” Alice Schroeder’s biography of Mr. Buffett. “The way that numbers exploded as they grew at a constant rate over time was how a small sum could turn into a fortune,” Ms. Schroeder wrote about his epiphany as a boy. “He could picture the numbers compounding as vividly as the way a snowball grew when he rolled it across the lawn.”

That isn’t easy for most of us to do. People severely underestimate the power of compound growth, and those errors worsen over longer time horizons and for higher rates of return.

Here’s a quick quiz inspired by Warren Buffett. If the Dow Jones Industrial Average, about 28500 this week, compounds at slightly under 1.6% annually, what will its value be on Dec. 31, 2099?

The answer: That would take the Dow to 100,000.

What if the Dow earns an average of 4.6% annually? That would bring the index to 1,000,000 by the end of the century.

Now imagine that the Dow compounds at 7.7% annually—still below its 8.4% average over the past 30 years. That would push the Dow Jones Industrial Average past 10,000,000 by Dec. 31, 2099.

Those rates of return don’t include any boost from dividends. They also assume an investor takes a diversified approach. Concentrating on only a handful of investments and holding them for years or decades has generated huge gains for Mr. Buffett, but may create nothing but heartache for investors who aren’t as knowledgeable.

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If you don't find those results surprising, you're either as good at math as Mr. Buffett is, or you have been reading too fast. Even at low to moderate rates of return, long periods of continuous growth turn small amounts into mountains of money. That's vital for investors to remember when more speculators than ever seem to be hanging on to stocks for only days or hours at a time.

Mr. Buffett's long career offers another lesson: Be flexible. The older he gets, the less he invests the way he used to.

Mr. Buffett earned his greatest returns decades ago buying the tiniest, cheapest stocks he could find, market microorganisms like water-pump producer Dempster Mill Manufacturing Co. and cartography firm Sanborn Map Co.

Nowadays Berkshire Hathaway's biggest holding is giant Apple Inc. It wasn't Mr. Buffett who originally bought it for Berkshire's portfolio—one of his lieutenants did—but he became more enthusiastic about the investment over time.

This week, the Apple stake held by Mr. Buffett's company was worth about \$123 billion, or 24% of Berkshire's total market value—a stunning turnabout for an investor who long refused to invest in technology stocks because he felt he didn't understand them.

Across the market overall, Apple's shares turn over at an annual rate of 211%, estimates AJO, an investment firm in Philadelphia. This means the typical investor holds the stock for less than 25 weeks. Berkshire has held Apple for 4½ years, with no end in sight.

Before he was even a teenager, wrote Ms. Schroeder, his biographer, "Warren began to think about time in a different way. Compounding married the present to the future. If a dollar today was going to be worth 10 some years from now, then in his mind the two were the same." By the time he was in his late 20s, the way Mr. Buffett thought about compounding was like a reflex. When he paid \$31,500 for his house in Omaha, he called it "Buffett's Folly," because "in his mind \$31,500 was a million dollars after compounding" into the future, Ms. Schroeder wrote.

His friends and family regularly heard the young Mr. Buffett mutter things like "Do I really want to spend \$300,000 for

this haircut?" or "I'm not sure I want to blow \$500,000 that way" when pondering whether to spend a few bucks. To him, a few dollars spent that day were hundreds of thousands of dollars forgone in the future because they couldn't compound.

Recognizing that every dollar you spend today is \$10 or \$100 or \$1,000 you won't have in the future doesn't have to make you a miser. It teaches you to acknowledge the importance of measuring tradeoffs. You should always weigh the need or desire that today's spending fulfills against what you could accomplish with that money after letting it grow for years or decades into the future. And the more often you trade, the more likely you are to disrupt compounding and to have to start all over again.

Now more than ever, as Mr. Buffett continues to show, patience and endurance are investing superpowers.

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Jason Zweig (2020) 'Warren Buffett and the \$300,000 Haircut', *The Wall Street Journal*. Available at: <https://www.wsj.com/articles/warren-buffett-and-the-300-000-haircut-11598626805> (Accessed 3 Sept 2020)

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TODAY'S TOP NEWS

Airlines owe P940 million in ticket refunds

Cash-strapped airlines owe nearly P1 billion in ticket refunds for canceled flights during the pandemic, travel agencies said. The agencies in a previous statement said the refunds were due from 27 airlines, including domestic carriers Philippine Airlines, Cebu Pacific, and Philippines AirAsia.

China Bank sets up \$2-billion euro note program

China Banking Corp. (China Bank) is looking to raise \$2 billion in fresh funds via euro bonds to support its operations, it said on Thursday. China Bank said the program will let it tap demand abroad for local issuances.

Real estate repurposing to keep industry afloat

The repurposing of real estate assets is seen as key to the survival of the industry as the coronavirus pandemic continues to pull down the Philippine economy. Developers that have mall leasing in their portfolio might find it beneficial to convert vacant mall spaces into flexible workspaces, as mall foot traffic remains low due to

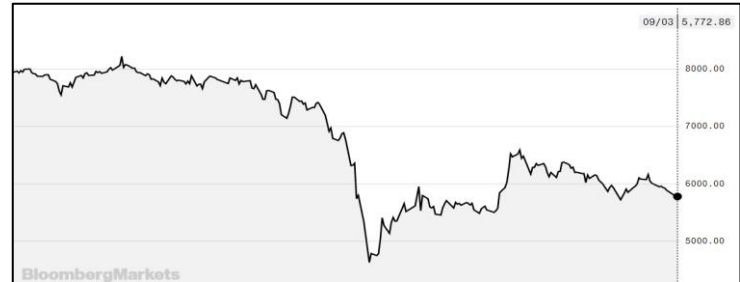
Moody's sees deeper GDP slump of 7%

Moody's Investors Service has revised to seven percent its 2020 economic contraction target for the Philippines after the country slipped into a pandemic-induced recession in the second quarter. In its latest credit opinion, Moody's said the Philippine economy may contract by seven percent this year.

Sangley proponents seek fresh extension

The proponents of the Sangley Point International Airport (SPIA) project in Cavite have asked for more time to complete their post qualification requirements. "They asked me for a three week extension," Cavite Gov. Jonvic Remulla told The STAR via text message.

Philippine Stock Market Update



Previous Close:

5,772.86

1 Yr Return:

-25.74%

Open:

5,750.16

YTD Return:

-26.84%

52-Week Range:

4,039.15 - 8,216.92

Source:

Bloomberg

Foreign Exchange

As of Sept. 3, 2020

US Dollar	Philippine Peso
1	48.63

BVAL Reference Rates

As of Sept. 3, 2020

Tenor	Rate
1Y	1.809
3Y	2.332
5Y	2.600
7Y	2.746
10Y	2.872
20Y	3.697

Daily Quote

"Normal is not something to aspire to,
it's something to get away from."

-- Jodie Foster

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MORE LOCAL NEWS

Unemployment rate eases to 10% in July

The number of Filipinos without jobs fell in July from a record high in April following the easing of community quarantine restrictions, according to the Philippine Statistics Authority (PSA). However, employment conditions in the National Capital Region (NCR) – the country’s economic powerhouse – worsened during the month.

SMC eyes revival of Pasig River cleanup project

San Miguel Corp. (SMC) plans to clean up and improve the flow of water throughout the entire length of Pasig River as part of the P95.4-billion Pasig River Expressway (PAREX) project. SMC president and COO Ramon Ang said the project would solve Metro Manila traffic with minimal disruption on existing cities and roads.

SRA sets higher US export allocation

After weeks of uncertainty over sugar allocation, the Sugar Regulatory Administration (SRA) finally decided that 7 percent or 153,000 metric tons (MT) of the country’s sugar output for the next crop year will be exported to the United States.

Vivant to offer customized power solutions

Vivant Energy Corporation of the Garcia group is stepping up its plunge into the retail power market with the launch of its COREnergy, which will be its retail electricity supplier (RES) unit that will cater to the need for customized power solutions of businesses.

Axelum profit drops to P202 million in H1

Axelum Resources Corporation, the country’s largest fully-integrated manufacturer and exporter of coconut products, reported a 47.4 percent drop in net income to P202.94 million for the first half of 2020 from P385.76 million in the same period last year.

Stocks bounce on easing jobless rate

The local stock market eased from its downward trend after the announcement of a lower jobless rate in the country. The main index gained 34.47 points or 0.60 percent to close at 5,772.86 with only the Property counter continuing to decline.

OceanaGold laying off 800 employees in Didipio mine

OceanaGold Philippines Inc. announced several hundreds of miners at the Didipio mine here will be laid off. “We will be letting go more than 80% or around 620 of workers as mining operations were stopped and the Didipio mine continues to suffer financial losses due to continuing blockades by [the] local government,” Oceanagold said

UCPB leadership revamped, crack probers sent in

Auditors from Land Bank of the Philippines and Philippine Deposit Insurance Corp. was ordered to conduct a thorough examination of the inner workings of United Coconut Planters Bank (UCPB) as soon as the country’s economic managers were made aware of a successful computer hacking that left the government-controlled bank P167M poorer.

PH Logistics and Warehousing Market holds steady

Before the advent of the COVID-19 pandemic, the Philippines’ logistics and warehousing market was thriving. The logistics industry was forecasted to grow at a rate of 8.2% to 8.8% for the period 2018 – 2024 and was projected to be a Php 970 billion to Php 1 trillion market by 2023.

Oscar Reyes joins Boards of Pioneer Companies

Former Manila Electric Company (Meralco) President and CEO Oscar S. Reyes accepted the invitation of the Pioneer group of companies to become a Board Member of Pioneer Insurance and Surety Corporation (PISC), and Pioneer Intercontinental Insurance Corporation (PIIC); and Board Advisor of Pioneer Life Inc. (PLI).

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Berjaya PH cuts stake in 7-Eleven Malaysia

Berjaya Philippines Inc. said it sold a portion of its minority stake in 7-Eleven Malaysia Holdings Berhad for P161 million. Berjaya Philippines said in a disclosure to the stock exchange it sold 9,843,000 shares in SEM to its Malaysia-based parent firm Berjaya Land Berhad.

Inflation eases in August as economy slowly reopens

Inflation went down to 2.4% in August, as more businesses reopened amid the coronavirus pandemic, the Philippine Statistics Authority said on Friday, September 4.

TODAY'S TOP ASIAN NEWS

SoftBank to consider bid for TikTok in India

SoftBank Group is exploring assembling a group of bidders for TikTok's India assets and has been actively looking for local partners, according to sources. Over the past month, the Japanese conglomerate, which owns a stake in TikTok's Chinese parent ByteDance, has held talks with the heads of India's Reliance Jio Infocomm and Bharti Airtel.

FCT proposes to take over AsiaRetail Fund for \$1.06b

Frasers Centrepoint Trust (FCT) is proposing to raise up to \$1.39b in equity to fund its acquisition of the remaining 63.1% of AsiaRetail Fund for \$1.06 billion. AsiaRetail Fund owns five malls in Singapore - Tiong Bahru Plaza, White Sands, Hougang Mall, Century Square and Tampines 1 - as well as one office property, Central Plaza.

Yum China to raise \$2.2b in HK secondary listing

Yum China (YUMC.N) 9987.HK is set to raise \$2.22 billion in its secondary Hong Kong listing after indicating that its shares would be priced at HK\$412 each, according to two sources with direct knowledge of the matter.

TODAY'S TOP GLOBAL NEWS

VW-backed QuantumScape to go public at \$3.3 bn

QuantumScape, the 10-year-old Silicon Valley battery startup backed by Volkswagen AG (VOWG_p.DE), said on Thursday it plans to go public through a reverse merger with Kensington Capital Acquisition Corp KCAC.N with an enterprise value of \$3.3 billion.

Healthcare startup Biofourmis closes \$100 mn round

Healthtech startup Biofourmis said it has closed a \$100 million series C funding round led by SoftBank Group Corp's Vision Fund 2 as the Japanese firm extends its bets on a sector growing through the coronavirus outbreak. Boston-based Biofourmis uses a wearable biosensor to remotely monitor patients for changes in their health.

GM, Honda to develop vehicles in North America

General Motors (GM.N) and Honda Motor Co (7267.T) on Thursday revealed plans to team up in North America to make a range of vehicles, deepening their ties as the auto industry comes under greater pressure to share technology and costs to meet demands for cleaner vehicles.

KKR-backed cybersecurity KnowBe4 readies IPO

Cybersecurity startup KnowBe4 Inc, which helps train employees to detect phishing emails, is preparing for a U.S. initial public offering (IPO), people familiar with the matter said.

Kimberly-Clark to buy diaper maker Softex for \$1.2b

Kimberly-Clark Corp (KMB.N) said on Thursday it would buy diaper maker Softex Indonesia for \$1.2 billion in cash from a group of shareholders that includes CVC Capital Partners Asia Pacific, as it looks to boost its presence in South East Asia.