This page was exported from - The Aleph Blog
Export date: Thu May 23 3:28:45 2013 / +0000 GMT

# Buffett Musings

Buffett made a few comments over the weekend that I thought were significant.
Warren Buffett, who built Berkshire Hathaway Inc. (BRK/A) with stock picks before focusing on takeovers, said he recently opted against a $22 billion acquisition because he didn?t want to sell investments in marketable securities. (Article here)

and

Berkshire Hathaway Inc is adding to its shareholdings of two U.S. companies amid a market dip, billionaire investor Warren Buffett said on Monday. (Article here)

and

Mr. Buffett said he and Mr. Munger ?have nothing against? commercial insurance and pointed out that they?ve expanded in the medical malpractice field. ?If we could find a quality company in commercial lines? we would buy it in an instant,? he said.

...

Another analyst question prompted Buffett to discuss how he values Berkshire?s non-insurance operations. Rubalcava was excited by the answer, in which Buffett said he?d look to buy similar businesses for nine to 10 times earnings. (Article here)
1) On the first point, he does not want to sell marketable securities is quite a statement. It means he expects more return off of public securities than whatever the target might have been. Given that he would only be liquidating $5 billion of securities to maintain the $20 billion buffer, it either could not have been that good of a deal, or Buffett has a high view of his current public securities portfolio.

But I sat down and thought about what Buffett might have wanted to acquire. It could have been a private company; I have no data on that. What if it were a public company and one with a low P/E and decent prospects, what could it be?

Well, the current market cap would have to be between $15-20 Billion, and so I came up with the following tickers:

PPG APD NOC RTN VFC BRFS PSX DFS AON ALL CME TMO BDX RCI TU PSO RUK WM ETN AEP

There are some with large moats: PPG, APD, NOC, RTN (Chemcials and Defense) AON, CME unique businesses, hard to challenge. Other moats: VFC, TMO, BDX, RCI, TU, PSO, RUK, WM, ETN

Pipelines, which fit into other BRK subs: PSX

Free cash flow generators: PSX and DFS

Cheap providers of float: ALL (Of course there would be issues merging Allstate and GEICO, if you merge them at all. You could keep both systems whole, you could sell off Allstate's Life companies, or you could merge them into existing BRK insurance subs. Me? I would sell the life subs, and analyze whether having an agency force had value. My guess would be no, and I would spread the Allstate inforce block onto the current GEICO support system after a year or two.)

Adds to the utility portfolio: AEP

I'm not saying BRK should buy any of these companies, but they seem to be reasonable possibilities for BRK to buy.

2) So BRK is buying two companies that they already own. What could they be? My two best guesses are General Dynamics [GD] and DirectTV [DTV]. BRK bought them in the last reported quarter and the price hasn't moved much. Other possibilities include: WFC, SNY BK, INTC, USB, CVS, IBM, DVA, V, VRSK, and LMCA.

3) If BRK really wants to get into commercial insurance at a cheap price there is an easy choice -- ACE. Low P/E, P/B, reasonable reserving. Yes, it is in Bermuda, but that offers BRK other ways to lower its tax bill, which Warren Buffett aggressively pursues. He never pays a dime more than he has to!

-=-=-=-==-=-=-=-=-=-=-=--=-==-=-=-

These are just my musings, don't give them more emphasis than that. Buffett offers a few crumbs at his buffet, and I make an effort to offer ideas consistent with what little he said. I am very likely to be wrong, but I like a lot of the ideas here.

Full disclosure: long AEP, PSX & INTC for myself and clients