

DENEWILER

Capital Management Inc.
1600 Stout Street
Suite 1690
Denver, CO 80202

303.832.7475 / 888.808.7475
Fax 303.832.7484
greg@growmydollar.com
www.growmydollar.com

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OBSERVATIONS ON THE MARKET No. 332*By Greg Denewiler, CFA*

It is an anticipated event, at least if you are a somewhat serious investor. Maybe it is more about just wanting to know what one of the all-time great investors is doing and thinking. There are always a few lessons to learn, or at the minimum, it may remind you of why you do what you do. It is almost always the last Saturday of February, Warren Buffett releases his annual letter to shareholders. This year's letter confirms that like all investors, given enough time, he also experiences rough patches.

The current letter, which recapped 2018, lists Berkshire Hathaway's publicly traded stocks that were held at the end of 2018. Four of the largest holdings for Berkshire Hathaway underperformed the S&P 500 in the last year. Apple, by far the largest holding, is only up .25% currently vs. the market that is up 5% in the last 12 months. Bank of America is down 6%, Wells Fargo is down 13.9%, Coke is up 4%, while Kraft Heinz has declined by 48%. Even the great one's stumble. What sets him apart from most investors is his ability to be very patient. The dividends from Coke have far exceeded his original investment. One of the messages that he always pounds the table on is the importance of cash flow. It doesn't have to be paid out in the form of dividends. He gives a few examples of companies that Berkshire has been holding for several years and how they have handled their cash flow. Without buying any additional shares, their percentage of ownership has risen strictly due to the result of the company buying back its own stock. He always tries to describe his investments as ownership stakes. He ends his letter for this year opining about The American Tailwind. He describes it as the entrepreneur spirit that is as strong today as 200 years ago. It doesn't imply investors should throw all caution to the wind. He still holds more than \$100 billion in cash. He again refers to elephant hunting (trying to find a large investment), but feels prices are too expensive. He measures success by the cash that his investments produce. The biggest take away from the letter is that it is far better to focus on buying a company who can grow its cash than to worry about where the market is going

next month.

Just two months ago the next recession appeared imminent. Treasury bond interest rates were signaling the almost fool proof indication that the economy was slowing down. After a rapid market decline of 20%, the skies cleared, and fair weather is again at hand. If we learn anything, it is how fast opinions change. Eventually the indicators will be correct, and the market correction will last more than three months. It will be cash flow that keeps businesses in business during the hard times, and it is cash flow that helps investors reinvest at lower prices. It helps to have an extra \$100 billion laying around to pick up the bargains.

On December 24th, Santa Claus did show up, he offered us some deals. Of course, it didn't feel like a gift at the time. What it felt like was the beginning of a recession, we haven't had one in 10 years, and how difficult is it to think we are overdue for one? If you are at the beginning of a recession, that means stocks are probably going lower. Well, they didn't. Now it seems obvious that we should have worried less about the possibility that prices might go lower, and more on the reality that prices were about 15% cheaper. It is very hard to focus on that 'tail wind' when there is a cold wind in your face. Maybe that is why Mr. Buffett has a lot more money than we do. He is convinced that bad weather is always followed by fair weather. In all fairness, Buffett apparently didn't buy much last quarter either according to an interview he made after this weekend's annual report release. Although, he has proven repeatedly that he is more than capable.

If you were nervous on the 24th of December, you should probably raise some cash. There will be a market decline of more than 20% at some point. However, if on the 24th you were thinking that maybe this is a chance to buy something that will pay me for years to come, and the payments are likely to grow over time, then you are an investor. You are more focused on The American Tail Wind.