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Monthly Insight

The Sage Speaks: 2022 Edition

One of the most anticipated events in the financial world is Warren Buffett's annual letter to the shareholders of Berkshire Hathaway.

Corporation, the \$777.83 billion enterprise he and partner Charlie Munger built after acquiring a majority of the company's shares in 1964 (when the firm was capitalized at \$7.63 million). Each year, not only the company's shareholders, but also financial and investment analysts pore over Buffett's epistle, trying to glean a sense of the current thinking and potential future directions of one of today's most respected investors.

On February 26, “the Sage of Omaha” released the letter summarizing his assessment of the company's prospects, following the closing of the books on the fourth quarter of 2021. You can do an online search for “Buffett letter 2022” and quickly access the takeaways, assessments, and opinions of scores of financial writers, analysts, prognosticators, planners, and others. Of course, the answers anyone gets from Buffett's letter depend largely on the questions they are asking, and almost every reader brings their own particular set of questions to Buffett's report. But even with his many years of experience—and success—as an investor and leader of one of the most influential corporations in the world, Buffett's words aren't just intended for the financial elites. In fact, many of his observations are decidedly down-to-earth, containing great value for any investor. Here are three key points we've taken away from the 2022 letter, presented in no particular order, that we believe would be beneficial to anyone aspiring to succeed—or continue succeeding—as an investor.

1. Always save something for a “rainy day.”

Buffett points out in the letter that he and partner Charlie Munger established a rule some time ago: they would always maintain on hand a minimum of \$30 billion in cash or cash equivalents (almost 4% of current market capitalization). Their reason? “Both of us like to sleep soundly, and we want our creditors, insurance claimants, and *you* [shareholders] to do so as well” (emphasis in original). Perhaps this commitment to a “rainy day fund” is one of the reasons the Berkshire Hathaway balance sheet has been called “a fortress” by some analysts. At the present time, in fact, the company holds some \$144 billion in cash (about 18.5% of market capitalization): a large position, even by Buffett’s standards—about which more in a moment.

One of the most important foundations for any investor—especially those who don’t have a net worth measured in the billions—is the establishment and maintenance of an emergency fund. As financial advisors, we consistently admonish would-be and novice investors that building a fund with three to six months’ worth of income, held in cash or near-cash, is the first step toward financial security, if not independence. After all, if it’s a good idea for Berkshire Hathaway, it should be a good idea for any aspiring entrepreneur or other individual seeking to build a secure financial future.

2. Build a solid plan and stick to it.

In connection with Berkshire Hathaway’s unusually large present cash position, Buffett comments, “Berkshire’s current ... position ... is a consequence of my failure to find entire companies or small portions

thereof (that is, marketable stocks) which meet our criteria for long-term holding.... Today ... we find little that excites us.” In other words, Buffett will not deviate from his established parameters for acquiring assets, simply for the sake of deploying cash. While some eyebrows might rise at the prospect of being overweighted in cash in the current inflationary environment, Buffett goes on to explain how, though he and Munger have “endured similar cash-heavy positions from time to time in the past,” which he describes as “never pleasant,” his strategy includes other alternatives for redeploying assets, particularly by repurchasing shares of Berkshire Hathaway, thus increasing the share of ownership of a very profitable enterprise for its continuing shareholders. In other words, Buffett’s overall plan remains intact, even though his current asset allocation may be temporarily outside his preferred parameters. When you know where you intend to go and how you plan to get there, temporary detours are less likely to become permanent deviations from the course.

3. Believe in well-run companies.

As Buffett is sometimes fond of doing, a large portion of his letter pays tribute to a leader of one of Berkshire Hathaway’s subsidiaries: in this case, the recently deceased Paul Andrews, CEO of TTI, a Fort Worth–based distributor of electronic components. After giving a thumbnail history of how Andrews, starting with \$500 of his own savings, built an enterprise that started in 1971 with annual sales of \$112,000 and today boasts annual volume of \$7.7 billion, Buffett discusses the process by which the founder made the decision to sell the company to

Berkshire Hathaway in order to ensure that it would be owned by those who understood the firm and would allow it continue doing what it did—superbly.

Buffett's praise of Andrews and TTI underlines a consistent theme in the strategy that has made Berkshire Hathaway phenomenally successful: seek to invest in (or purchase) companies that are well-managed, profitable or potentially so, and possess a vision for the future. TTI offers a perfect example. As Buffett relates, when Berkshire Hathaway purchased the company in 2006, the firm employed 2,387 persons. Now TTI has 8,043 employees—most of whom still live in Fort Worth—and earnings have increased nearly sevenfold. Companies like TTI, a small business that grew and keeps on growing, will always be the backbone of the American financial and economic systems, which is why owning stock in such companies has, over time, created more wealth for more investors than perhaps any other single opportunity.

At Empyrion Wealth Management, our chief aim as fiduciary advisors is to place at our clients' disposal the best available information and research. We want to enable them to make sound financial decisions based on facts and proven evidence, not the “guru du jour.” Reading these latest words from the “Sage of Omaha” reminds us that good sense, careful analysis, and confidence in a solid plan are investing principles that never go out of style. If you'd like to learn more about our evidence-based approach to investment management, please click [here](#).

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SOCIAL MEDIA DIGEST

In case you missed them, here is a roundup of my latest posts on social media:



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The past two years have been proof that life is full of obstacles. But they have also shown that humans, women in particular, are resilient beings. Please join us for our upcoming virtual conversation circle where we will discuss resilience.



The media tells us that inflation is due to rising labor costs, supply chain disruption, and Western sanctions against Russian oil and gas, but the rising costs may have more to do with rising profits for certain corporations than we realize.

KIMBERLY FOSS

President, CFP[®], CPWA[®],
CFT-I[™] Candidate

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