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Intrinsic, Intangibles, Moats and the greatness of Buffet\Munger

The next time you bite into a See's Candies® chocolate turtle or have one of their world famous lollipops, think about being the owner instead of the consumer. This is the view Mr. Buffet and his partner Charlie Munger took along with $25mm in 1972, when they purchased the company in total.

This newsletter will focus on the business of investing as an owner, to help our readers get through the noise of the market. For you see, in the 41 years since the See's Candies® purchase, our great nation has been witness to incredible turmoil. After all that time, people still like eating chocolate and the value of that "lil old lady" (See's Candies® founder's portrait found on every box) has grown exponentially over the value of the equipment and other "hard" assets. Buffetism -"It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price." Buffet's mentor, Benjamin Graham whose book *Security Analysis* with David Dodd, taught Buffet to value business primarily on the equipment, land and other tangible accounting items. Balance sheet analysis is still used on every deal however Buffet/Munger added the concept of a predictable brand and "Intrinsic".

Intrinsic example one – 1980's Walt Disney stock found itself crippled and the business was being valued based on their amusement parks and balance sheet and given "ZERO" value for their characters. Mickey Mouse you are worth nothing, Snow White broke, Pluto back to the pound. Intrinsic example two – Coca-Cola®, they sell bubbly sugar water but they are also worth more than their balance sheet. The "Brand" value cannot be accurately predicted like the cold hard facts of a balance sheet, but it exists, and in some cases many times outweighs a company's tangible assets.

I would argue the marketplace has flip flopped over the last 50 years and now the "Brand" oriented stocks can get quickly over valued relative to a screening process utilized by Buffet/Munger. This flip flop created an opportunity for discovery of under-followed companies as well as those that no longer have positive momentum. The metaphor is akin to "a melting iceberg". Newspapers still make money, just not as much as they once did. Berkshire Hathaway started from a melting iceberg business in textile manufacturing, virtually the only thing left over from the sale of hard assets was the name Berkshire Hathaway, and Berkshire has become one of the best brands in investing.

Funny thing about brands is they're built on reputation, another Buffetism - "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."

A few years ago I started buying Berkshire Hathaway shares for most clients (a variety of factors determined how many shares, if any, were invested on each account) because the stock was not being priced to its Book or Intrinsic value, it soon became one of my largest positions. When the recent 2008 financial turbulence occurred Mr. Buffet and Berkshire had their checkbook ready for some great one-of-a kind deals; Goldman Sachs on line 1, Bank of America® on line 2, and so on. Berkshire was approached with these deals because the very endorsement of Mr. Buffet investing in your company represented confidence in your ability to be a sustainable brand. A recent Berkshire deal involved Heinz® Ketchup, and in my view was just a very simple business decision in a very "unconfident marketplace". Like See's Candies® there is a high degree of certainty that people will like Ketchup in 40 years, and their brand will probably grow as the world grows. Couple these simple facts with some other internals and then combine with a current low interest rate and voilà you get amazing potential future results.

"Stop trying to predict the direction of the stock market, the economy or elections."- Warren Buffet

As I write this newsletter we are yet in another "political crisis" with certain factions of Govt. forcing their views and causing a shutdown. What I know with 100% certainty is innocent Americans are getting hurt and reputations are being damaged. In this type of tumultuous world, the Intrinsic Value of America's reputation gets tarnished when we behave in such a manner. Yet, we still like; sugary bubble water, spicy tomato sauce, and cocoa mixed with sugar and butter.

Goldey Capital invests based on <u>fundamentals</u> not <u>noise</u>. Low interest = decisions, rising rates = decisions, shifting monetary policy = decisions, finding undervalued businesses = decisions. These decisions and many more are part of Goldey Capital's Intrinsic Value to our clients. We are honored to serve our families in this constant process.

We have read several publications regarding Mr. Buffet and Berkshire Hathaway and if you have an interest in learning more about this then please contact our office and we will send you a complimentary publication via Amazon.com®. Please let us know the medium you would like paper or Kindle edition.

All the Best,

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