



Buffett Broadens Portfolio by Investing \$23.9B

By Andrew Frye - Nov 7, 2011

[Warren Buffett's Berkshire Hathaway Inc. \(BRK/A\)](#) invested \$23.9 billion in the third quarter, the most in at least 15 years, as he accelerated stock purchases and broadened the portfolio beyond consumer and financial-company holdings.

Berkshire bought almost \$7 billion of equity securities in the three months ended Sept. 30, compared with \$3.62 billion in the second quarter and \$834 million in the first, the Omaha, Nebraska-based company said Nov. 4 in a filing. Stockholdings labeled “commercial, industrial and other” soared 62 percent in the three months to \$17.4 billion on a cost basis, surpassing equity investments in financial and consumer-product firms.

“He sees something, and it’s big,” said [Thomas Russo](#), a partner at Berkshire investor Gardner Russo & Gardner.

Buffett, 81, drew down Berkshire’s cash as Europe’s debt crisis and [Standard & Poor’s](#) downgrade of the U.S. pushed stocks to their worst quarterly performance since 2008. The investments disclosed Nov. 4 include \$6.9 billion of equities, \$5 billion for preferred shares and warrants in Bank of America Corp. and the acquisition of Lubrizol Corp. for about \$9 billion.

Buffett is expanding a portfolio that for more than 20 years has included equity stakes in [Coca-Cola Co. \(KO\)](#), the world’s largest soft-drink maker, and [Wells Fargo & Co. \(WFC\)](#), now the No. 1 U.S. home lender. The chairman

and chief executive officer acquired a power company in 2000 and railroad Burlington Northern Santa Fe last year.

“Historically he has preferred consumer products and banking to industrial companies,” said James Armstrong, president of Berkshire shareholder Henry H. Armstrong Associates. “But the market changes, so the names he comes up with changes.”

U.S. Downgrade

The [S&P 500 Index \(SPX\)](#) fell 14 percent in the third quarter, the most since dropping 23 percent in the last three months of 2008. The period’s biggest one-day decline was more than 6 percent on Aug. 8, the first trading day after S&P stripped the U.S. government’s AAA rating. Berkshire spent more on stocks that day than any other this year, Buffett told [Charlie Rose](#) in an interview broadcast on PBS on Aug. 15.

Berkshire’s third-quarter net income slid 24 percent to \$2.28 billion as the stock market slump pressured the value of Buffett’s equity derivative bets, the firm said in the filing. Insurance units posted a \$1.7 billion pretax underwriting gain, while net earnings at the railroad rose 8.5 percent to \$766 million. The market value of the stock portfolio advanced to \$68.1 billion on Sept. 30 from \$67.6 billion at the end of June.

Berkshire’s holdings of banks, insurance and finance stocks advanced 2.7 percent to \$16 billion on a cost basis in the three months ended Sept. 30, while consumer products shares fell 5 percent to \$12.6 billion. Berkshire’s equity investments include stakes in [American Express Co. \(AXP\)](#) and [Procter & Gamble Co. \(PG\)](#)

Confidential Treatment

Berkshire has disclosed new stakes this year in [MasterCard Inc. \(MA\)](#), the world’s second-biggest payments network, and retailer [Dollar General Corp. \(DG\)](#) Buffett’s firm has requested permission to omit information from

filings that list U.S. equity holdings as of March 31 and June 30. Regulators sometimes let companies withhold data to limit copycat investing while building or cutting a position. Berkshire hasn't filed its third-quarter stocks statement as of yesterday.

Buffett, in preparation for his eventual retirement, hired money manager Todd Combs last year and instructed him to focus on equities. MasterCard was one of Combs's holdings at his former hedge fund, Castle Point Capital Management LLC.

'Crazy With Buy Orders'

"I wonder if he turned Todd Combs loose," said [David Rolfe](#), chief investment officer of Berkshire investor Wedgewood Partners Inc., which also owns stakes in AmEx and Visa Inc., the No. 1 payments network. "I hope Buffett went to the movies one day and Combs got on the phone and went crazy with buy orders" for Purchase, New York-based MasterCard.

Manufacturing firms with proprietary technology like [3M Co. \(MMM\)](#), the maker of auto parts and Scotch-Brite sponges; and toolmaker [Kennametal Inc. \(KMT\)](#) may appeal to Buffett, Russo said. MasterCard had a market value of about \$46 billion as of Nov. 4, compared with the \$55.6 billion form 3M and \$3.3 billion for Kennametal of Latrobe, Pennsylvania.

Buffett didn't respond to a request for comment e-mailed to an assistant outside of normal business hours in Omaha.

The last time Buffett invested more than \$20 billion in a period was 2008 when he did it in both the second and fourth quarters of the year. Buffett deployed more than \$70 billion that year, including \$10.1 billion on stocks, as the [S&P 500](#) posted its biggest decline since 1937. This year, Berkshire bought \$11.4 billion of stocks in the nine

months ended in Sept. 30, while selling \$885 million of equities.

Cash holdings dropped to \$34.8 billion at the end of September from \$47.9 billion on June 30. The hoard is replenished from maturing securities and profit from investments and the company's more than 70 operating subsidiaries.

'Ready to Buy'

In the third quarter, Buffett directed \$1.9 billion to fixed-maturity securities and about \$2.2 billion to property, plants and equipment at Berkshire's units. Some of the results were derived by subtracting first-half results from Sept. 30 data released last week. Berkshire, which doesn't pay a dividend, started its first buyback in September, giving Buffett an additional investment option.

"We're ready to buy lots of things," Buffett told Bloomberg Television's Betty Liu on Sept. 30. "If the stock is cheap, we will buy it."

Berkshire declined 8 percent in the third quarter and 3.9 percent in 2011 through Nov. 4. [St. Paul](#), Minnesota-based 3M fell 24 percent in the three months ended in September, while Kennametal slid 22 percent. MasterCard rose 5.3 percent in the same period.

'Part of His Legacy'

Berkshire bought 80 percent of Israel's Iscar Metalworking Cos., the maker of [machine tools](#), for \$4 billion in 2006. Buffett has expanded MidAmerican Energy Holdings, the power producer he bought in 2000. Burlington Northern hauls freight over a [32,000-mile](#) rail network.

"He's broadly diversifying across numerous industries, and he would perhaps want that to be part of his legacy,"

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said [David Kass](#), a professor at the University of Maryland's Robert H. Smith School of Business. The third-quarter stock spending "sounds like at least one major investment. And it wouldn't surprise me if it were two or three," said Kass.

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