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Buffett Bet \$3.6B on Stocks in Quarter Before Rout

By Andrew Frye - Aug 8, 2011

[Warren Buffett's Berkshire Hathaway Inc. \(BRK/A\)](#), whose top three shareholdings declined by about \$1.6 billion last week, disclosed its biggest quarterly purchase of equities in almost three years.

Berkshire bought \$3.62 billion of stock in the three months ended June 30, the most since it spent \$3.94 billion in the third quarter of 2008, the Omaha, Nebraska-based company said late Aug. 5 in a filing. Equity purchases exceeded acquisitions of fixed-maturity securities for the first time since 2009.

Buffett, 80, turned his focus to stocks as Berkshire's cash swelled and [interest rates](#) remained near record lows. The firm's equity portfolio, which rose to \$67.6 billion as of June 30, suffered last week as markets plummeted. Stocks around the world fell amid signs the [U.S. economy](#) was stalling and speculation that [Europe](#) will fail to contain its sovereign-debt crisis.

"He's gotta put the cash to work somewhere," said Tom Lewandowski, an analyst with Edward Jones & Co. "We've seen the market pull back, and this is the environment he likes to make investments in."

Transatlantic Holdings Inc. said yesterday that Berkshire offered about \$3.25 billion in a bid to break up the New York-based reinsurer's deal to merge with Allied World Assurance Company Holdings AG. The equity market rout helped push down the value of Allied's all-stock bid by about 13 percent from the last trading day before the June announcement through Aug. 5.

Stock Plunge

U.S. and European stocks posted the biggest weekly declines since November 2008. The Standard & Poor's 500 Index fell 7.2 percent, erasing its gains for the year, while the Stoxx 600 Europe Index tumbled 9.9 percent to its lowest in 13 months. The U.S. government was stripped of its AAA credit rating by S&P on Aug. 5 after the close of New York trading.

Buffett, Berkshire's chairman and chief executive officer, reported a 74 percent jump in second-quarter profit in the filing. Cash holdings climbed 16 percent in three months to \$47.9 billion at the end of June as [Goldman Sachs Group Inc. \(GS\)](#) repaid Buffett's 2008 investment. Net income of \$3.42 billion was boosted by derivative returns and earnings from the company's manufacturing and retailing units.

Buffett said Aug. 6 that while the market slump may hurt confidence, the U.S. will probably avoid a recession.

"Financial markets create their own dynamics, but I don't think we're facing a double-dip recession," Buffett told Bloomberg Television's Betty Liu. "Clearly what stock markets do have is an effect on confidence, and this selloff can create a lack of confidence."

Economic Slump

Two-year Treasury yields fell to a record low on Aug. 4 as reports on manufacturing and consumer spending trailed economists' forecasts. The [European Central Bank](#) has signaled it is ready to start buying Italian and Spanish securities to counter the sovereign debt crisis. Buffett said S&P made a mistake and the U.S. deserved a "quadruple A" rating.

Berkshire sold \$200 million of equities in the three months ended in June, the second-smallest quarterly total in more than three years. The company spent \$2.78 billion on fixed-maturity securities.

Buffett built Berkshire over four decades by acquiring businesses including car

insurer Geico Corp. and betting on stocks like [Coca-Cola Co. \(KO\)](#) After debt markets froze in 2008, Buffett used more than \$10 billion of Berkshire's cash to finance New York-based Goldman Sachs, General Electric Co. and Swiss Reinsurance Co. In 2010, he spent \$26.5 billion on the takeover of railroad Burlington Northern [Santa Fe](#).

'Recovery Bet'

Berkshire increased its stockholdings this year in firms it labeled "commercial, industrial and other." That portfolio was \$10.7 billion on June 30 on a cost basis, compared with \$6.5 billion on Dec. 31. The "consumer products" portfolio was down 2.4 percent by that measure while holdings of "banks, insurance and finance" were up less than 1 percent.

"That is basically a recovery bet," Glenn Tongue, a partner at Berkshire shareholder T2 Partners LLC, said of the increase in the commercial and industrial portfolio. "Equities are available today at prices where he's almost certain to generate an adequate rate of return."

Coca-Cola, Berkshire's biggest shareholding, fell 1.8 percent last week, wiping \$248 million from the market value of Buffett's stake. [Wells Fargo & Co. \(WFC\)](#), the No. 2 holding, dropped 9.8 percent, lowering Berkshire's holding by \$935 million. The stake in [American Express Co. \(AXP\)](#), Berkshire's third-largest stockholding, fell by \$429 million as the credit-card company's shares slipped 5.7 percent.

Buffett is overseeing changes to the stock portfolio after hiring former hedge-fund manager Todd Combs last year to help with investments. Berkshire bought [MasterCard Inc. \(MA\)](#) shares in the first quarter, the only publicly disclosed addition to Berkshire's U.S. equity holdings. The company hasn't filed its second-quarter list of holdings yet.

Berkshire agreed in March to buy Lubrizol Corp., the Wickliffe, Ohio-based maker of engine additives, for about \$9 billion in cash. Buffett's firm, which doesn't pay a dividend, uses earnings and premiums from insurance units to fund investments and acquisitions.

To contact the reporters on this story: Andrew Frye in New York at afrye@bloomberg.net

To contact the editor responsible for this story: Dan Kraut at dkraut2@bloomberg.net

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