BERKSHIRE HATHAWAY ‘B’ NYSE-BKRX

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In other words, Berkshire Hathaway was close to our target with its fourth-quarter earnings. Targeting in 2018, we realize the company’s earnings on an operating basis, which excludes capital gains and losses from investments. We feel this is a better gauge of the company’s underlying performance, and investors can compare its results with others in the same line of business on an apples-to-apples basis.

For the full year, the insurance operations generated income of nearly $5.5 billion, which was company record, and we anticipate the previous-year’s loss of more than $2.2 billion. Investment income also trended 17% higher, to nearly $4.6 billion, as the company benefited from increased bond reinvestment rates.

We look for modest-to-modest bottom-line gains in each of the next two years. The company’s insurance business in the past had been hit by severe losses in the catastrophe front, which had impacted results with other insurers on an apples-to-apples basis. This year, however, was quite severe on the catastrophe front, which should give many insurers the upper hand during policy renewal season.

The industry behemoth’s immense size and diversification give it a leg up on the competition, from our point of view. When the insurance industry is in the doldrums, Berkshire’s presence in other defensive segments (such as utilities) could give it a substantial advantage over the competition. Also, its immense size may well provide for more leverage when negotiating policy rates.

These shares have lost moderate ground over the past seven months, but the broader market averages have rebounded nicely. That said, they are viewed favorably for the year ahead based on our Timeliness Ranking System. Longer term, the stock’s appreciation potential doesn’t stand out from the pack. However, acquisitions, which aren’t included in our projections until they are consummated, could add to our assumptions. In fact, purchases, and generally large ones, have been an integral part of the company’s long-term growth strategy. Berkshire’s large cash stockpile and stellar balance sheet make further acquisitions likely down the road.

Alvin G. House

March 8, 2019

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