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## Your Money: Buffett backs B of A and buybacks of Berkshire

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Has Warren Buffett gone insane? Or is he just crazy like a fox?

The Oracle of Omaha, Berkshire Hathaway Inc. chairman Warren Buffett, has often said share buybacks are a waste of money. He has never done a share repurchase of his own company's stock.

But now Berkshire will buy back an unlimited number of its shares whenever, in Buffett's judgment, they trade below their intrinsic value. Berkshire Hathaway must not know what to do with \$47.9 billion in cash on its balance sheet - except boost its own stock price.

The cheapest way for mere mortals to invest the same way Buffett does is by purchasing Class B shares of Berkshire Hathaway. These are far less expensive than the Class A stock, which trades at around \$106,000 per share.

While many of us can't be Buffett investors, the chairman's buyback strategy is another symptom of a rare and roiled market.

In after-hours trading Friday, Berkshire Hathaway Class B shares (symbol NYSE: BRK.B) were fetching \$70.78, down about 2 percent and in line with the U.S. stock market, which sold off brutally late in the day. The shares closed at \$70.06 Monday.

**Pat Dorsey, head of research at Sanibel Capital Trust Company**, which oversees \$503 million in assets, defends Buffett's buyback decision. "He doesn't like buybacks done for no reason or the wrong reason, meaning they are done to sop up shares and at too high a price."

Buffett has no issue with buybacks "at the right price," Dorsey added, noting that public companies should have been eagerly buying back their own stock during the financial crisis of 2008, when equity valuations were low.

*Buffettologists* argue that Berkshire Hathaway is trading at close to book value; the stock has been hit by insurance payouts for the latest round of hurricanes and earthquakes. Also, Buffett still has no clear successor. The odds are long that this decade's returns by the company will be same as the last few decades.

All that negative sentiment has depressed the share price, Buffett's boosters contend. But Buffett still makes savvy plays, they argue, by cutting the latest deal to invest \$5 billion in senior preferred shares of turmoil-ridden Bank of America, which is trading at just over \$6 a share. That stock hasn't seen these lows since the financial crisis in 2008. B of A is the worst-performing Dow component stock of the third quarter 2011, down 42 percent. The bank's performance is closely followed by Alcoa's 37 percent drop, and the 35 percent decline for Hewlett-Packard.

So what's the wager? Buffett's bet was not that Bank of America's stock is cheap, "But that they stay solvent," Dorsey said. "He thinks Bank of America has a massive low-cost deposit base and it is unlikely the Countrywide Mortgage mess (B of A bought the hugely troubled mortgage-lender) will take down the whole franchise."

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