



## Insider Buying



**William Smead**  
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Dear Fellow Investors:

The Wall Street Journal reported on Nov. 2<sup>nd</sup> that non-financial publicly traded companies were holding more cash on their balance sheets than at any time in the last 40 years. The figure is 9.8% of their combined stock market capitalization. A great deal has been written lately about what officers, directors and substantial shareholders (Insiders) have been doing with holdings of their own companies. We at Smead Capital Management would like to give our take.

Since January 1<sup>st</sup> of this year there have been a number of large company buyouts. It started with Pfizer buying Wyeth and Merck buying Schering-Plough. It has accelerated last week with Stanley Works buying Black and Decker and Warren Buffett's Berkshire Hathaway buying the rest of Burlington Northern Railroad for \$100 per share in cash and stock. Why are companies so interested in buying competitors? Why is Warren Buffett spending \$26 billion to buy the rest of Burlington Northern?

First, we believe they trust that the U.S. economy will make a significant comeback the next three years. Many admired experts have spent the last two years convincing us that the financial sins of the last ten years condemn us to poor economic growth for the next ten years. Here is what Warren Buffett said Tuesday morning about buying Burlington Northern Railroad:

"Our country's future prosperity depends on its having an efficient and well-maintained rail system," Buffett said in a press release. "Conversely, America must grow and prosper for railroads to do well."

"It's an all-in wager on the economic future of the United States," he added. "I love these bets."

Second, these companies' financial strength allows them to gain market share while prices for common stock are depressed. Trading cash, earning almost nothing, for future corporate profits close to the bottom of the deepest recession since 1982 could look incredibly smart two or three years out. Once what Buffett sees is known to other corporate executives, you could see many buyouts as the 9.8% cash position drops to a more normal reading.

Third, James Grant called low house prices and low stock prices a "shovel-ready stimulus program" back in February. With interest rates low for conducting business and housing the most affordable in my adult lifetime, why can't the economy do well over the next five to ten years? As we said in our missive called "Pick Your Poison",

what would we rather have, double-digit interest rates/unaffordable homes/less existing debt (1982) or low interest rates/affordable homes/large existing debts (2009)?

Warren Buffett, who we believe is the most successful insider of all time, parted with \$26 billion of his company's stock and cash to bet on future U.S. prosperity on Nov. 3<sup>rd</sup>. His company is involved in insurance, banking, railroads, food and beverages, credit cards, residential real estate, carpet, jewelry, furniture, manufactured housing, etc. At SCM, we are going to keep our view of the economic future aligned with the insider.

Best Wishes,

***William Smead***

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