Quite a Contrast

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Dear Fellow Investors:

On November 13th, CNBC writer Jeff Cox shared the findings of a recent survey of major institutional investors put out by Bank of America/Merrill Lynch. These 111 institutional advisors have over $1 trillion in assets under management. Cox wrote, “Even as the US market continues to rally, many institutional investors are trimming their US holdings and putting more money into foreign stocks - especially those in emerging markets.” The primary motivator is a belief among these advisors that economic growth in the US will be anemic going forward. Here is a representative quote from one of the advisors surveyed: "We found a tremendous strategic desire to move away from US equities, particularly large-cap, and toward a more global mandate," analyst John Haugh wrote in a research note. "Emerging market equities are the most desirable asset class over the next 12 months, with 42% looking to add/increase investment."

The day before (Nov. 12th), CNBC aired an interview session conducted by Becky Quick at the Columbia Business School where students and faculty asked Bill Gates and Warren Buffett a series of questions. These questions ranged from career advice to visions of the future. In the opinion of those of us at Smead Capital Management, the most important question of the night went to Mr. Buffett as a follow up question from Becky Quick. The student had asked for Buffett’s opinion on the believability of this rally coming off the March lows given that a number of respected market participants were cautious. Buffett reminded everyone in the audience and on television that the best market year of his 67 years in the stock market was 1954. It was a recession year which saw unemployment double and yet saw a 50% gain counting dividends.

Becky followed up by asking about his recent purchases of a company in Israel and in China. She asked, “Are there more opportunities overseas or here in the US?” Buffett’s answer was short and sweet. He said, “I see more opportunity in the United States. We're the biggest economy and we're looking for big deals. But I am delighted to find something, you know, whether it's in China or whether it's in Israel, like Iscar, or whatever it may be. There are more opportunities in the United States than anyplace else.”

Buffett was not just whistling Dixie with his answer. He had spent $26 billion buying the rest of Burlington Northern the week before and was quoted as saying, “Most important of all, however, it’s an all-in wager on the economic future of the United States,” said Mr. Buffett. “I love these bets.” On November 16th we had learned that Berkshire Hathaway had doubled its position in Walmart and increased its position in Wells Fargo among net stock purchases of $2.3 billion. You probably don’t load your portfolio with the nation’s largest retailer and one of the nation’s biggest real estate lenders if you believe in an “*anemic economic recovery*”. We don’t know about you, but we have a choice of who we are going to take our economic prognostications from. Is it going to be Warren Buffett, who gets to see and understand as wide a swath of diverse businesses as the Chairman/CEO of one of our nation's largest conglomerates? Or will it be far less experienced, far less successful and far less informed economic prognosticators who could be a part of a crowded trade?

All this does is make us that much more excited to own our portfolio of Large Cap Value US stocks and continue to enjoy what we believe to be a multi-year and very powerful bull market.

Best Wishes,

William Smead

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