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Business, Company

Lessons from the Success Berkshire Hathaway

Warren Buffet is without a doubt one of the most successful investors of the current generation. His company, Berkshire Hathaway, has managed to attain an annual growth rate of about 20% for the last five decades, " convincingly outperforming the US stock market by a wide margin" (Picerno, 2014). As a result, the story of the success of Warren Buffet is incomplete without Berkshire Hathaway, and the converse is also true.

It would be unfair for any financial commentator to attribute the success of Berkshire to sheer luck. For the last 47 years, Berkshire has managed to attain a respectable position because of a number of strategies that act as a blueprint when selecting the firm's portfolio. Writing for the Business Insider, Don Dion narrowed down the success of Warren Buffet into three main factors: diversification, dividends and long-term focus. Although there are other factors that have contributed to Buffet's success as well, those three factors summarize what contributes to the success of Berkshire Hathaway in a nutshell.

One of the things that investors look for in an enterprise is the ability to remain in business for a long period. In terms of focus, Berkshire Hathaway focuses on the long-term. For example, when Berkshire Hathaway acquired the remaining equity in Burlington Northern Santa Fe Railroad, the reasoning was that railroads would still be useful in the next 100 years. Dion (2014) states " Famously, Warren Buffet has said that his favorite holding period for an investment is forever." This is true considering the positions that Berkshire Hathaway has taken over the years – some of the positions have been the mainstays of the company for years and even decades (Dion,

2014). The strategy makes it easy to weather short-term economic crises. Another thing that contributes to the success of Berkshire Hathaway is diversification. The company invests in a number of sectors including consumer goods, industry, finance and healthcare. Picerno (2014) agrees that Berkshire's stellar performance could be attributed to Buffet's success in building a concentrated portfolio. In addition, Berkshire does not pay cash dividends. The company reinvests its profits into other investments. Although the company does not pay dividends, it has real assets that could be liquidated.

However, Berkshire portfolio does not have tech firms such as Twitter and Facebook. The reason could be simple: there is no guarantee that those firms will still be in business 20 or 30 years from now. Therefore, tech firms are not in the portfolio because they are not in conformance with Berkshire strategy of long-term focus. Going by the performance of other tech firms such MySpace, the tech industry evolves rapidly and what appears to be profitable right now may not be the case in the next five to ten years. In addition, such firms do not have tangible assets, other than their users who might shift to other platforms that are more interactive and provide better functionality. Furthermore, the portfolio does not have firms that serve a niche market. Possibly, one of the reasons to account for this could be that niche markets are small and limit a firm.

Going forward, Berkshire Hathaway should stick to its strategy of picking industries with longevity; the strategy has worked well over the years, and there is no need to change that scenario. However, giving dividends in the near future should be something under consideration because some

investors could be swayed to put their money in other firms with an equally impressive track record, but give dividends to their shareholders. Therefore, it might become hard for the company to raise funds from investors because of the failure to pay dividends. Lastly, the firm can consider having a general counsel to ensure that statutory processes are being followed. Currently, the practice is that the managers are given the required trust by the company, but this is not enough because some of them may overstep their mandate. The strategy would also please those who think that the company trusts too much.

In conclusion, the success of Berkshire Hathaway could be attributed to diversification, focus on the long term and reinvesting profits made instead of paying dividends. However, the company does not have tech firms in its portfolio because of the uncertainty that surrounds the future of such firms and the lack of tangible resources.

References

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