

# [Warren buffett 2005](https://assignbuster.com/warren-buffett-2005/)

January 30, 2012 Executive Summary Problem/Issue: By analyzing the financial statements and Warren Buffett’s investment philosophy, a conclusion must be drawn as to whether the acquisition of PacifiCorp increased Berkshire Hathaway’s intrinsic value. Background or Historical Perspective: Berkshire Hathaway was incorporated in 1889 as Berkshire Cotton Manufacturing and later merged with Hathaway manufacturing in 1955. In 1965, Warren Buffett and some partners gained control of Berkshire Hathaway.

Buffett invested in companies from various sectors of the market ranging from insurance to clothing apparel. Over the next few decades since Buffett originally acquired Berkshire Hathaway, Buffett became famous as investment genius with an unbelievable growth percentage of 24%. Class A shares of Berkshire Hathaway traded at $102 in 1997 to $85, 500 in 2005. Analysis and discussion: The stock price jump for both Berkshire Hathaway and Scottish Power plc means that investors are very optimistic about this move. The increase in Berkshire Hathaway’s market value of $2. 5 billion means that the intrinsic value of PacifiCorp will add value to Berkshire Hathaway. The value of PacifiCorp ranges from $6. 25 Billion to the $9. 4 Billion paid to acquire PacifiCorp. The only aspect of this acquisition is why did Berkshire Hathaway pay so much for this acquisition? The only reason why Berkshire Hathaway would pay so much for an acquisition is that Buffett perceive PacifiCorp’s intrinsic value as more than $6. 25 Billion. Berkshire Hathaway has performed extremely well with an annual growth percentage of 24%.

By comparing Berkshire Hathaway’s Class A stock with the S&P 500 composite index over the last 30 years, Berkshire Hathaway growth has been exponential in comparison to the S&P 500. The big four represent roughly a third of Berkshire Hathaway’s portfolio. All four are from different sectors of the market. Buffett has done a great job diversifying Berkshire Hathaway’s portfolio and maintaining growth. Buffett defines intrinsic value as both the quantitative and qualitative aspects that make up a company’s true value. Intrinsic value is important because one must be able to assess the value of a company’s qualitative value.

Everyone has different perspectives on how to value qualitative assets of a company which makes investing in companies that difficult. Buffett has rejected the conventional definition of risk. The academic world has tried hard to accurately calculate risk when it actuality the ultimate risk is when the calculation of risk is wrong. Conclusion: Buffett has made several valid points in his investment philosophy, but there is one point in which I disagreed; Buffett said that there was no fundamental difference between buying a business outright, and buying a few shares of that business.

He’s correct in that sense that you are buying into a form of ownership either way, but a shareholder who holds less than 1% of a company’s stocks doesn’t have the same voting power or influence as the chairman of the board who could potentially have almost half the shares. With a great track record for picking stocks and a great ability for measuring intrinsic value, Berkshire Hathaway shareholders should endorse the purchase of PacifiCorp.