A BUFFET OF KNOWLEDGE FROM BUFFETT

by Steve Brown

Uncle Warren - you have to love him. While we question anyone the makes a Netjets investment on top of a losing US Air investment, what do we know - we are just $58B shy of the man's $58B net worth. You don't judge a person by their worst trade and you don't get to be in the top 2 of the Richest People in the World

by making bad financial decisions. You can call Buffett over- hyped and one of the first to take advantage of the US Gov't during the crisis (Goldman Sachs investment), but he stands alone as one of the smartest investors the world has produced. This is why we listen intently to every word of his annual shareholder letter that was released this week.

The 2009 letter is worth a read in its entirety and can be found here: (see URL in related links at bottom right). An analysis of Berkshire Hathaway and its wisdom is helpful on many different levels - investments, sales, risk management, how to talk to analysts, diversification, benchmarking, you name it and Buffett is one of the best. This year, he doesn't disappoint, as he gives insight into diversification, trading positions and philosophy. We capture a few of our favorite tidbits of knowledge below:

- "I have been in dozens of board meetings in which acquisitions have been deliberated; often with the directors being instructed by high-priced investment bankers (are there any other kind?). Invariably, the bankers give the board a detailed assessment of the value of the company being purchased, with emphasis on why it is worth far more than its market price. In more than fifty years of board memberships, however, never have I heard the investment bankers (or management!) discuss the true value of what is being given... Directors should hire a second advisor to make the case against the proposed acquisition, with its fee contingent on the deal not going through. Absent this drastic remedy, our recommendation in respect to the use of advisors remains: "Don't ask the barber whether you need a haircut.'"

- "Those who invest only when commentators are upbeat end up paying a heavy price for meaningless reassurance. In the end, what counts in investing is what you pay for a business."

- "Our metrics for evaluating our managerial performance are displayed...From the start, Charlie and I have believed in having a rational and unbending standard for measuring what we have - or have not - accomplished. That keeps us from the temptation of seeing where the arrow of performance lands and then painting the bull's eye around it.

- "Charlie and I believe that a CEO must not delegate risk control. It's simply too important."

- "Charlie and I enjoy issuing Berkshire stock about as much as we relish prepping for a colonoscopy."

- "Big opportunities come infrequently. When it's raining gold, reach for a bucket, not a thimble."

This should be required reading for anyone running a bank. Buffett's latest investment philosophy, combined with his homespun humor, on top of his never-ending effort to promote his products, is a monument to business intelligence. Read the entire letter and be sure to check out the story on page

17 of what happens when "fine and able bankers" on the acquisition trail start acting like "teenage boys."

Related Links:
2009 Berkshire Hathaway Shareholder Letter

BANK NEWS

Extension

The Federal Housing Finance Agency extended the Home Affordable Refinance Program administered by Fannie Mae and Freddie Mac 6/30/11 from June of this year.

Bankruptcy

Consumer bankruptcy filings jumped 14% in Feb compared to the same period last year and increased 9% over Jan, according to the American Bankruptcy Institute. Last year, there were 1.47mm bankruptcy filings, up 32% from 2008.

FOMC Retirement

FOMC Vice Chair Don Kohn will step down in June, following a 40Y FRB career. Kohn has been a board member since 2002.

Gen Y Banking

A survey released by Cisco shows that 33% of Gen Y consumers look to their banks to provide financial advisory services and 85% are either "satisfied" or "very satisfied" with their current financial provider. The survey further found that 40% were comfortable with interaction via video and another 40% use web-based tools to help manage expenses, budget or save. Banks need to consider their ability to make their web offerings more robust to capture greater future deposits.

Home Equity

A study by the University of Chicago finds at the peak of the housing boom in 2006, banks made $430B in home equity loans & lines of credit. That compares to only $40B for the first 9 months of 2009. Overall, some 20mm loans/lines make up a still strong $1.05T total outstanding.

Boomers

A study of investors aged 50+ by ICR finds 27% have lost faith in the stock market, 25% have used funds pulled out from equities for immediate income, 16% have put money taken from equities into deposit accounts at banks as they wait to invest at a later date and 14% stopped investing in equities because they wanted a safer option. Banks should stress test liquidity to ensure they have a good handle on where this excess funding could go once the economy recovers.