

# INSIGHTS ON FRONT STREET



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## TO THE LAND OF BUFFETT

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As I have done for a decade now, I recently traveled to Omaha for the annual meeting of Warren Buffett's Berkshire Hathaway. The meeting has grown from 9,000 attendees in '00 to a new record of around 35,000 this year. It seems that the downturn has driven more investors to seek the counsel Buffett and his longtime partner, Charlie Munger. Personally, I was sort of underwhelmed by this year's meeting. After 2008, I expected more.

The six hour long Q&A session was certainly more thoughtful than at prior meetings. Gone were the ridiculous questions about which were their favorite books of the year. Nonetheless, I was struck by how easy shareholders were on Buffett and Munger.

Last year was rare in its brutality of investors. However, the slow reaction to the unfolding reality by many highlights a certain level of complacency in our industry. I get the feeling that clients have given their managers a "free pass" for last year's results. It's almost as if the test was considered too hard and is now being graded on a generous curve.

I was also surprised by the lack of commentary about the large and obvious issues facing the global economy. They made little mention of the long lasting effects of the massive buildup of U.S. consumer debt and the ongoing reduction in available credit. The "borrow and pay later" attitude is rapidly changing into a "save to survive" mentality. In our opinion, you can't get that egg back into its shell. Finally, Buffett's and Munger's tone about this recession - one that we see as fundamentally

different than the prior four - felt quite moderated. Their general take was that "these things happen every fifty years or so." It seemed quite nonchalant to me even from a couple of 80 year old guys who've seen a lot in their careers. I didn't gain any additional insight into how the deleveraging process is likely to unfold.

Of course we do know that things will eventually brighten and the global economy will grow once again. We just don't know when. Despite the recent sharp move up in stocks, we still feel strongly that the process of recovery will be quite uneven and will take more time.

The economy's recovery greatly depends on how truly scared consumers have become. Our belief is that consumers - still burdened by their \$14 trillion in debts that are now backed by much lower asset prices - will surprise investors by pulling back further still. Saving money by spending less and paying down debt by selling assets requires making difficult decisions. And, deciding to hand in the keys to the house or deciding that filing bankruptcy is the

best option is a gut wrenching process that takes time.

It is natural for investors to "look over the valley" of a recession to brighter days in the future. Unfortunately, we don't see the classic valley with a mountain range of growth on the near horizon. Instead, we see a mountain of consumer debt that could likely block the usual path to a robust and quick recovery. In response, we're compelled to follow an investment strategy that doesn't depend on a rapid recovery, no matter how wished for it is by many.

By choosing to invest for income through owning shares in stable, dividend paying companies and finding attractive enough shorter-to-medium term high quality bonds, we hope to build portfolios that can ride out the waves of optimism and pessimism still ahead.

As I reflect on Buffett's and Munger's measured tone, it seemed as if they saw themselves as the adults in the room during a time of great stress. It probably wasn't the venue for criticism and debate after so much trust and confidence has been lost.

In a way, their demeanor reminded me of something well-respected bond manager, Bill Gross, recently wrote when he said that the current environment shows that investing is no longer child's play. To which I say it never really should have been.

