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Good News is Good News for Berkshire Hathaway Shareholders

By Reid Wells, J.D. Candidate 2020 | November 13, 2018

Following a great year for Berkshire Hathaway, the investment conglomerate bought back nearly $1 billion of its own stock in the third quarter of this year. Previously a critic of share repurchases, Chairman Warren Buffett and his board removed limits at a board meeting in July that prohibited share repurchases — opening the door for a big boost to shareholder earnings.

Over the past year, Berkshire Hathaway's net income jumped from $4.1 to $18.5 billion. Available cash followed suit, soaring from $25.5 billion to $36.5 billion at the end of September. Shares are up more than 4%. Apple, the most valuable stock Berkshire owns (an investment totaling $57.6 billion), naturally played a big part in Berkshire's portfolio earnings. Cash flow from Duracell, Geico, and BNSF Railway did not hurt either. It also goes without saying that the new U.S. tax code gave an enormous boost to massive corporations like Berkshire, whose effective tax rate is down from 27.2% in 2017 to 19.2% this year.

The last time Berkshire did a share repurchase was in December 2012, when it bought back nearly $1.3 billion worth of stock, mostly from one longtime shareholder. This time, the overall consensus is that a share repurchase is a net/net win for shareholders and Berkshire. While fewer shares mean higher earnings per share for investors, this share repurchase also indicates that Berkshire's stock is as good an investment as any that the company could buy in the market. As put by Valuewalk, the decision signals that Berkshire is "one of the best investment opportunities available on the market." With an average share price of $312,806.74 per A share and $207.09 per B share, Berkshire remains one of the most exclusive and profitable investments around.

Warren Buffet is known for his belief that investments are a better way to increase shareholder value than buybacks or dividends. Berkshire's previous buyback policy allowed share repurchases only if the stock price was below 120% of book value. While the decision to eliminate this restriction represents a shift in how Buffet gives value to his shareholders, many critics believe that cash could be better spent on capital expenses or wages. Nevertheless, Buffett remains a catalyst for trends in the broader market: Predictably, stock repurchases by S&P 500 companies hit a record high in the second quarter of this year.

One thing is for certain: Warren Buffet knows investment opportunities. Any decision to repurchase shares indicates that the Chairman is less than impressed with other investment options in the market. This may be a signal to companies to align themselves more with attractive options like Apple…if they didn’t know that already.