

Warren Buffett, Berkshire suffer worst year ever in 2008

By ANTONIO PEREZ
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Not even the "Oracle of Omaha" could predict the severity of the recent stock market tumble.

Berkshire Hathaway Inc., the holdings company controlled by legendary investor Warren Buffett, announced a 96 percent drop in fourth-quarter profit over the weekend.

Last year was easily the worst year on record for Buffett, as Berkshire also saw a 9.6 percent decline in its book value—assets less liabilities—per share, the largest since 1965, when Buffett took over the company.

It was the fifth straight quarter of profit declines at Berkshire. Fourth-quarter net income was \$117 million, a far cry from the same period in 2007, when the company earned \$2.9 billion.

During the last 40 years, the only other year in which Berkshire's value declined was in 2001, following the dot-com collapse—a decline of over 6 percent.

Poor performance from Berkshire's several insurance businesses—including General Re and Geico—hurt the company. The stock market decline of late last year also decreased the value of many of Buffett's stock holdings in companies such as Coca-Cola Co., American Express Co., Wells Fargo & Co., and Benjamin Moore

Paints.

Berkshire's diversified holdings are more or less tied to the overall fluctuations of the market, but the company still handily outperformed the S&P 500 index, which dropped 37 percent in 2008.

"As the year progressed, a series of life-threatening problems within many of the world's great financial institutions was unveiled," Buffett wrote in a letter to shareholders on Saturday. "Most of the Berkshire businesses whose results are significantly affected by the economy earned below their potential last year, and that will be true in 2009 as well."

Buffett also admitted to underestimating the rate of deterioration in the stock market.

"I made some errors of omission, sucking my thumb when new facts came in that should have caused me to re-examine my thinking and promptly take action," Buffett wrote.

Buffett described one of the errors—ramping up his stock holdings in energy giant ConocoPhillips just as oil prices peaked. Global oil prices have come down significantly over the last several months on fears of demand contraction, dragging energy stocks with them.

But Buffett believes that oil prices would eventually go up as the economy recovers. Without referencing specifics, Buffett



Last year was easily the worst year on record for Warren Buffett. THOMAS LOHNES/AFP/GETTY IMAGES

pinned hopes on America's market economy.

"Though the path has not been smooth, our economic system has worked extraordinarily well over time. It has unleashed human potential as no other system has, and it will continue to do so," he predicted. "America's best days lie ahead."

Some analysts agree that should

the economy recover, Berkshire is in a great position to reap the rewards.

The company's role as a provider of liquidity and funding has enabled Buffett to pull off investments that would never be possible in the open market.

As many bond insurers lost their high credit ratings last year, Buffett formed Berkshire Hatha-

way Assurance to insure municipal bonds.

Last September, Buffett invested \$5 billion in perpetual preferred stock of Goldman Sachs Group. While Goldman's common shares have declined, Buffett's preferred stock pays 10 percent annual yield, immediately buffering any losses by up to 10 percent.

A month later, Buffett bought

\$3 billion in preferred shares of General Electric Inc., which also include a 10 percent annual yield. Berkshire also has similar investment arrangements with a number of other companies.

And during a time when the credit markets are deemed by Buffett to be "nonfunctional," Berkshire still has more than \$24 billion of cash left on hand to spend.



Lumber prices react before most markets, making them reliable indicators as to the direction other price indices will take. PHOTOS.COM

Daily Wealth—Weekly: The world's most important commodity

By TOM DYSON
Special to Epoch Times

The commodity I'm going to tell you about today is the world's most important commodity.

By watching the price of this commodity, you'll know when the recession is ending before anyone else. You'll know if Obama's stimulus plan is having any effect. You'll know when the construction industry is about to start hiring again or when the banks are about to start lending again. And you'll be able to tell your neighbors when house prices are going to rise again.

Around the office, we say copper has a PhD in economics because it predicts recessions and booms. We call it "Dr. Copper." But the commodity I'm going to tell you about today is a much more valuable indicator for right now, and no one's paying attention to it. Let me explain...

The people in charge of the economic recovery have decided that if

they can "fix" the real estate market, then everything will fix itself.

So the Fed has aimed its printing press directly at the real estate market. It will buy \$500 billion of mortgages using freshly created dollars. The government has focused many of its plans on the real estate market too.

In other words, the U.S. real estate market is the main pivot in the whole economic mess we're in right now. If you can figure out what's happening in real estate, you can figure out everything else.

The best leading indicator of real estate is lumber. About two thirds of American demand for lumber comes from the homebuilding and remodeling industries, so its price is highly sensitive to strength and weakness in construction.

Take the timeline of the current crisis as an example. The lumber price reacted before any other market: Lumber prices peaked in May 2004. The Bloomberg Homebuilders Index peaked in July 2005. The

Case-Shiller U.S. home price index peaked in July 2006. The credit crunch started in February 2007, when New Century Financial collapsed. And finally, the S&P 500 peaked in October 2007.

When the recovery comes, I expect it'll show up first in the lumber price, too. In February 2009, lumber was down 66 percent from its 2004 all-time high. A standard railcar load of lumber sells for \$17,050—the same price it was selling for in 1973.

While this sounds bad, I can report that the lumber price rose 12 percent to reach that mark. It was selling for 1969 prices.

The lumber price holds the key for investors right now. Make sure you keep an eye on it.

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Lockheed says interest growing in F-35 fighter

ORLANDO (Reuters)—Finland and Belgium have become the latest countries to speak to the Pentagon about possible purchase of the multinational F-35 Joint Strike Fighter, said manufacturer Lockheed Martin Corp.

Three variants of the radar-evading F-35 are being developed with financing from the United States and eight other countries. Lockheed Martin calls it the world's most advanced multi-role fighter.

"Finland and Belgium have expressed interest in the JPO," said Chris Geisel, a Lockheed spokesman, referring to the Pentagon's F-35 Joint Program office.

Spain, looking eventually to replace its Harrier jump jets, has gone further, with a contractual study in place since late 2007, Geisel said. Greece and South Korea each received F-35 briefings from the U.S. government early this year, he added.

F-35 competitors include Saab's Gripen, the Dassault Rafale, Russia's MiG-35 and Sukhoi Su-35, and the Eurofighter Typhoon made by a consortium of British, German, Italian and Spanish companies.

Israel is the furthest along in a projected government-to-government F-35 deal. It appears likely to buy an initial 25 F-35s in 2012 for delivery in 2014, with an option for 50 more, Dan Crowley, Lockheed's F-35 program general manager, told a briefing Thursday during a U.S. Air Force Association symposium in Orlando, Florida.

Crowley said Singapore appears likely to get F-35s two years after Israel. Asked about other potential buyers through the Pentagon's Foreign Military Sales program, Crowley said Japan has expressed interest but is "farther out" on a decision as it weighs other options.

Lockheed says all 24 countries that fly its F-16 fighter are potential customers for the F-35, which is designed to replace at least 13 types of aircraft, including the F-16.

The eight countries that have joined the United States to co-develop the F-35—Britain, Italy, the Netherlands, Turkey, Canada, Australia, Denmark and Norway—appear to be largely sticking to their plans to buy some 730 F-35s of their own, Pentagon officials have said.

The United States currently plans to buy a total of 2,443 F-35 models—including 1,763 for the U.S. Air Force and 680 for the Marine Corps and Navy together. It is the costliest U.S. arms acquisition program ever at a projected \$299 billion over the next two decades.

"As we mature the F-35, we continue to see evidence of ever-strengthening customer support,"



Generals and Major Generals from nine countries gather at the Lockheed Martin stand by a model of the F-35 Joint Strike Fighter at the Farnborough Airshow in Surrey, England, 21 July, 2004. CARL DE SOUZA/AFP/GETTY IMAGES

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including statements of intent to buy from Norway and the Nether-

lands, Crowley said. "We will see more of the same in 2009," he said, "as our international partners begin ordering their first airplanes."

Lockheed's chief F-35 subcontractors are Northrop Grumman Corp and BAE Systems Plc. Two rival, interchangeable F-35 engines are under development. One is built by United Technologies Corp's Pratt & Whitney unit; the other by a team of General Electric Co and Rolls-Royce Group Plc.

Lockheed said it was on track to meet its F-35 cost projections.

It said the conventional take-off and landing model was projected to cost in the "upper" \$60 million range per copy in adjusted 2014 dollars, when full production is due to kick in.

The short takeoff and landing version, to be used by the U.S. Marine Corps, is projected to cost in the mid-to-upper \$80 million range, the company said, citing what it called Pentagon program office projections.

The projection for the variant designed to land on Navy aircraft carrier is in the low \$90 million range in 2015 dollars, Geisel said.

"These costs represent aircraft early in the production cycle when aircraft costs are highest," he added. He said as production ramps up, cost per aircraft is projected to decrease.