

The Safest Money Spinner in the World

With a zero-percent interest rate policy for nine years and the chase for yield, **FMT Advisory** hasn't been too enthusiastic about the stretched valuations of dividend payers lately. This has been evident with less investments in our **Income Money Spinner** strategy.

FMT Advisory has still been plenty successful in our **Money Spinner** strategy over the last couple years, but I have been even more ultra-selective and cautious than typical with rates rising.

It is advantageous that we execute in unconventional and non-conforming ways, always guided by logical reasoning — not by conventional ideology. By **letting opportunities dictate capital allocation**, we take a truly divergent and more optimal path toward success.

Consistent with our unconventional methodology, **FMT Investment Advisory** is likely the **only firm in the universe** that is recommending the **safest Income Money Spinner** in the world today **for income**.

What makes this **Money Spinner** idea *unconventional* is that **it doesn't pay a dividend**. Because it currently has a zero-percent distribution policy, **no one thinks of it as an income idea** or **holds it for safe income**. As a result, its valuation is attractive.

Furthermore, because this holding retains virtually all its earnings, which is almost entirely piling up in cash now, **it's also a great call option on turmoil in the future**.

This idea has manifested from connecting dots with our value-driven research, along with this holding being in our value zone.

What we find curious and interesting (but given most people aren't good listeners, it's not too surprising) about this idea is that almost no one is paying attention to who is arguably the greatest investor on the planet today. We'll get to *his recommendation* by connecting the dots in just a second.

But first, and without further ado, it is **Berkshire Hathaway** that is the **safest security in the world** and the **smartest choice for a dividend-paying company for conservative investors today**. – even though it doesn't pay a dividend!

How did we come to this conclusion? By simply listening to Mr. Buffett and **identifying the value zone** that makes his holding company an attractive entry point for conservative investors.

Here is Buffett on buying Berkshire Hathaway:

*"Purchases of Berkshire that investors make at a price modestly above the level at which the company would repurchase its shares.... **should produce gains within a reasonable period of time**. Berkshire's directors will only authorize repurchases at a price they believe to be well below intrinsic value. (In our view, that is an essential criterion for repurchases that is often ignored by other managements.)"*

The price that Berkshire's directors have authorized share repurchases at is 1.2x book value or below. Therefore, Buffett's analysis of Berkshire is that the shares are **well below its intrinsic value** at under 1.2x book value. So modestly, above 1.2x book is a very *reasonable entry price*, especially given Berkshire Hathaway shares **have only dipped to slightly under 1.2x book on rare occasion!**

Incidentally, Buffett also believes paying 2x book is on the higher side, and while a long-term, patient investor will still make money, they may have to wait a while. As Buffett said, **if one can buy modestly above 1.2x book value, gains should come in a "reasonable" period.**

Of note, FMT is not a fan of these public comments! The reason is we do all our own intrinsic value work on portfolio holdings. **We want volatility so we can attain the lowest cost basis possible.**

But Buffett wants his "partners," also known as shareholders, to have a gain in their position that mirror, as much as possible, the intrinsic value increases in the company for continuity. I hate that—because **it provides a stable band in the share price**, limiting the chance of getting **ridiculously outsized gains!**

On the other hand, the parameters Buffett sets provides less volatility, **which is good for income investors** and **gives some peace of mind for conservative investors.** In that regard, Berkshire Hathaway can also be a good anchor investment in a portfolio.

Buffett on the safety of Berkshire Hathaway:

"I believe that the chance of permanent capital loss for patient Berkshire shareholders is as low as can be found among single-company investments. That's because our per-share intrinsic business value is almost certain to advance over time."

And why is that? Buffett on Berkshire's strength:

*"(1) an unmatched collection of businesses, most of them now enjoying favorable economic prospects; (2) a cadre of outstanding managers who, with few exceptions, are unusually devoted to both the subsidiary they operate and to Berkshire; (3) an extraordinary diversity of earnings, **premier financial strength and oceans of liquidity that we will maintain under all circumstances**; (4) a first-choice ranking among many owners and managers who are contemplating sale of their businesses and (5) in a point related to the preceding item, a culture, distinctive in many ways from that of most large companies, that we have worked 50 years to develop and that is now rock-solid."*

The financial strength of Berkshire is indeed above and beyond. **The company is sitting on well over \$100 billion.** This is serious fire-power to a) buy back shares if they do dip below 1.2x book (which means the shares stay there for very little time even if they get there) and b) the cash piling up far faster than ideas **is a call option on market turmoil.** Buffett buying great businesses in a correction would only *increase its long-term intrinsic value.*

With all this said, how in the world can **FMT Investment Advisory** call this an **Income Money Spinner** when it doesn't pay a dividend?

Again, the answer lays with Buffett. When Buffett decided to gift the vast majority of his net worth to the Bill and Melinda Gates Foundation, he did so with a specific condition. Buffett's mandate was that withdrawals were not to exceed 5% of the net asset value. **This was so his gift is the gift that will keep giving decades after he's gone.** Again, here's Buffett:

"The value of Berkshire shares will, of course, vary from year to year. And, as noted, the number of shares distributed will diminish by 5% per year. Nevertheless, I believe that you can reasonably expect the value of Berkshire shares to increase, in an irregular manner, by an amount that more than compensates for the decline in the number of shares that will be distributed."

Berkshire is nearly a sure-fire legacy stock, providing income you can't outlive and income that will grow as the company's value increases, while your net worth keeps going up.

FMT Advisory has connected dots that have been obscured among Buffett's writings. At just over 1.2x book, we believe the company should generate 10-13% annualized returns. We also believe Buffett has purposely put out bands on the valuation to help keep the share price not too far from its value – to keep the ongoing contributions into the Gates foundation roughly stable without much lumpiness.

Berkshire is a stellar holding – at the right price. **FMT keeps tabs on that and this Income Money Spinner.**

Disclaimer: FMT Advisory doesn't disclose our holdings to the public in a timely way. Our desire is to benefit and prioritize our member-clients, so they are the primary beneficiaries of our value driven research. We may buy or sell our holdings at any time without notice to the public. Our holdings overview is for informational purposes only. Past performance is no guarantee of future performance. You could lose all your money.