
# A Case Study: Avenue's Bryden trip to Omaha

The annual proxy season can be a tedious time for money managers as public companies send out their annual reports and proxy materials. Tedious as it is, proxy season is an important time of year, when shareholders are given the opportunity to vote for board members, management compensation, as well as other corporate matters. However, aside from the occasional contentious vote, usually the general consensus towards proxy season amongst investment managers is a collective yawn.

This year was going to be different for me. Knowing that I would be attending the Berkshire Hathaway annual meeting in Omaha, Nebraska meant that I was going to be one of the few portfolio managers for whom proxy season couldn't have come sooner.

Berkshire's chairman, Warren Buffett, is the most renowned and well respected investor the world has ever seen. At 85 years of age he still tap dances to work every day doing what he loves to do. Buffett runs Berkshire out of a small unassuming office in downtown Omaha with his long-time business partner Charlie Munger, age 92, and their 24 employees.

The story begins in 1956 when Buffett formed an investment partnership and began managing money for family and friends. His investment philosophy was formed under the tutelage of Ben Graham at Columbia University, where he first learned the idea of purchasing stocks in companies whose share prices were trading below intrinsic value.

Today, Berkshire is everywhere -- contributing revenue to this conglomerate is as simple as cracking open a can of Coke or using Heinz ketchup on your next burger. Currently, Berkshire and its subsidiaries employ over 367,000 people worldwide (78% of that number in the US) and is the largest shareholder in companies that include Coca Cola, AT & T, Wal-Mart, and Kraft Heinz, to name a few.

The hype surrounding the Berkshire annual general meeting weekend is well known through investment circles. The aura around Buffett and Berkshire has created a loyal following that flocks to Omaha each year from around the world. Hotels and flights are booked months in advance, and restaurants in downtown Omaha are abuzz all weekend long. On meeting day I sat sandwiched between a retiree from Cape Town to my right and a hedge fund manager from Tokyo to my left, both long time shareholders of Berkshire.

Rather than a direct flight from Toronto, my pilgrimage to Nebraska included stops through Minnesota, South Dakota, and Iowa before arriving in Omaha on Friday. I wanted to take the time to experience the American Heartland and gain further perspective on what life is like in this part of the country. Through my experience I have come to see that the American economic engine is still as dynamic as ever. In my view, the quintessential American ethos in the people and places in these parts of the country cannot be experienced in cities like New York or Chicago. For money managers based in financial centres like Toronto or New York it is often too easy to get caught up in our own big city viewpoints and lifestyles and lose touch with places not immediately in our sight. It is important to look outside this perspective when evaluating the state of the American economy.

In effect, the genius of Warren Buffett is that he recognized the dynamism of the American economic engine early in his life and tied Berkshire Hathaway closely to it. As the American economy prospered, so did Berkshire. His performance record is staggering – delivering total returns of 1,598,284% (20.8% annualized) since 1965. If you had been lucky enough to give Buffett $1000 in 1965, today your investment would be worth over $15 million dollars!

In this year's annual letter to shareholders Buffett takes aim at the critics who say the American economy is now doomed, mired in a slow growth world of 2% with bloated debt levels at the state and federal level. If one were to look at the state of America through the lens of the political rhetoric we are hearing this election season, it would be easy to understand where the pessimism is coming from.

Using simple math Buffett reinforces his case as to why it is a mistake to bet against the American economy. At 2% real GDP growth and population growth of 0.8% annually, America would realize 1.2% per capita growth annually. Over a 25 year span, this will produce a staggering $19,000 increase in real GDP per capita, or $76,000 for a family of four. The aggregate pie that the American economy will produce will be 34.4% larger in real terms in 25 years using this math. For an economy that is already over $16.7 trillion in size, the growth America will see over the next 25 years will be staggering.

Although the American economic pie will be far larger in 25 years, Buffett is right in stating that how it will be divided between investors, workers, retirees, and corporations will remain fiercely contested in the halls of Congress, and between Wall Street and Main Street. There will always be winners and losers in a market economy, but nothing will ever rival the capitalist market system in producing what people want.

The American economic system remains as dynamic as ever, and surely we will experience ups and downs over the coming years and decades. Reflecting on my time in Omaha I have decided it's best to side with Mr. Buffett and say that it has been a mistake to bet against the American economic engine for the last 240 years, and now is no time to start.