

## BERKSHIRE HATHAWAY: DIVIDEND POLICY PARADIGM<sup>1</sup>

*Diwahar Nadar wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.*

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From its inception in 1955, Berkshire Hathaway Inc. (Berkshire Hathaway) had grown by leaps and bounds in various sectors, including financial services, insurance, real estate, utilities, energy, and diversified manufacturing sectors. The company had become a conglomerate of more than 80 operating entities spread into various strata of business.<sup>2</sup>

Since 1965, Berkshire Hathaway Class A shares had, on average, grown by almost 21 per cent per year as measured against the Standard & Poor's (S&P) 500, which itself had grown an average of 10 per cent per year. Thus, the company had achieved growth more than double the S&P index.<sup>3</sup>

The company existed as a primordial example of value-driven growth, but one with distinctive facets attributable not only to its phenomenal growth but also to its dividend policy. From its formation in 1955 until 2017, Berkshire Hathaway had never paid shareholders in the form of a cash dividend; yet, the company's share price was among the highest in the world.<sup>4</sup>

The company had been a staunch propagator of not paying dividends and had preferred to reinvest earnings in business. This approach was the result of the strategic outlook of the company's chairman, Warren Buffet. Considered by *Graham & Doddsville* as a "superinvestor" who focused on value investing,<sup>5</sup> Buffet was able to steer Berkshire Hathaway to an overall gain of 1,088,029 per cent in book value per share (see Exhibit 1).<sup>6</sup>

However, at Berkshire Hathaway's May 2017 annual general meeting, Buffett reportedly said:

A time could come reasonably soon, even while I am around, when Berkshire will have more cash than it can reasonably and profitably deploy. And Berkshire may choose to return those funds with additional stock buybacks, or it could be dividends.<sup>7</sup>

Thus, questions arose as to what factors were influencing the dividend paradigm of the company in 2017, and whether the company should heed Buffett's suggestion and pay a dividend.

## COMPANY INFORMATION

### History

In 1929, Berkshire Cotton Manufacturing Company merged with Valley Falls Company and formed Berkshire Fine Spinning Associates.<sup>8</sup> In 1955, Berkshire Fine Spinning Associates merged with Hathaway Manufacturing Company and formed Berkshire Hathaway. Seabury Stanton, who was experienced in the operations rather than strategy, headed this new company. But local and international competition along with the falling prices of cotton turned the company's future grey.<sup>9</sup> In 1961, Berkshire Hathaway had to reduce its operational days to four days a week at many plants due to the continued losses year after year.<sup>10</sup>

In 1963, Buffett and his associates were purchasing Berkshire Hathaway shares because Buffett expected profit from a forecasted buyback.<sup>11</sup> By 1965, Buffett and his associates held significant shares in the company.<sup>12</sup> Stanton, who wanted to strengthen his family control, wished to buy back shares from Buffet and agreed to a price of US\$11.50<sup>13</sup> per share; however, in the official offer letter Stanton sent, he quoted a price of \$11.37½ per share.<sup>14</sup> Stanton's letter angered Buffett, who was purchasing a major stake in the company.<sup>15</sup> Subsequently, Buffett and his associates took over the company's management. At that time, the company had 2,300 employees and two mills. In 1969, Buffett became the chairman of Berkshire Hathaway, and the company continued with a strategy of diversification.<sup>16</sup>

In 1987, the *Wall Street Journal* reported that Berkshire Hathaway's stock had surpassed the Dow Jones average. On October 19 of the same year (later known as Black Monday), the stock market crashed. Berkshire Hathaway, however, managed to survive the collapse, and by 1988, Berkshire Hathaway, which had been trading over the counter as off-exchange stock, was listed on the New York Stock Exchange. At listing, its highest price was \$4,300 per share, which was a significant increase from the price of \$7.50 per share that Buffett had paid in 1962.<sup>17</sup>

### Acquisitions

In 1967, as the first step in moving away from the cyclical nature of the textile industry, which was unable to yield stable profits, the company purchased the National Indemnity Company and the National Fire & Marine Insurance Company. The purchased companies primarily dealt with automobile insurance, which was more stable than the textile industry.<sup>18</sup>

In 1968, Berkshire Hathaway acquired Sun Newspapers, a group of Omaha weeklies. The next year, the company acquired Continental Illinois National Bank & Trust Company, based in Rockford (Chicago), Illinois. The company continued its acquisitions, acquiring Wesco Financial Corporation in 1970. The company also continued its foray into the newspaper business, acquiring what was then the *Buffalo Evening News*.<sup>19</sup>

In 1985, Berkshire Hathaway closed the last textile mill, thus marking its exit from the textile industry. The company also continued its growth, making monumental acquisitions that included companies such as Blue Chip Stamps, a loyalty program; Nebraska Furniture Mart, one of the largest home furnishing stores in North America; the Scott Fetzer Company, manufacturer of the well-known Kirby vacuums, World Book reference materials, and other products for the home; and the Fireman's Fund Insurance Company.<sup>20</sup>

At the end of the 1980s, Berkshire Hathaway acquired a significant portion of the shares of many well-known and established companies, such as Gillette Corporation, US Airways Group, the Coca-Cola Company, and forest products enterprise, Champion International Corporation.<sup>21</sup>

In 1996, Berkshire Hathaway achieved a major milestone with its insurance business, acquiring the Government Employees Insurance Company (GEICO). That acquisition and the company's other investment decisions sent Berkshire Hathaway's stock price to \$36,000 per share.<sup>22</sup>

The company continued with valuable and diverse acquisitions as the calendar turned to the 21st century. Prominent companies among these acquisitions were Benjamin Moore & Co. and Johns Manville in 2001; Shaw Industries Group Inc. and Pampered Chef Ltd. in 2002; McLane Company Inc. in 2003; Medical Protective (later MedPro Group) and Forest River Inc. in 2005; Russell Brands LLC, Business Wire, and Brooks Sports Inc. in 2006; TTI Inc., Clayton Homes, and Boat Owners Association of the United States (Boat U.S.) in 2007; Cavalier Homes Inc. in 2008; Burlington Northern Santa Fe LLC (BNSF Railway) in 2010; Lubrizol Corporation in 2011; Oriental Trading Company Inc. in 2012; television station WPLG and Charter Brokerage LLC in 2014; Louis Motorcycle Company in 2015; and Precision Castparts Corp. and Duracell Inc. in 2016.<sup>23</sup>

### Share Class

Berkshire Hathaway had two classes of shares—Class A and Class B—trading on the New York Stock Exchange. The Class A shares had existed even before Buffett took over the business. Berkshire Hathaway had never split those stocks. As of January 24, 2018, approximately 11 per cent of the Class A shares were held by members of the general public; 48 per cent were held by institutions and 41 per cent by insider investors.<sup>24</sup> At the end of 2017, the average price of Berkshire Hathaway's Class A stocks was \$297,600 per share.<sup>25</sup>

The Class B shares were created in 1996. They gave the Class A shareholders the right to convert each Class A share into 30 Class B shares. The intention was to allow small investors to hold a stake in the company—a response to the threat of financial entrepreneurs who were attempting to create alternative investment vehicles.<sup>26</sup> On January 21, 2010, each Class B share was split into 50 shares, thus increasing the number of Class B shares in circulation.<sup>27</sup>

As of January 24, 2018, approximately 35 per cent of Berkshire Hathaway's Class B shares were held by members of the general public; 47 per cent were held by institutions and 19 per cent by insider investors.<sup>28</sup> At the end of 2017, the average price of Berkshire Hathaway's Class B stocks was \$200 per share.<sup>29</sup>

### DIVIDEND POLICY

Buffett's strategy was to make it a priority to diligently reinvest earnings in the company's existing multi-sector businesses. In 2012, Berkshire Hathaway made capital expenditures of \$12.1 billion in current businesses and new acquisitions. Buffet also highlighted Berkshire Hathaway's presence in numerous sectors which provided the company with varied options, showing that the company was in a strategically advantageous position.<sup>30</sup>

Buffet's principles were articulated in a two-step priority, which made it clear that funds would not be used for dividend payments: (1): The first priority with available funds would always be to evaluate whether they could be diligently reinvested in the existing businesses; (2): The next step was to search for acquisitions unrelated to the current businesses.<sup>31</sup>

Buffet considered another valid use of funds to be share repurchase at a fair price. The company employed a share repurchase option under which the shares would be repurchased at a premium, up to 120 per cent of book value. Buffett considered the share repurchase option to be a better alternative to a dividend payment.<sup>32</sup>

### Example

To emphasize why the repurchase option might be better, Buffett provided an example with two scenarios.<sup>33</sup> Assume there were two equal owners of a business with a net worth of \$2 million. If the return on net worth was 12 per cent per annum, the earnings would be \$240,000 per year. Assume there also existed a buyer who had agreed to buy into the company at a value of 125 per cent of net worth. The offer thus implied that the market value for the company would be \$2.5 million and each individual share would be worth \$1.25 million.

#### Scenario A: Pay Out One-Third of the Earnings as a Dividend and Reinvest the Remaining Two-Thirds

This scenario reflected the preference of investors who wanted a balanced investment policy that catered to both current income and capital appreciation.

In year zero, one-third of the earnings ( $\$240,000 \times \frac{1}{3} = \$80,000$ ) would be paid to the owners as a dividend, which gave each of them an income of \$40,000. After payment, the company would be left with \$160,000 to reinvest in the business. Earnings would continue to grow, and dividends would increase proportionately. Thus, dividends and earnings would grow by 8 per cent per annum (12 per cent earned on net worth less 4 per cent paid out from net worth).

After 10 years, the company's net worth would be \$4,317,850—the result of the original \$2 million compounded at 8 per cent per annum. The dividend payment would be \$86,357. The market value of each individual's holding would be \$2,698,656.

#### Scenario B: Sell Off

This scenario reflected Buffet's philosophy and was followed by Berkshire Hathaway.

Under this scenario, there would be no dividend payment and the entire earnings would be reinvested in the business. In order to maintain an income without dividends, each owner would sell 3.2 per cent of their respective holding. Based on the prospective buyer's offer, the sale would earn 125 per cent of the shares' book value. So, in year zero, each owner would be able to earn the same \$40,000 from the sale of shares ( $\$2.5 \text{ million} \times 3.2 \text{ per cent} \div 2$ ). At the same time, the entire earnings of \$240,000 would be reinvested in the company, which has a growth rate of 12 per cent per annum.

After 10 years, the company's net worth would be \$6,211,696—the result of the original \$2 million compounded at 12 per cent per annum. Because the owners had been selling shares each year, the percentage of each owner's share would have dropped. After 10 years, each owner would hold 36.12 per cent of the business, which would amount to a value of \$2,243,665. The market value would be 125 per cent of the net worth, meaning the market value of the individual shares would amount to \$2,804,425.

Thus, the sell-off scenario, while providing the owners with their required income, added more value to the capital—approximately \$105,770 more than with the dividend scenario.<sup>34</sup>

Buffet's other argument against paying dividends considered the needs of individual shareholders. When a company paid a dividend, it decided the amount that each shareholder would receive. Thus, dividend payments permitted the company to decide the shareholder's income. For example, if a company decided to pay out 40 per cent of the earnings, any shareholder who wanted income amounting to 50 per cent or 60 per cent would be dismayed. The sell-off option, however, allowed shareholders to sell their shares in accordance with their income requirement.<sup>35</sup>

To reassert the philosophy of sell off as a substitute for dividend, Buffett revealed that from 2005 until 2012, he had annually divested 4.25 per cent of his shares. Thus, his original holdings of 712,497,000 B-equivalent shares were decreased to 528,525,623 shares—a loss of almost 26 per cent. However, even though the percentage of Buffet's ownership had decreased, the book value of his holdings had increased significantly from \$28.2 billion for 2005 to \$40.2 billion for 2012—a gain of over 140 per cent.<sup>36</sup>

## CURRENT FACTORS INFLUENCING THE DIVIDEND DECISION

As of the end of 2017, Berkshire Hathaway was in possession of \$115.95 billion in cash and short-term investments. Buffett had accepted that these investments had earned a pittance.<sup>37</sup> Keeping so much money in the bank decreased the real value of the reserves because the yield on the cash balances was less than the inflation rate.<sup>38</sup> A portfolio manager calculated that Berkshire Hathaway was in a position to pay a one-time dividend of \$20 billion and still be left with enough cash to cover future investment requirements.<sup>39</sup>

Buffett acknowledged that many potential acquisitions had been reviewed in 2016, but rich valuations inhibited the deals. Therefore, Buffett could not identify any promising stocks that could be purchased at a fair price.<sup>40</sup> Berkshire Hathaway had planned a massive acquisition of Unilever NV through a Berkshire Hathaway subsidiary, the Kraft Heinz Company, but misunderstandings between Unilever and Kraft Heinz led Kraft Heinz to withdraw its bid.<sup>41</sup>

Buffet had said that his inclination was toward share repurchase instead of a cash dividend payment because a dividend payment implied a promise of payment forever.<sup>42</sup> However, Berkshire Hathaway's share repurchase offer was applicable only when shares hit 120 per cent of book value, and early in 2018, both the Class A and Class B shares were trading near 170 per cent—far above the company's limit for repurchase.<sup>43</sup>

## DECISION

Considering the history of Berkshire Hathaway and Buffet's historical investment strategy, what would you recommend the company do with almost \$116 billion in cash and cash-equivalent reserves? Are Buffet's strategic reasons for not paying dividends sustainable? Is the company's share repurchase plan still a viable alternative to a dividend? Looking at Berkshire Hathaway's financials (see Exhibits 2–4), if you were in Buffet's position, would you alter the dividend policy or leave it unaltered?

**EXHIBIT 1: COMPARING BERKSHIRE'S PERFORMANCE WITH THE S&P 500, 1965–2017**

Year	Change in Berkshire's Per Share Value (%)		Change in S&P 500 Including Dividends (%)
	Book Value	Market Value	
1965	23.8	49.5	10.0
1966	20.3	-3.4	-11.7
1967	11.0	13.3	30.9
1968	19.0	77.8	11.0
1969	16.2	19.4	8.4
1970	12.0	-4.6	3.9
1971	16.4	80.5	14.6
1972	21.7	8.1	18.9
1973	4.7	-2.5	-14.8
1974	5.5	-48.7	-26.64
1975	21.9	2.5	37.2
1976	59.3	129.3	23.6
1977	31.9	46.8	-7.4
1978	24.0	14.5	6.4
1979	35.7	102.5	18.2
1980	19.3	32.8	32.3
1981	31.4	31.8	-5.0
1982	40.0	38.4	21.4
1983	32.3	69.0	22.4
1984	13.6	-2.7	6.1
1985	48.2	93.7	31.6
1986	26.1	14.2	18.6
1987	19.5	4.6	5.1
1988	20.1	59.3	16.6
1989	44.4	84.6	31.7
1990	7.4	-23.1	-3.1
1991	39.6	35.6	30.5
1992	20.3	29.8	7.6
1993	14.3	38.9	10.1
1994	13.9	25.0	1.3
1995	43.1	57.4	37.6
1996	31.8	6.2	23.0
1997	34.1	34.9	33.4
1998	48.3	52.2	28.6
1999	0.5	-19.9	21.0
2000	6.5	26.6	-9.1
2001	-6.2	6.5	-11.9
2002	10.0	-3.8	-22.1
2003	21.0	15.8	28.7
2004	10.5	4.3	10.9
2005	6.4	0.8	4.9

**EXHIBIT 1: CONTINUED**

Year	Change in Berkshire's Per Share Value (%)		Change in S&P 500 Including Dividends (%)
	Book Value	Market Value	
2006	18.4	24.1	15.8
2007	11.0	28.7	5.5
2008	-9.6	-31.8	-37.0
2009	19.8	2.7	26.5
2010	13.0	21.4	15.1
2011	4.6	-4.7	2.1
2012	14.4	16.8	16.0
2013	18.2	32.7	32.4
2014	8.3	27.0	13.7
2015	6.4	-12.5	1.4
2016	10.7	23.4	12.0
2017	23.0	21.9	21.8
<b>Compound Annual Gain, 1965-2017</b>	<b>19.1</b>	<b>20.9</b>	<b>9.9</b>
<b>Overall Gain, 1964-2017</b>	<b>1,088,029</b>	<b>2,404,748</b>	<b>15,508</b>

Note: Berkshire = Berkshire Hathaway Inc.; S&P = Standard & Poor.

Source: Berkshire Hathaway Inc., "Letter to Shareholders," February 24, 2018, accessed September 15, 2018, [www.berkshirehathaway.com/letters/2017ltr.pdf](http://www.berkshirehathaway.com/letters/2017ltr.pdf).

**EXHIBIT 2: BERKSHIRE HATHAWAY BALANCE SHEET, 2013–2017 (IN US\$ MILLIONS)**

	2013	2014	2015	2016	2017
<b>Assets</b>					
Cash & Short-Term Investments	48,186	63,269	71,730	86,370	115,954
Total Accounts Receivable	33,323	34,418	36,075	40,397	42,326
Inventories	9,945	10,236	11,916	15,727	16,187
<b>Total Current Assets</b>	<b>91,454</b>	<b>107,923</b>	<b>119,721</b>	<b>142,494</b>	<b>174,467</b>
Property, Plant & Equipment Gross	159,261	179,426	190,972	202,991	214,248
Accumulated Depreciation	37,047	42,182	45,806	50,218	56,029
<b>Net Property, Plant &amp; Equipment</b>	<b>122,214</b>	<b>137,244</b>	<b>145,166</b>	<b>152,773</b>	<b>158,219</b>
Total Investments and Advances	177,858	180,150	182,990	178,098	204,975
Intangible Assets	66,194	70,655	72,505	113,572	114,440
Other Assets	27,211	30,214	31,875	33,917	49,994
<b>Total Assets</b>	<b>484,931</b>	<b>526,186</b>	<b>552,257</b>	<b>620,854</b>	<b>702,095</b>
<b>Liabilities &amp; Shareholders' Equity</b>					
Short-Term Debt & Current Portion	6,634	8,283	1,989	12,350	19,893
Long-Term Debt					
Accounts Payable	37,835	40,223	31,271	35,042	35,903
<b>Total Current Liabilities</b>	<b>44,469</b>	<b>48,506</b>	<b>33,260</b>	<b>47,392</b>	<b>55,796</b>
Long-Term Debt	65,590	71,926	82,300	89,294	82,694
Deferred Taxes	57,739	61,235	63,126	77,944	56,607
Other Liabilities	92,648	101,492	114,944	119,865	155,044
<b>Total Liabilities</b>	<b>260,446</b>	<b>283,159</b>	<b>293,630</b>	<b>334,495</b>	<b>350,141</b>
Shareholders' Capital	35,480	35,581	35,628	35,689	35,702
Retained Earnings	186,410	204,589	219,922	247,312	312,594
Accumulated Minority Interest	2,595	2,857	3,077	3,358	3,658
<b>Total Equity</b>	<b>224,485</b>	<b>243,027</b>	<b>258,627</b>	<b>286,359</b>	<b>351,954</b>
<b>Liabilities &amp; Shareholders' Equity</b>	<b>484,931</b>	<b>526,186</b>	<b>552,257</b>	<b>620,854</b>	<b>702,095</b>

Note: Fiscal year is January to December.

Source: "Berkshire Hathaway Inc.: Balance Sheet," *Wall Street Journal*, accessed June 15, 2018, <https://quotes.wsj.com/BRKB/financials/annual/balance-sheet>.



**EXHIBIT 3: BERKSHIRE HATHAWAY STATEMENT OF PROFIT AND LOSS, 2013–2017**  
**(IN US\$, MILLIONS EXCEPT EARNINGS PER SHARE)**

	2013	2014	2015	2016	2017
Sales/Revenue	179,770	194,864	209,995	222,935	241,419
Cost of Goods Sold (COGS) including Depreciation & Appreciation	138,636	149,594	157,051	169,146	197,662
<b>Gross Income</b>	<b>41,134</b>	<b>45,270</b>	<b>52,944</b>	<b>53,789</b>	<b>43,757</b>
Selling, General & Administrative (SGA) Expenses	11,917	13,721	15,309	18,217	18,181
<b>Earnings Before Interest &amp; Taxes</b>	<b>29,217</b>	<b>31,549</b>	<b>37,635</b>	<b>35,572</b>	<b>25,576</b>
Unusual Expense	-2,380	191	-948	-669	-718
Equity in Affiliates (Pre-Tax)	—	—	-122	923	2,938
Interest Expense	2,801	3,253	3,515	3,497	5,394
<b>Pre-Tax Income</b>	<b>28,796</b>	<b>28,105</b>	<b>34,946</b>	<b>33,667</b>	<b>23,838</b>
Income Tax	8,951	7,935	10,532	9,240	-21,515
Consolidated Net Income	19,845	20,170	24,414	24,427	45,353
Minority Interest Expense	369	298	331	353	413
Net Income	19,476	19,872	24,083	24,074	44,940
Net Income After Extra-ordinaries	19,476	19,872	24,083	24,074	44,940
Net Income Available to Common Shareholders	19,476	19,872	24,083	24,074	44,940
Earnings per Share (Basic)	7.9	8.06	9.77	9.76	18.22
Earnings per Share (Diluted)	7.9	8.06	9.77	9.76	18.22

Note: Fiscal year is January to December.

Source: "Berkshire Hathaway Inc.: Income Statement," *Wall Street Journal*, accessed June 15, 2018, <https://quotes.wsj.com/BRKB/financials/annual/income-statement>.

**EXHIBIT 4: BERKSHIRE HATHAWAY STATEMENT OF CASH FLOW, 2013–2017 (IN US\$ MILLIONS)**

	2013	2014	2015	2016	2017
<b>Operating Activities</b>					
Net Income before Extra-ordinaries	19,845	20,170	24,414	24,427	45,353
Depreciation, Depletion & Amortization	6,508	7,370	7,779	8,901	9,188
Other Funds	-3,692	-3,916	-8,622	-7,714	-952
Funds from Operations	22,661	23,624	23,571	25,614	53,589
Changes in Working Capital	5,043	8,386	7,920	6,921	-7,813
<b>Net Operating Cash Flow</b>	<b>27,704</b>	<b>32,010</b>	<b>31,491</b>	<b>32,535</b>	<b>45,776</b>
<b>Investing Activities</b>					
Capital Expenditures	-11,087	-15,185	-16,082	-12,954	-11,708
Net Assets from Acquisitions	-6,431	-4,824	-4,902	-31,399	-2,708
Purchase/Sale of Investments	-8,971	-400	-7,495	-39,678	-23,252
Other Uses	-1,700	-181	-14	-726	-5,125
Other Sources	654	1,221	492	490	1,702
<b>Net Investing Cash Flow</b>	<b>-27,535</b>	<b>-19,369</b>	<b>-28,001</b>	<b>-84,267</b>	<b>-41,091</b>
<b>Financing Activities</b>					
Issuance/Reduction of Debt, Net	3,985	3,996	4,036	12,679	-1,277
Other Funds	-3,024	-1,265	-233	112	-121
<b>Net Financing Cash Flow</b>	<b>961</b>	<b>2,731</b>	<b>3,803</b>	<b>12,791</b>	<b>-1,398</b>
Exchange Rate Effect	64	-289	-165	-172	248
<b>Net Change in Cash</b>	<b>1,194</b>	<b>15,083</b>	<b>7,128</b>	<b>-39,113</b>	<b>3,535</b>

Source: "Berkshire Hathaway Inc.: Cash Flow," *Wall Street Journal*, accessed June 15, 2018, <https://quotes.wsj.com/BRKA/financials/annual/cash-flow>.

## ENDNOTES

<sup>1</sup> This case has been written on the basis of published sources only. Thus, the interpretation and perspectives presented in the case are not essentially those of Berkshire Hathaway Inc. or any of its employees.

<sup>2</sup> Brian O'Connell, "Pros and Cons of Buying Berkshire Hathaway Stock," *U.S. News & World Report*, June 18, 2018, accessed August 17, 2018, <https://money.usnews.com/investing/stock-market-news/articles/2018-06-18/berkshire-hathaway-inc-brka-brkb-stock>.

<sup>3</sup> Ibid.

<sup>4</sup> Matt Krantz, "Ask Matt: Why Doesn't Berkshire Pay a Dividend?" *USA Today*, March 7, 2016, accessed June 15, 2018, [www.usatoday.com/story/money/columnist/krantz/2016/03/07/ask-matt-why-doesnt-berkshire-pay-dividend/81334490](http://www.usatoday.com/story/money/columnist/krantz/2016/03/07/ask-matt-why-doesnt-berkshire-pay-dividend/81334490).

<sup>5</sup> *Graham & Doddsville* was an investment newsletter published by Columbia Business School. The newsletter's target audience was investors who relied on the principles espoused by Columbia professors Benjamin Graham and David Dodd in their classic text, *Security Analysis*, first published in 1934.

<sup>6</sup> Berkshire Hathaway, "Chairman's Letter," in *2017 Annual Report*, February 24, 2018, accessed September 15, 2018, [www.berkshirehathaway.com/letters/2017ltr.pdf](http://www.berkshirehathaway.com/letters/2017ltr.pdf); Andrea Frazzini, David Kabiller, Lasse H. Pedersen, "Buffett's Alpha," NBER Working Paper No. 19681, November 2013, accessed September 15, 2018, [www.nber.org/papers/w19681](http://www.nber.org/papers/w19681).

<sup>7</sup> Erik Holm, "Berkshire Annual Meeting: Buffett Raises the Prospect of Paying a Dividend," *Wall Street Journal*, May 6, 2017, accessed June 15, 2018, [www.wsj.com/livecoverage/berkshire-hathaway-2017-annual-meeting-analysis/card/1494096880](http://www.wsj.com/livecoverage/berkshire-hathaway-2017-annual-meeting-analysis/card/1494096880).

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