URI Capital Partners, LLC

2012 Annual Investor Letter

First, a word of thanks is in order to those who have supported the fund with an investment allowing a start to what I hope will be a long and fruitful partnership. Thank you. I also want to thank those who remain engaged and interested in what I am trying to accomplish and I do hope you also will choose to invest with me in 2013.

One note: throughout the rest of this letter, I will use the term "we" when talking about the fund. I use "we" instead of "I" because I view you as partners in building this fund. With that in mind, I hope you find the below interesting and informative.

One other quick note: Since opening in early August, the fund returned 3.93% to its investors after fees and expenses. Through that same period of time, the S&P 500 returned roughly 2.4%. The note on performance is short because the time of measurement is short and thus a data point that should not carry too much weight. Our real goal is to outperform over long periods of time. So, while we are pleased, we recognize the time has been too short to provide much in the way of meaningful information.

Why do we do what we do?

We aim to garner above average returns over long periods of time. It is impossible to know how we will perform over short periods of time but our focus on buying great companies at low valuations should portend strong long term results.

In a volatile world that engenders volatile markets, decision making can be challenging. Each investment choice we make is a decision for something and against others. In that regard, URI Capital Partners strives to maximize long term returns while tuning out much of the short term noise that surrounds us. We do not make decisions based on short term performance, expected volatility, fiscal cliffs or any other set of variables that are nearly impossible for investors to judge. Rather, we focus on understanding certain, and only certain, businesses. When those businesses are available at a great value, we invest. A company at one price is an investment but speculation at another. We prefer to invest.

You can invest in stocks, bonds, real estate and a myriad of other options. Staying in the comfort of cash is an investment choice even if it does not feel like one. As for the fund, we believe certain equities present a highly compelling investment opportunity relative to the other available options and that is where our focus lies.

There are times when a person speaks with a clarity that cannot be replicated. In early 2012, Warren Buffett wrote a short article for Fortune laying out his opinion of the predominant choices available to investors. A short excerpt of that article is below along with a link to the entire article. I highly recommend you read the entire article as the message cannot be better stated and thus should be read and not paraphrased.

Investing is often described as the process of laying out money now in the expectation of receiving more money in the future. At Berkshire Hathaway we take a more demanding approach, defining investing as the transfer to others of purchasing power now with the reasoned expectation of receiving more purchasing power -- after taxes have been paid on nominal gains -- in the future. More succinctly, investing is forgoing consumption now in order to have the ability to consume more at a later date.

From our definition there flows an important corollary: The riskiness of an investment is not measured by beta (a Wall Street term encompassing volatility and often used in measuring risk) but rather by the probability -- the reasoned probability -- of that investment causing its owner a loss of purchasing power over his contemplated holding period. Assets can fluctuate greatly in price and not be risky as long as they are reasonably certain to deliver increased purchasing power over their holding period. And as we will see, a nonfluctuating asset can be laden with risk.

Investment possibilities are both many and varied. There are three major categories, however, and it's important to understand the characteristics of each. So let's survey the field.

Investments that are denominated in a given currency include money-market funds, bonds, mortgages, bank deposits, and other instruments. Most of these currency-based investments are thought of as "safe." In truth they are among the most dangerous of assets. Their beta may be zero, but their risk is huge.

Over the past century these instruments have destroyed the purchasing power of investors in many countries. even as these holders continued to receive timely payments of interest and principal. This ugly result, moreover, will forever recur. Governments determine the ultimate value of money, and systemic forces will sometimes cause them to gravitate to policies that produce inflation. From time to time such policies spin out of control.

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High interest rates, of course, can compensate purchasers for the inflation risk they face with currency-based investments -- and indeed, rates in the early 1980s did that job nicely. Current rates, however, do not come close to offsetting the purchasing-power risk that investors assume. Right now bonds should come with a warning label.

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My own preference -- and you knew this was coming -- is our third category: investment in productive assets, whether businesses, farms, or real estate. Ideally, these assets should have the ability in inflationary times to deliver output that will retain its purchasing-power value while requiring a minimum of new capital investment. Farms, real estate, and many businesses such as Coca-Cola IBM, and our own See's Candy meet that double-barreled test. Certain other companies -- think of our regulated utilities, for example -- fail it because inflation places heavy capital requirements on them. To earn more, their owners must invest

more. Even so, these investments will remain superior to nonproductive or currency-based assets.

Whether the currency a century from now is based on gold, seashells, shark teeth, or a piece of paper (as today), people will be willing to exchange a couple of minutes of their daily labor for a Coca-Cola or some See's peanut brittle. In the future the U.S. population will move more goods, consume more food, and require more living space than it does now. People will forever exchange what they produce for what others produce.

Our country's businesses will continue to efficiently deliver goods and services wanted by our citizens. Metaphorically, these commercial "cows" will live for centuries and give ever greater quantities of "milk" to boot. Their value will be determined not by the medium of exchange but rather by their capacity to deliver milk. Proceeds from the sale of the milk will compound for the owners of the cows, just as they did during the 20th century when the Dow increased from 66 to 11,497 (and paid loads of dividends as well).

Berkshire's goal will be to increase its ownership of first-class businesses. Our first choice will be to own them in their entirety -- but we will also be owners by way of holding sizable amounts of marketable stocks. I believe that over any extended period of time this category of investing will prove to be the runaway winner among the three we've examined. More important, it will be by far the safest.

A link to the full article is below:

http://finance.fortune.cnn.com/2012/02/09/warren-buffett-berkshire-shareholder-letter/

Where are we and where are we going?

The fund now owns 12 companies while also holding a relatively modest cash position. Each of the 12 companies remains highly attractive as to their valuation and prospects. The price we pay for a company is of paramount importance and these companies all represent great value today. Later in this letter I will detail a few of our positions and why we own them in addition to including a longer piece on the fund's largest position, Berkshire Hathaway.

There have been and continue to be many clouds of uncertainty swirling over the markets including the fiscal cliff, the European debt crisis, the slowdown in China and on and on. We however strive to find perspective in a cloudy world and find that perspective to be grounded in the performance and valuation of companies. Perspective comes from a deep understanding of a business and its intrinsic value and then assessing whether its current valuation presents an opportunity to acquire stakes in a business at a discount to such intrinsic value.

Many often prefer waiting for the clouds to part and the skies to become clear before committing to an investment. Unfortunately that has shown most often to be a recipe to overpay for the value of what is received. Uncertainty is the friend of the long term, thoughtful investor.

As a steward of your hard earned dollars, my aim is to deliver above average returns that enhance your long term after tax purchasing power. I believe the best path to such outperformance today lies in finding great companies that can be acquired at low valuations with a plan to be a patient, long term investor of such companies.

With that in mind, below is a short description of a few representative fund investments including our rationale for owning such companies.

Berkshire Hathaway (largest position)

At the end of this letter, I have included a longer version of why I believe Berkshire presents a compelling opportunity for investment. My conviction to make this the fund's largest position should be evident after reading. To further supplement our conviction, we note that Berkshire itself has a new policy to acquire its own shares at a price at or below 120% of book value. Why does this matter? Warren Buffett, the longtime Chairman and CEO of Berkshire who is widely regarded as one of, if not the, best investors of all time sets forth his policy on buying back shares of Berkshire in the following manner: "We will not repurchase shares unless we believe Berkshire stock is selling well below intrinsic value, conservatively calculated." Our position in Berkshire was built at costs below 120% of book value and provides us another data point that we have acquired shares in Berkshire well below intrinsic value.

Viacom

Viacom is an entertainment content company that owns Paramount Pictures, MTV, Nickelodeon, Comedy Central and a host of other cable network channels. Importantly, the company requires minimal capital expenditures to sustain and grow its business. The lack of heavy capital expenditure requirements allows for much more generous free cash flow that can be distributed to its owners (the fund being one).

Even in the face of what the company admits has been recent disappointing operating results, the company has consistently posted free cash flow of roughly $2.5 billion per year. Our stake in the company was largely acquired when the company had a market cap around $25 billion meaning we are benefiting to the tune of a 10% free cash flow yield on investment.

Most importantly, the company has a highly aggressive share buyback program in place. In its last fiscal year, it bought back $2.8 billion of its own stock, representing over 10% of the company. The company remains fully committed to buying back more shares with plans for the current fiscal year totaling $2.5 billion. Viacom has a long term plan to consistently buy back shares reducing its shares outstanding thereby accruing significant benefits to those shareholders who remain. Further, the company pays a current dividend yield of roughly 1.9%.

With Viacom, we are able to invest at free cash flow yields of 10% for a company that has plans for growth while being deeply committed to returning capital to shareholders in the form of dividends and a highly aggressive buyback program.

Microsoft

Microsoft has grown its revenue almost 8% per year on average for the last five years. This same company has grown its bottom line almost 13% per year on average for the last five years.

Its products are pervasive across nearly every major enterprise around the world and for any of us who send emails, spreadsheets, presentations or other documents. The network effect of its products ensures they are nearly a requirement to conduct business and send information. Its operating system runs over 95% of personal computers which are still very important devices for most of the computerized world. Its servers and tools division focused on business and enterprise is growing operating earnings in the high teens per year. Its productivity software (Office) is ubiquitous and a near necessity to conduct business anywhere around the world.

The company has nearly $67 billion in cash and cash equivalents against roughly $12 billion in debt for a net cash position of $55 billion. The company consistently generates more operating cash flow than reported net income and does so with minimal capital expenditure requirements. Put another way, its free cash flow consistently exceeds its net income and its return on capital is consistently high.

One would expect to pay more than a fair price for this globally dominant and growing business. Not so today.

This company can be acquired for less than 6x free cash flow after subtracting its net cash position. That equates to a free cash flow yield of about 17% for a company growing its bottom line at 13% on average over the last five years while also consistently generating free cash flow in excess of net income. Microsoft also pays a dividend yield of 3.5% with a history of increasing that dividend over time.

Microsoft is out of "popular" favor creating our opportunity.

To further on this theme, below is a link to an interesting article both about Microsoft but also how true long term investors can take advantage of the short term nature of most investors.

http://www.gurufocus.com/news/204732/idiocy-on-wall-street--a-practical-example

JP Morgan

JP Morgan had a difficult 2012. They have been skewered in the press for creating a huge loss in a trading position that came to be known as the "London Whale." Yet, with all the negatives piled up in 2012, JP Morgan still managed to post record earnings of $20 billion. Think of that for one moment: they posted record earnings in what most would consider an incredibly challenging year.

Their capital levels are at all -time highs. Their earnings are at all-time highs. One would expect to pay a high price for such success. Not today.

JP Morgan has a current equity market cap of roughly $176 billion. Comparative to 2012 earnings of $20 billion shows we are able to buy this business today under 9x prior year earnings. That is a very attractive valuation for a growing company with a fortress balance sheet and global franchise.

Against that attractive valuation, the bank carries a current dividend of 2.6% and has reinstituted a buyback program. The bank expects to increase both its dividend and buybacks in 2013 once they receive Fed approval. They are generating more capital than they can profitably put to work and the end result over time will be that much of that capital generation will be returned to shareholders.

Most importantly, the company is not yet earning to its full potential. The banking and capital markets environment are clearly less than robust. JP Morgan has a large and growing deposit base that will ensure low cost funding as rates rise leading to a potentially dramatic expansion of net interest income with a return to a normalized rate structure (this holds true for another of our investments, Wells Fargo).

JP Morgan is attractively valued today against currently constrained earnings and its best earnings are in front of it with a more normalized banking, capital markets and rate environment. A return to normalized valuations and a normalized earnings environment should portend strong gains ahead.

I hope the above examples give a sense for the opportunities we target. It is hard to know how these stocks will perform in the short term but they each are positioned for above average shareholder returns over the long term. This fund should be thought of as a long journey but even long journeys begin with a few small steps so thank you again for being a part of the journey. I will continue to keep you posted as important and interesting developments occur. As always, I am available should you have any questions about what we are working to accomplish.

Thank you again for your support and confidence!

All the best,

Brian Pitkin
URI Capital Management, LLC
URI | Capital Management

“Berkshire Hathaway is a Three Point Layup”

SportsCenter is full of the amazing: half court buzzer beaters, circus catches in the end zone, diving outfield catches, and on and on. I can’t remember many layups that make the highlight reel.

There will be no highflying heroics in my idea. Just standing under the bucket consistently and reliably hitting three point layups. Yes, three point layups. Buying a great company at a fair price that will grow over time is a two point layup and a reliable and consistent path to investment success. Buying a world class company run by one of best investors of all time at a significant discount to fair value is hitting a three point layup.

When done well, value investing is equivalent to hitting a three point layup. Our goal is to acquire stakes in world class companies well below a consistently increasing intrinsic value, allowing for strong future returns with little risk of permanent capital loss.

Our ideal investment would entail buying a (1) great business run by (2) superb management at a (3) low valuation. It should also be timeless, simple, understandable and it should retain an ability to compound for years into decades with minimal tax drag.

Berkshire Hathaway is a collection of great businesses held both as fully owned operating businesses and as investments in publicly traded companies. The management at Berkshire carries a superb reputation for honest, reliably consistent and shareholder focused actions. The Company has the broadest of mandates that allows Warren Buffett, Charlie Munger and the rest of the management team the flexibility to invest wherever the best returns exist irrespective of industry or asset class. Most importantly, Berkshire is available for investment today at historically low valuations.

When we can invest in a great business run by world class managers at low valuations, we invest aggressively and believe doing so is akin to hitting three point layups. Such opportunities are rare but, interestingly, are often associated with great simplicity in the thesis. Investing in a great business available at a significant discount to instrinsic value is our goal, and can be as simple as hitting layups.

As mentioned, Berkshire Hathaway is a collection of investments and operating businesses wrapped inside an insurance company that provides the predominant funding mechanism to continually and consistently grow its base of investments and operating companies’ earnings. Berkshire is truly a wonderful business with three distinct aspects: (1) investments, (2) controlled operating businesses and (3) insurance.

Investments:

Berkshire’s investments comprise cash and cash equivalents, bonds, equities and other hybrid investments.

With today’s historically low interest rates, bonds, particularly those of long duration, carry heightened risk with an unfortunate corresponding low yield and return profile. With that in mind, Berkshire’s bond portfolio is of relative short duration and also of high quality. To highlight its short duration, over 2/3 of the highly rated portfolio matures in five years or less allowing for those investment dollars to be

redeployed at likely higher rates and/or into future business acquisition and equity investment opportunities.

The historical foundation of Berkshire Hathaway has been its equity investments. Berkshire's top three holdings are Coca Cola, Wells Fargo and IBM. Coca Cola consistently posts high returns on capital and may carry the strongest combination of brand value and enduring business model of any company in the world. Coca Cola has been a strong foundational ownership stake for Berkshire and continues to grow its global business while returning significant amounts of cash to its shareholders including Berkshire.

Wells Fargo is one of, if not the most, well respected and well run banking franchises in the world. Warren has been consistently adding to Berkshire's stake in Wells Fargo as the continued overhang from the recent financial crisis weighs on bank valuations thereby allowing for opportunistic long term investments in the company. Berkshire's stake in Wells should continue to grow in value as Wells trades at reasonably low valuations even against currently depressed earnings from a subpar economic environment, current low net interest margins and generally weak trading and capital markets environments. Wells' earnings should increase as these aspects of their business normalize allowing them to capitalize on their best in class low cost deposit funding base leading to enhanced profitability and a return to more normal valuations. Wells has resumed stock buybacks and a more normalized level of dividends both of which should increase as they attain the higher capital levels being mandated by new regulatory standards.

IBM is a global technology company increasingly built upon a strong and recurring services business that now represents over 50% of annual revenue. IBM has also emphasized software which has eclipsed hardware as the second largest revenue source followed by hardware and financing. The global combination of having software, hardware and related services available under one roof allows IBM to fully differentiate itself with large global customers (no one ever got fired for going with IBM as the saying goes). As with most of Berkshire's companies and investments, IBM has consistently grown its earnings while also returning significant amounts of its free cash flow to shareholders. As an indication to its ability to generate high amounts of free cash flow without having to heavily reinvest for future growth, IBM consistently posts extremely high returns on capital and equity and does so with a very conservative balance sheet.

One should note the commonalities of the investments above: industry leaders, high returns on capital, conservative balance sheets, strong free cash flow generation, strong management adherence to shareholder value with the stakes being acquired at attractive valuations. These dynamics ensure the long term viability of the businesses which in turn supports the long term viability of the Berkshire business model and investment portfolio. The balance of the investments in the equity portfolio share these same dynamics including the recent additions by new investment team members.

Berkshire's reputation, financial prowess and ability to make quick decisions allows for unique investment opportunities most currently represented by a series of hybrid investments made in the throes of the recent financial crisis. Examples include current pay debt and preferred equity investments in Bank of America, GE, Goldman Sachs, Dow Chemical and The Wrigley Company, often with attractively priced long term warrants.

To highlight one example of an investment unique to Berkshire, in the fall of 2011, Berkshire invested $5 million in a Bank of America 6% Cumulative Preferred Stock position which also included warrants to purchase 700 million shares of BAC expiring in 2021 with an exercise price of roughly $7.14 per share.

So, between now and 2021, Berkshire has the right to buy BAC stock at $7.14 per share. Current book value for BAC is $20.16 and current tangible book value for BAC is $13.22. Tangible book value has consistently increased in recent years through a highly challenging environment for banks in general and Bank of America in particular. There is tremendous upside potential in this particular investment along with the other hybrid investments that Berkshire invested in through the recent financial crisis.

Berkshire consistently carries significant cash balances positioning the company for unknown events (a fortress balance sheet to use Jamie Dimon's favorite term) and opportunistic investments.

Operating Businesses:

While the foundation of Berkshire has historically been its investment portfolio and insurance businesses, Berkshire has become increasingly reliant on the success of its growing portfolio of operating businesses. These businesses include large, well known and valuable companies such as: Burlington Northern, MidAmerican Energy Holdings, Lubrizol, The Marmon Group, See's Candy, NetJets and McLane, amongst many others.

As can be seen in the valuation section below, the pre-tax earnings of these operating businesses has increased dramatically in even just the last ten years. Berkshire's increased emphasis on owned businesses makes them an increasingly important piece of the company's value. The combined businesses posted strong growth in 2011 and continue to do so through the first six months of 2012. The addition of strong companies like Lubrizol in the fall of 2011 imply more and more of Berkshire's value will reside in fully owned and controlled businesses.

It should also be noted that many of the businesses are housing related and thus have been a drag on performance. A return to a more normalized housing market should augment the growth inherent in the other operating businesses. All that said, the combined operating businesses have grown and continue to grow even in the face of housing and general economic headwinds.

Insurance:

To understand the value of Berkshire is to first understand a more commonly run insurance company and then understand how Berkshire differs.

Most insurance companies take in premiums and invest such premiums hoping and planning their investment returns outpace the traditionally recurring underwriting losses prevalent with most insurance companies. They in essence price policies to most commonly incur annualized losses that are an offset to the investment income the management of such premium income allows.

In contrast, Berkshire historically operates with reasonablyconsistent underwriting profits (on average over extended periods of time). There are some years with underwriting losses but those have tended to be the exception rather than the rule. To support such a claim, the insurance operations have shown an underwriting profit for nine consecutive years with profit over those years totaling $17 billion.

One important note is that Berkshire is subject to large catastrophic risk through its super cat and reinsurance businesses. This is the predominant reason for retaining a very significant cash balance at

all times (in excess of $20 billion). This business is mitigated by Berkshire's incredibly strong balance sheet and the strong management teams in place including Ajit Jain, but this is still a risk nonetheless.

Investment Summary:

Simple Investment Thesis: Berkshire Hathaway is a growing pile of investment portfolio value and operating business earnings augmented by consistent cash build through a profitable insurance operation that can all be acquired at significantly less than its intrinsic value.

Understandable: Berkshire Hathaway is a collection of investments and businesses that are enduring in value while being run by a Chairman who articulates and presents the company in a straightforward and understandable manner.

Elements of Value:

1. High quality investment portfolio
2. Stable of owned businesses that continue to generate cash and grow in value
3. Insurance business that, while I have valued at zero for purposes of conservative analysis, have a long history of profitable operations that generate cash flow for new investments
4. Corporate capital allocation from consistent cash generation deployed to most optimal uses by supreme capital allocators: Warren Buffett, Charlie Munger and the investment team they have assembled
5. Consistently increasing intrinsic value through the acquisition and ownership world class companies

Low Valuation:

Warren Buffett is transparent in how he thinks about the value of his own company. In other words, one of the best investors of all time nearly walks us through how to arrive at his company's intrinsic value.

A conservative current estimate of intrinsic value comprises the combined value of Berkshire's investments and operating businesses per the playbook laid out by Buffett himself.

- Berkshire has roughly $107,000 of per share investments at the end of Q2 2012
- Berkshire has a per share earnings run rate from its operating businesses of roughly $7,600 and this run rate is increasing on a year to year basis including in 2012
- Buffet has historically implied (through discussions and annual reports) a fair value multiple for such earnings of 11x to 13x
- I have used a 10x multiple to further the conservative nature of the calculation ascribing roughly $76,000 per share for the operating businesses
- I have conservatively ascribed no value to the insurance business even though it historically averages profitable operations

- ***Current estimate of intrinsic value is $183,000 per share which should continue to increase over time***

- Cash levels continue to build quarter to quarter increasing the base of investments and/or dollars available for future full business acquisitions
- Existing businesses continue to grow in value

	Per Share Value of Investments		Per Share Pre Tax Earnings
1990	$7,798		$102
2000	$50,229		$918
2010	$94,730		$5,926
2011	$98,366		$6,990
Q2 2012	$107,000		$7,600
		10x	$76,000
Estimate of Current Instrinsic Value			**$183,000**

Note: The Q2 numbers are my estimates from the 10Q and the pre tax earnings reflect a current run rate that includes full year ownership of Lubrizol.

The current conservatively estimated intrinsic value of Berkshire Hathaway is significantly less than where Berkshire is available for investment today (roughly $127,000 per A share). In addition to the current significant value gap, intrinsic value will continue to increase as time progresses. The insurance businesses will continue to add cash available to grow the base of investments and fully owned operating businesses. The existing investments and businesses will continue to grow in value.

To put valuation in another perspective, let's assume the investments are valued on a dollar for dollar basis. So, of the roughly $127,000 in today's Class A share price, there is $107,000 in per share investments. The remaining operating businesses can then be acquired for well under 3x earnings (paying $20,000 for roughly $7,600 in per share pre tax operating earnings).

An investment is available today to sit alongside one of the greatest investors of all time at a value well below intrinsic value in a company with a growing base of strong value investments and operating businesses.

World class company. World class management. Low valuation. A three point layup.

The Naysayers:

Age: Warren Buffett is old. Charlie Munger is old. Let's assume for a moment Warren Buffett is hit by the proverbial bus tomorrow. Coca Cola will still be the leading carbonated beverage company in the world. Wells Fargo will still be banking its customers. Burlington Northern's trains will keep running. In short, the show will go on. I do understand and appreciate there is some concern regarding future capital allocation. Charlie Munger would still have his hands on the capital wheel in my hit by the bus scenario. The Board will have appointed leaders for oversight of both the operating businesses and of

the investment portfolio. The beauty of Berkshire is in its enduring management structure. The businesses largely are left to be run by their own management. There is little control from Omaha. The company has in place a stable of managers that have been ably managing the operating companies for decades. The investment portfolio is largely in place. So, we are largely talking about what will happen with new investments. A team is being assembled to address those concerns. They are being tested as we speak. The cash generating insurance businesses (arguably the most important component to future value as they generate the cash to fund future investments) are run by some of the best insurance managers in the world. Maybe the investment growth profile diminishes to some degree. There however is still a world class collection of investments and companies that are growing at an admirable pace. And, most importantly, they can be acquired for a significant discount today.

Boring: Berkshire may be boring but that is fine with me.

No Catalyst: I don't know what,if any, singular catalyst there will be to prompt a share price move towards fair value. However, my long term horizon does not require such a move in any narrowly defined period of time. In fact, a continued divergence from fair value only allows me time to build a larger position leading to enhanced long term profitability.

No Growth: Some associate the old economy nature of the Berkshire businesses with a slow growth model. I however don't find that to be true. Using just one set of recent data points will dispel some notions of an old slow grower. From year end 2011 to the end of June of this year, book value increased roughly 7.5% equating to a 15% annualized growth rate in book value. Berkshire may no longer grow its book value at the 20+% of years and decades past but it can still grow. And it can be bought at a significant discount to intrinsic value thereby augmenting the growth for current shareholders from today's valuations.

Cost of Float: A balance sheet account that, on average over multiple years, generates positive earnings has value and is not a value reducer in the same sense as debt is for most companies. Some would argue that Berkshire's float from the insurance business of roughly $70 billion should be deducted in part or in full from the value of Berkshire. Berkshire's *profit generating float* is unique and does not reduce intrinsic value.

Derivatives: Berkshire's derivative positions have been much talked about of late. They subject Berkshire to some level of increased earnings volatility. Importantly, the impact is to earnings, not cash flow. In fact, the equity index options have carried the most press and those entailed Berkshire receiving a large sum of cash to effectively insure against a market with no price appreciation for over a decade. In the meantime, Berkshire can profitability invest the premium. I am concerned with the cash Berkshire generates as opposed to its GAAP earnings. Additionally, Berkshire is scaling back other derivative activities as collateral rules change requiring the posting of collateral where in the past Berkshire would not have been required to post such collateral.

Conclusion:

Have people ever talked about this idea? Absolutely. Is it heroic? Not even close. Is there real value in this investment? Without a doubt.

Buying Berkshire Hathaway today may seem too easy. It may not seem "smart" enough.

But those are bad reasons to look past the opportunity in search of a more heroic investment. Berkshire Hathaway should be bought today. In large amounts. And it can and should be held for years.

World class company. World class management. Low valuation. A three point layup.