



Should we follow Warren Buffett?

October 17, 2008
Op-Ed Contributor

Buy American. I Am.

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THE financial world is a mess, both in the United States and abroad. Its problems, moreover, have been leaking into the general economy, and the leaks are now turning into a gusher. In the near term, unemployment will rise, business activity will falter and headlines will continue to be scary.

So ... I've been buying American stocks. This is my personal account I'm talking about, in which I previously owned nothing but United States government bonds. (This description leaves aside my Berkshire Hathaway holdings, which are all committed to philanthropy.) If prices keep looking attractive, my non-Berkshire net worth will soon be 100 percent in United States equities.

Why?

A simple rule dictates my buying: Be fearful when others are greedy, and be greedy when others are fearful. And most certainly, fear is now widespread, gripping even seasoned investors. To be sure, investors are right to be wary of highly leveraged entities or businesses in weak competitive positions. But fears regarding the long-term prosperity of the nation's many sound companies make no sense. These businesses will indeed suffer earnings hiccups, as they always have. But most major companies will be setting new profit records 5, 10 and 20 years from now.

Let me be clear on one point: I can't predict the short-term movements of the stock market. I haven't the faintest idea as to whether stocks will be higher or lower a month — or a year — from now. What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. So if you wait for the robins, spring will be over. A little history here: During the Depression, the Dow hit its low, 41, on July 8, 1932. Economic conditions, though, kept deteriorating until Franklin D. Roosevelt took office in March 1933. By that time, the market had already advanced 30 percent. Or think back to the early days of World War II, when things were going badly for the United States in Europe and the Pacific. The market hit bottom in April 1942, well before Allied fortunes turned. Again, in the early 1980s, the time to buy stocks was when inflation raged and the economy was in the tank. In short, bad news is an investor's best friend. It lets you buy a slice of America's future at a marked-down price.

Note from K&A: To the best of our knowledge this is the first time since 2002 that Mr. Buffett has bought stocks for his own account.

Or, should we take a cue from Doug Kass, dedicated short seller and manager of Seabreeze Partners (a short side hedge fund)

My Pension Plan

10/17/2008 11:14 AM EDT

I have been out of the market for a lengthy period of time in my pension plan.

All this changed on Thursday. Yesterday, I went fully invested and bought the following names: SPDRs (SPY), Consumer Staples Select Sector SPDR (XLP), Peabody Energy (BTU), Freeport-McMoRan Copper & Gold (FCX), Disney (DIS), American Express (AXP) and General Electric (GE).

You could sense the mood shift on Wall Street yesterday and today. It is clear that some money is going to work back in equities. Ned Davis Research (NDR) announced yesterday that they were putting 25% back to work in equities. SentimenTrader.com was buying yesterday after the S&P 500 pushed back above 920. Clearly the volatility is not out of the market. Clearly it was a nervous close today. Despite some willingness by very conservative investors to step up a little, it is obvious that there was no overwhelming commitment to buy stocks at the end of today.

We put "a toe" back into the market today. We bought VERY small allocations in Intel (INTC), Freeport McMoRan Copper and Gold (FCX), and Steel Dynamics (STLD) for various models. No model got more than a 2.5% allocation to these equities. That means we are still 97.5% to 100% in cash (or cash and bonds) depending upon the model.

At the close tonight ALL THREE of our general plans for getting back into the market are still on the table. By that we mean that OPTION #1, which we described as the most likely is still in play. The market rallied yesterday, and was down today. Remember that OPTION #1 is the case in which the market drops very quickly and substantially from here (just when everyone thinks the bottom is in) to put in the new REAL bottom. Market down tonight, weakness already forecast for Monday. We shall see.

The fourth option was to start buying back oil and gas related stocks. They all POPPED today and we passed. There were too many people crowding into the trade today to suit our taste. We will wait for another pullback on a quieter day.

We allocated the California Revenue Anticipation Note, paying 4.25% until June of 2009 to the Hatteras model today. That yield is state and federal tax free.

I repeat, you can sense the change in attitude. Smart people are seeing real values, including K&A. But you can bet that Warren Buffett has not yet put his entire personal net worth back into the stock market, and neither have we—or yours for that matter!

Next week is another week. That's it for today.

Have a wonderful and peaceful weekend. (preaching to myself a little)

PK

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K&A manages accounts with various histories and investment objectives. Various accounts may be managed differently from time to time.

Krsek makes frequent reference to the model portfolios called Hatteras, Mendocino, Halifax, Bonavista, Fresnel and The New World. During 2005 Paul Krsek was appointed Chief Investment Officer of K&A, and as such is responsible to make all trading and management decisions for all client accounts which are being managed according to a specific portfolio model. A description of each of our models can be found on our website at <http://www.kaassets.com/choices.htm>.

Not all accounts managed by K&A are "modeled" accounts. We strongly urge our clients to understand which model, if any, are being used to manage their accounts.

As of July 3, 2007 Lee O'Dwyer joined K&A as a portfolio manager. Paul Krsek and Lee O'Dwyer frequently discuss investment ideas, model portfolio strategies and the investment policies of K&A. But when it comes to the implementation of those policies Krsek is primarily responsible to manage the accounts that fit into each model portfolio description. He generally makes all final investment and trading decisions relative to those accounts that are considered to be "modeled." However, in Krsek's absence O'Dwyer does have the authority to trade all client accounts. He has been actively trading accounts in the various models since joining K&A.

From time to time K&A receives requests from clients to purchase securities that are not included in the model portfolio to which they are assigned. Effective May 24, 2006 K&A has encouraged clients to hold such securities in a separate account for the client. Because K&A is a "fee only" registered investment advisor" it charges its normal management fee for monitoring such securities in the separate accounts in which they are held.

K&A makes every effort to exclude securities that are 'requested by the client' from the modeled portfolio accounts.

The investment objectives of various accounts and models may be substantially different from one another. Therefore topics or investments mentioned in E-Ellumination may or may not apply to specific managed accounts and/or models.

Trades or adjustments to accounts mentioned in ELLUMINATION may or may not happen in every account managed by portfolio managers at K&A.

If you are not satisfied with the investment results in your account it is your responsibility to inform Krsek or Andreae and to discuss possible changes that can be made to the account to accommodate and satisfy your needs.

The assets held in managed accounts at K&A Asset Management, LLC may include stocks, bonds, cash, commodities, foreign exchange or mutual funds or exchange traded funds (ETF's), money market accounts or limited partnerships that represent the same. They are subject to market fluctuation and the potential for losses. The assets are not insured. The value and income produced by these investment products may fluctuate, so that an investor may get back less than they initially invested.

The portfolio managers at K&A Asset Management, LLC do not guarantee results.

Past performance should not be considered an indicator of potential future performance. If you do not consider yourself suitable, either emotionally or financially, to experience volatility and/or losses in financial markets, you should not invest.

From time to time Krsek lists the simple annual returns of the six model accounts in this newsletter. These accounts are "models" and do not represent the actual results accruing to individual accounts. Simple annual return does not represent "time weighted return" as reported individually to clients in their quarterly reports prepared using Centerpiece.

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Sincerely,

Paul Krsek
Updated: August 13, 2007