VALUE INVESTING ARI LEVY and ERIK HOLM

Buffett's way: mimic the Oracle, not his vehicle

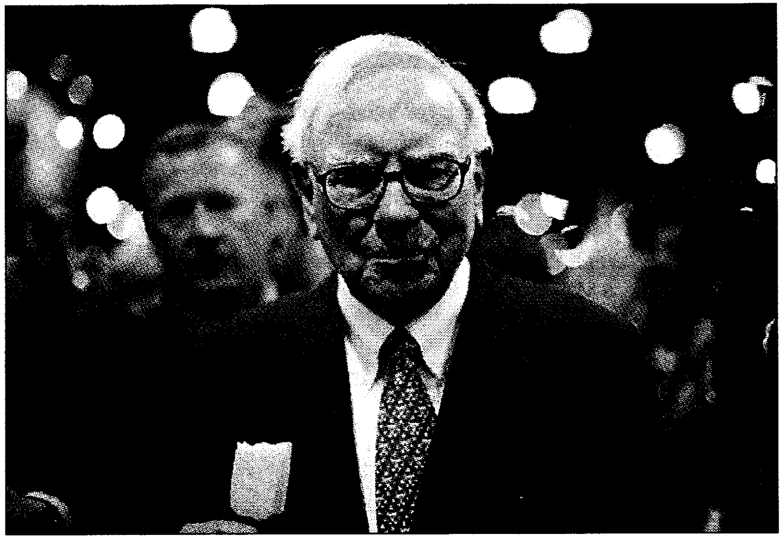
Warren Buffett followers who invest like the billionaire instead of with him have been rewarded since the bear market bottomed more than three months ago.

Berkshire Hathaway's 18.6 per cent advance – since US equity indexes reached their lows on March 9 – lags 15 of the company's top 20 stock holdings.

A $US1 million ($1.25 million investment mimicking Berkshire's portfolio would have produced a $US682,300 profit (68 per cent) through yesterday, compared with a $US185,900 gain for the same-sized investment in Berkshire. Buffett is chairman and head of investing at the Omaha-based company.

Mr Buffett, 78, has seen long-standing equity positions in Wells Fargo and American Express more than double from their March lows after losing more than half their value in the 12 months prior. Companies Berkshire owns outright had declining sales amid the global recession, and the firm's losses from derivative positions on corporate and municipal debt may not reverse as quickly as those tied to stockmarkets.

''His investments, because they're based on such fundamental quality and traditional values, are going to continue to do better than the rest of the market,'' said Frank Betz, a partner at Carret Zane Capital Management, which owns Berkshire shares. Critics were wrongly declaring Mr Buffett had lost his touch earlier this year, Mr Betz said.



The Oracle of Omaha, Warren Buffett, hasn't lost his touch. Photo: REUTERS

Berkshire is the top shareholder in Wells Fargo, the fourth-largest US bank by assets, and American Express, the biggest credit card company by purchases.

The company is the biggest owner of Goldman Sachs Group, which has surged 93 per cent since March 9, and the third-leading investor in US Bancorp, which has climbed 74 per cent.

The decline in world stockmarkets at the start of the year contributed to Berkshire's worst loss in at least two decades in the first quarter. The company wrote down derivatives tied to corporate debt indexes and took a charge on ConocoPhillips shares purchased when oil prices were near their peak.

Berkshire's liability on derivatives at its finance and financial products operations widened to $US15.4 billion as of March 31, from $US14.6 billion three months earlier. Some of those liabilities, on derivatives tied to four of the world's stockmarkets, may have reversed in the second quarter as the indexes recovered, said Whitney Tilson, managing director of T2 Partners, a New York-based hedge fund that owns Berkshire shares.

''Berkshire is cheaper today relative to its intrinsic value than it was on March 9, when its stock portfolio was in the tank and its index puts were marked to market,'' Mr Tilson said.

''The intrinsic value of Berkshire, when you just factor in those two things, is easily up well over $US10,000 a share and the stock really hasn't moved that much.''

Berkshire Class A shares rose $US1000 to $US86,800 yesterday on the New York Stock Exchange. The gain since March 9 compares with a 33 per cent advance in the S&P 500 Index.

Berkshire has a smaller number of derivatives tied to municipal bonds or debt issued by corporations. Berkshire, which collected $US3.4 billion in premiums on the derivatives related to corporate debt as of the end of last year, paid $US1.13 billion to buyers of the contracts this year through May 8.

The company may be forced to pay out more as state and local budget deficits lead public institutions to default, said Charles Ortel, managing director of New York-based Newport Value Partners, who advises clients to sell Berkshire shares short.

''It's the next shoe to drop,'' Mr Ortel said. ''We may find ourselves very quickly where not only are companies seeking bail-outs but states and municipalities and school districts and other worthy entities are all clamouring for scarce capital.''

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