

## Kass: Warren Buffett Has Lost His Groove

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"I was wired at birth to allocate capital."

-- Warren Buffett

The unprecedented market decline has hobbled some of the most successful investors and industrialists of our generation, proving Warren Buffett correct when he wrote, "Over time, markets will do extraordinary, even bizarre things. A single, big mistake could wipe out a long string of successes."

**Legg Mason's** ([LM Quote - Cramer on LM - Stock Picks](#)) Bill Miller, **Citadel's** Ken Griffin, **Viacom's** ([VIA Quote - Cramer on VIA - Stock Picks](#)) Sumner Redstone and **Las Vegas Sands'** ([LVS Quote - Cramer on LVS - Stock Picks](#)) Sheldon Adelson have suffered sharp reversals from their previous successes. No doubt many others will be revealed by year-end.

The market decline is now even hurting **Berkshire Hathaway** ([BRK.A Quote - Cramer on BRK.A - Stock Picks](#)) as, arguably, Warren Buffett has lost his groove.

As I have previously written, I have worshiped at the altar of Warren Buffett since the late 1970s -- ever since an investor and acquaintance, Conrad Taft, introduced me to his investment methodology and style at Berkshire Hathaway. In fact, my writings over the past seven years have often been punctuated with Buffett-isms. I have repeatedly objected to, scoffed at and refuted criticisms of Buffett's strategy on this site and elsewhere.

Indeed, a month ago, in "Buy It Like Buffett," I [highlighted](#) Buffett's prescient market calls over the years and his recent call to "[Buy American. I Am.](#)"

During a portion of 2008, I was [short Berkshire's stock](#). My [rationale](#) behind avoiding/shorting Berkshire Hathaway's common stock underscored that my negative investment view had to be differentiated from my respect (which borders on worship) of the greatest investment icon of the last half century.

In preparation for this column, over the weekend I re-read my pal Jeff Matthews' great new [book](#), *Pilgrimage to Warren Buffett's Omaha: A Hedge Fund Manager's Dispatches From Inside the Berkshire Hathaway Annual Meeting*. (Disclosure: I happily wrote the endorsement on the back of the book.)

The weight of the evidence suggests that Warren Buffett has recently been swimming naked. He has lost his groove, and here is why.

"Even Napoleon had his Watergate."

-- Yogi Berra

- **Style drift.** In the process of establishing a large derivative position on the **S&P 500** by shorting puts, Buffett has [deviated](#) from his long-established investment discipline of avoiding "market plays" and of avoiding "financial weapons of mass destruction" (derivatives). This "play" has led to continued, [multibillion-dollar losses](#) over the past few quarters. According to the recently released 10Q, Berkshire has lost a total of \$9 billion on Buffett's short put position.

"Without a total and complete discrediting of the Buffett gambit (which I divine to be that the short term, which encompasses anything from five days to five years, is irrelevant) and a revealing that the pain in his view is irrelevance to be borne -- despite the losses of which he is only a handful of people who can sustain them, as he is 'the house'."

-- James Cramer, *RealMoney*

- **Recent share acquisitions of** Goldman Sachs ([GS Quote - Cramer on GS - Stock Picks](#)) and General Electric ([GE Quote - Cramer on GE - Stock Picks](#)) **have been ill-timed.** Buffett has convinced Corporate America (and Corporate Europe!) that he is a kind, avuncular sort, an easy and quick-to-deal-with investor of last resort. Toward that end, Buffett

recently came to the rescue of [General Electric](#) and [Goldman Sachs](#), investing \$8 billion in both issues combined. While both investments were made on favorable terms -- they are both seriously underwater -- not too long ago Buffett purchased \$5 billion of 10% preferreds in Goldman Sachs, with five-year warrants struck at \$115 per share. At the time, Goldman was trading at \$125; it now trades at \$74 per share. Buffett also picked up \$3 billion in 10% perpetual preferreds in General Electric, with warrants at \$22.25 per share. At the time, GE was trading at \$22; it now trades at \$17 per share.

"In the long run, we're all dead."

-- John Maynard Keynes

- **Buffett's notion of long term is now becoming a convenient shroud to poorly timed investments.** A recent *Forbes* article [outlined](#) most of Berkshire's largest investments. Berkshire's list of longer-term holdings includes a great many successful positions based on relationship to cost, but the cost/market gap is rapidly closing. Importantly, over the last few years, the performance of many of these investments -- including **Comcast** ([CMCSA Quote](#) - [Cramer on CMCSA - Stock Picks](#)), **Coca-Cola** ([KO Quote](#) - [Cramer on KO - Stock Picks](#)), **Kraft** ([KFT Quote](#) - [Cramer on KFT - Stock Picks](#)) and **U.S. Bancorp** ([USB Quote](#) - [Cramer on USB - Stock Picks](#)) -- have underperformed the market dramatically. And some of the largest holdings -- such as **American Express** ([AXP Quote](#) - [Cramer on AXP - Stock Picks](#)), **CarMax** ([KMX Quote](#) - [Cramer on KMX - Stock Picks](#)), **Conoco Phillips** ([COP Quote](#) - [Cramer on COP - Stock Picks](#)), **Gannett** ([GCI Quote](#) - [Cramer on GCI - Stock Picks](#)), **Ingersoll-Rand** ([IR Quote](#) - [Cramer on IR - Stock Picks](#)), **Moody's** ([MCO Quote](#) - [Cramer on MCO - Stock Picks](#)), **USG** ([USG Quote](#) - [Cramer on USG - Stock Picks](#)), **WellPoint** ([WLP Quote](#) - [Cramer on WLP - Stock Picks](#)) and **Wells Fargo** ([WFC Quote](#) - [Cramer on WFC - Stock Picks](#)) -- have been unmitigated disasters in 2007-2008.

Over time, Warrant Buffett has been the greatest investor extant. His long-term investment performance is unparalleled, but his performance over the past five years, and especially over the past year, is beginning to trail off badly.

In support, Buffett devotees and apologists cite his time frame. They universally say that Buffett's strategy is for the long term -- that Berkshire's short-term underperformance is irrelevant.

But is it?

Is the notion of long term now irrelevant, particularly given Warren Buffett's age and the likelihood that sooner than later he will be succeeded by one or several new individuals at Berkshire's helm? Is it irrelevant in our present and future [dystopia](#), in a possible multiyear bear market or in an economy that faces headwinds we haven't seen in decades? Or is it just one of those tautologies that it is safe to buy in the long term?

The reality is that in recent years Warren Buffett has become an even better marketer than investor, with the benefit of his image and reputation accruing to Berkshire. He has cultivated an image of someone who started with nothing, even though he was the son of a well-to-do stockbroker who became a U.S. Congressman. Everyone thinks of him as America's Business Grandpa, but remember that he grabbed control of a textile firm and promised not to change anything. He did make changes, though, eventually using the textile company's cash flow for acquisitions, shutting down the factory over time.

In essence, Buffett has sold himself as a savior, or investor of last (or often first!) resort. As such, he has positioned himself to prosper in the form of getting beneficial terms in acquisitions (the most recent examples being Goldman Sachs and General Electric), a positive but still a shrewd "marketing" technique.

Perhaps Warren Buffett, not Sam Zell, is the real gravedancer!

I have concluded that The Oracle of Omaha has morphed into the Mozart of Marketing and has veered off his investment path in a style drift into derivatives (selling puts on the S&P 500). More importantly, his investment strategy, which served him so well over the years, has begun to noticeably sour and might not be suited for the future.

"What we have created is, to some extent, a cult."

-- Charlie Munger

Similar to Warren Buffett, I too have a reverence for logic. And perhaps Charlie Munger is right (though in a different context) in the quote above. Berkshire Hathaway might now be more of a cult than a superior investment vehicle.

Warren Buffett has lost his groove. The question is whether he will get it back any time soon.

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