Berkshire Hathaway Inc. is a holding company owning subsidiaries engaged in property and casualty insurance on a direct and reinsurance basis through GEICO, General Re and Berkshire Reinsurance. Other business activities include electric utilities, railroads, flight training services, candy manufacturing, newspapers, retailing, fine jewelry, etc. Berkshire Hathaway is headquartered in Omaha, Nebraska, and began as a group of textile milling plants. When Buffett became the controlling shareholder in the mid-1960s, he began a progressive strategy of diverting cash flows from the core business into other investments. Because of Berkshire Hathaway's long history of operating success and keen stock market investments, the company has grown to be one of the largest in the world in terms of market capitalization. Berkshire stock trades on the New York Stock Exchange in two classes, A shares and B shares. What makes Berkshire unique? Early in his career Buffett came across the idea to use the “float” from his insurance subsidiaries to invest elsewhere, mainly into focused stock picks that would be held for the long term. Why should we invest? Berkshire is incredibly well diversified, has a strong-cash position, and has consistently beaten the S&P throughout every economic cycle. Due to the recent market correction, Berkshire is now at a fair value. Warren Buffett, Berkshire Hathaway CEO, is the face of value investing and his philosophy aligns with our fund. Buffett has consistently said he would rather spend his cash on investments in other businesses. However, recently he has initiated more than 1 Billion in share repurchases meaning he sees Berkshire as undervalued and the market as a whole as overvalued. Given the recent correction, Berkshire is well positioned for long-term success due to its strong cash position.

Our Valuation Models indicate that BRK-B may be significantly undervalued at its current price of 196.29. Due to the fact that Berkshire Hathaway is a diversified Holding Company, we decided to model out a basic, conservative DCF. Our DCF analysis yielded target prices between $169.73 and $279.61. Barring a recession, we believe that the U.S. 10-Year Treasury Bond and long term U.S. GDP growth will be between 2-4%. The company's current WACC, which we took from Bloomberg, is 10%. This is the highest level that the company has seen since before 2001. We also valued the company using an EV/EBITDA Multiple sensitivity analysis in which we used the appropriate multiple from NYU Stern. Our multiple analysis yielded price targets from $175.11 to $303.61.

Discussion of Economic Moat: Berkshire Hathaway long-term vision and diversified holdings put it in position to succeed during any economic cycle. Additionally, it’s strong cash position sets Berkshire up well to capitalize on a discount in valuations. Moreover, the company's insurance operations--Geico, General Re, Berkshire Hathaway Reinsurance Group, and Berkshire Hathaway Primary Group--remain important contributors to the overall business. Not only do the insurance operations (excluding the investment in Kraft Heinz) generally account for around one third of their pretax earnings, but they also generate low-cost float—the temporary cash holdings that arise from premiums being collected in advance of future claims, which is a major source of funding for investments.