

# Hendershot Investments

## BUBBLE, BUBBLE SIGNS OF TROUBLE

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Bubbles occur when prices totally disconnect from underlying values whether it was tulip bulbs in the 17th century, dot-com stocks in the 1990s or housing prices in 2007-2009. Great fortunes can be made and quickly lost during these speculative periods. After losing such a fortune in a major financial crash in London, known as the South Sea Bubble of 1720, it is claimed Sir Isaac Newton said that he "could calculate the motions of heavenly bodies, but not the madness of the people."

Today, we see bubbles floating all around us from special purpose acquisition companies (SPACs) to frothy initial public offerings (IPO's). A SPAC is also known as a "blank check" company as it is a shell corporation designed to take companies public with the promoters pocketing hefty profits. The SPAC raises money from investors with the intent to merge with a business within two years or return the cash to shareholders.

Investors have to take a leap of faith as they bet on something without a valuation or even an actual business. Not surprisingly, SPACs have had "un-spac-tacular" results. For the 114 companies that went public via SPAC mergers in the past 10 years, investors lost 16% on average if they bought a merged company's common shares on the first day of trading and held it for a year. With today's red-hot SPAC market and detached valuations, the losses now will likely be much greater.

The more conventional IPO market is also sporting extreme valuations as Wall Street is busy wheeling and dealing in a zero-interest rate environment. A good example is the recent IPO of Bumble, a women-centric dating app, which saw its stock price nearly double from its initial public offering price. This unprofitable company boasts a \$7.7 billion market capitalization. Bumble will likely tumble after all the excitement fades following its first date with investors.

Individual stock bubbles have been inflating and deflating due in part to zero-commission

trading among retail investors. A prime example is GameStop's stock. GameStop's stock price quickly deflated over 90% from its bubblicious high of \$483 per share only to partly reflate recently as games continue. The Reddit retail investors also moved into marijuana stocks creating smoke bubbles that have also popped. Tilray, an unprofitable cannabis stock, saw its stock price puffed up more than fivefold in a month to \$63 per share only to quickly drop more than 60% in a matter of days.

Recently, Tesla announced a \$1.5 billion investment in bitcoin, a volatile cryptocurrency. This prompts talk of a dubious double-bubble. Both Tesla and bitcoin have had parabolic price rises, which have become disconnected from any type of valuation measures. Don't be surprised to see a SpaceX-like crash landing in the future. Given Tesla's recent addition to the S&P 500 index and current \$650 billion market valuation, the collateral damage may reverberate across index funds.

Speaking of Elon Musk and cryptocurrencies, we cannot leave out Dogecoin, a digital currency that started as a joke. It features the face of a Shiba Inu dog and not much else. Following tweets about Dogecoin from Elon Musk and rapper Snoop Dog, Dogecoin's price spiked to be "worth" more than \$10 billion. However, Musk realized his tweet was no joke and later encouraged holders to sell all of their Dogecoins. Sadly, those left holding the bag will end up with nothing but a pile of doggy doo-doo!

Investors should be cautious when Mr. Market morphs into Mr. Bubble. Bubbles are all about price and nothing about valuation. The further a bubble inflates, the greater the price drops when the bubble eventually pops. Following the dot-com bubble, the NASDAQ crashed 77% and many dot-coms disappeared. While we don't know how long the bubbly will flow at the current party, we do know that it won't end well for those late to leave. As Warren Buffett has wisely warned, "Be fearful when others are greedy and greedy when others are fearful."

# STOCK PERFORMANCE

Stock-Symbol	Business	Purchase		Price 2-26-21	Total (c) Return	Advice*	Comment
		Date(a)	Price(b)				
Accenture-ACN	Consulting/Outsourcing	03-06-12	59.95	250.90	354%	HOLD	Free cash flow more than doubled in 1Q to \$1.5 billion
Alphabet, Cl A-GOGL Alphabet, Cl A-GOGL Alphabet, Cl C-GOOG	Technology	06-10-11 06-08-15 06-10-11	256.38 546.47 254.89	2,021.91 2,036.86	350% 699%	BUY	Free cash flow increased 38% in 2020 to \$42.8 billion with the company ending the year with \$157 billion in cash
Apple-AAPL	iPhones, computers, services	09-07-10	9.24	121.26	1,268%	HOLD	1Q free cash flow +24% to \$35 billion, ended 1Q with \$196 billion in cash
Automatic Data Processing-ADP	Human capital mgmt.	03-09-16 03-11-20	85.62 148.95	174.02	55%	HOLD	Free cash flow +8% in first half of fiscal 2021 to \$1.1 billion
Bank of Hawaii-BOH	Financial services	12-03-18 09-09-20	79.30 53.68	87.50	32%	HOLD	Trimming position (see p. 4)
Berkshire Hathaway-BRKB	Insurance/diversified	12-28-94! 03-10-00 03-17-00	21.56 27.45 34.13	240.51	803%	BUY	Repurchased \$25 billion of its common stock in 2020
Biogen-BIIB	Biotechnology	09-09-15	286.19	272.88	-5%	HOLD	Reported 37% ROE in 2020
Brown-Forman-BFB	Liquor	03-10-00	4.25	71.58	1,843%	HOLD	In first half, free cash flow +83%
Canadian National Railway-CNI	Railroad	06-08-15 12-03-19	58.05 88.61	109.32	34%	HOLD	Increased dividend 7%, marking 25th consecutive year of dividend increases
Check Point Software-CHKP	Cybersecurity	12-2-20	117.27	110.24	-6%	BUY	Strong balance sheet with \$4 billion in cash and no long-term debt at year end
Cisco Systems-CSCO	Internetworking	03-12-97	5.78	44.87	832%	BUY	Adding to position (see p. 9)
Cognizant Tech.-CTSH	IT consulting	09-07-12	33.43	73.48	129%	HOLD	Increased dividend 9% and announced new \$2 billion share buyback
F5 Networks-FFIV	Network technology	09-09-15	121.84	189.98	56%	HOLD	Acquiring Volterra for \$440 million in cash
Facebook-FB	Social media	06-04-18	193.35	257.62	33%	HOLD	New \$25 billion share buyback program
FactSet Research-FDS	Financial information	03-14-14	104.42	303.91	206%	HOLD	1Q revenue +6%, EPS +8%
Fastenal-FAST	Industrial supplies	03-10-00 09-07-17	2.44 20.85	46.37	199%	HOLD	Paid a special \$.40 per share dividend in 4Q and increased 2021 dividend 12%
General Dynamics-GD	Aerospace and defense	12-03-19	176.29	163.47	-4%	BUY	Free cash flow +45% in 2020 to \$2.9 billion
Gentex-GNTX	Auto mirrors	12-08-15	16.29	35.38	130%	HOLD	4Q sales +19% and EPS +49%
Genuine Parts-GPC	Diversified distributor	03-10-00 09-09-15 03-11-20	20.81 84.09 84.69	105.35	58%	HOLD	Increased dividend 3%, marking the 65th consecutive year of dividend increases. Dividend currently yields 3.1%
Hormel Foods-HRL	Food	06-14-01	6.01	46.37	811%	HOLD	Acquiring Planters snack nuts business for \$3.35 billion in cash
Intel-INTC	Semiconductors	09-09-20	49.84	60.78	23%	HOLD	Increased dividend 5%; free cash flow +25% to record \$21 billion in 2020
Johnson & Johnson-JNJ	Healthcare products	03-10-00 09-10-18	35.48 137.52	158.46	75%	BUY	Plans to deliver 100 million of its single-dose COVID-19 vaccine in 1H of 2021

\*All recommendations made in this newsletter may not be suitable for every account, depending on an individual's investment objective, risk-tolerance and financial situation. It should not be assumed that recommendations will be profitable or will equal the performance of securities listed here or recommended in the past. Clients should contact Hendershot Investments, Inc. if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account. (a) Date purchased for Hendershot IRA. See personal trading restrictions footnote on page 3. ! Received BRKB shares following acquisition of FlightSafety Int'l in Dec '96 and Int'l Dairy Queen in Jan '98 (b) Price includes commissions paid. (c) Total return includes dividends. NI-Net Income, Q-quarter, H-half, YTD-year-to-date, ROE-return on equity

(continued)

Stock-Symbol	Business	Purchase		Price 2-26-21	Total (c) Return	Advice*	Comment
		Date(a)	Price(b)				
3M-MMM	Diversified	03-07-07 09-10-18	73.70 213.64	175.06	15%	BUY	Increased dividend 1%, marking 63rd straight year of dividend increases
Mastercard-MA	Global payments	09-05-14	76.45	353.85	372%	HOLD	Increased dividend 10%; new \$6 billion buyback program
Maximus-MMS	Business services	06-02-16 12-03-19	57.54 73.70	81.28	23%	HOLD	1Q free cash flow increased 16%; raised outlook for fiscal 2021 to \$310-\$360 million
Microsoft-MSFT	Software	06-07-07 12-03-10	30.16 26.94	232.38	783%	HOLD	2Q sales +17%, EPS +34%; ended quarter with \$132 billion in cash
Nike-NKE	Shoes and apparel	03-07-17	56.55	134.78	144%	HOLD	2Q revenue +9%, NI +12%
Oracle-ORCL	Software	09-05-13	32.31	64.51	116%	HOLD	Free cash flow +10% in first half of fiscal 2021 to \$6.3 billion
Paychex-PAYX	Payroll processing	12-03-10 08-31-11	29.49 27.28	91.07	288%	HOLD	Paid \$447 million in dividends in first half of 2021; dividend yields 2.7%
PepsiCo-PEP	Food and beverages	03-14-14 03-07-18	81.89 109.42	129.19	74%	BUY	<b>Adding to position (see p. 11)</b>
Raytheon Technologies-RTX	Aerospace/Defense	09-10-01 03-06-19	18.45 78.40	71.99	1%	BUY	New \$5 billion share buyback program with plans to repurchase \$1.5 billion in 2021
Regeneron-REGN	Biotechnology	12-02-20	508.21	450.57	-11%	BUY	Received \$2.625 billion contract for REGN-COV antibody cocktail to treat COVID-19
Ross Stores-ROST	Off-price retailer	06-08-17	61.70	116.64	93%	HOLD	<b>Trimming position (see p. 4)</b>
SEI Investments-SEIC	Investment mgmt.	06-10-20	59.85	56.00	-5%	BUY	Increased dividend 6%
Starbucks-SBUX	Coffee retailer	06-10-14 12-11-17	37.26 58.61	108.03	116%	HOLD	In 1Q generated \$1.5 billion in free cash flow and paid \$528 million in dividends
Stryker-SYK	Medical technology	03-11-09	32.08	242.69	706%	HOLD	Increased dividend 9.6%
T. Rowe Price-TROW	Investment mgmt.	08-31-11 09-05-14 03-11-20	53.98 80.59 106.54	162.14	115%	HOLD	Increased dividend 20%, marking 35th consecutive year of dividend increases
The TJX Companies-TJX	Off-price retailer	06-12-00 09-09-15	2.54 36.18	65.99	173%	HOLD	<b>Trimming position (see p. 4)</b>
Tractor Supply-TSCO	Rural retailer	12-11-17	67.51	158.96	146%	HOLD	Increased dividend 30%; buying Orschein Farm and Home for \$279 million in cash
Ulta Beauty-ULTA	Beauty retailer	09-10-18	285.84	322.33	13%	HOLD	Launched <i>Conscious Beauty</i> at Ulta Beauty
UnitedHealth Group-UNH	Health care management	08-29-19	231.64	332.22	46%	HOLD	Free cash flow +23% in 2020 to \$20.1 billion
United Parcel Service-UPS	Package delivery	03-11-20	88.03	157.83	123%	HOLD	4Q sales rose 21%; free cash flow more than doubled in 2020 to \$5.1 billion
Walgreens Boots Alliance-WBA	Drugstores	09-12-08 06-08-17 06-10-20	36.38 81.83 44.97	47.93	-4%	HOLD	Divesting wholesale pharmaceutical business for \$6.5 billion

## PERSONAL TRADING RESTRICTIONS FOR PRINCIPALS AND EMPLOYEES

I take a long-term position in each stock recommended in this newsletter. Having earned the Chartered Financial Analyst (CFA) designation, I fully subscribe to the Code of Ethics and Standards of Professional Conduct of the CFA Institute. Accordingly, transactions for client accounts have priority over personal and employee transactions. To avoid any conflict of interest and to be fair to both my individual clients and subscribers, personal and employee trading is restricted to just four weeks a year. Personal and employee trading will occur only during the week following distribution of the newsletter to subscribers unless otherwise approved by the Chief Compliance Officer. The week following distribution of the newsletter will be measured as five business days after the mailing date of the newsletter. Positions may be purchased or sold for individually managed client accounts at any time and without regard to recommendations made in this newsletter.

# PORTFOLIO REVIEW

## BANKING PROFITS AT BANK OF HAWAII

Bank of Hawaii reported fourth quarter revenues declined 4% to \$164.8 million with net income and EPS each down 27% to \$42.3 million and \$1.06, respectively. For the full year 2020, revenues were relatively flat at \$680.7 million with net income down 32% to \$153.8 million and EPS down 31% to \$3.86.

Despite the many challenges faced during the year due to the COVID-19 pandemic, loan balances grew 8.6% in 2020 and deposit balances reached another record high—growing 15.4% aided by fiscal stimulus checks being deposited at the bank. Total assets expanded to a record high of \$20.6 billion at the end of the year with overall asset quality remaining stable and capital and liquidity remaining strong. The bank's efficiency ratio improved for the year to 54.9%. Due to low interest rates, the return on assets declined to 0.79%, the return on equity declined to 11.4% and the net interest margin declined to 2.73%.

In-person branch transactions have fallen sharply due to the pandemic with digital only transactions now representing 31% of total transactions compared to 22% a year ago. As a result, the bank plans to close 12 in-store format branches and sunset 50 ATM's in 2021 which will result in a \$6.1 million one-time cost but result in \$5.1 million in annual savings. There were no share repurchases in the fourth quarter, but the Board declared a \$.67 per share quarterly dividend to be payable on March 12, 2021, maintaining its unbroken record of dividend payments. The dividend currently yields a solid 3.1%.

**During the past quarter, Bank of Hawaii's stock price did the hula by dancing 18% higher. With the stock now appearing fully valued, we decided to bank some profits by trimming our position.**

## THE TJX COMPANIES INCREASED DIVIDEND 13%

The TJX Companies reported fourth quarter sales declined 10% to \$10.9 billion with net income and EPS both down 67% to \$325.5 million and \$.27, respectively. The fourth quarter results reflected the negative impact of temporary store closures due to the pandemic primarily in Europe and Canada. This resulted in lost sales during the fourth quarter of about \$1 billion. During the quarter, TJX saw sales trends improve each month with positive comp store sales in January. Fourth quarter earnings results were also negatively impacted by a higher tax rate and a debt extinguishment charge of \$.18 per share as the company refinanced its debt to lower borrowing costs.

For the full year, revenues declined 23% to \$32.1 billion with net income and EPS each down 97% to \$90.5 million and \$.07, respectively. The lower sales for the year reflected the adverse impact of temporary store closures for approximately 24% of the year due to the COVID-19 pandemic. During the year, TJX's free cash flow increased 40% to \$4 billion as the company curtailed store openings due to the pandemic. In fiscal 2022, the company plans to open 122 new stores with capital expenditures planned in the range of \$1.2 to \$1.4 billion. The company ended the year with \$10.5 billion in cash and is resuming its quarterly dividend at a rate of \$.26 per share or 13% higher than the last dividend paid in March 2020.

TJX currently has 690 stores that are temporarily closed due to COVID-19. Additional headwinds in fiscal 2022 include continued COVID-19-related costs and higher freight, wage and supply chain costs. Given these headwinds and the stock no longer appearing on the bargain rack, we have decided to trim our position. TJX's stock has jumped a pretty 26-fold over the last 21 years.

## ROSS STORES DRESSY PROFITS

Ross Stores has a similar business model as The TJX Companies. Accordingly, we anticipate similar headwinds will impact their results this year. Ross Stores rose 7% during the past quarter as investors looked forward to the economy reopening. With the stock appearing fully valued, we decided to pocket some profits by **trimming back our position. Ross Stores has provided a dressy 93% total return over the last four years.**

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**With part of the profits from Bank of Hawaii, The TJX Companies and Ross Stores, we plan to pop more PepsiCo and Cisco into our portfolio (see pp. 9 and 11). We will hold the remaining cash until attractive valuations appear.**

Personal and employee purchases will be made during the week following distribution of this newsletter. (See Personal Trading restrictions in the box on p. 3.)

## DIVIDENDS

Since the last issue, the following dividends per share were received: **Accenture** (\$.88), **Apple** (\$.21), **ADP** (\$.93), **Bank of Hawaii** (\$.67), **Brown-Forman** (\$.18), **Canadian National** (\$.45), **Cisco** (\$.36), **Cognizant** (\$.22), **FactSet Research** (\$.77), **Fastenal** (\$.25), **General Dynamics** (\$1.10), **Gentex** (\$.12), **Genuine Parts** (\$.79), **Hormel Foods** (\$.25), **Intel** (\$.33), **Johnson & Johnson** (\$1.01), **Mastercard** (\$.44), **Maximus** (\$.28), **Microsoft** (\$.56), **3M** (\$1.47), **Nike** (\$.28), **Oracle** (\$.24), **Paychex** (\$.62), **Pepsi** (\$1.02), **Raytheon** (\$.48), **SEI Investments** (\$.37), **Starbucks** (\$.45), **Stryker** (\$.63), **T. Rowe Price** (\$.90), **Tractor Supply** (\$.40), **United Parcel Services** (\$1.01), **UnitedHealth** (\$1.25) and **Walgreens** (\$.47).

**(continued)****REALIZED GAINS AND LOSSES OVER THE LAST 12 MONTHS**

COMPANY	DATE PURCHASED	DATE SOLD	GAIN/LOSS	COMMENT*
APPLE	09/07/10	03/11/20	+648%	Fully valued, trimmed position
BOOKING HOLDINGS	12/10/14 12/12/12	06/10/20 06/10/20	+56% +178%	Sold position due to long journey to full recovery and added debt
CANADIAN NATIONAL	06/08/15	09/09/20	+79%	Fully valued, trimmed position
CARRIER GLOBAL	09/10/01	06/10/20	+266%	Sold small spin-off position from United Technologies as did not meet our investment criteria
COGNIZANT	09/07/12	12/02/20	+134%	Fully valued, trimmed position
FACEBOOK	06/04/18	09/09/20	+43%	Fairly valued, trimmed position
MASTERCARD	09/05/14	03/11/20	+249%	Fully valued, trimmed position
MSC INDUSTRIAL	03/07/18	03/11/20	-42%	Sold position as sales and earnings declined due to industry weakness
ORACLE	09/05/13	12/02/20	+83%	Fairly valued, trimmed position
OTIS WORLDWIDE	09/10/01	06/10/20	+244%	Sold small spin-off position from United Technologies as did not meet our investment criteria
PEPSICO	03/07/18	03/11/20	+20%	Fully valued, trimmed position
TRACTOR SUPPLY	12/11/17	09/09/20	+108%	Fully valued, trimmed position
UPS	05/27/05 06/09/06 08/31/11 03/11/20	09/09/20 09/09/20 09/09/20 09/09/20	+114% +101% +136% +82%	Fully valued, trimmed position
WALT DISNEY	09/02/16	06/10/20	+30%	Sold position due to significant operating loss, increased debt and suspension of dividend

\*A stock meets our price target by reaching its near-term full value based on its expected price range over the next 12-18 months (see pages 6 and 7). When a stock reaches our price target, we generally sell half the position and reinvest the proceeds into other promising opportunities. The remaining shares are held for further potential long-term gains as intrinsic value grows over time. Stocks are also sold if business fundamentals deteriorate or better investment opportunities are available.

**Hendershot Investments, Inc. Investment Advisory Services**

Founded in 1994, Hendershot Investments' personalized portfolio management service exists to help you improve your long-term financial success and to conserve and grow your wealth. To that end, we invest in high-quality, well-managed companies at reasonable valuations and hold them for the long term. We extend a big "thank you" for the many client and subscriber referrals, as a referral is the biggest compliment you can pay us!

**Our Investment Discipline****We find great businesses at reasonable prices through extensive research.**

As long-time students of the stock market, we have developed valuation models to assess the relative merits of *HI*-quality companies. We scour annual reports, SEC filings and news to independently determine company valuations, thereby avoiding the pitfalls of herd-mentality investing. Quarterly earnings conference calls with management keep us abreast of corporate developments and give us insight into the heartbeat of corporate leadership.

**We adhere steadfastly to rigorous buy and sell disciplines.**

Our number one rule on the buy side is "Don't overpay for a stock." We want to buy with a margin of safety. We would rather pay a "fair price for a great business than a great price for a fair business."

As Philip Fisher stated, "If the job has been done correctly when a stock is purchased, the time to sell is almost never."

**We believe in patient investing for the long term.**

Quintessential investor, Ben Graham, described the stock market in the short term as an imperfect voting machine where stock prices are based partly on emotion and partly on reason. In the long term, the stock market is a weighing machine where prices are driven by fundamentals.

For this reason, we are willing to wait patiently until Mr. Market recognizes the value of our *HI*-quality firms.

# PORTFOLIO FUNDAMENTALS

COMPANY SYMBOL	EXP. ** PRICE RANGE	PRICE 2-26-21	This year Actual EPS	Next year Est. EPS	Current P/E	PRICE/ BOOK VALUE	PRICE/ SALES	DIV. YIELD	SALES 4-YR CAGR*	EPS 4-YR CAGR*	Return on Equity	Cash/ Equity	Debt/ Equity	Current Ratio	SALES (000)
AAPL	78-136	121.26	\$3.28	\$4.45	24.8	30.8	7.4	.7%	6%	9%	88%	295%	150%	1.2x	\$274,515,000
ACN	193-263	250.90	7.89	8.22	30.9	8.6	3.6	1.4	7%	5%	30%	47	15	1.5	44,327,039
ADP	139-204	174.02	5.70	5.93	30.2	12.6	5.1	2.1	6%	15%	43%	27	40	1.5	14,589,800
BF.B	51-76	71.58	1.72	1.88	37.3	15.9	10.2	1.0	2%	8%	42%	40	96	3.7	3,363,000
BIIB	192-314	272.88	24.80	17.17	11.0	3.9	3.1	-	4%	10%	37%	32	70	1.8	13,444,600
BOH	68-99	87.50	3.86	4.57	40.5	2.6	5.1	3.1	3%	-2%	11%	n/a	n/a	n/a	680,731
BRK.B!	214-275	240.51	14,198	16,000	25.4	1.3	2.3	-	3%	7%	10%	n/a	n/a	n/a	245,510,000
CHKP	103-147	110.24	5.96	5.90	18.5	4.5	7.5	-	4%	9%	24%	115	0	1.5	2,064,900
CNI	76-109	109.32	5.00	5.88	21.9	4.0	5.6	1.8	4%	2%	18%	3	61	0.9	13,819,000
CSCO	37-55	44.87	2.64	2.41	18.8	4.9	3.8	3.3	0%	6%	30%	78	24	1.6	49,301,000
CTSH	52-86	73.48	2.57	3.47	28.6	3.6	2.3	1.3	6%	6%	13%	29	14	1.9	16,720,000
FAST	30-44	46.37	1.49	1.57	31.1	9.2	4.7	2.4	9%	15%	31%	9	19	4.1	5,647,300
FB	181-358	257.62	10.09	11.37	25.5	4.8	7.2	-	33%	30%	23%	48	8	5.0	85,965,000
FDS	299-360	303.91	9.65	10.49	30.9	12.1	7.7	1.1	7%	4%	42%	61	60	3.5	1,494,111
FFIV	93-170	189.98	5.01	5.96	39.6	4.9	5.0	-	4%	-2%	14%	57	29	1.5	2,350,822
GD	133-204	163.47	11.00	11.16	14.9	3.0	1.2	2.7	6%	6%	20%	18	64	1.3	37,925,000
GNTX	22-33	35.38	1.41	2.05	25.1	4.4	5.3	1.4	0%	4%	18%	23	0	5.5	1,650,000
GOOGL!	1799-2520	2,021.91	58.61	69.75	33.0	6.1	6.0	-	19%	20%	18%	71	11	3.1	182,527,000
GPC	83-121	105.35	1.13	5.72	93.2	4.7	0.9	3.1	2%	-30%	5%	31	103	1.2	16,537,433
HRL	42-55	46.37	1.66	1.74	27.3	3.8	2.6	2.1	0%	0%	14%	27	24	2.5	9,608,462
INTC	49-69	60.78	4.94	4.34	12.3	3.0	3.2	2.3	7%	24%	26%	30	42	1.9	77,867,000
JNJ	141-184	158.46	5.51	8.35	28.8	6.6	5.1	2.5	4%	-2%	25%	40	52	1.2	82,584,000

\*\* Exp. price range—the expected price range for the stock in the next 12-18 months based on our valuation models and the historical trading range of the stock over the last five years. If the current price is below the low end of the expected range, the stock appears undervalued. If the current stock price is above the high end of the expected range, the stock appears overvalued. The expected price range will change based upon company developments. Highlighted stocks appear undervalued or are new additions. !Berkshire price is for the class B shares, the class A shares approximate 1500 times the B shares. !!GOOGL (the original class A share price is used for the table. GOOGL will typically trade slightly higher than the Class C non-voting shares (GOOG).

**(continued)**

COMPANY SYMBOL	EXP. ** PRICE RANGE	PRICE 2-26-21	This Year Actual EPS	Next Year Est. EPS	Current P/E	PRICE/ BOOK VALUE	PRICE/ SALES	DIV. YIELD	SALES 4-YR CAGR*	EPS 4-YR CAGR*	Return on Equity	Cash/ Equity	Debt/ Equity	Current Ratio	SALES (000)
MA	231-362	353.85	\$6.37	\$8.04	55.5	55.1	23.0	0.5%	9%	15%	100%	166%	188%	1.6x	\$15,301,000
MMM	143-220	175.06	9.25	9.59	18.9	7.8	3.1	3.4	2%	3%	42%	39	139	1.9	32,184,000
MMS	63-90	81.28	3.39	3.69	23.2	3.8	1.4	1.4	10%	6%	17%	6	10	1.7	3,461,537
MSFT	159-233	232.38	5.76	7.40	34.6	13.5	12.3	1.0	12%	22%	37%	101	49	2.6	143,015,000
NKE	99-146	134.78	1.60	3.02	48.7	3.5	5.7	.8	4%	5%	32%	111	116	3.0	37,403,000
ORCL	53-72	64.51	3.08	3.60	19.6	22.6	5.0	1.5	1%	10%	80%	317	668	2.7	39,068,000
PAYX	68-96	91.07	3.04	2.94	31.1	11.4	8.2	2.7	8%	10%	40%	30	28	2.0	4,040,500
PEP	124-159	129.19	5.12	6.05	25.2	13.3	2.5	3.2	3%	4%	53%	71	200	1.0	70,372,000
REGN	494-838	450.57	30.52	43.48	14.8	4.3	5.6	-	15%	41%	32%	61	18	4.5	8,497,000
ROST	80-121	116.64	4.60	1.22	137.2	13.8	2.6	-	8%	16%	49%	146	172	1.7	16,039,073
RTX	69-87	71.99	-2.29	3.74	n/a	1.5	1.9	2.6	n/a	n/a	Loss	15	46	1.2	56,587,000
SBUX	63-98	108.03	.79	2.62	186.3	n/a	5.4	1.7	2%	-20%	n/a	n/a	n/a	1.1	23,518,000
SEIC	47-82	56.00	3.00	3.65	18.7	4.7	4.8	1.3	5%	10%	26%	45	2	4.1	1,684,058
SYK	167-249	242.69	4.20	6.92	57.8	7.0	6.4	1.0	6%	-1%	12%	23	101	1.9	14,351,000
TJX	51-68	65.99	.07	2.62	942.7	13.6	2.5	1.6	-1%	-55%	2%	180	224	1.5	32,136,962
TROW	120-185	162.14	9.98	11.98	16.2	4.8	6.0	2.7	10%	20%	30%	70	0	n/a	6,206,700
TSCO	98-167	158.96	6.38	6.72	24.9	9.6	1.7	1.3	12%	18%	39%	70	167	1.9	10,620,000
ULTA	208-494	322.33	12.15	3.42	81.4	9.8	2.5	-	17%	25%	37%	30	90	1.8	7,398,608
UNH	245-380	332.22	16.03	17.31	12.3	2.0	1.2	1.5	9%	22%	23%	89	57	0.7	257,141,000
UPS	122-178	157.83	1.64	8.90	96.2	181.4	1.6	2.6	8%	-19%	100%	100+	100+	1.2	84,628,000
WBA	36-61	47.93	.52	2.86	n/a	2.0	0.3	3.9	4%	-39%	2%	3	166	0.7	139,537,000

\* CAGR-Compound Annual Growth Rate. n/a-not applicable due to financial stock or equity less than zero. Estimated EPS reflects consensus earnings estimate for current fiscal year. The valuation measures (P/E, price-to-book value, price-to-sales and dividend yield) are calculated using the closing price on the date listed in column 3. Balance sheet ratios (cash/equity, debt/equity and current ratio) reflect the latest quarterly financial statements. Return on equity and sales figures are as of the company's most recent fiscal year end.

# PORTFOLIO HI-LITES

## QUARTERLY MOVERS AND SHAKERS

During the past three months, the S&P 500 index rose 7.1% as vaccines started rolling out and investors looked forward to a more "normal" 2021. The following **HI**-quality stocks generated 10% or better gains during the same period.

### WALGREENS DIVIDEND YIELDS 3.9%

Walgreens reported fiscal first quarter revenues increased 6% to \$36.3 billion with the company reporting a loss of \$308 million, reflecting the adverse impact of COVID-19 on financial results. Free cash flow increased 13% during the quarter to \$764 million with the company paying \$405 million in dividends and repurchasing \$110 million of its common stock. The company announced plans to divest its pharmaceutical wholesale business for about \$6.5 billion with plans to use the cash proceeds to accelerate its investment in the VillageMD full-service primary care clinics within its stores. Walgreens' dividend yields a healthy 3.9%. **Walgreens' stock rebounded 28% during the past quarter. Hold.**

### TRACTOR SUPPLY INCREASED DIVIDEND 30%

Tractor Supply reported 2020 sales increased 27% to \$10.62 billion with EPS plowing up a 37% gain to \$6.38. During 2020, Tractor Supply delivered a bountiful 38.9% return on shareholders' equity and generated \$1.1 billion in free cash flow, up a fruitful 85% from last year. The company returned \$517.6 million to shareholders through share repurchases of \$343 million and \$174.6 million in dividends. Reflecting confidence in the business and its robust cash flow, Tractor Supply recently increased the dividend by a hefty 30%. **Tractor Supply has delivered a fertile 146% total return over the last four years. Hold.**

### CONSCIOUS BEAUTY AT ULTA BEAUTY

The company launched *Conscious Beauty at Ulta Beauty*, a first-of-its-kind initiative that will inspire more informed conscious product choices for guests, their loved ones and the environment. Through this program, Ulta Beauty will provide transparency around brands that use clean ingredients in their products, as well as whose products are cruelty free, vegan, use sustainable packaging and have a positive impact in communities. **Ulta Beauty's stock rose a pretty 18% during the past three months. Hold.**

### F5 NETWORKS \$440 MILLION ACQUISITION

F5 Networks reported fiscal first quarter revenues increased nearly 10% to \$624.6 million with EPS declining 13% to \$1.41. During the quarter, F5 generated \$132.7 million in free cash flow, up 9% from last year. F5 Networks announced the acquisition of privately held Volterra for approximately \$440 million in cash. In connection with the transaction, F5 raised its long-term revenue outlook. The company also initiated a \$500 million accelerated share repurchase in fiscal year 2021. **F5's stock whirled up an 18% gain during the past three months. Hold.**

### ORACLE FREE CASH FLOW UP 10%

Oracle reported second quarter revenue rose 2% to \$9.8 billion with EPS up 16% to \$.80. Free cash flow increased 10% during the first half of fiscal 2021 with the company paying dividends of \$1.4 billion and repurchasing \$9 billion of its stock. **Over the last three months, Oracle's stock is up 16%. Hold.**

### T. ROWE PRICE INCREASED DIVIDEND 20%

T. Rowe Price reported 2020 revenue rose 11% to \$5.7 billion with EPS up 15% to \$9.98. Ending assets under management increased 22% during 2020 to \$1.47 trillion. T. Rowe Price recently increased its dividend 20%, marking the 35th consecutive year since the firm's initial public offering that the company has increased its dividend. **T. Rowe Price's stock has tripled over the last decade. Hold.**

### BIOGEN 37% RETURN ON EQUITY

Biogen reported 2020 revenues declined 6.5% to \$13.4 billion with EPS declining 21% to \$24.80. Biogen generated a healthy 37% return on shareholders' equity in 2020. Biogen repurchased about 22.4 million shares of its shares during 2020 for \$6.7 billion, or \$298.17 per average share.

**Biogen's stock rose 12% during the past three months** as the company awaits news on whether its Alzheimer's drug will be approved by regulators around the globe. **Hold.**

### GENERAL DYNAMICS FREE CASH FLOW +45%

General Dynamics reported 2020 revenue declined 4% to \$37.9 billion with earnings down 9% to \$3.2 billion. Return on shareholders' equity for the year was a sturdy 20.2%. Free cash flow increased a strong 45% for the year to \$2.9 billion with the company paying \$1.2 billion in dividends and repurchasing \$587 million of its stock. Orders remained strong across the company. Backlog grew 10% in the fourth quarter to a record high \$89.5 billion due to key awards across business segments. **General Dynamics' stock bounced 10% higher in the last three months. Buy.**

# (continued)

## QUARTERLY RATING CHANGE FROM BUY TO HOLD

### INTEL INCREASED DIVIDEND 5%

Intel reported fourth quarter revenues declined 1% to \$20 billion with net income dropping 15% to \$5.9 billion and EPS down 10% to \$1.42. For the full 2020 year, revenues rose 8% to a record \$77.9 billion with net income dipping 1% to \$20.9 billion and EPS up 5% to \$4.94. This was the fifth consecutive year of record revenues for Intel thanks to strong customer demand in the PC-centric business segment with fourth quarter PC unit growth up 33% led by record notebook sales. The company also achieved better-than-expected data-centric results, including record Mobileye revenues. Return on shareholders' equity for the year was a strong 25.8%, reflecting the underlying profitability of the business.

Free cash flow increased 25% during the year to a record \$21.1 billion with the company repurchasing 274.6 million shares of its common stock for \$14.2 billion at a price of about \$51.71 per share while paying \$5.6 billion in dividends.

Intel announced a 5% increase in the dividend for 2021 at an annualized rate of \$1.39 per share. For the first quarter of 2021, Intel is forecasting revenue of \$17.5 billion with an operating margin of 30% and EPS of \$1.10. These results reflect the exclusion of the NAND memory business due to its pending sale. The exit of the NAND and McAfee businesses are expected to generate about \$12 billion in proceeds.

Intel announced that its board of directors appointed Pat Gelsinger as its new chief executive officer. Gelsinger is a highly respected CEO and industry veteran with more than four decades of technology and leadership experience, including 30 years at Intel where he began his career. **During the past quarter, Intel's stock jumped 34%. Hold.**

### GENUINE PARTS INCREASED DIVIDEND 3%

Genuine Parts reported 2020 revenues declined 6% to \$16.5 billion with adjusted EPS of \$5.27. Free cash flow more than tripled during the year to \$1.9 billion thanks to the sale of accounts receivables, improved working capital trends and lower capital expenditures. During the year, the firm paid \$453 million in dividends and repurchased \$96 million of its common stock. Genuine Parts announced a 3% increase in its dividend for 2021 to an annual rate of \$3.26 per share, marking the 65th consecutive year of increased dividends. The company has paid a dividend every year since going public in 1948 with the dividend currently yielding a solid 3.1%. Management expects a solid start to 2021 as the world recovers from COVID-19. Genuine Parts expects 2021 sales growth of 4% to 6% leading to EPS in the range of \$5.55 to \$5.75. **Genuine Parts' stock has quintupled over the last 21 years. Hold.**

### MAXIMUS FREE CASH FLOW UP 16%

Maximus reported first quarter revenue increased 16% to \$945.6 million with EPS up 13% to \$1.03. Growth was driven by new COVID-response work such as contact tracing, disease investigation and vaccination support. Free cash flow increased 16% during the first quarter to \$89 million with the company paying \$17.2 million in dividends and repurchasing \$3.4 million of its common stock. Maximus raised its fiscal 2021 financial outlook with revenues now expected in the range of \$3.4 billion to \$3.525 billion, EPS expected in the range of \$3.55 to \$3.75 and free cash flow expected in the range of \$310 million to \$360 million. **Maximus' stock rose 12% during the past three months. Hold.**

## QUARTERLY RATING CHANGE FROM HOLD TO BUY

### RAYTHEON TECHNOLOGIES NEW \$5 BILLION BUYBACK

Raytheon Technologies reported 2020 revenues were \$56.6 billion with the company reporting a loss of \$3.5 billion, reflecting the adverse effect of the pandemic on the aerospace sector. Backlog at the end of the year was \$150.1 billion, including \$82.8 billion from commercial aerospace and \$67.3 billion from defense. Management's outlook for 2021 is for sales of \$63.4 billion to \$65.4 billion with adjusted EPS of \$3.40-\$3.70. Free cash flow in 2021 is expected to increase to \$4.5 billion. The company authorized a new \$5 billion share repurchase program while remaining committed to paying and growing its dividend. The dividend currently yields 2.6%. As the aerospace sector recovers, free cash flow should normalize in the \$8 billion to \$9 billion range. With recent structural actions, Raytheon is well positioned for sustainable growth and profitability in 2021 and beyond and remains committed to returning \$18 billion to \$20 billion to shareholders in the next four years through dividends and share repurchases. **Buy.**

### CISCO SYSTEMS INCREASED DIVIDEND 3%

Cisco reported second quarter revenues were relatively flat at \$12 billion with net income down 12% to \$2.5 billion. During the first half of the fiscal year, Cisco paid \$3 billion in dividends and repurchased \$1.6 billion of its common stock. Cisco announced a 3% increase in its dividend, marking the tenth consecutive year of dividend increases. The dividend hike reflects Cisco's financial strength and management's confidence in future growth. The dividend currently yields a sturdy 3.3%. Cisco is seeing encouraging signs of strength across its business segments with 3.5% to 5.5% sales growth expected in the fiscal third quarter. **Buy.**

# UNDER THE SPOTLIGHT

## ALPHABET (GOOGL- \$2,021.91)

1600 Amphitheatre Parkway, Mountain View, CA 94043 [www.abc.xyz](http://www.abc.xyz)

*Alphabet is a collection of businesses — the largest of which is Google — which represents two segments: Google Services and Google Cloud. All non-Google businesses collectively are known as Other Bets. The Other Bets include earlier stage technologies managed with the discipline and rigor needed to deliver long-term returns.*

### GLOBAL BRAND

The very first web page was created in 1990 and by late 1992, there were a mere 26 websites in the world. However, just a few years later, web pages numbered in the tens of millions and searching for information became challenging. To address that challenge, Stanford University graduate students, Larry Page and Sergey Brin, built a search engine from their dorm room that used links to determine the importance of individual web pages. By 1998, they formalized their work and named their search engine Google, a play on the word, googol, which is the mathematical expression for a 1 followed by 100 zeroes. The name reflects the immense volume of information that exists and Google's mission to organize the world's information and make it universally accessible and useful.

Google's strong global brand is one of the most recognized in the world as millions of people use Google's services every day. Search results are no longer just web pages. They include images, videos, books, maps and more. In 2006, Google acquired YouTube, which lets billions of people watch and share original videos and professional content. With searches increasingly coming from mobile devices such as smartphones, Google developed Android, a mobile operating system that allows open interoperation across carriers. To enable faster searches, Google launched a web browser called Google Chrome which makes it easier for folks to use their favorite Google products like Google Maps, Gmail, Google Photos, Google Play, Google Docs and Google Translate.

Google's core products such as Search, Android, Maps, Chrome, YouTube, Google Play and Gmail each have over one billion monthly

Fiscal Year Dec.	4-YR CAGR	2020	2019	2018	2017	2016
Revenues (000,000)	19.3%	\$182,527	\$161,857	\$136,819	\$110,855	\$90,272
Net Income (000,000)	19.9%	\$40,269	\$34,343	\$30,736	\$12,662	\$19,478
EPS	20.4%	\$58.61	\$49.16	\$43.70	\$18.00	\$27.85
Profit Margin		22.1%	21.2%	22.5%	11.4%	21.6%

active users. In August 2015, Google created a new public holding company called Alphabet. Alphabet is a collection of businesses, the largest of which is Google. Google consists of the previously described Google Services and Google Cloud. Google was a company built in the cloud and the company continues to invest in infrastructure, security, data management, analytics and artificial intelligence. Alphabet also includes businesses known as the Other Bets which are currently unprofitable but making important strides in their various industries such as driverless cars, healthcare and other innovative ventures.

### OUTSTANDING GROWTH

Most of Google's products and services are free for users. The majority of the company's \$182 billion in revenue in 2020 came from advertising as Google's proprietary technology matches ads to the content of the pages on which they appear. Advertisers pay the company either when a user clicks on one of its ads or based on the number of times their ads appear on the Google Network. Thanks to the growth of the digital economy, Google has provided outstanding growth with revenues and earnings more than doubling over the last five years. In 2020, Alphabet reported fourth quarter revenues rose 23% to \$56.9 billion with net income jumping 43% to

\$15.2 billion and EPS up 45% to \$22.30. For the full 2020 year, revenues rose 13% to \$182.5 billion with net income up 17% to \$40.3 billion and EPS up 19% to \$58.61. Return on shareholders' equity for the year was a solid 18.1%. This strong performance was driven by Search and YouTube as consumer and business activity recovered from earlier in the year. Google advertising revenue increased 22% in the fourth quarter, including 46% growth in YouTube ads. During the pandemic, consumers flocked to online shopping and advertisers followed them, increasing their advertising in a digital world. Google Cloud revenues increased 46% in 2020 to \$13.1 billion. The company ended the year with a \$30 billion backlog for Google Cloud as companies are increasingly shifting their business to the cloud, including Google's recent deals with Ford, BNY Mellon and Twitter.

### FORTRESS BALANCE SHEET

Alphabet's free cash flow during the year increased 38% to \$42.8 billion with the company repurchasing \$31.1 billion of its common shares during the year. Alphabet ended the year with a fortress balance sheet with more than \$157 billion in cash and investments, \$25 billion in long-term debt and liabilities and \$222.5 billion in shareholders' equity. Long-term investors should google Alphabet, a **HI**-quality company with a strong global brand, outstanding growth and robust cash flows. **Buy.**

# UNDER THE SPOTLIGHT

## PEPSICO (PEP-\$129.19)

700 Anderson Hill Road, Purchase, NY 10577 [www.pepsico.com](http://www.pepsico.com)

*PepsiCo products are enjoyed by consumers more than one billion times a day in more than 200 countries and territories around the world. PepsiCo generated more than \$70 billion in net revenue in 2020, driven by a complementary food and beverage portfolio that includes Frito-Lay, Gatorade, Pepsi-Cola, Quaker, Tropicana and SodaStream. PepsiCo's product portfolio includes a wide range of enjoyable foods and beverages, including 23 brands that generate more than \$1 billion each in estimated annual retail sales.*

### STRONG BRANDS

In the late 1800's Caleb Bradham, a North Carolina pharmacist, created *Pepsi-Cola*. Several decades later in the 1930's, *Fritos* brand corn chips and *Lay's* brand potato chips started appearing in chip bowls. In 1965, the two firms completed a tasty merger adding salty snack foods to Pepsi's growing beverage business. Today, PepsiCo's revenues top \$70 billion with snacks accounting for 55% of sales and beverages 45% of revenues.

Hundreds of other great brands have since been launched and acquired. PepsiCo's product portfolio today consists of a panoply of strong brands which appeal to consumers of all ages. Twenty-three of PepsiCo's brands each generate retail sales of more than a billion dollars annually. *Pepsi-Cola, Gatorade, Tropicana Juice, Lay's Potato Chips, Diet Pepsi, Doritos, Cheetos, Fritos, Quaker, Aquafina, Sierra Mist* and *Mountain Dew* rank among the best-selling brands in U.S. supermarkets.

As consumer tastes shift toward healthier foods and beverages, PepsiCo has responded with baked snacks with lower fat content, such as *Stacy's Pita Chips* and *Baked Lay's Potato Chips*, and beverages with fewer or zero calories and less added sugar, such as *SoBe Lifewater, bubly, Propel* and *Gatorade Zero*.

### 2020 RESULTS

PepsiCo announced fourth quarter revenues popped 9% higher to \$22.5 billion with net income up 5% to \$1.8 billion and EPS up 6% to \$1.33. PepsiCo ended the year on a strong note with the global beverage business having accelerated while the global snacks and food business remained resilient. For the full year 2020, revenues rose 5% to \$70.4

Fiscal Year December	4-YR CAGR	2020	2019	2018	2017	2016
Sales (000,000)	2.9%	\$70,372	\$67,161	\$64,661	\$63,525	\$62,799
Net Income (000,000)	3.0%	\$7,120	\$7,314	\$12,515	\$4,857	\$6,329
EPS	4.1%	\$5.12	\$5.20	\$8.78	\$3.38	\$4.36
Dividend	8.0%	\$4.02	\$3.79	\$3.59	\$3.17	\$2.96
Profit Margin		10.1%	10.9%	19.4%	7.6%	10.1%

billion with net income down 3% to \$7.1 billion and EPS down 2% to \$5.12 reflecting increased COVID-19 related costs. In 2020, return on shareholders' equity expanded to a tantalizing 52.9%.

### BUBBLY CASH FLOW

Free cash flow increased a bubbly 18% to \$6.4 billion during the year with the company paying \$5.5 billion in dividends and repurchasing \$2 billion of its common stock.

Capital allocation strategies remain unchanged for the long term. PepsiCo's priority is first to reinvest in its business to drive growth and productivity—then to pay its growing dividend and strengthen its portfolio with bolt-on mergers and acquisitions—followed by share repurchases while maintaining access to debt capital markets at attractive rates.

PepsiCo recently announced a 5% increase in the dividend payment to an annualized \$4.30 per share, which represents the 49th consecutive year of dividend increases. The current dividend yields a yummy 3.2%. The company is not planning any large merger and acquisition activity or significant

share repurchases in 2021 as management focuses on debt repayment for recent acquisitions.

### EARNINGS OUTLOOK FOR 2021

For 2021, PepsiCo expects a mid single-digit increase in organic revenue growth and a high single-digit increase in core constant currency EPS growth. Management assumes that vaccination efforts will accelerate during the year leading to gradual improvement in consumer mobility to venues that sell PepsiCo products. At the same time, PepsiCo expects to sustain greater e-commerce activity due to continued remote work arrangements.

PepsiCo's long-term target for organic sales growth is 4%-6%. Operating margins are expected to expand 20 to 30 basis points each year thanks to further automation and digitalization. This should lead to high single-digit core constant currency earnings per share growth over time. Long-term investors should consider popping PepsiCo into their portfolio. PepsiCo is a **HI**-quality company with multiple strong billion dollar brands, bubbly cash flows, high profitability and a long-term track record of delivering sustainable sales, earnings and dividend growth. **Buy.**

# UNDER THE SPOTLIGHT

## MUNGER MUSINGS

The 97-year-old Vice Chairman of **Berkshire Hathaway**, Charlie Munger, provided these recent musings about the markets, investing and life.

### SPACS

In responding to a question about special purpose acquisition companies (SPACs), Charlie Munger stated SPACs are a way for early-stage investors to cash out of speculative companies using less sophisticated retail investors. He further explained in his blunt style, "It's just that the investment banking profession will sell sh\*\* as long as sh\*\* can be sold." He stated, "I think this kind of crazy speculation in enterprises not even found or picked out yet is a sign of an irritating bubble. I think it must end badly, but I don't know when."

### GAMESTOP

When asked about the frenzy around GameStop and other heavily shorted stocks, this is what Munger had to say:

"That's the kind of thing that can happen when you get a whole lot of people who are using liquid stock markets to gamble the way they would in betting on race horses. And the frenzy is fed by people who are getting commissions and other revenues out of this new bunch of gamblers. And of course, when things get extreme, you have things like that short squeeze."

He added, "It's not generally noticed by the public, but clearinghouses clear all these trades. And when things get as crazy as they were in the event you're talking about, there are threats of clearinghouse failure. So it gets very dangerous."

### ROBINHOOD

Asked about wretched excesses in the market today, Munger retorted, "It's

most egregious in the momentum trading by novice investors lured in by new types of brokerage operations like Robinhood. And I think all of this activity is regrettable. I think civilization would do better without it."

He added, "It's really stupid to have a culture which encourages as much gambling in stocks by people who have the mindset of racetrack bettors. And of course it's going to create trouble, as it did."

He continued, "If you're selling them gambling services where you rake profits off the top like many of these new brokers who specialize in luring the gamblers in, I think it's a dirty way to make money. And I think that we're crazy to allow it."

Munger concluded, "Human greed and the brokerage community create bubbles from time to time and wise people stay out of them."

### BITCOIN

Asked about bitcoin, Munger muttered, "I don't think bitcoin is going to end up the medium of exchange for the world. It's too volatile...to serve well as a medium of exchange." He added, "Bitcoin is really a kind of artificial substitute for gold. Since I never buy gold, I never buy any bitcoin, and I recommend other people follow my practice." Bitcoin, Munger said, reminded him of an old Oscar Wilde quote about fox hunting: "the pursuit of the uneatable by the unspeakable."

### BITCOIN VS TESLA

When asked what was more unbelievable, Tesla's stock price at a \$1 trillion valuation or bitcoin at \$50,000, Munger quoted the

lexicographer Samuel Johnson: "I can't decide the order of precedence between a flea and a louse." Munger said he feels the same way about those two choices. "I don't know which is worse."

### LOW INTEREST RATES

With the zero interest rate policy of the Federal Reserve, Munger stated it is hard to know how much government intervention is needed. He acknowledged he has no great gift in making macroeconomic predictions. He did note that everyone is willing to hold stocks at higher valuation multiples with interest rates so low. However, he said he did not get rich buying stocks at high multiples in crazy boom times and he is not going to change.

### VALUE INVESTING

When asked about value investing, Munger responded, "Value investing — the way I conceive it — is always wanting to get more value than you pay for when you buy a stock, and that approach will never go out of style. I think all good investing is value investing. It's just some people look for values in strong companies and some look for values in weak companies. But every value investor tries to get more value than he pays for."

### HAPPY LIFE

When asked how to live a happy life, Munger said it was easy: "The first rule is to set low expectations. That's one you can easily arrange. If you have unrealistic expectations, you're going to be miserable all your life."

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*Berkshire Hathaway's annual report was released as we went to press. See our website for more details.*

#### SUBSCRIPTION INFORMATION

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