

>: Buffett Buys GE, Goldman. Should You?

Monday, October 6, 2008 / Marie Albin

While I was sitting at my desk on Wednesday, I heard Chris Rowe marvel, "Warren Buffett is such a stud." Now, Chris does have a slight man-crush on Warren, but he's also happily married with baby number two on the way. So I figured that Buffett must have just pulled off a major coup.

Sure enough, I looked at the news and saw that Buffett's **Berkshire Hathaway (BRK.A)** had invested \$3 billion in **General Electric (GE)** preferred stock carrying a 10% dividend. Buffett also secured the option of picking up another \$3 billion worth of GE common stock at \$22.25 a share over the next five years. GE stock closed at \$24.50 on Oct. 1. For average Joe investor, GE's dividend yield is around 5%.

The GE deal was Buffett's second major move in the span of two weeks. On Sept. 23, Buffett agreed to buy \$5 billion worth of **Goldman Sachs (GS)** preferred stock with a 10% dividend — way better than the 1% dividend yield for the common stock. And just like the GE deal (you think GE was taking notes?), Buffett can double down over the next five years by purchasing \$5 billion of GS common stock at \$115 per share. Goldman shares closed at \$125.05 on Sept. 23.

Top officials at both firms also agreed not to sell any of the hundreds of millions of shares of their respective companies for the next three years with the exception of charitable contributions.

The dividend payments alone work out to an annual paycheck of \$800 million for Berkshire Hathaway.

[**Editor's Note:** Chris Rowe just bagged gains of 36%, 43%, and 52%. [Don't let profits like this get away. Go here now.](#)]

Clearly, Buffett thinks that bargains are aplenty in the current market. "Frankly, these markets are offering opportunities that weren't available six months or a year ago," Buffett told CNBC. "So we're putting money to work."

Buffett's timing isn't always perfect, though. Berkshire has held 7.78 million shares of GE since the first quarter of 2006. At the time, the shares were worth \$270 billion. Now, they are valued at \$190 billion as of Oct. 1 — down 42% over the past two years.

In the past year, GE's stock has dropped a whopping 47%. Its stock has not traded this low in over 5 years.

And Buffett acknowledged to CNBC that if Congress doesn't approve the bailout plan soon, then "I will have done some dumb things."

Nevertheless, Buffett doesn't see the bailout plan as a magical cure for the economy. In an interview on "The Charlie Rose Show," Buffett warned that the economy will face hard times for a while longer.

"This really is an economic Pearl Harbor," Buffett remarked. "That sounds melodramatic, but I've never used that phrase before. And this really is one."

"The recession is going to get worse," Buffett said. "I don't want to hold out false hopes that -- by some magic bullet -- that things will turn around in a couple months."

So I asked Chris what he thought about both GE and Goldman as long-term buys. Remember, the average investor isn't going to get a 10% dividend to hold onto these stocks.

Chris' verdict: Wait. "I wouldn't do the regular stock purchase for the long term," answered Chris. "Not yet, anyway. This bear market is likely not over. It's not time to buy yet."

Would he take the same deal Buffett did? "In a heartbeat," said Chris.

That's why Warren Buffett is such a stud.

What do you think about Buffett's deal with GE and Goldman? Do you think the common stock of either is a good buy right now? Leave your comments below.



Marie Albin

Chief Investment Officer

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Economic Calendar for the week of October 6 to October 10

Thursday, Oct. 9

8:30 Initial Claims

- **Importance (A-F):** This release merits a **C** .
- **Source:** The Employment and Training Administration of the Department of Labor.
- **Release Time:** 8:30 ET each Thursday (data for week ended prior Saturday).
- **Raw Data Available At:** <http://www.dol.gov/opa/media/press/eta/main.htm>.

Initial jobless claims measure the number of filings for state jobless benefits. This report provides a timely, but often misleading, indicator of the direction of the economy, with increases (decreases) in claims potential signalling slowing (accelerating) job growth. On a week-to-week basis, claims are quite volatile, and many analysts therefore track a four week moving average to get a better sense of the underlying trend. It typically takes a sustained move of at least 30K in claims to signal a meaningful change in job growth.

There are two other statistics in this report -- the number of people receiving state benefits and the insured unemployment rate; neither is watched closely by the market. Some analysts track the number of people receiving state benefits from month to month as a guide for job growth, though this series has a poor track record in predicting the monthly employment report. The insured unemployment rate changes little on a weekly basis and is never a factor for the market.

Big Picture

Unemployment claims are running at elevated levels, and now reflect labor market conditions that suggest very sluggish overall economic growth. The four-week moving average has risen to the 440,000 range. This is still not definitely recessionary, but it is close. The trend in claims suggests that payrolls will continue to decline in the months ahead.

Friday, Oct. 10

8:30 Trade Balance

- **Importance (A-F):** This release merits a **C** .
- **Source:** The Census Bureau and the Bureau of Economic Analysis of the Department of Commerce.
- **Release Time:** 8:30 ET around the 20th of the month (data for two months prior).
- **Raw Data Available At:** <http://www.census.gov/foreign-trade/www/press.html>.

The trade report is most widely watched for trends in the overall trade balance. But trends in both exports and imports of goods and services bear watching as well. The export data in particular are important to watch for indications that a strengthening competitive position at home and/or strengthening economies overseas are boosting U.S. growth. Imports provide an indication of domestic demand, but given the severe lag of this report relative to other consumption indicators, it

is not particularly valuable for this purpose.

The volatility in the monthly trade balance can play an important role in GDP forecasts. Net exports are a relatively volatile component of GDP, and the trade report provides the only early clues to the net export performance each quarter.

Big Picture

The trade data get less market attention than they deserve. Exports are booming, and the monthly data are an important part of overall GDP. In fact, exports are now over three times as large as the housing component in GDP. The improvement in the trade balance, particularly in the real (price adjusted) trade balance, has provided a significant boost to real GDP growth the past year. Further improvement in the trade balance over the year ahead will provide important support to the economy. Note: higher oil prices worsen the trade balance and GDP deflator, but do not directly impact the real trade balance or real GDP.