Warren Buffett and Berkshire Hathaway's Recent Investment Strategy Changes and the Reasons for the Corresponding Risk Measures

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Abstract. With the development and changes of the world economy, the size of the global securities market is gradually increasing, and the investment methods available for citizens to choose from are becoming more diverse. Stocks, as one of the most important investment methods, have also received increasing attention from investors. After experiencing a slow economic recovery, the distribution of global stock and securities markets is also constantly expanding. In recent years, the global ETF market has crossed new milestones, with a scale exceeding $11 trillion for the first time, showing an unstoppable development trend, reflecting the recovery and growth of the global securities market after experiencing the financial crisis. In addition, global stock indices have generally risen. Especially for assets that are lagging behind in 2023, it shows an upward trend in the global securities market after entering 2024. Due to the continuous changes and maturity of the economic landscape and securities market, it has brought huge social dividends and increased investor willingness. As an outstanding representative in the fields of stock and securities investment, Buffett's investment ideas and strategies have been highly valued by the general public. Therefore, studying typical cases of Buffett's investments has a guiding significance. This article will analyze Buffett's investment preferences and performance from 2023 to the first half of 2024, starting from the current international background and combining Buffett's value investment philosophy. It will provide reference suggestions for investment industry practitioners and regulatory agencies.

Keywords: Warren Buffett; investment strategy; risk measures.

1. Introduction

After the epidemic, all the countries have focused on economic development, and the overall international economic development has shown a relatively resilient upward and upward trend. Challenges and opportunities coexist, and countries are interdependent and interconnected, breaking the pattern of vertical division of labor in the world. However, in recent years, international issues have remained prominent, the Russia-Ukraine conflict and other hot issues have continued to ferment, and the intensification of cross-border trade friction poses a threat to the global economic recovery.

How to seize the international market opportunities in revovery is a major issue that needs to be focused on in the current development process of various fields. At the same time, there is an international trend of green development, and the central idea of energy transformation and low-carbon development has become a hot international trend. The new energy industry is in a development boom, showing great market dividends.

Buffett has unique stock investment standards and a "Buffett Value Investing" perspective. Every step of his choices provides an important indicator for the market and is a valuable resource for investors seeking investment strategies. However, China's securities market has only been established for more than 20 years, and the allocation of related resources is not perfect. However, due to the gradual improvement of the capital market and the gradual maturity of the regulatory system in recent years, many investors have seen the potential of the Chinese market. So, when the value investing concept meets the emerging securities market in China, Buffett's investment philosophy naturally attracts the attention of many investors. This research has reference significance for relevant practitioners and institutions.

2. Literature Review

2.1. Overview of Buffett's Value Investment Philosophy and Methodology

In the study of Warren Buffett's value investment philosophy, the principles can be divided into three fundamental concepts: economic moat, margin of safety, and concentrated investment. The subsequent discussion will offer a succinct overview of these three concepts, along with their corresponding investment strategies.

Comply with the concept of " moat." The corporate moat refers to a protective barrier that prevents competitors from entering a market, ensuring the long-term value generated by the company. Furthermore, under typical conditions, the elements that contribute to this moat include brand strength, management quality, intellectual property, and network effects. Companies that consistently achieve returns that exceed their cost of capital often possess a competitive moat, resulting in economic profits that are generally higher than those of their competitors. Therefore, it is essential for a company to prioritize long-term advantages, continuously improve the customer experience, and enhance operational efficiency, thereby reinforcing its competitive position.

Comply with the concept of "margin of safety." Buffett aspires for his entry price to be substantially lower than his current valuation of a company when assessing potential investments. The disparity between these two values constitutes his "marign of safety", which can be interpreted as the investor's strategy to invest in undervalued stocks. This process often requires the investor to determine the company's intrinsic value. According to Wang's research, the fundamental value of a corporation depends on the estimation of its expected future cash flows generated from its operational activities and the appropriate discount rate[1]. Consequently, the margin of safety associated with an investment can be evaluated from two aspects: the permanent loss of principal and the long-term investment returns.

Comply with the careful selection of value stocks, which should be undertaken following extensive long-term monitoring, on-site research, and thorough reading. Investment decisions ought to be guided by a comprehensive analysis of the company's financial health, management effectiveness, and other relevant factors. It is advisable to identify firms that consistently prioritize shareholder interests, exhibit stable operational performance, and uphold a commitment to ethical standards. In his examination of Warren Buffett's concentrated investment philosophy, Wang posits that diversified investment tends to increase the uncertainty and risks associated with an investment portfolio. Engaging in investments in companies that one does not fully comprehend, by adopting a broad investment strategy, is fundamentally an inappropriate approach.

2.2. Research on Buffett's Investment Preferences

Research on Warren Buffett's investment preferences primarily highlights two key aspects: investment philosophy and investment sectors. This study mainly examines Buffett's recent investment inclinations across various sectors. Prior research in this area has predominantly concentrated on analyzing investment principles and preferences.

Regarding investment philosophy, researchers are increasingly focusing on the principles of value investing. Xia conducted an analysis comparing the evolution of traditional value investment principles with the classic philosophies of Graham, Fisher, Buffett, and Peter Lynch [2]. The study concluded that investment can be comprehended in terms of businesses that exhibit clarity in their operations and exceptional long-term performance. Through empirical research, Chen, Yang, and Gao found that the index associated with Buffett's value investment philosophy demonstrates the strongest capacity for identifying annual stock returns and annual excess returns within this domain, indicating significant adaptability to the Chinese securities market [3]. Liu also discussed about the application of Buffett's investment philosophy in making investment strategy [4].

Regarding preferences, Buffett has consistently increased his investments in both the renewable energy sector and the conventional oil energy sector, reflecting current market trends. However, he has maintained a calm demeanor regarding developments in artificial intelligence. Chen's analysis suggests that Buffett has consistently demonstrated a lack of interest in "novel" investments [5]. Nevertheless, his adherence to investment principles does not imply that these principles are immutable. This is evidenced by the recent increase in investments within the energy sector, coupled with a reduction in his holdings of Apple stock. It is noteworthy that since 2021, Buffett's investment portfolio has shifted from a diversified focus on information technology, finance, and consumer goods to a significant expansion of investments in the energy sector.

The conclusions drawn from the research encompass a comprehensive analysis of Warren Buffett's investment preferences from various perspectives, which hold substantial relevance for the securities market in China. This study utilizes contemporary analyses of investment cases involving Warren Buffett to examine his investment preferences, thereby offering valuable insights and recommendations for investment firms and regulatory authorities.

3. Warren Buffett's investment preference and performance analysis

3.1. Optimistic about the field

3.1.1 New energy

In recent years, energy shortages have brought about a global energy transition boom, and countries around the world have made great efforts to coordinate green and low-carbon energy development and energy supply, which has huge research potential. Warren Buffett has been investing in clean energy since the early 2000s, and in his annual shareholder letter, he called it one of Berkshire Hathaway's "four jewels." In his view, investing in public energy "cannot make you rich, but you can save money", and in the face of a bad economic situation, such investments are very profitable.

Berkshire Hathaway's new energy heavy position BYD Company, the 225 million shares of BYD shares bought by Buffett in 2008 are now worth 54.045 billion Hong Kong dollars, an increase of nearly 30 times. In the process of Buffett continuing to increase the position of new energy stocks, Warren Buffett is optimistic about the future of new energy stocks, and now countries have issued a series of policies on fuel vehicles and traditional energy vehicles, he believes that although the new energy industry can not completely replace the traditional energy industry in the short term, it has long-term value, and the demand for new energy will continue to be strong in the future.

Berkshire Energy currently has about $70 billion in assets and more than 34 million kilowatts of installed power generation capacity owned or contracted under management, of which about a quarter of the capacity is owned by wind, solar, hydropower, geothermal and other new energy plants. This can reflect that the new energy field has great room for development at present and in the future.

3.1.2 Petrochemical energy

Although new energy vehicles have achieved remarkable results with the rise of the new energy industry, after the start of the Russia-Ukraine war, the soaring oil prices have made more countries and governments realize that oil is difficult to replace at this stage and for a long time to come.

During October 2023, Chevron and ExxonMobil acquired all of Hess's outstanding shares and Pioneer Natural Resources for $53 billion and $59.5 billion, respectively. Some analysts believe that the two recent large-scale mergers and acquisitions in the oil and gas industry show that United States oil giants are still betting heavily, believing that oil and gas will remain the core of the global energy world in the coming decades, and affirming the leading position of oil in laying carbon sets.

Occidental Petroleum, which Berkshire currently holds 208 million shares, has a purchase cost of about $53.2, and Occidental Petroleum shares are currently around $60, making a slight profit. It is worth noting that it also holds 83.86 million common stock purchase warrants with an exercise price of $59.62 and $10 billion of preferred stock with an 8% coupon rate.

Since Occidental Petroleum's shareholder returns are among the best in the industry, and Buffett has preferred shares with an 8% interest of $10 billion, plus a 23-year company dividend of $674 million, with a dividend yield of 1.27%, even if the stock price fluctuates, there is a high interest income and a considerable cash flow.

3.1.3 FMCG

Based on Warren Buffett's penchant for investing in stable companies, FMCG companies are an excellent choice. Most of the products of such companies tend to have high market demand and short replacement cycles, the company's main revenue has risen steadily, and the old consumer enterprises have a relatively stable market share, which is not easy to be replaced by new entrants. For example, the Washington Post, United States Express services and products, etc. In addition, the demand of consumer enterprises is relatively stable, which extends the life cycle to a certain extent, making it less susceptible to macroeconomic fluctuations, making it easier for investors to obtain stable dividends and capital appreciation income.

3.1.4 Insurance

As the largest industry at present, the insurance industry has brought great returns to Buffett, and it can be said that the investment in the insurance industry drives almost all of Buffett's investment returns. During the investment process, Buffett chose insurance as the basis for his conglomerate, Berkshire Thave.

In the process of research, it is not difficult to find that Buffett prefers P&C insurance, which is different from life insurance in that P&C insurance has greater flexibility, but risks and benefits coexist. This seems to be a refutation of Buffett's pursuit of a prudent investment approach, but the premise of Buffett's choice is that this type of insurance is within his "circle of competence", and the diversified insurance investment considered on this basis is more secure.

Since the second half of 2023, Berkshire has bought Chubb Insurance on a large scale, and as of the end of the first quarter of this year, Berkshire has purchased nearly 26 million shares of Chubb Insurance, with a cumulative shareholding value of about $6.7 billion, making Chubb Insurance the ninth largest heavy stock in Berkshire.

In the context of the hot world of AI, the market has great uncertainty, and the insurance business is one of the few areas where the market position will not be shaken in the future, with a simple and stable profit model and a stable dividend policy, which can provide Berkshire with stable cash flow. In the 2024 report, Berkshire's investment costs in banking, insurance, and financial stocks increased by another $1.4 billion in the first quarter.

3.2. Look at the declining field

3.2.1 Apple and other information fields

Berkshire has recently reduced its holdings in Apple stock for several quarters in a row, does this reflect Buffett's reduced focus on technology? On the contrary, the reduction is based on the rationality and safety of optimizing investment, Berkshire bought Apple shares at an average price of $99.49 per share, while Apple's current price is $234.03 per share. Therefore, choosing to sell Apple stocks out of strategic considerations is by no means a negative view of the overall concept of the technology field.

Warren Buffett said that the reduction of Apple in 24 years was due to tax reasons, but also because he focused on the stability and certainty of the company. In the next generation of information revolution, Apple will face great competition and uncertainty, although its probability of winning is still very high, but Buffett hates the uncertainty of refinement, which has nothing to do with Apple's stock price appreciation and business growth. However, this does not mean that Buffett is bearish on Apple, the latest corporate information disclosure shows that Apple has brought $1.7 trillion in profits to Berkshire Hathaway in 6 years, based on Buffett's long-term view of the stock and any judgment in the company's future long-term strategy, Apple will still be the first heavy company.

3.2.2 Banking

Warren Buffett bought $3 billion in United States Treasuries in '23, and as of '23, Berkshire's cash, cash equivalents and short-term United States securities totaled $157.24 billion, another all-time high. Berkshire, on the other hand, has put most of its cash in Treasury bonds with yields above 5%, partly because of rising interest rates, and partly because the lack of a market could provide a beneficial deal for Buffett's investments. Referring to the past history of the U.S. stock market, the United States stock market tends to perform sluggishly every August, especially in the 24th year of the United States election year. According to Buffett's dip buying operation in previous years, this is the best time for Berkshire · Hathaway to buy US bonds, increase debt and reduce equity and optimize allocation, which also makes this year's cash reserves hit a record high.

Warren Buffett's increase in cash in the form of U.S. bonds is a precursor to making big moves, and strong cash flow is for mergers and acquisitions or major investments, and second, to better respond to market changes. Under the influence of the external environment and past experience, it is not difficult to understand Buffett's recent behavior of buying U.S. bonds and cashing out Apple. Munger once said frankly that there are many banks in the world, but there are very few sane bankers. The competence and philosophy of the management has always been one of the factors that Berkshire considers whether to invest, especially in the banking industry, where the quality of the operation will be directly linked to the management's decision-making. Therefore, reducing the proportion of bank stocks in the investment portfolio can improve the rationality of Berkshire's investment and ensure the company's long-term development

4. Conclusion

Based on the classic case analysis of Buffett's investment strategy changes from 2023 to the first half of 2024, this study explores how Buffett relies on changes in strategic investments to achieve stable and upward returns in the context of turbulent international economic markets.

From the perspective of international market development trends, Buffett's investment conforms to the trend of green new energy development and technological innovation. His more than 30 holding companies are mainly concentrated in the three tracks of finance, energy, and optional consumption, closely related to the advantageous industries in the United States. It is not difficult to see that Buffett's investments tend to be concentrated in hard assets in the United States and globally.

Buffett's investment in Western oil is a long-term investment compared to other investments, focusing on the medium to long term trend of crude oil. He will not change his strategy due to temporary supply and demand. Buffett's increase in holdings of Western oil at the current position, combined with other interests, will also promote the rise of Western oil stock prices, further driving the expected rebound of energy stocks represented by fossil fuels such as oil, forming a linkage effect; Western Petroleum is one of the world's largest producers of fossil fuels, not only in the Permian Basin, the largest oil field in the United States, but also in one of the lowest cost companies, with a production cost of only $40 per barrel. Buffett may be optimistic about its abundant oil and gas resources in the United States, as well as its leading position in carbon capture. After completing the acquisition, Western Petroleum experienced a significant decline in stock price and market value due to market pessimism, issuance of a large number of bonds, and the pandemic. However, the increased demand for crude oil brought by the economic recovery after the epidemic and the Russia-Ukraine conflict and other factors have become the catalysts for the rise of oil prices, providing Buffett with a better opportunity to enter. Buffett is also quite satisfied with the company's operational management. After reading Western Petroleum's financial report, Buffett is satisfied with the company's operational progress, debt repayment, dividend increase, and focus on generating long-term, sustainable free cash flow. In an environment of high inflation and market volatility, crude oil is considered a good inflation hedge tool. Western Petroleum's net profit for the second quarter was 3.755 billion US dollars, a year-on-year surge of more than 36 times, and its free cash flow reached a record high of 4.2 billion US dollars that quarter. In addition, Berkshire Hathaway has a huge amount of cash and needs to find suitable investment targets to obtain greater returns. If Western Petroleum becomes a subsidiary of Berkshire Hathaway, it may do better than being a separate listed company. The stock price of Western Petroleum has risen by over 140% since the beginning of 2023, becoming the best performing stock in the S&P 500 index this year. Due to the uncertainty of the global economic environment and potential fierce competition in the field of technology and information in recent years, Buffett has also made significant reductions in his holdings of Apple Inc. Due to the significant increase in Apple's market value over the past few years, Buffett may believe that its valuation has reached or is close to its peak. Reducing holdings when overvalued can lock in profits and avoid potential market correction risks in the future. And recently, Apple has also made a series of internal adjustments, which have slowed down the growth rate of its core business. Therefore, Buffett's reduction of holdings in Apple is a strategic strategy that focuses on the stability and certainty of the enterprise, rather than evaluating and looking down on its value.

For relevant practitioners, the primary task is not to blindly follow and maintain a firm investment mentality during the investment process. During this process, one should not waver in their mentality due to market changes, learn more about international development trends and national policy changes, expand the scope of their "ability circle", and explore potential stocks; Secondly, in the investment process, more consideration should be given to the company's market value and net current assets. Companies with a P/E ratio higher than the industry P/E ratio and undervalued are often high-quality investment choices, and the focus should be on concentrated and long-term holdings. Choose high-quality companies that offer products in daily life, focusing on factors such as product sales, market reputation, and user experience; Finally, emphasize the "safety margin" attitude during the investment process, and choose to give up or patiently wait when the company does not have a "safety margin". Do not have a "clever investment" mentality.

For regulatory agencies, further implementing regulatory policies and improving the level of regulatory technology and personnel are the key at present; At the same time, regulatory agencies also guide investors in the market to focus on the actual operating conditions of listed companies, especially their expectations for future sustainability. We should actively promote the development of institutional investors as a cornerstone to ensure a healthy investment environment in the market. The core of developing such asset management businesses lies in whether a scientific, rational, and multidimensional investment system and concept can be formed.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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