

# The Oracle of Omaha

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Last night, in the cover of darkness, the great business leader Warren Buffet decided to go all in for the 'big win' with Bank of America. The details of deals like this are at best opaque and at worst indications of the deteriorating environment and the lack of business ethics (or any ethics at all). 5 billion dollars seems like a lot and maybe some are seeing an 'optimistic' signal in this -- don't be fooled, Buffet has been here before and typically does this during 'recessions'. This is no normal recession and it is doubtful that last night's trade was a normal transaction.

The real issue isn't whether this will help. It seems like bailing water with a thimble, so it seems doomed to failure. The real issue is why would the supposedly genius, brilliant, great man of investing decide to throw 5 billion at this DOG.

Here are some facts -- at a summary level. BoA is recording roughly 2.2 Trillion in Assets and 2 Trillion in liabilities. When seen in this context a 5 billion dollar 'buy' is chump change. Here is a little reality, that ASSET number is filled with unrecorded and impossible to audit toxic assets. If they have trillions in outstanding loans, roughly 1/3 of these could be unrecoverable and impossible to price. This means that the 'fair price' for BAC is not known. So, Buffet could throw ALL of his money at this leviathan and the only result would be Buffet going on welfare (or escaping the country to live off of secret accounts in Switzerland). On paper, based on what is published/public, it looks like Bank of America is about as healthy as GREECE -- but Greece could exit the EURO and print money (BoA does not have this option).

So, Why did Buffet do it? Here is what I think:

- 1) Buffet is sly -- He knows that the US govt and the FED will not allow BAC to crash. This virtually guarantees some kind of stimulus -- even if the form it takes is

a take over of BoA by the government with a guarantee of all loans. Such a thing would be horrible for our country and our constitution, but it seems possible.

- 2) Buffet is stupid -- Buffet might not be the genius people make him out to be and he is showing a grotesque lack of economic understanding. Without growth (which, yes, means jobs), there is not profit making and there is no 'gain' from this transaction.
- 3) Buffet is scared -- He knows what his analysts are telling him and what his peers (the rich) are telling him - the 'system' (so called) is melting down. We have not just ONE economic challenge but several and there are enough problems in the world economic system that Buffet may be doing what many do when they go through the Kubler-Ross stages of dying/grieving -- he is currently between denial and bargaining. The BAC transaction is a text book example of 'bargaining'. Or, it could be denial. In either case it is a pessimistic scenario.

I think it is number 3. I think he is scared, frightened and still believing that some deus-ex-machina (FED intervention) will save him and the US economy. While I think there will be further stimulus/easing on the part of the Govt. and the FED, I doubt it will help. I also believe that the likelihood of Bernanke changing his stance on further QE is unlikely to be announced tomorrow. Bernanke is smart and flawed -- smart people with bad ideas are typically careful in pushing their idea 'too far'. Bernanke's 'theory' about the Great Depression is that it was, fundamentally, a liquidity crisis. This is true. But here is the part of history Bernanke is leaving out -- our currency and our wealth has been a function of the access to cheap energy. You can spend and spend A LOT as long as energy is cheap. Fundamentally, civilization runs on energy -- the cheaper it is for you, the wealthier you can be if

you are willing to print money. So, in the 30's, we did not lack for cheap energy/resources -- we lacked for dollars to chase them. Bernanke might suggest more easing tomorrow, but that too could have unintended consequences (like a spike in OIL prices past 100/barrel or the further destabilizing of the developing world and of the nations of the middle east). More fake money puts pressure on the Saudis -- this too is dangerous. More fake money threatens the SLIM friendship with China -- this is extraordinarily dangerous. Buffet wants free money to save him and BAC, this seems like a fools bet.

It could be all of the above (not listed as an option). He could be sly, stupid and scared. As contradictory as this might seem, some of the most clever people in the history of business have also been quite stupid when it came to issues outside their own personal idiot-savant bailiwick.

When the history books are written, Buffet will be seen as great risk takers often are -- either as genius or villain. But, there could be a 3rd interpretation -- he might become known as a frightened fool and in that sense we may be seeing the eclipse of the "Oracle of Omaha". This is not the end of the world, but it could be a good reason to dump BRK (Berkshire Hathaway).

Here is the algorithm:

IF BAC drops below 7/share today, that could send ALL financials into panic (several trillions of wealth evaporating tends to do this)

IF BAC ends LOWER than its daily HIGH, then tomorrow looks very bad for BAC and for the whole market.

IF Bernanke announces more easing/stimulus (or even gently signals this), then the 'oracles' bet could (in the short term) be profitable. He will want to sell almost

immediately (within a few weeks) but he could make a bundle on this if it is a pump/dump maneuver (hard to believe Buffet would do this given his desire to be loved).

Good luck.