Buffett's value approach shows big gains

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Warren Buffett is up to his old tricks again.

The Oracle of Omaha refused to embrace technology stocks in general and dot-coms in particular during the late 1990s, saying he simply didn't understand them.

Despite the ridicule from Wall Street, Buffett refused to buy into the dot-com craze, a move that many mutual fund managers now wished they'd copied.

Instead, he stuck to his strategy of using his company, Berkshire Hathaway, to find value in companies nationwide.

As a result, Berkshire Hathaway shares have pretty much taken the stock market decline in stride. Berkshire is trading at a crisp $70,0000 a share, near its 52-week high of $74,600 and well off the low of $53,500.

If you had the foresight to plunk down $10,000 when Buffett took control of the struggling textile mill Berkshire Hathaway in 1965, that investment would be worth more than $43 million today.

Berkshire has become an economic powerhouse well known for its $1 billion or more in investments in the likes of American Express, Coca-Cola, Gillette, the Washington Post and Wells Fargo.

Despite Berkshire's stellar performance in the market, Buffett has steadfastly refused to split the stock over the past 36 years.

But several years ago, he authorized the creation of a junior grade of Berkshire stock. Its Class B stock trades at about $2,330 a share.

While much of corporate America has been reporting round after round of weak financial reports, life is just fine at Berkshire Hathaway.

The conglomerate reported a 21 percent rise in second-quarter net income and a 44 percent increase in earnings from operations. The company reported net income of $773 million, or $506 a Class A common share, up from $640 million, or $421 a share, in the year-earlier period.

While Buffett's billion-dollar investments tend to get the nation's attention, it's his wholly owned companies that produce the cash -- in huge quantities.

The companies span the wide spectrum of the American economy, but they have one thing in common: they produce profits.

The Omaha-based conglomerate is heavily invested in the property and casualty insurance business with such companies as GEICO, General Re and National Indemnity among its prime assets.

General Re, the world's No. 6 reinsurer, which has several years of underwriting losses, has admittedly been something of a drag on corporate profits. This past week, Buffett announced a change at the top by naming Vice President Joseph Brandon as its next chief executive as veteran leader Ronald Ferguson moves on to retirement.

In addition, Berkshire owns the Buffalo News, See's Candies, Benjamin Moore & Co., Scott Fetzer Cos. (Kirby home cleaning systems) and Buffett's favorite dining spot, International Dairy Queen, which also owns Orange Julius and Karmelkorn.

Berkshire owns several shoe businesses including H.H. Brown Shoe Co., Lowell Shoe Co., Dexter Shoe Co. and Justin Brands. And its retail furniture holdings include the Nebraska Furniture Mart, R.C. Willey Home Furnishings, Star Furniture and Jordan's Furniture.

Buffett isn't alone in having the ability to pick winners. For instance, former Fidelity Magellan manager Peter Lynch could match Buffett stock for stock. As a result, his investors made handsome profits in the years that he was at the helm of the nation's largest mutual fund.

Lynch looked for undiscovered stocks that became great growth plays on Wall Street.

Buffett is a value player who builds huge positions in companies that he thoroughly understands.

What separates Buffett and Lynch from many investors is that they won't overpay for a stock.

For Buffett, investment rule No. 1 is to never pay more for a stock than it's worth.

Instead, he's disciplined to stick to his long-term strategy. That's good advice for all of us.