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The Top Stock of Multimillionaires -- and 4 More Like It

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Would you like to know how successful entrepreneurs, former partners of Wall Street investment firms and top executives at Fortune 100 companies have invested their personal wealth? Michael Sonnenfeldt knows the answers to that question.

Talking investments with the super-wealthy

Sonnenfeldt is the co-founder of Tiger 21, a peer network of 140 ultra-high-net-worth individuals who collectively control \$10 billion in investable assets (i.e., the average member's assets exceed \$70 million). These folks pay \$30,000 in annual fees for the privileges of membership, first among which is the opportunity to access the collective investing intelligence of the group. Last week, Sonnenfeldt shared with Bloomberg the results of a member survey concerning their favorite investments.

Top stock: Berkshire Hathaway

Perhaps it's not a surprise that people who have created and sold businesses are drawn to **Berkshire Hathaway** (NYSE: BRK-A) (NYSE: BRK-B), a company built by the world's most successful investor-businessman, Warren Buffett. Beyond the enduring quality of the company's businesses, the stock's current valuation is attractive, as I highlighted last month in "Berkshire Hathaway is Extremely Cheap."

Four Berkshire 'clones'

Berkshire is unique in its success, but there are other great publicly traded companies that are built on uncommon investing acumen and a partnership culture. They include:

- **Brookfield Asset Management** (NYSE: BAM): Brookfield is a Canadian asset manager that owns and operates real assets (infrastructure, property, etc). Nevertheless, the principles they apply to asset selection are identical to the ones Buffett uses in picking stocks: Competitive advantage, cash returns and value creation are the criteria by which Brookfield evaluates any investment.
- **Leucadia National** (NYSE: LUK): Leucadia is a diversified holding company with interests in (among others): manufacturing, telecommunications, contract oil and gas drilling and gaming. The company also owns major stakes in two publicly traded companies (AmeriCredit and the Jefferies Group). Over the past 31 years, Leucadia has increased book value per share at an annualized rate of 18.5% -- nearly as impressive as Berkshire's performance over the same period (20.7%).
- **Loews** (NYSE: L): Loews' interests include three publicly traded subsidiaries in insurance, oil and gas drilling (Diamond Offshore Drilling (NYSE: DO)) and gas pipelines. Current CEO James Tisch learned the art of value investing under his father Laurence Tisch, who co-founded the company with his brother Preston. Loews shares currently trade at a 10% discount to their book value, compared to an average premium of 12% going back to the beginning of 1993.
- **Markel** (NYSE: MKL): Specialty insurer Markel openly models itself on Berkshire Hathaway. Since its 1986 initial public offering, the company has increased book value per share at an annualized rate of 21.2%. In order to achieve this remarkable result, management focuses on generating underwriting profits and obtaining superior investment returns on its float from its insurance operations. Chief Investment Officer Tom Gayner is a respected value investor; in joining the board of The Washington Post in 2007, he is following directly in Warren Buffett's footsteps.

Top mutual fund: Fairholme Fund

The mutual fund that received the most mentions from Tiger 21 members is the Fairholme Fund, a \$14.8 billion fund managed by Bruce Berkowitz, a devotee of Buffett-style value investing. Fairholme is highly risk averse – instead of focusing on how they will win, the Fairholme team spends a lot of time asking themselves how their investments could fail. This prudence has clearly served them well: According to Lipper, the Fairholme Fund has outperformed 99% of its peers over the prior five- and 10-year periods.

(Fairholme Fund's third largest position at the end of February (6% of assets)? Berkshire Hathaway. That's no coincidence.)

There is a common thread between investing in Berkshire Hathaway and the Fairholme Fund: The person with whom you are entrusting with your capital is absolutely committed to the preservation of your capital. Without achieving this initial hurdle, there can be no capital growth.

Invest like a (retired) entrepreneur

As much as entrepreneurs -- the core group of the Tiger 21 membership -- are risk-takers when they are creating a business, they tend to be much more risk-averse once they have sold a business. In that regard, we can all learn from the super-rich: In investing, one's first preoccupation must be to avoid losing money. Once that is assured, it is much easier to identify the paths to a satisfactory return.

