In future tabulations of our financial results, we expect to focus on Berkshire’s market price. Markets can be extremely capricious. Just look at the 54-year history laid out on page 2. Over time, however, Berkshire’s stock price will provide the best measure of business performance.

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Before moving on, I want to give you some good news – really good news – that is not reflected in our financial statements. It concerns the management changes we made in early 2018, when Ajit Jain was put in charge of all insurance activities and Greg Abel was given authority over all other operations. These moves were overdue. Berkshire is now far better managed than when I alone was supervising operations. Ajit and Greg have rare talents, and Berkshire blood flows through their veins.

Focus on the Forest – Forget the Trees

In each of our businesses, we own a forest of “trees,” and groves consisting of ten or more trees, ranging from twigs to redwoods. A few trees are diseased. Many though, are destined to grow in size and beauty.

Fortunately, the majority of our groves deliver great value to Berkshire, where our business is concerned, because our forest contains “groves” of major importance, those groves are differentiated clusters of insureds that, when taken together, deliver great value to Berkshire in a less obvious manner.

Before moving on to the first few groves, let me remind you of the importance of the competitive advantage of being able to buy ably-managed businesses at sensible prices.

We can buy control of businesses that meet our tests. We often acquire a 5% to 10% interest. Our two-pronged approach is rare in corporate America and, at times, gives us an important advantage.

In recent years, the sensible course for us to follow has been clear. We would obtain a controlling block in their opinion. We apply this to buy about $5 billion of available equity businesses for about $10 billion. Charlie and I believe we missed the offered excellent value, the opportunity available to us.

Despite our recent additions to our corporate forest, the most valuable grove in Berkshire’s forest remains the many dozens of businesses that Berkshire already owns. Those subsidiaries are dedicated with a keen eye to “earned,” moreover, we are describing what remains after all income taxes, interest payments, managerial compensation (if any), and non-cash restructuring expenses, depreciation, amortization and home-office overhead.

That brand of earnings is frequently touted by Wall Street bankers and corporate CEOs. Too often, their presentations feature “adjusted” measure that redefines “earnings” to exclude all-too-real costs.