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What Will Berkshire's Buffett Do With $109 Billion? (Hint: No Bitcoin)

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As investors and Warren Buffett followers ponder what **Berkshire Hathaway** (BRKB) will do with its swelling, record-high pile of cash, analysts say options include a major acquisition, buying more stocks like **Apple** (AAPL), doing nothing, or even a first-ever dividend.

The holding company held $109.3 billion in cash and equivalents at the end of the third quarter and will grow by some $3 billion more in December thanks to a bet on the burger business years ago. The record cash hoard is more than five times the $20 billion that CEO

Buffett likes to keep on hand, and many shareholders want to see Berkshire put the money to greater work.

Hopes are high that Berkshire could shake things up with a deal to rival its $37 billion Precision Castparts purchase in 2016 or its $26 billion Burlington Northern Santa Fe railroad purchase in 2010, especially since an attempt this year to buy electric utility Oncor fizzled, while investments in a real estate investment trust and a Canadian mortgage lender hardly made a dent in Berkshire's cash.

Buffett even acknowledged to Berkshire shareholders in May that it had been a while since he had pressed his "foot to the floor" on an acquisition, and rued keeping so much cash just lying around. But he said the question is: "Are we going to be able to deploy it?"

One challenge facing a Berkshire megadeal is stiff competition among U.S. companies looking to grow through acquisitions. Just in the last month, **CVS Health** (CVS) agreed to buy **Aetna** (AET) for $69 billion and **Disney** (DIS) reached a deal to buy most of **21st Century Fox's** (FOXA) assets for $66 billion. The number of U.S. deals totaled 9,999 through Dec. 26, up 4.5% vs. all of 2016, according to Dealogic. And while deal values have slipped 14% to $1.492 trillion so far this year, they top the yearly average of approximately $1.137 trillion since 1995.

Deal ...

Cathy Seifert, an equity analyst at investment research firm CFRA, thinks a key deal — or two — is likely. What she described as Berkshire's "embarrassing" Oncor loss may have left Buffett with the itch to prove his deal making chops, though she doesn't expect him to buy some hot tech company.

"My sense is, valuation aside, there is still definitely an appetite to do deals," Seifert told Investor's Business Daily.

A famously value-driven, opportunistic investor, Buffett's likely to scout for acquisition candidates in underperforming sectors as well as those that tend to do well late in the economic cycle. So think consumer staples, industrials, energy and telecom, Seifert said, adding that Buffett could also look abroad for acquisitions, especially Europe given the healthy recovery in many economies there.

As for individual names that Berkshire could target, FactSet Research suggested **Nike** (NKE), **Cognizant** (CTSH), **BlackRock** (BLK), **SAP** (SAP) and **Public Storage** (PSA) among other companies. These companies check off Buffett's main acquisition criteria: sizable businesses, solid returns on equity, stable profits, low debt, able management, well-loved brands and simple business models.

But any megadeal may be done with 3G Capital, which has teamed up with Buffett lately, including on the **Kraft-Heinz** (KHC) merger and the Burger King deal that eventually created **Restaurant Brands** (QSR).

... Or No Deal

Actually, a splashy new deal is unlikely in the year ahead, said Robert Miles, the author of several books on Buffett. After a long bull market and stocks at record highs, a good deal is hard to find, and Buffett is "a **Walmart** (WMT) shopper when it comes to stocks and companies" — meaning, he looks long and hard at valuations.

Miles said the 87-year-old Berkshire chief could bide his time "until the next calamity in financial markets" to jump on a megadeal.

Meanwhile, the insurance segment remains Berkshire's cash cow and is its most important segment, notwithstanding this year's series of disasters that will force hefty payouts.

The insurance operations require keeping a safe cushion for catastrophe claims, but it also produces a float — cash holdings from premiums collected ahead of claims that the company invests.

Last year, Berkshire posted a combined $6.6 billion in underwriting profits and investment income tied to its prized and expanding float. So basically, Buffett "got paid about 6%" for holding his billions, Miles said. This puts the CEO in an enviable situation.

"Buffett doesn't have to be in a hurry to go out and make silly investments," he added. "He is getting paid to wait."

It's Berkshire's portfolio of stock holdings that draws especially intense interest, as Buffett fans try to mimic these investments. In Miles' view, Buffett could hand the cash pile over to Berkshire money managers like Todd Combs and Ted Weschler to buy more shares of Apple or smaller-cap equities.

When it comes to stocks, Seifert thinks Buffett is more likely to continue to make equity investments in technology and financials.

One thing he won't do? Speculate on some investment driving others to a fever pitch. "He's not going to buy Bitcoin, I can pretty much guarantee you that," Miles said.

Dividends, Buybacks?

Morningstar sector strategist Gregory Warren suggests Berkshire should try something new with its growing cash hoard: share repurchases and dividends.

But that would mark a change of heart for Buffett. He is famously skeptical of such uses for excess cash, preferring to see it reinvested to grow businesses. But Warren argues that with more than $100 billion on its balance sheet, Berkshire should at least consider "a large one-time special dividend" soon.

The windfall that will be seen on corporate ledgers after the GOP's tax cuts is expected to result in more repurchases and fatter dividends. And Berkshire stands to gain handsomely from lower taxes too.

In September, when Congress was still discussing a 20% rate vs. the 21% that eventually passed, Barclays analyst Jay Gelb wrote that a cut to 20% could add $27 billion to Berkshire's book value by lowering its deferred tax liability and raise its earnings power by about 15%.