

BUFFETT PARTNERSHIP, LTD.

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WARREN E. BUFFETT, GENERAL PARTNER  
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November 1, 1966

April 10, 2022

To My Partners for 1967:

Enclosed is the usual packet of light reading for the fall semester:

1. Two copies of the Commitment Letter for 1967, one to be kept by you and one to be returned to us. You may amend the Commitment Letter right up to midnight, December 31, so get it back to us early and, if it needs to be changed, just let us know by letter or phone. Commitment Letters become absolutely final on December 31 -- there can be no exceptions to this rule since I turn them over to Peat, Marwick, Mitchell & Co. at that time.
2. A tax letter giving my best present estimate of how the picture will look at yearend regarding 1966 realized investment transactions.
3. A copy of my annual sermon, "The Ground Rules." This should be read -- slowly -- before you execute your Commitment Letter. We should vibrate on the same frequency regarding the fundamental matters outlined therein. If we don't, we should not be in partnership together.

Any withdrawals will be paid January 5. You may withdraw any amount you desire from \$100 up to your entire equity. Similarly, additions may be for any amount and should reach us by January 10. In the event you are disposing of anything, this will give you a chance to have the transaction in 1967 if that appears to be advantageous for tax reasons. If additions reach us in November, they take on the status of advance payments and draw six percent until yearend. Additions reaching us in December do not draw interest.

Because the door has been shut regarding new entrants (unless they have something to contribute to the partnership other than simply capital), several partners have inquired regarding friends or relatives contributing indirectly through the present partner's account. General Provision 9 of

our Partnership Agreement prohibits such arrangements. A Ruling Letter issued by the Treasury Department in 1961 finds that we are a partnership rather than an association taxable as a corporation, but a condition attached to that Ruling Letter is that we act in accord with our Partnership Agreement as submitted to them. We have always done this. Furthermore partners acquiescing to such an indirect arrangement might find themselves in an awkward, tedious and perhaps contentious proceedings if such untoward events as death, disappearance, divorce, tax examinations, etc. occur. For these and other reasons, it is most important to you and the partnership that you contribute no funds on behalf of others.

generals -  
relatively  
undervalued  
perform worse  
than the Dow

+17%

We continue to enjoy a better than average year but the second half has proven much more difficult than the first half. Our general market securities "relatively undervalued" category, which substantially outperformed the Dow through June, has performed somewhat worse than the Dow since that time. Our much smaller investment in workouts has done well, approximately offsetting this poor comparative performance in "generals - relatively undervalued." Combining all categories leaves us margin over the Dow a shade better than the seventeen percentage points reported at midyear. If this advantage persists through yearend, it should be regarded as decidedly better than expected and partially the reflection of a falling market. With the Dow down 14% at its recent level near 810, this leaves us at about plus 4% (before any payments to partners) for the year to date. Recent markets have been fairly volatile and any further important decline in the Dow will most certainly reflect itself in our signi-

There is some chance, therefore, that our results will be a net minus for the year. If they are anything less than plus 6%, partners who have been drawing that amount will find their yearend capital account reduced from January 1. Also, any result below plus 6% will result in a carry-forward of that deficiency which will apply in future years before I, as general partner, participate in any gain attributable to your capital in excess of 6% per annum.

market price  
irrelevant w/  
control  
situations

Previous letters have discussed the valuation of our investments in controlled companies. Market price, while used exclusively to value our investments in minority positions, is not a relevant factor when applied to our controlling interests. When our holdings go above 50%, or a smaller figure if representing effective control, we own a business not a stock, and our method of valuation must therefore change. Under scoring this concept is the fact that controlling interests frequently sell at from 60% to 500% of virtually contemporaneous prices for minority holdings.

The dominant factors affecting control valuations are earning power (past and prospective) and asset values. The nature of our controlled busi-

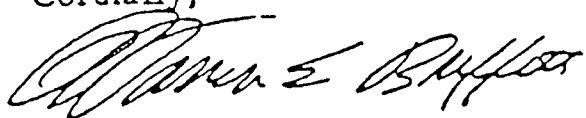
the quality of the assets involved, and the fact that the Federal Income Tax basis applicable to the net assets substantially exceeds our valuations, cause us to place considerably more weight on the asset factor than is typical in most business valuations. We have previously used a valuation half way between net current asset value and book value for Berkshire Hathaway. This will most probably produce a figure substantially above yearend market value for minority shares and this same situation is likely to prevail throughout 1967. Early in 1966, the reverse was true. In the midyear letter, we announced our intention to use cost plus subsequent retained earnings for Hochschild, Kohn.

Recent conditions in the securities and money markets raise the question of whether these formulae would be valid under all circumstances. The Partnership Agreement charges me with the responsibility for establishing fair value for controlling interests, and this means fair to both adding and withdrawing partners at a specific point in time. Wide changes in the market valuations accorded stocks at some point obviously find reflection in the valuation of businesses, although this factor is of much less importance when asset factors (particularly when current assets are significant) overshadow earning power considerations in the valuation process. Similarly, a dramatic change in the availability (not so much the cost) of money for financing business purchases has some effect on the value of businesses. While such circumstances may only be short term factors, my responsibility is to value our controlling interests as of a given date (yearend) and all factors (including those mentioned above) existing at that time must be considered.

As conditions stand today, I do not believe any change in our valuation formulae will be appropriate. I intend to carefully consider all factors in late December and possibly decrease our yearend valuation of Berkshire and H-K if conditions (particularly those in the security and money markets) dictate such revaluations. Should a valuation decrease be warranted, you will be advised, prior to yearend, in our December 23 letter confirming the status of your Commitment Letter. If such a revision is made, it will not dramatically change the performance reported on the preceding page.

If anything in this package needs clarification, call or write John Harding. Beat the Christmas Rush (or, better yet, the Thanksgiving Rush) and get your Commitment Letter back to us promptly.

Cordially,



Warren E. Buffett

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