Buffett on Investing in Stocks Today

'Unfortunately, the hangover from [the market bubble] may prove to be proportional to the binge.'
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By Warren Buffett

In a section of his upcoming annual letter to shareholders separate from the derivatives discussion, Buffett talks about stocks, cash, and the lure of junk bonds. A list of Berkshire's major common stock investments (those with a market value of more than $500 million at the end of 2002) will be posted on March 8, on www.berkshirehathaway.com.

We continue to do little in equities. Charlie and I are increasingly comfortable with our holdings in Berkshire's major investees because most of them have increased their earnings while their valuations have decreased. But we are not inclined to add to them. Though these enterprises have good prospects, we don't yet believe their shares are undervalued.

In our view, the same conclusion fits stocks generally. Despite three years of falling prices, which have significantly improved the attractiveness of common stocks, we still find very few that even mildly interest us. That dismal fact is testimony to the insanity of valuations reached during The Great Bubble. Unfortunately, the hangover may prove to be proportional to the binge.

The aversion to equities that Charlie and I exhibit today is far from congenital. We love owning common stocks--if they can be purchased at attractive prices. In my 61 years of investing, 50 or so years have offered that kind of opportunity. There will be years like that again. Unless, however, we see a very high probability of at least 10% pretax returns (which translate to 6% to 7% after corporate tax), we will sit on the sidelines. With short-term money returning less than 1% after-tax, sitting it out is no fun. But occasionally successful investing requires inactivity.