A HUNTING GROUND FOR POTENTIAL BUFFETT ACQUISITIONS

Jeremy Schwartz — Global Chief Investment Officer
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Warren Buffett's annual shareholder letter for Berkshire Hathaway was released on February 28. Each year, investors far and wide comb the letter for its insights and wisdom, and this year is no exception. There is one passage that—more than any other—reveals how Buffett thinks about attractive investment options: his list detailing requirements for acquisitions. It is excerpted below: **Berkshire Hathaway Inc. Acquisition Criteria** We are eager to hear *from principals or their representatives* about businesses that meet all of the following criteria: 1) Large purchases (at least $75 million of pre-tax earnings unless the business will fit into one of our existing units), 2) Demonstrated consistent earning power (future projections are of no interest to us, nor are "turnaround" situations), 3) Businesses earning good return on equity while employing little or no debt, 4) Management in place (we can't supply it), 5) Simple businesses (if there's lots of technology, we won't understand it), 6) An offering price (we don't want to waste our time or that of the seller by talking, even preliminarily, about a transaction when price is unknown). The key phrase I'm focused on is "businesses earning good returns on equity while employing little or no debt." I liked this phrase particularly because WisdomTree offers a series of Indexes—our "Dividend Growth" family—that employs this "Buffett factor" of return on equity (ROE) and return on assets (ROA) as a driving force for stock selection. The reason we included ROA in powering stock selection is that it penalizes the use of debt (leverage) in delivering ROE; therefore, the resulting list of companies that qualify for our Indexes tend to also employ little debt. **Getting Diversified Exposure That Passes Buffett's ROE Rule** Warren Buffett is always going to be a master stock picker, and he is able to get special acquisitions due to the terms he can offer. As he said in this year's letter, he can usually tell within five minutes if he is interested in a company's acquisition terms. For the rest of us, getting diversified exposure to stocks that have those characteristics via an index-based strategy can be a compelling strategy. Another segment of Buffett's letter advises us to follow the principles of Jack Bogle and follow low-cost[1] diversified index-based strategies. Buffett wrote: *Investors, of course, can, by their own behavior, make stock ownership highly risky. And many do. Active trading, attempts to "time" market movements, inadequate diversification, the payment of high and unnecessary fees to managers and advisors, and the use of borrowed money can destroy the decent returns that a life-long owner of equities would otherwise enjoy. … The commission of the investment sins listed above is not limited to "the little guy." Huge institutional investors, viewed as a group, have long underperformed the unsophisticated index-fund investor who simply sits tight for decades.* If I combine Buffett's two principles: focusing on stocks with high returns on equity and little to no debt and his belief in the "unsophisticated index" approach to investing, I think of the WisdomTree U.S. Dividend Growth Fund (DGRW), whose underlying investment strategy selects companies based on their high ROE and high ROA characteristics. **Top 20 Holdings of**

Ticker	Company Name	Weight	Return on Equity	Debt as % of Assets	P/E Ratio	Dividend Yield
XOM	Exxon Mobil Corp	5.2%	18.7%	8.3%	11.8x	3.1%
AAPL	Apple Inc	4.4%	35.1%	15.2%	17.3x	1.5%
MSFT	Microsoft Corp	3.5%	23.4%	13.1%	16.6x	2.7%
MO	Altria Group Inc	3.2%	142.1%	42.6%	22.0x	3.6%
PEP	PepsiCo Inc	2.8%	31.3%	41.0%	21.7x	2.6%
MCD	McDonald's Corp	2.5%	33.0%	43.7%	20.5x	3.4%
IBM	International Business Machines Corp	2.3%	69.4%	34.7%	9.7x	2.7%
INTC US	Intel Corp	2.1%	20.3%	14.9%	14.2x	2.8%
HD	Home Depot Inc	2.0%	58.1%	43.1%	24.8x	1.6%
ABBV	AbbVie Inc	2.0%	56.9%	54.5%	21.5x	2.9%
BA	Boeing Co	1.8%	46.3%	9.1%	20.4x	2.1%
BMY	Bristol-Myers Squibb Co	1.7%	13.4%	23.2%	46.7x	2.4%
MMM	3M Co	1.6%	32.4%	21.9%	22.5x	2.1%
UTX	United Technologies Corp	1.6%	19.7%	21.7%	19.5x	2.0%
GM	General Motors Co	1.5%	7.5%	26.4%	8.8x	3.2%
LLY	Eli Lilly & Co	1.5%	14.5%	21.7%	27.4x	2.8%
QCOM	Qualcomm Inc	1.4%	21.3%	0.0%	15.2x	2.3%
CMCSA	Comcast Corp	1.4%	16.2%	30.3%	20.2x	1.5%
LMT	Lockheed Martin Corp	1.4%	86.9%	16.6%	17.5x	2.8%
DD	El Du Pont de Nemours & Co	1.3%	24.9%	21.4%	18.3x	2.4%
	Sum/Average	**44.9%**	**38.6%**	**25.2%**	**19.8x**	**2.5%**

Sources: WisdomTree, Bloomberg, as of 2/28/15.
Subject to change. Past performance is not indicative of future results.

DGRW: At WisdomTree, we believe that quality factors, such as high profitability and low leverage, are common traits among firms that consistently grow their dividends and have a high potential to increase their dividends in the future. These dividend growers tend to be less sensitive to increases in interest rates compared with the highest dividend yielders. Also, the higher-quality dividend growth subset is selling at a similar price-to-earnings multiple compared to the highest yielding subset of the market, which we think creates a timely opportunity.[2] *To learn more about the WisdomTree U.S. Dividend Growth Fund (DGRW), click here.* The source for this information is the Annual Shareholder Letter for Berkshire Hathaway, Inc.
[1]Ordinary brokerage commissions apply. [2]Sources: WisdomTree, Bloomberg, as of 2/28/15.

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DEFINITIONS

Return on Equity (ROE) : Measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Corporate debt : Bonds a company issues in order to raise money.

Return on assets (ROA) : Firm profits (after accounting for all expenses) divided by the firm's total assets. Higher numbers indicate greater profits relative to the level of assets utilized to generate them.

Leverage : Total assets divided by equity. Higher numbers indicate greater borrowing to finance asset purchases; leverage can tend to make positive performance more positive and negative performance more negative.

John Clifton "Jack" Bogle : is the founder and retired CEO of The Vanguard Group. He is known for his 1999 book Common Sense on Mutual Funds: New Imperatives for the Intelligent Investor, which became a bestseller and is considered a classic in the investment community. Bogle is famous for his insistence on the superiority of index funds over traditional, actively managed mutual funds.

Active : Funds that attempt to outperform the market by selecting securities a portfolio manager believe to be the best.

Dividend : A portion of corporate profits paid out to shareholders.

Interest rates : The rate at which interest is paid by a borrower for the use of money.