Investments That Are Good Forever Until They Are Not

Warren Buffett and Berkshire Hathaway are in the news again after their annual shareholder's meeting. Buffett is famous for saying that his preferred time frame for holding an investment is forever. But the so-called Oracle of Omaha has criteria for buying stocks and when those criteria are no longer met, he and his crew have been known to sell in a hurry. *Yahoo Finance* writes about **11 stocks Warren Buffett didn't hold forever**.

> *However, when it comes to managing Berkshire Hathaway's $153 billion stock portfolio, Buffett and his top money managers aren't afraid to reverse on a dime and liquidate a stock, should the company cease to meet Buffett's four investment criteria.*

And these are his four criteria for buying and holding a stock.

> *We select investments on a long-term basis, weighing the same factors as would be involved in the purchase of 100% of an operating business:*
>
> *(1) favorable long-term economic characteristics*
> *(2) competent and honest management*
> *(3) purchase price attractive when measured against the yardstick of value to a private owner*
> *(4) an industry with which we are familiar and whose long-term business characteristics we feel competent to judge.*

The eleven stocks that Berkshire Hathaway purchased with an eye toward holding forever and then sold are these.

> *Deere*
> *Verizon*
> *Kinder Morgan*
> *Walmart*
> *Intel*
> *Conoco Philips*
> *Exxon Mobil*
> *Bank of America*
> *Nike*
> *Home Depot*
> *Lowe's*

In more than one case Buffet's decision to purchase was more successful than his decision to sell as stocks like Home Depot, Lowe's, Walmart and Intel which all rallied after Berkshire Hathaway dumped them.

When Is a Stock No Longer a Good Long Term Investment?

Buffett's criteria for picking stocks are his criteria for selling. The vast majority of investors would do well to follow his criteria.

Do You Understand the Industry?

We have mentioned before how Kodak had a great business model and then it didn't in our article, **Can You Hold an Investment for Too Long**?

> *Eastman Kodak was founded in 1888 and prospered for decades as the inventor of the personal camera and maker of film. Although Kodak had a chemical division its success was based on the fact that in order to have a photograph of something you needed film. Then the digital era arrived and the Kodak business model was outdated. A stock that grew in value year after year and provided dividends year after year filed for bankruptcy protection in 2012.*

This issue with Kodak was that the industry changed and Kodak could not change its business model and succeed.

Attractive Purchase Price to a Private Owner

In this case think as though you were going to purchase the entire company and run it forever. Does the price make sense? This is the **intrinsic value** approach.

Competent and Honest Management

In this case think as though you be buying a company and putting people you trust in charge. Are the current managers the ones you would pick? Although Buffett still holds Wells Fargo stock he has been openly critical of their management for not picking up on the account scandal and immediately stepping in to fix it.

Favorable Long Term Economic Characteristics

Here we are back to the factor you would consider in determining intrinsic stock value but then you take that evaluation out for well past a decade. Here is where Buffett's comment about why he has generally avoided tech stocks comes in. He does not know what people will pay for a computer in ten years but has a pretty good idea what they will pay for a coca cola or a snickers bar.

The point is that investments are good forever until they are suddenly not and that is because they fail to stand up to one of more of your initial criteria for buying them.

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