

Buffett's Barbell: 90% Equities And 10% Cash For His Wife And Berkshire - And Maybe Retirees?

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by: Jim Sloan

Summary

- Buffett's 2013 Shareholder Letter stated that he would instruct the trustee of his wife's bequest to invest 90% in an S&P 500 index fund and 10% in short Treasuries.
- An academic back study shows that this unorthodox allocation produces not only high returns but a much lower failure rate than conventional 40/60 and 30/70 portfolios.
- The essence of the Buffett portfolio is to divide the future into the short term in which money is needed and the long term in which stock returns are superior.
- The effect, in bond manager lingo, is a "barbell" portfolio with concentration at very short and very long maturities and an excluded middle - the Berkshire term structure.
- It turns out that the barbell may be the best way of matching maturities to the needs of pension funds, institutions, insurance companies, and individuals - including some retirees.

The following paragraph in Buffett's 2013 Annual Shareholder Letter caused quite a stir:

What I advise here is essentially identical to certain instructions I've laid out in my will. One bequest provides that cash will be delivered to a trustee for my wife's benefit. (I have to use cash for individual bequests, because all of my Berkshire shares will be fully distributed to certain philanthropic organizations over the ten years following the closing of my estate.) My advice to the trustee could not be more simple: Put 10% of the cash in short-term government bonds and 90% in a very low-cost S&P 500 index fund. (I suggest Vanguard's.) I believe the trust's long-term results from this policy will be superior to those attained by most investors – whether pension funds, institutions or individuals – who employ high-fee managers.

The immediate response was surprise that he chose the S&P 500 index rather than finding a way to leave the 90% in shares of his own Berkshire Hathaway (BRK.A) (BRK.B). One might argue that to be logically consistent, he should also mandate that all

future free cash flows at Berkshire should also be invested in the S&P 500. While that may not be the worst possible idea for Berkshire's spare cash in the future - paying a big taxable dividend would be incredibly worse - it would be a mistake. Investing inside Berkshire is similar in principle to investing in a trust left as a bequest to one's wife, but the selection of the particular investment vehicle is another matter. Buffett clearly feels that there are investment options with lower risk and higher return available to Berkshire, including buying back its own stock.

I would speculate that the main reasons for the choice of the S&P 500 for his wife's bequest were simplicity and diversification. Buffett does not in general seem to be a big fan of Harry Markowitz and his notion of risk as variance, but in choosing an S&P 500 index fund over Berkshire he is taking into account the basic statistical advantage of diversification. One thing that Buffett's heirs will have in common with the majority of retirement investors is lack of professional sophistication about investing. Those are the people Buffett was addressing when he suggested the Vanguard S&P 500 index fund (VFAIX). That's most of us.

Use of the S&P 500 Index with mechanical re-balancing goes a long way toward removing human fallibility from the process. There are no decisions involving stock selection, nor any possibility of fallible judgment involving the selection of active portfolio managers. That's really the premise behind both index investing and the automatic re-balancing toward bonds as an individual nears retirement. Buffett accepts the first premise but rejects the latter. It's still quite a surprise that Buffett reveals himself as an index investor for his own heirs.

A subtlety in Buffett's selection was his choice of the S&P 500 Index and not the Total Stock Market Index (MUTF:VTSAX)? Some back studies suggest that the roughly 25% of smaller caps in the total market index have a higher return than the large caps in the largest 500. Why not include them? The reasons are probably twofold. The first is that large capitalization reflects past success which has enjoyed some persistence. The second is that organization on a principle of cap weight ensures the inclusion of innovative companies which become a larger portion of the index as they succeed and become recognized for their success. One can argue the validity of both these points, but it's likely Buffett's premise that the S&P 500 offers both lower risk and a certainty of participation in major shifts in the economy.

Then there's the dividend. The dividend yield of the S&P 500 has been around 2% in recent years, and that provides a good start to an annual withdrawal rate of 4%. Using the current 2% plus available from money market funds an approximate 20% would need to be drawn from the cash allocation before re-balancing to 90/10. Buffett has of course pointed out that it is easy and tax efficient to generate the same income from selling a bit

of Berkshire Hathaway stock - more about that later - but a strategy including a routinely delivered dividend is an approach which reduces the amount required from the rest of the portfolio and thus minimizes the need for action.

The amazing fact about Buffett's 90/10 allocation strategy is that it actually seems to work.

Javier Estrada, a Professor at the prestigious IESE Business School at the University of Navarra, Spain (locations in Madrid and Barcelona), published a paper ("Buffett's Asset Allocation Advice: Take It...With A Twist," October 26, 2015) based on the the series of 30-year periods from 1900 to 2014. It presumed a withdrawal rate of 4%. Failure is defined as running out of money within a 30 year period.

Surprisingly the failure rate of Buffett's 90/10 portfolio was only 2.3%. Even more surprisingly the 90/10 portfolio had a far lower failure rate than 40/60 and 30/70 portfolios. These are the equity allocations almost universally recommended for individuals nearing retirement or already retired. The allocation of Vanguard's Target Retirement fund for those age 65 in 2015 is 40% equity/60% bonds.

Dropping the equity allocation to 80% - the equity level of Vanguard's most aggressive Life Cycle fund - might appear to provide a bit more defense against "variance" than Buffett's model. It doesn't improve the statistical failure rate, however, and drops mean return by 20%. In fact only the 70/30 (1.2%), 60/40 (0.0%) and 50/50 (1.2%) portfolios had lower failure rates, and both mean and median returns fall off a cliff. A couple of simple rules for structuring withdrawals - Estrada's "twists" - improve the numbers significantly. In all likelihood Buffett's instructions will include these or similar tweaks.

There's no intention to pick on Vanguard here. It happens to be where I keep the vast majority of my own assets. It's just that Vanguard is the most recognized standard for thoughtful conventional wisdom and therefore serves as an ideal basis for comparison.

These were the two main issues which raised eyebrows at the surprising instructions for Buffett's bequest to his wife - his extremely heavy 90% allocation to equities and his choice of the S&P 500 as the vehicle. One can speculate about his choice of the S&P 500, and Estrada's paper lays out the case that the 90% equity allocation may not be as crazy as it sounds.

As far as I know, however, nobody called attention to an even more interesting aspect of his 90/10 portfolio - its extremely unorthodox term structure. In bond lingo it's known as a "barbell."

Buffett's Barbell

The thing about Buffett's proposed allocation is not just that it's super heavy in stocks and super light in bonds. The shocking fact is that there are no bonds at all. None. Zero. The only thing the portfolio contains other than equities is short-term Treasuries. Essentially cash. Bond managers, who live and die by the term structure of their portfolio, call that a barbell.

A barbell from your gym is the perfect image. There are weights on both ends, and nothing but an empty bar in the middle. That's exactly what Buffett's 90/10 portfolio looks like. Cash and stocks create the ultimate barbell. Imagine a person who carries a small roll of cash - in case of things like a sudden decision to go out for dinner - and has the rest fully invested in stocks. That might be Buffett's ideal. Of course, his wife might need to have a little more than walking around money and his other great love, Berkshire, needs a little more cash too for things that might come up. Otherwise it's all stocks all the time. It's not a coincidence that Buffett's approach for the bequest to his wife and his investment approach with Berkshire are both shaped like a barbell, nor that this extremely prudent man keeps that barbell about as pure as it gets.

The barbell is the basic structure of Berkshire Hathaway itself. It's also Buffett's great departure from the normal insurance model. Insurers of all kinds have models of the likely range of payouts in each subsequent year to the most distant date for which they have written coverage. It's relatively easy with life insurance but tougher with property, casualty, and reinsurance, for all of which liabilities are lumpy and hard to calculate - increasingly hard with the new factor of climate change to be taken into account. Being sure that money is around when needed is the problem insurance companies must solve.

The conventional solution to this problem is to buy bonds of the same maturity in order to defease these probable obligations - even if they lie in the distant future. This is why insurance companies like higher interest rates. Insurance company CEOs like to go to bed at night confident the estimated liabilities in the year 2030 are fully offset with safe assets, I's dotted and T's crossed. In the insurance industry a bond portfolio has generally been considered the conservative choice.

Buffett disagrees. What the conventional approach does is to pull the future into the present in a manner that removes the opportunity to capitalize on time.

The traditional insurance company approach has been to defease future liabilities with specific assets of the same maturity - mainly bonds. This is done by investing the "float" at a rate which takes care of the future liabilities and provides a boost to income from underwriting profit. It's why insurance companies, like banks, do better with higher rates.

To Buffett, a long-term investment in fixed income is virtually unthinkable. This is especially true at rates presently available all the way to the far end of the yield curve. Tomes have been written on Buffett's deployment of insurance float, but not nearly enough emphasis has been placed on his strategy permitting almost 100% investment in equities. It has an elegant simplicity.

What Buffett does is maintain a large enough position in short Treasuries to take care of liabilities which might conceivably come up in the visible future. He has recently stated with some frequency that he would not allow available cash to drop below \$20 billion - a number that will creep upward steadily as Buffett's insurance subsidiaries write more business. That number is not as casual as his offhand manner implies. Because he has usually mentioned the untouchable \$20 billion in response to a question about deployment of cash for an acquisition, attention is drawn away from its primary meaning.

That \$20 billion is the short end of the Berkshire barbell. It's the amount of cash on hand Berkshire requires to deal with things that may come up, regularly or unexpectedly, in the visible future - taking into account the more than \$2 billion of cash that Berkshire generates per month. It's the walking around money Berkshire needs in its wallet to cover everyday stuff along with the possibility of a bad hurricane season, an emerging new normal for bad fires in California, or even worse things like terrorist events.

Buffett does not hold bonds because bonds are a terribly inefficient way to offset future risks. The needs which lurk a few years out will take care of themselves as he rolls over his short-term cash position. Why cripple long-term returns by pulling specific distant future moments into the present? There's no need to specifically target events in 2025 or 2035. A few hedge funds have tried to mimic this approach by throwing together insurance companies and aiming for returns that outperform bonds. We will know in the fullness of time whether they can pull this off as successfully as Buffett has.

The essence of Buffett's approach is to divide time into two different categories - the visible short horizon, the vanishing long horizon. The first category requires cash in the form of T-Bills. The second category employs the perpetual internal compounding of stocks to achieve returns that leave fixed income assets with fixed maturities in the dust. The premise of the 90/10 portfolio is that what works for Berkshire can work for an individual. In both cases, time presents itself in two different horizons, a visible present and a less immediate future. While the present rolls inexorably into a series of future presents, we can model that future but not pull it into the visible moment we are living.

Short Horizons And Long Horizons

Every once in a while, I tell my wife that I will probably retire from teaching tennis in "about three years." It has become sort of a private joke. She reminds me that I started saying "about three years" a dozen years ago. I was 62 at the time. I will be 75 this year. I have assigned a three-year maturity date to my career as a tennis pro, but as the years peel off and nothing much seems to have changed, I just keep pushing the maturity date forward another year. I just roll myself over like a perpetual three-year ladder of short Treasuries a year of which runs off annually.

What my "about three years" really represents is the distance to the short-term horizon - in my life, at least. It's the amount of time that, barring important new information about my health, I expect to be about the same person I am now. Anything can happen, of course, including the proverbial runaway bus or a bad slip on polar vortex ice, and I'm willing to accept that my capacities decline a bit with every passing year. Maybe this year I should say "about two years eleven months." For practical purposes, however, and on currently visible information, that rolling estimate of "three years" seems close enough. In a year or two, I may go to saying "about two years."

More than three years into the future anything can happen. Bad trends may well accelerate, I may have a sudden illness or injury, or my ability to teach tennis every day may simply be overwhelmed by any one of the factors behind an abundance of not very happy statistics. In the meantime, I have to plan for the knowable short term.

I need an inventory of about twenty reasonably spiffy shirts about half of which are super light and have sun-protected long sleeves for the summer. About six shirts per year get ragged enough to go to Amvets and have to be replaced. I also go through a half dozen pairs of tennis shoes per year (creeping up about one size per decade; did you know that about feet?). I will also soon need two or three new pairs of shorts and a pair or two of warm-up pants. My wife thinks I need all of the above by tomorrow morning, but I prefer to buy all these things in volume when they are on sale. I have to have some sort of time estimate so that I don't retire with an excessive inventory of shirts, shoes, and shorts, oh, and Thorlo socks of course.

You see how it works? That's the visible short horizon of my life. There are a few other larger expenditures and things that occasionally come up, including the expected unexpected needs of people I care about. I keep an amount of cash in short accounts of various types for these things. I don't include my earnings as a tennis pro. Beyond my estimate of three years, I am a long-term investor with a strong preference for equities.

But what about that second basic division of time? I can learn a bit from the government, which takes the long view on everybody.

Interestingly enough, the government sees me in pretty much the same way I see myself, except that its estimates involve not when I will stop teaching tennis but when I will die. I've always known a few key facts about the government's statistical thinking, an important one being that the over/under for taking Social Security as late as possible is about 83. That's the age at which their actuaries calculate that they will break even if you are typical of the total population. By the same logic that's the age that you can statistically expect to break even in total benefits received if you are as healthy and lucky as the average person. If you think you have above average health, you should definitely bet the over and wait until they force you to take it at 70.

(It being Super Bowl day as I begin writing this, I should say that I never bet so much as a penny on anything, nothing at all, except the important things: myself, the markets, the expected needs of people I care about, and how dangerous climbing moderately difficult mountains is getting to be.)

What got me thinking about the government view of me was a table I noticed in Vanguard's retirement area when fooling around with RMD assumptions and calculations. We retirees and retirees-to-be can be a bit OCD about this stuff, so I hope the rest of you won't feel bombarded by the numbers. Here's the table including an added column with my age:

- (My Age) Date IRS Calculation Factor
- 73 2018 23.8
- 72 2017 24.7
- 71 2016 25.6
- 70 2015 26.5

The calculation factor is the divisor used to determine the percentage of the year-end value of your IRA which has to be paid out to yourself in order to be taxed. The government point of view, of course, is that you must be forced to treat your IRA as something like an annuity with taxable distributions rather than as a vehicle for passing on untaxed wealth to the next generation. Notice that the Calculation Factor goes down slowly, about .9 per year as your age goes up by a year. That's if you are about my age. What that produces is a slow but regular increase of the percentage you must take out of your IRA.

At first glance, it seemed as if maybe the Feds thought that I would live to the age of 96.8. How could they know about my dedication to healthy habits? But that's not it. They have to build in some leeway because there are people who will randomly manage to live past the actuarial expectation. They can't just say, Hey, you're 88 now: drop dead! Liquidate your

IRA and send us the taxes! Even the IRS sees that it has to leave lucky survivors something.

Those slowly rising rates of IRA withdrawal intrigued me enough that I looked up the actual IRS life expectancy table. It's quite a different thing from the Calculation Factor. Here are the same years (the ones applicable to me):

- Age Life Expectancy In Years (Expected Age At Demise)
- 70 17 87
- 71 16.3 87.3
- 72 15.5 87.5
- 73 14.8 87.8
- 74 14.1 88.1

How about that! The IRS now thinks the over/under on me is 88.1. It's not 96.8, but I'll take it. That would get me to Buffett's current age, which is pretty good. The bad news is that they regularly dock my life expectancy by about .7 with every passing year. The good news, if there is any, is that they don't dock you quite as steeply as you get older - I'll let you think through the reasons. (You'll find some clues in the above paragraphs.) And there's one piece of unexpected good news. If you make it to 111, they are pleased to give you an additional year of life expectancy for every ensuing year you satisfactorily complete (failure being defined as "dying").

What this shows is how the short-term present keeps rolling over as you age. The older you get, the more the short term and the long term converge. At 111, you have reached the end - not the point where you are required to die, but the vanishing point at which the long-term horizon becomes fixed. Properly discounted back to the present, you don't worry the Social Security folks very much at that point. You're a bit like stocks, at least in the aggregate. You're not immortal, but you are perpetual. No point in continuing to discount you back to the present.

Buffett's current over/under, by the way, is 6.3 years. The IRS thinks he will make it to 94.3. When he turns 89, on August 30, his over/under will drop to 5.9, and his life expectancy will climb to 94.9. OK, it will have slid that way while no one was watching. If I were a betting man, I would take the over. He consumes those Cherry Cokes and burgers, but he appears to be happy and still enjoys his work.

I guess I do have a bet down, in a way, because close to 20% of household accounts is now in Berkshire stock. That's what long-term success does within a portfolio. By continuing to hold it, I show that I am influenced by the betting odds that Buffett will be able to make another elephant acquisition. He will likely be helped by a bear market, which seems pretty likely within the next 5.9 years.

Buffett almost certainly has a thorough understanding of the numbers in the above paragraphs and their implications, especially the last two paragraphs. He is a close second to me in all the people I have ever known in his obsession with longevity and mortality. His view is grounded in numbers like the above because he's an insurance man. He knows how everything has a statistical base. Time is the key concept.

What Buffett understands better than almost anyone is that time in human experience of the world has a barbell shape. There is a visible short term ("about three years," or something like that) and a much less visible future which has a time element for which there is no perfect description. Buffett's 90/10 portfolio matches one's investments to the experiential term structure of life.

Stocks Are Perpetual

Buffett also used the above header in the famous 1977 Fortune article in which he characterized stocks as "equity bonds." Stocks as "equity bonds" is a very powerful concept. Less practical ideas have won economists Nobel Prizes, including a good bit of the stuff surrounding Modern Portfolio Theory. Buffett based the term on the existence of a key similarity: both stocks and bonds produce regular returns which can be described as "coupons," making stocks and bonds directly comparable to bonds. The "equity bond" and "equity coupon" concepts introduced in the 1977 article are the clearest explanation I have ever read of why stocks are the vastly superior investment.

Bonds, Buffett noted, have a maturity date - a fixed time when capital is returned. You get your cash back and can reinvest it, at higher rates if they are available but lower rates if necessary. That's called "reinvestment risk" in the bond community and we have just experienced 35 years of it in which the available rate persistently fell. Bond returns are pretty good looking back at those 35 years (though not nearly as good as stock returns) but unless something unprecedented happens they are going to be mediocre to awful going forward 35 years.

Unlike bonds, stocks are perpetual. They don't reach maturity. They have no expiration date. Their maturity is "infinity," Buffett wrote in that 1977 article. That aligns with his frequent comment that his preferred holding period for a stock is "forever." All three of these concepts are somewhat murky. None of them can be taken in the literal or mathematical sense. The best way to think of the most successful companies is that they persist to a vanishing point - a horizon far enough in the future that their discounted cash flows, including terminal value, become trivial from the present perspective.

This is how the still vital present of such centenarian companies as Johnson and Johnson (JNJ) and Deere (DE) would have looked if the founders and early investors had been

able to see this far into the future. This is also true of baskets of stocks such as an index, although both of these companies go back to a time before the first index was put together.

One thing we know for sure about bonds is their exact coupon and time of repayment, but what number should be used for the "equity coupon"? One of the assumptions Buffett dropped casually in that *Fortune* article is that his choice for the equity coupon rate is Return on Equity. That's equity as book value.

Others have used variant measures such as Return on Invested Capital (notably Joel Greenblatt of "Magic Formula" fame). Buffett has stuck tenaciously to return on book. That explains his long use of the compounding rate of book value as his measure of performance for Berkshire. Every annual report shows Berkshire's book value throughout its entire history compared to the price of the S&P 500.

The importance of this approach is that equity performance is defined by an internal measure of growth, which Buffett sees as the main measure for investors and which bonds do not have. Bonds do not enjoy internal compounding (aside from zero coupons, of course, which present an unpleasant tax consequence). The internal compounding of value is the core of Buffett's argument for the superiority of stocks.

Writing in 1977, Buffett argued that the internally compounding return on the Fortune 500, then a major market proxy, had been about 12% for a long period and that this number appeared to be robust. It had varied by only a point or so over decades, and though it might vary quite a bit from year to year, nothing was likely to move it up or down very much over longer periods. The current 10-year number for the S&P 500 is actually a little higher as profit margins are at record highs and debt has been cheap enough for corporations in the aggregate to ramp up the amount of leverage. Added leverage pumps up ROE but also ramps up risk. That 12% Buffett wrote about in 1977 still looks pretty good as a longer term expectation.

Using ROE as the "equity coupon" is important. The current dividend rate on the S&P 500 is about 2%. That's the cash return on stocks. If it were the total return stocks would be a very bad deal. Stock dividends tend to grow, however, and the best model of their growth is ROE less the missing 2% which is paid out rather than being internally reinvested. Dividends, in other words, are merely part of the equity return, and the smaller part at that.

Duration is another time measure which makes the choice of ROE over dividends important. Simple duration (called Macaulay duration after the academic who produced the equation in 1938) is the weighted average time to receive all cash payments discounted back to the present. In simplest terms it reflects the fact that discounted cash

flows received earlier are worth more than those received later. The duration of bonds is always shorter than the time until the maturity date because you are getting some of your money back earlier.

Do stocks have a duration? The answer is yes, but there is some argument about how to calculate it. A common approach, found in this mathematically impeccable article by John Hussman, can be reduced to a very simple calculation: 100 divided by the dividend rate. With average dividend yield at 2% the duration of equities is would be 50 years. If you got through most of Calculus 1, you can read the entire short article and get a good understanding of how this definition of duration is derived.

For Buffett, the basic assumption is wrong because it flies in the face of common sense. What do you do with a company like Berkshire or Amazon (AMZN). Neither pays a dividend. Does that mean they are worthless? Is their duration - the time needed to get your money back - actually infinity? Investors apparently do not think so. But what would their duration be? Buffett has no doubt about this. A stock's coupon is not the dividend rate, but the equity coupon - its annual return on equity capital.

Readers of my SA article discussing Buffett's view of dividends will recall his argument linked from the 2012 Annual Letter. I won't recapitulate the argument, but in giving his reasons for opposing a Berkshire dividend he asserts that you can always create a synthetic dividend just by selling a few shares. He further argues that every holder actually comes out a bit ahead. The reason is simple: dividends paid out get in the way of full compounding of book value.

That internal compounding advantage of stocks as a class has everything to do with Buffett's several comments on valuation in recent years. He has stated in the recent past that even if stocks seem a bit overpriced by historical standards, you would regret not owning them if rates remained at anything like the present level for 10 years. The rate on the 10-Year Treasury at the time of this comment was about 2.3%. He has also said that up to 3% on the 10-Year Treasury is OK, but not rates which rose much above 4%. That 10-year time horizon is another casual Buffett number which may not be as casual as it sounds. It approximates the duration of stocks you get if you if you replace dividend rate with ROE in Hussman's formula.

A low hurdle rate makes even a somewhat overpriced S&P 500 an incredibly good deal unless interest rates rise sharply, and very soon. The history of rates makes this seems highly unlikely. Using ROE as the number for the equity coupons have an intermediate duration - about the same as the 10-Year Treasury which now pays less than 2.7%. At the same time, they have no maturity except perpetuity, which means that as time passes you

get the same deal renewed again and again. Each passing year provides a new present

moment with no change in the expected return or the distance to the vanishing point. That's the underlying power of the 90/10 portfolio. No wonder Buffett has no interest in bonds.

Would The 90/10 Portfolio Be Safe For Retirees?

The short answer: maybe.

Many will probably argue that the amount Buffett has likely set aside for his wife will be large enough that the allocation won't matter. Astrid Menks Buffett has famously frugal habits - well matched to her husband's - but is 15 years younger. She would do splendidly on as little as \$5 million, but if I were a bookmaker I would put the over/under at, maybe, \$20 million. Two million in T-Bills goes a long way. I'm not offering a bet, mind you.

But what if you have one million or less? Let's assume the standard 4%. Let's also assume Social Security. Depending on a number of health and lifestyle variables, you may be cutting it pretty close. Some of you will also beat the actuaries and live more than 30 years.

I still think some version of the 90/10 portfolio would *probably* work. The biggest wild card is that stocks are historically expensive and rates are historically low. Estrada's 30-year periods did not often start with years when stocks were this pricey. There just aren't many. The starting point matters. The year 1929 was bad, so was 2000, and so is the present. The important market measures - both bond rates and stock valuations - are likely to revert toward the mean, either quickly or slowly. Quickly could be deadly.

For the above reasons, I would look for a better moment to go to 90% equities. As a matter of fact, that's exactly what I am doing. My equity target is and has always been 90%, but I'm currently a bit over 50% and only adding periodically and opportunistically. Right now, I strongly recommend that. By opportunistically, I don't mean 5-10% drops.

Dividend stocks making up the 90% may also be a possibility, although I admit that dividend investing is not my specialty. You can also add a bit to the cash return by using a ladder of CDs rather than T-Bills.

When it comes to the need to sell off some part of an S&P 500 allocation, it raises the same issue exactly as Buffett's suggestion to forget dividends and just sell a few shares of Berkshire from time to time. The price to book is not as stable as in Buffett's ideal model. You will do better if using something like Estrada's rules for which asset to sell under various conditions.

To repeat the answer: a definite maybe. Think it over carefully.

Conclusion

Like Buffett, I have never believed in bonds. The 60/40 portfolio never made any sense to me as long as I had a modest amount of cash on hand or could see where more cash was coming from. I have even less belief in the virtue of shrinking the equity portion of my portfolio to 50/50, 40/60, or 30/70. The validation of Buffett's 90/10 portfolio by the Estrada study provides statistical support for my long-held intuitive view. I'm a 90/10 man and will continue to be.

Am I now 90% in stocks? No. Neither is Buffett, and for the same reason. I think buying equities at the right price is important, and Buffett clearly thinks the same. I hold a large position in CDs and munis, all bought opportunistically at the beginning of December (as I wrote here) but all of which could be realized quickly if the opportunity presented itself. I did add to equities, by adding to Berkshire, on December 24. At under half the price-to-book of the S&P 500, it was cheap enough regardless of what the market does next.

The next two weeks are going to be very interesting for Berkshire Hathaway investors and all Buffett followers. The first event will be the availability of his 13F filing in about a week. We'll see if it reveals anything striking about his strategy. About a week later we get the Berkshire Annual Report and along with it the Annual Shareholder Letter.

I will be interested to learn how much cash he deployed at the end of 2018 and how much he held back in hopes of getting an elephant acquisition in the near future. Did the hit to Berkshire's book value, which I wrote about *here*, change anything about his buyback hurdle? I'll be excited to watch the Becky Quick interview. I will watch closely for casual numbers and opinions which may be loaded with deeper meaning. Remember: Buffett rarely says anything he hasn't carefully thought out. There's always something to learn. This year could be special.

Comment please. I'll answer promptly.

Disclosure: I am/we are long BRK.B, JNJ. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.