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Schroeder: The Meaning Behind Buffett's Hiring

By Alice Schroeder - Sep 15, 2011

Sometimes the cutesiness of Berkshire Hathaway Inc. is part of its endearing charm. Sometimes it is a minor quirk to be brushed aside. Occasionally, it can mislead, as happened this week when [Warren Buffett](#)'s favorite scribe, Carol J. Loomis of Fortune magazine, began her insider's report on the hiring of 50-year-old Ted Weschler, the founder of Peninsula Capital Advisors LLC, as a Berkshire investment manager. She [wrote](#): "It is surely unprecedented for a person to spend \$5,252,722 to get a job, but in a funny way, that is precisely what Ted Weschler, of Charlottesville, Virginia, did."

At first blush, the Fortune description of the Weschler hiring wasn't at all inspiring: A "cute meet" in which Weschler twice spent millions to win a charity auction for a meal with Buffett. At 81, the Berkshire chairman and chief executive officer is beginning to delegate his responsibilities for investing the company's \$100 billion portfolio to as many as three money managers. Those meetings led directly to Buffett offering Weschler one of the most prestigious jobs in asset management. "I should have bid higher," a few people joked at a meeting of asset managers that I attended this week.

Weschler (pronounced WESH-ler) will be winding down Peninsula and joining Berkshire early in 2012 as the second member of a team launched last October, when the Omaha, Nebraska-based company announced the hiring of Todd Combs of Castle Point Capital Management LLC.

Understated Qualifications

It's not the first time that Buffett has hired someone who happened to be smart (or aggressive) enough to seek him out. He did it with Combs as well. This time, though, the manner of meeting was incidental. And Berkshire wound up with someone whose qualifications, if anything, have been understated.

Weschler may be the most important hire Buffett has made in decades. He isn't just an investor, though his \$2 billion portfolio returned 1,236 percent to Peninsula investors over 11 years. "He plays all the instruments in the orchestra," says Steve Blaine, who served on the board of [Virginia National Bank](#) with Weschler.

He does, in fact, cover all the bases: finding acquisitions, financing them, overseeing management of acquired companies, designing their compensation, allocating capital of the entity that owns the businesses, and understanding lending and credit markets from a bank's perspective. He also knows how to finance acquisitions in special situations such as bankruptcies; manage long-tailed risks like his former employer W.R. Grace & Co.'s asbestos liability; and control equity-portfolio risk in a volatile market using positioning, derivatives and moderate leverage.

'Special Sauce'

Although Weschler officially left private equity 11 years ago, he continues to invest in numerous businesses personally, and has served on the boards of two regional banks. This breadth of experience enables him to see, for example, how [cash-flow](#), inventory and capital-expenditure trends will affect equity holdings in the funds he manages.

The same kind of information flow is critical to Buffett's "special sauce," which has made his investing results so hard to copy. In fact, Weschler's background and skills resemble Buffett's pretty broadly, enough so that it begs the question of whether his role will be limited to investing.

Weschler is known for being self-effacing and private. Even some people close to him in the Charlottesville business community weren't aware that he had won the auctions to meet Buffett. He is an important and generous philanthropist in the local community, but often gives anonymously. (People associated with two beneficiaries begged me to keep the names of the recipients out of this column.)

Bid to Meet

He bid on the auction simply because he wanted to meet Buffett, whose career he has studied for years. When they met, their conversation went on at such length -- given the things they have in common -- and in such an unexpected direction that Buffett decided to pursue hiring Weschler. In an unprecedented act of consultation that is a much-needed step forward in Berkshire's governance process, Buffett also introduced Weschler to members of his family and Berkshire's board before making the announcement.

Involvement by the board is a very welcome sign of progress. The [press release](#) announcing Weschler's new role contained some other subtle signs that changes at Berkshire may be forthcoming. Buffett himself wasn't quoted. The statement said he will continue to manage most of Berkshire's \$100 billion of funds "until his retirement."

Subtle Cues

This is the first time, as far as I can tell, that it has ever been confirmed that Buffett would retire, instead of trying to outwork Rose Blumkin, who ran Berkshire's Nebraska Furniture Mart until age 103.

The press release contains another tantalizing hint. Twice, it refers to the period "after Mr. Buffett no longer serves as CEO." These cues are subtle -- way too subtle to mean anything definitive. But it makes me wonder whether, at some point, Buffett is going to appoint a CEO while retaining the nonexecutive-chairman role.

That would be a move the business world has definitely not been expecting. It's also one that may make sense, for Buffett as well as Berkshire. He would remain the company's most valuable asset -- making the phone calls that get those lucrative deals done, playing the world's economic statesman, and flattering business owners into selling their companies to Berkshire. Meanwhile, Weschler and Combs would have the primary responsibility for investing Berkshire's \$10 billion a year of cash flow and constantly compounding pool of assets -- in the most turbulent market since the 1930s.

Impeccable Timing

I might be wrong about the nonexecutive-chairman role. What is more important is Buffett's impeccable sense of timing. Throughout his career, he has had an almost uncanny way of anticipating what the market will do next. He closed his investment partnership in 1970 before stocks were laid to waste, shorted stocks at times when the market overheated, diversified into bonds when the Internet bubble was peaking, and in one form or another, has called every market crash that took place during his career.

So it's significant that Buffett has begun the transition to a new investing team, whether he remains CEO in the years ahead or not. Buffett is taking his hands off the reins of the portfolio. Hiring a manager of Weschler's caliber is an important signal. The transfer of power won't happen overnight, but its magnitude is something to ponder for those who are interested in the markets. Meanwhile, we get to watch a new story, featuring new players, unfolding at Berkshire Hathaway.

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