

Alley Company Quarterly Letter **A Tribute to the Oracle of Omaha**

January 14, 2026

Warren Buffett, 95 years young, and commonly known as the most successful investor of all time, retired as CEO of Berkshire Hathaway at year-end 2025. This moment gives us an opportunity to recognize his amazing career and to extol the virtues of his investment philosophy.

Buffett epitomized respect for old-fashioned American values – free markets, a democratic system of governance, patriotism, and plain old common sense. One of his famous quotes sums it up well: *“American business – and consequently a basket of stocks – is virtually certain to be worth far more in the years ahead.”*

After reading The Intelligent Investor by Benjamin Graham, Buffett was hooked on the concept of value investing. Buffett, as a value investor, was never interested in the next hot idea, but rather, was focused on the underlying worth of a business, its return on invested capital, the earnings and cash flow being generated, and the company’s future prospects.

Buffett got excited about the inexorable math of compounding capital over the long run, as if done successfully, would reliably increase his net worth. Importantly, Buffett only invested in businesses that he fully understood. He was famous for his many missives and memorable quips, such as, *“never invest in a business that you can’t understand.”*

As Buffett’s value investing philosophy evolved at Berkshire Hathaway, his publicly traded investment vehicle, he was influenced by his long-time colleague Charlie Munger to invest in high quality businesses at reasonable valuations. He stated in his 1989 letter to shareholders that *“it’s far better to buy a wonderful business at a fair price than a fair company at a wonderful price.”*

Buffett has made a career out of investing mostly in large blue-chip-in-nature companies that have a competitive advantage with protective wide moats, and where he thinks the holding period could be “forever.” Examples are companies such as Coca-Cola, GEICO, Burlington Northern, Procter and Gamble, American Express, Apple, and Bank of America.

One of Buffett’s most notable successes at compounding capital over time is Berkshire Hathaway’s investment in Coca-Cola, which is a great example of the power of dividend growth. Between 1988 and 1994, Berkshire accumulated 400 million shares of Coca-Cola for a total cost of \$1.3 billion. In Berkshire Hathaway’s 2010 annual report, Warren Buffett called out the significance of dividend growth when he wrote:

“Coca-Cola paid us \$88 million in 1995, the year after we finished purchasing the stock. Every year since, Coke has increased its dividend. In 2011, we will almost certainly receive \$376 million from Coke, up \$24 million from last year. Within ten years, I would expect that \$376 million to double. By the end of that period, I wouldn't be surprised to see our share of Coke's annual earnings exceed 100% of what we paid for the investment. Time is the friend of the wonderful business.”

Today, Berkshire Hathaway now receives approximately \$816 million in dividends, which represents a “yield-on-cost” of 62.7% when measured against the \$1.3 billion cost for Coca-Cola shares; and the original investment is now valued at over \$27 billion, a 20 bagger!

The above example highlights many attributes of successful investing, most notably the value of long-term investing and the ensuing compounding that can occur by being patient. To invest in a business over many decades, the underlying business needs to be durable, and to this end Buffett provided one of his best nuggets of wisdom, *“The most important thing is trying to find a business with a wide and long-lasting moat around it...”*

Today's transformational generative AI (Artificial Intelligence) investment theme is driving the economy as well as the stock market. We are constructive on many of the companies at the epicenter of developing AI as well as the adopters of the technology, as strong productivity gains are expected to benefit Corporate America. In Buffett's annual letter to shareholders in 2016 and subsequent interviews, he opined that ***“productivity and innovation are the secret sauce”*** of the American economic system. With the advent of generative AI, we appear to be on the cusp of another step-up in productivity growth.

Since the founding of Alley Company in 1998, we have penned a quarterly letter to clients and have often used quotes from Mr. Buffett to drive home salient points and emphasize a proper long-term investment mindset. While we'll miss Warren Buffett being CEO of Berkshire Hathaway, the wisdom he has put forth for investors will continue to stand the test of time.

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