

MONEY IN MOTION

March 1, 2023

What Exactly is the Meaning of the Designation: *'Pair of 2's'*

This exact report has been published half a dozen times- or thereabouts- in the past 32 years. But not for a while. And when we went back and looked, the last time it was disseminated was Q1 2016.

We're circulating it again, today, because always there are new clients who ask, "*what do you mean by a 'Pair of 2's'*" as well as longstanding clients who inquire "*what again, Carter, is a 'Pair of 2's' exactly?*"

But we're also disseminating this report because (while there are always numerous examples of a stock being a *'Pair of 2's'* in the market) here and now, right now, the shares of company controlled by the most successful investor of all time, a company that just reported earnings, are a perfect instance of being a *'Pair of 2's'*.

As such we thought we'd take the opportunity to publish this 'technique piece' once again, examining this time around the shares of Berkshire Hathaway.

Trade well,

-Carter

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The origin of the ‘Pair of 2’s’ designation...

As a new hire in the equity research department at Value Line, Inc. (June 1990) I was responsible for specialty steel companies Nucor, Alleghany Ludlum, Carpenter Technology (vs the big integrated steels, which were covered by senior analysts), then specialty financials such as HR Block, Household Finance, Beneficial Finance (vs the big banks and asset managers, which were covered by senior analysts) and finally, I was responsible for Canadian Oil and Gas exploration & production companies such as Ranger Oil and others whose names I cannot remember (vs the big integrated oils such as Mobil and Exxon, which were covered by senior analysts).

One year later, when officially I “made it onto the Sell Side”, having been recruited to the Portfolio Strategy team at DLJ (Donaldson, Lufkin & Jenrette) I encountered the exceedingly strange world of analyst ratings and the nomenclature associated therewith. Some stocks were rated ‘Buy’ at DLJ while others were rated ‘Conviction Buy’.

Hmmm, what did that mean... especially for the poor stock that was merely rated ‘Buy’? A ‘Buy’ designation is/was something to be bought, but just a little bit, not a lot? versus a ‘Conviction Buy’ which meant buy a whole lot, bub a ton?

And so it was at other firms across the Street I came to learn. There were ‘Buys’ vs ‘Strong Buys’, there were ‘Outperform’ rating vs ‘Market Perform’ ratings, there were ‘Overweight’ and ‘Equal Weight’ rated stocks. Also, there were ‘Holds’ everywhere, hundreds of them, hundreds and hundreds of stocks were rated ‘Hold’. What did that mean? What did that mean other than what the word itself implied? If one already was long the stock, ok, to hold onto it, made sense- as a recommendation - but what about for those who didn’t already own the stock?

And finally, I saw there were ‘Sell’ rated stocks, at all firms, but very very few.

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The origin of the 'Pair of 2's' designation (continued)

How was this possible? Why were so few stocks 'Sell' rated? After all, when one studies a subject deeply- any subject - one learns much about it, especially the "problems", the "defects", the "negatives". As remembered from High School debate team, the more one learned and studied one's position, the more one recognized the flaws of one's premise and the inconvenient and very certain arguments against it.

So why were so few stocks rated 'Sell'? And when I investigated the matter further, I came to learn that only 5% of all stocks covered by Wall Street Brokerage Firms were 'Sell' rated. One out of twenty. A mere 5%.

And to this day, 30 years later, this curious Wall Street convention persists.

To wit...

At the time of this writing, there are 10,930 analyst ratings on stocks in the S&P 500. Of these, 53.2% are Buy ratings, 40.6% are Hold ratings, and 6.2% are Sell ratings.

What I learned in the summer of 1991 is that Sell Side analysts on Wall Street were, by and large, 'yes men', and that the ubiquitous 'Hold' rating was a clandestine 'Sell' rating. Literally. And what a realization that was; what a moment of disillusionment.

In fact, it turned out the entire equity-research effort, street wide, at one firm after another, simply was to facilitate the chance to win investment banking business from the companies whose stocks the analyst covered. Hard stop.

And that was the beginning of the end for me.

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The origin of the 'Pair of 2's' designation (continued)

That and another sobering reality- the reality that when analysts changed their price target on a stock, upgrading it or downgrading it, the world believed the stock in question advanced or declined accordingly, in response to said target change, when, in fact, the very opposite was the case. It turned out that stocks moved, and it is was analysts who responded accordingly, reacting to price moves, rather than predicting them.

And so, I turned to 'the dark side', to the highly suspect (at the time), outright ridiculed world of technical analysis- a discipline now embraced worldwide, not only in markets but in life; indeed the wisdom of crowds, rather than the conclusion of the renowned food critics is how we choose restaurants, just as on-line internet sleuths are increasingly relied upon for their acumen and accuracy in solving crimes and locating lost ships or downed aircraft or missing hikers versus traditional 'experts'. Just as talent show winners (think American Idol) no longer are chosen by the judges, but by the audience. All of which now has the new fancy moniker "crowdsourcing" (the successor of the equally fancy "behavioral science" catch phrase). But those are just words.

Old fashioned charting - the study of supply and demand - has been around for centuries. Studying price action and the dynamic between buyers and sellers is the single oldest form of securities analysis dating back not only to journalist Charles Dow in the mid 1800s but to Japanese rice merchant Munehisa Honma in the mid 1700s.

And to think, CAPM (Capital Asset Pricing Model) dates back only to 1962.
Burp.
A mere infant.

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The origin of the *'Pair of 2's'* designation (continued)

And so, properly disillusioned, in the Spring of 1994 I began my journey into old-fashioned charting. And straight away, as a publishing technical analyst on Wall Street, Buyside clients would ask me my opinion of (and 'rating' of) individual stocks, just as they inquired of analysts trafficking in funnymentials.

It was under these circumstances, in New York City, at a client breakfast meeting, that the designation a *'Pair of 2's'* came into existence. I remember the day vividly, the conference room in which we were sitting, the portfolio manager to whom I was presenting, and the stock in question: Bethlehem Steel.

Most client meetings then, as now, consisted of equal parts portfolio review and new idea generation. I carried printed chart books with me and would flip through the charts alphabetically, finding and drawing on the chart for each company I was asked about. It wasn't but 5 or 6 stocks into the meeting when I responded to an inquiry about Bethlehem Steel (BS was the ticker), with the simple 2-word answer, *"do nothing"*. *"There's nothing to do"*, I said.

The client, a deep value, cyclical manager responded, *"what does that mean, do nothing? Are you a buyer or a seller?"*

"Neither", I replied, *"I'd not buy it here, nor is it a sell. It's just, well, nothing"*.

"So, it's 'Hold' you're saying?" the PM continued.

"Well, no, not a 'Hold' as Wall Street uses the word - being a euphemism for 'Sell'. It's just, well, it's, it's just a 'pair of 2's'".

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The origin of the **'Pair of 2's'** designation (continued)

"What does that mean" the client pressed.

*"BS isn't a good hand to play here", I responded. "It's not big hand, it's not a Flush- a hand that warrants a big bet, it's not a Straight or Full House, it's not Three of Kind, it's not even a Pair of 6's or 8's or Jacks. It's, well, just about the lowest hand one can have, it's a **'Pair of 2's'**, just slightly better than 5 random cards. And as such, I'd say it's better not to play, it's better not to be short nor to be long, it's better not to be involved, it's better to do nothing, to fold".*

And right then and there, a small nod and an accompanying slight smile and the one-word reply, *"understood"* (from a man 25 years my senior) validated the designation (the rating) **'Pair of 2's'** for all time.

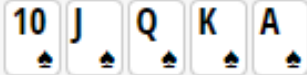
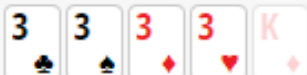




He immediately asked about the next stock he was interested in, but rather than just saying the ticker symbol, he queried, *"XXX is probably a **'Pair of 2's'** as well, I think you're going to say"*. And it was (I don't remember the stock in question).

So, in the simplest of language, the **'Pair of 2's'** designation is not so much an official rating as it is a judgment and conclusion that one's money is best employed elsewhere. A stock seen as a **'Pair of 2's'** is neither particularly bearish nor bullish. It's "fair money/dull money". There's no discernible immediate opportunity to be short or long. And as such, the idea is to "not play", to "do nothing", to "fold".

As this man knew (as revealed by his succinct and understanding reply) in Texas Hold'em, the best poker players fold 75 percent or more of all starting hands before the betting even begins. A fundamentally sound preflop strategy sets you up for success in all subsequent betting rounds. Folding in poker is giving up one's hand when facing a bet, yes, but one doesn't have to invest any additional chips into the pot either. Folding is an extremely important part of the game.

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Poker Hand Rankings Best to Worst

1. Royal Flush		The best possible hand in Texas hold'em is the combination of ten, jack, queen, king, ace, all of the same suit
2. Straight Flush		Five cards of the same suit in sequential order
3. Four of a kind		Any four numerically matching cards
4. Full house		Combination of three of a kind and a pair in the same hand
5. Flush		Five cards of the same suit, in any order
6. Straight		Five cards of any suit, in sequential order
7. Three of a kind		Any three numerically matching cards
8. Two pair		Two different pairs in the same hand
9. One pair		Any two numerically matching cards
10. High card		The highest ranked card in your hand with an ace being the highest and two being the lowest

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Which brings us full circle, to the shares of Berkshire Hathaway...

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Berkshire, right now, is trading at the same price as it was 1 week ago, 1 month ago, 3 months ago, 6 months ago and 12 months ago.

“Unch”, “yawn”, “boring”, “listless”, “dull”, “uninspiring” are the words that come to mind...

Berkshire-Hathway B Shares							
	Jan 21 2022	May 10 2022	Aug 16 2022	Dec 7 2022	Dec 22 2022	Jan 19 2023	Feb 28 2023
Closing Price:	\$305.22	\$306.64	\$306.65	\$305.82	\$305.55	\$305.23	\$305.18

Source: Worth Charting, Bloomberg, FactSet

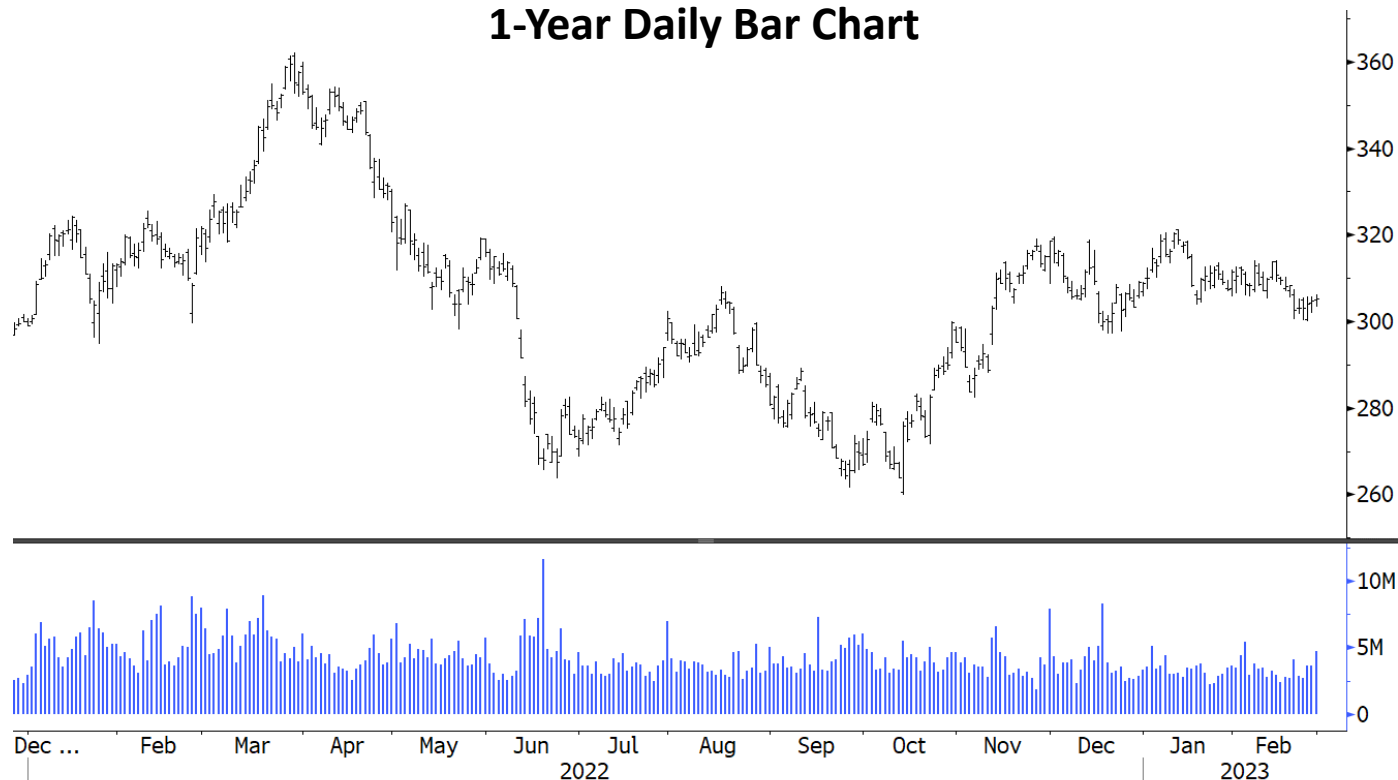
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Here's a 1-year Berkshire Hathaway chart:

Unchanged from 1 week ago, 1 month ago, 3, 6, 9 and 12 months ago.

The stock is a **'Pair of 2's'**. Not particularly bearish or bullish at current levels, by our work. "Fair money/dull money".

BRK/B
1-Year Daily Bar Chart



Source: Worth Charting, Bloomberg, FactSet

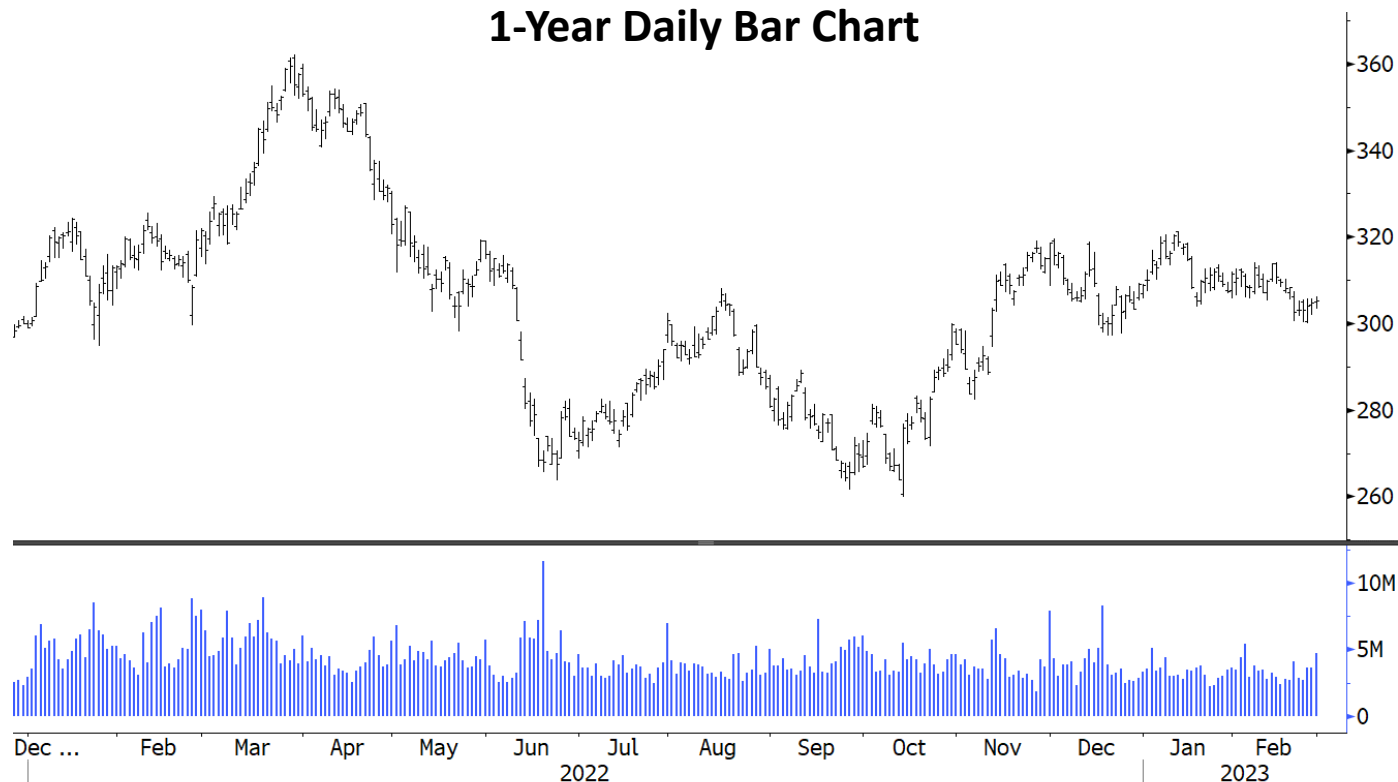
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Which brings us to the final page of this report.

Quite often, fund managers will respond to a **'Pair of 2's'** judgment by revealing to me that the stock in question is a large long in their portfolio, or a large short. And I reply the same way, every single time, saying, *"You are long (or short) because you know something, or you think you know something, about the company's prospects in the weeks/months ahead. God Bless; retain your bias. May it soar (or sink) whichever the hoped for outcome might be. For our part, there is no wisdom in the price action, at present, there are no "tells" as to how the current malaise will end."* And I conclude, every single time, by telling the client, *"the chartist is a coward; you go first, and I'll be right behind you, just as soon as the stock gets in motion and becomes interesting on the long or short side"*.

Invariably, they smile.

BRK/B 1-Year Daily Bar Chart



Source: Worth Charting, Bloomberg, FactSet



Source: Worth Charting, Bloomberg, FactSet

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Source: Worth Charting, Bloomberg, FactSet