Annual General Meeting

Company Participants

- Becki Amick, Inspector of Elections
- Charlie Munger, Vice Chairman
- Sharon Heck, Corporate Officer
- Unidentified Speaker
- Walter Scott, Director
- Warren E. Buffett, Chairman, President & Chief Executive Officer

Other Participants

- Analyst

Presentation

Warren E. Buffett {BIO 1387055 <GO>}

Thank you. Thank you. Thank you. I'm Warren; this is Charlie. He can hear. I can see. We work together. In just a couple of minutes we'll move onto the questions and answers and follow the same procedures as in previous years. But first, there's just a couple of special introductions I'd like to make. And I'd like to start it off with John Landis. Do we have a spotlight that we can pick out John? John is the man that directed, conceived, et cetera, of the Floyd Mayweather fight.

And John, as you know, directed Coming to America, Animal House, and the one I particularly like is Trading Places. If you haven't seen Trading Places, by all means get it. It has Dan Aykroyd, and Eddie Murphy, and Charlie's favorite, Jamie Lee Curtis. And it's a truly great movie. It brought back Ralph Bellamy and Don Ameche. Don Ameche had disappeared. Have we got a light on -- can we get a light on John? Where's John? He should be right down here. We're going to find -- over here? Come on. Well, John, thank you, thank you, thank you. He did all that and now came to the meeting. We really appreciate it.

The other person I want to say -- have a special thanks for -- is a young, 30-year-old woman who has a 1.5 year-old baby at home and manages to put on this whole event with the help of hundreds that come from our various companies, and that's Carrie Sova. I hope Carrie is here, that we can give her a thanks.

Carrie, a few months ago, while she was already working on this meeting, I said to Carrie, I think it would be kind of nice if we had a commemorative book, sort of a retrospective on the 50 years. And I said, would you mind turning out a book in your spare time during these couple months while you're putting together the meeting? And she put together what I think is an absolutely terrific book, which we have outside. We printed up -- we thought we printed 15,000 copies, but I think there's not quite that many. We sold 5,000 yesterday and then held back copies. But it's really a nice history of Berkshire Hathaway. And the credit, 100% goes to Carrie for putting that together. So I'd just like to thank her personally and I hope you'll thank her.

Now, we'll have the annual meeting at 3:30, and at that time we will be voting on directors, but many of you won't be here at that time, although we'll have a full house in here. I should mention all of the overflow rooms in -- here at the CenturyLink -- are full now. There may be seats -- we've got the grand ballroom and the second ballroom over at the Hilton -- and there may be some seats left over at the Hilton. So if you can't find a seat here at the CenturyLink, either here or in the overflow rooms, at least give it a try over there at the Hilton. We've got all the rooms we could possibly get, but I think the attendance may have outrun the seats this time. I'd like to introduce the directors, and, like I say, you'll vote on them at a little after 3:30 and if they'll stand -- and we'll get a light down here -- and withhold your applause until the end, and you can withhold it then, if you would like. And we'll do this alphabetically.

You've met Charlie, of course, but we'll start with Howard Buffett, Steve Burke, Sue Decker, Bill Gates, Sandy Gottesman, Charlotte Guyman, Tom Murphy, Ron Olson, Walter Scott, and Meryl Witmer. They're a great bunch of directors. We're missing one of our great directors, Don Keough, my neighbor from over 55 years ago. He was a coffee salesman, then, for Butter-Nut Coffee, for those of you around Omaha. He broadcast Nebraska football games and around 1950 had a radio show on WOW, for 15 minutes. He was followed by a fellow named Johnny Carson, who had another 15-minute program. And Don, when I would see him in later years, he'd always say, what happened to that Carson fellow? And Don died a few weeks ago, but we are very grateful that his wife, Mickie Keough, has joined us together, so let's have a hand for Mickie Keough. Mickie, will you stand? Mickie practically raised our kids, so if they have any faults, talk to Mickie about it.

Okay. We have just -- we have one slide that relates to our quarterly earnings that -- if we could put up. We released these yesterday afternoon, and nothing particularly remarkable. The railroad, BNSF, did dramatically better last year, not only in earnings, but in all kinds of performance measures, in terms of train velocity, and on time, and you name it, so that the -- you know, we got behind last year, early in the year, and there's been lots of money, and more important, lots of effort, spent to get the railroad operating like it should be. And in the first quarter those efforts paid off. We gained share. Our earnings, relative to other railroads, improved dramatically, so we got the trains running. We're going to spend a lot of money making sure we get even better but the improvement has been huge, and I want to thank Matt Rose and Carl Ice for a really extraordinary performance and having our railroad running the way it should be running. So thanks, Matt and Carl.

I didn't quite get, it but I'll assume it was complimentary. Okay. I think we're ready to move on to our questioners. We'll handle it the same way as before. We start with the journalists, we move to the analysts, and then we move to the audience, and we keep doing that until about noon. And at that time, we take a break for about an hour, and then we come back and we repeat the procedure. After we get through a -- I think it's either 48 or 54 questions, then we just take them all from the audience. We have various zones where people have been selected, by drawing, to ask questions personally but we start off the first one with a woman who retired after 60 years, setting a longevity record for all of Time Inc -- she retired at Fortune -- been my friend for many years, and in my opinion the best print business journalist in the world, Carol Loomis. That doesn't soften her up at all, folks.

Analyst

I'll make my customary, very short speech. The three of us have been getting questions for two months, and there have been a lot of them. Warren and Charlie have no idea what our questions are going to be, and some of them are very tough. Warren is right that I don't normally soften them up.

And we're sorry, we got hundreds of questions, literally, many hundreds, and we're sorry if we didn't pick yours, which doesn't mean it wasn't a good question. It's just that the -- our ability to ask as many as you'd like -- as you would like to get yours in -- was limited.

Questions And Answers

A - Warren E. Buffett {BIO 1387055 <GO>}

(Question And Answer)

A - Unidentified Speaker

So, my first question is from a man in Timpson, Texas, who happens to have a familiar name, Frank Gifford, but wants to make it clear that he isn't the football Frank Gifford, but rather a travel photographer. And his question is a hard one. He says, I've been a shareholder for 15 years, but I'm now suffering heartburn. Until recently I considered Berkshire an ethical company, benefiting society through -- and here he mentions two Berkshire companies headquartered in his home state-- he says, -- through BNSF and ACME Brick. Two points call that opinion into question now: One is the Seattle Times story on predatory practices at our Clayton Homes subsidiary. Clayton mainly responded with platitudes to this article and would not answer questions, so I have to assume the facts in the story are correct.

The other point that I want to mention is our growing partnership with 3G Capital. I sold my Tim Horton stock in disgust before 3G gutted 20% of the corporate staff and plunged this well-run company deep into junk territory. Other takeovers 3G has made have been still more brutal. You and Charlie have made many statements about upholding Berkshire's reputation, and you have avoided anti-social investments like tobacco and gambling. Your efforts years ago to keep Berkshire's textile mills running show you once aspired to balance capitalism with compassion. I cannot make the moral case for practices at either Clayton or 3G, and I wonder how you can do so.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Let's talk first about the Clayton article because there was some important mistakes in that, but I think it's first -- it's better to back up even to the situation in mortgage lending that's taken place, and why Clayton follows a pattern that, actually, is exemplary and rather extraordinary, in the home building and mortgage business. If you look back at the housing bubble in -- well, ending more or less in 2008, one of the great problems, in fact, maybe the greatest cause, was the fact that the mortgage holder became totally divorced from the mortgage originator and from the home builder. In other words, the home builder built a house and sold it, took his profit, and that was that. It didn't really make much difference who he sold it to. And the mortgage originator would originate a mortgage but then package those, securitize them, and often sell them around -- even around the world -- so people thousands and thousands of miles had no connection with the original transaction. And the mortgage originator suffered no loss if the loan went bad.

So we had these two parties: the one that connected with the home buyer, and the one that originated the mortgage, and they had no connection with the actual outcome of whether it was a good mortgage or not. At Clayton, unlike virtually anybody -- there's a few -- we offer the -- we offer mortgages to all the buyers of our homes. And we have retained roughly 12 billion of mortgages on 300,000 homes. Now, when a mortgage goes bad, two people lose: the person that owns the house loses, and the person that owns the mortgage loses. And in our case, we have this identity of interest. We have no interest in selling anybody a house, and having that mortgage default, because it is a net loss to us. It is a net loss to the customer. And like I say, that's not true of most home builders. It's not true of most mortgage originators. So you -- and there's been much talk, in terms of possible changes in mortgage rules, to try and get the mortgage originator to keep some skin in the game. And they've talked about them retaining maybe 3% of the mortgage or something like that, just so they would have an interest in, really, what kind of a mortgage they were putting on the books.

Well, we keep -- in many cases -- we offer to everybody, but we keep -- probably in half the cases, we keep 100% of the mortgage, so we have exactly the same interest as society has, and as the home buyer has, in not making mortgage loans to people who are going to get in trouble on those loans. Now, it's true that manufactured housing hits the lower end of the market, in terms of house values. Of the homes selling for $150,000 -- new homes selling for $150,000 or less -- 70% of them are manufactured houses. And some of those people -- most -- many -- of those people do not qualify, on a FICO score, to obtain loans that are government guaranteed. Some do, but most don't. And the question is: can you lend intelligently to people who have a good chance of making the payments, keeping that house? And Clayton has been exemplary in doing that. About 3% of the mortgages default in a year and when they do, we lose money and the person who bought the house loses money. But 97% don't, and most of those people would not be living in the kind of houses that you can see right here at the auditorium, without the financing availabilities that Clayton makes available, and others make available. And I invite you to go out and look at that house for $69,500.

That house will be transported and erected, ready to go -- you have to have the land and that -- and I'll get to that in a second -- but for 69,500, you have that house with appliances, with air-conditioning, with a couple bedrooms, 1200 square feet. And probably you'll put another 25,000 or so in the house, but -- in terms of the land and preparation there -- so maybe it will be $95,000 but I just -- you know, you can make your own judgment as to whether that's a decent value. And I know most of you are not living in $95,000 homes, but there are an awful lot of people that aspire to do that. And we help them, with our own money at risk, to move into those homes. And if we make a mistake, it hurts them and it hurts us. And that is a very unusual arrangement in the financial industry. Now, I read that story, and in it, there was an item in it, which, reading through the story, I just knew wasn't true. I mean, nobody that knew anything about manufactured housing could have put that up. I'd like to put that up on the slide, where it says, Another Clayton executive said in a 2012 affidavit that the average profit margin on Clayton homes sold in Arkansas between 2006 and 2009 was 11,170 -- roughly half of the average sales price of the homes. So this fellow is quoting somebody as saying that we're making a 20% profit on home sales. Well, I knew that that was nonsense, so I asked for the affidavit. And I read the affidavit about three times, and nowhere in that affidavit was it -- was this statement made.

Now, what was said was what I'll show in the next slide. It's hard for me to see what's up there, but it should show Item 6, where it says Clayton Manufactured Homes sold 2,201 homes, and Item 7, that 4% of the gross profit from the home sales totaled 983,000. So if we'll move to the next slide. I did a little arithmetic and, sure enough, if you take 25 times the commission for -- the commission is 4%, so you take 25x -- and then you divide by the number of homes, you come up with 11,170. But, that statement in the affidavit said gross profit, and gross profit is not the same thing as profit. I'm not sure that the fellow that wrote the story understood that. So I have put on the next page the difference, for example, of a couple other retailers. I put Macy's and Target and Macy's has a 40% gross profit margin, but a pretax margin of 8%, after taxes of 5.4%. Gross profit is what you -- if it's the case of Macy's, what they pay for a sofa or something, and what they sell it for. But they also have the expenses of paying salespeople, rent, utilities, advertising, all kinds of other things. So the idea that gross profit and net profit are the same thing is -- you know -- anybody that understands accounting would never make a mistake like that.

In our particular case, on the next page, our gross margin is what the fellow said in the affidavit, and he used the word gross, of 20%. But the writer of the story turned that into a profit margin, and our profit margin is actually 3%. So I'd just like to point out the mathematics on that particular subject. There's one other item you should see -- and, again, I have trouble seeing the -- what's up there -- but we have a -- in every retail Clayton establishment, we have a lender board which shows exactly what a variety of lenders are willing to do and what their terms are. And we also have a sheet, which I think will be put up there, and it's less than a full page, and it sets out the lenders who are available. And at the very top -- I'm just looking to see whether I can find that right here -- at the very top of it, it basically says check out more than one lender, and you can send the application to any of these people. And we have people sign at the bottom, and there's no small print on it. I can't see it here, but -- it may look like small print -- but it's one page, and multiple lenders are put on that sheet. Sometimes people borrow -- if there's a credit union in San Antonio that's very big, the local bank is very big, and we also will lend money to the buyer of the home, if they wish.

If you buy that home that's out there, we'll give you a list of four or five lenders, probably including your local bank, and you will probably take the loan that offers you the best terms. So, I make no apologies whatsoever about Clayton's lending terms. I get letters from people complaining about our subsidiaries in various ways. I mean, some people call the office, some people write in. I can say, in the last three years I have not received one call -- we've got 300,000 loans -- I've not received one call from any party in connection with a Clayton Home. Moreover, we are -- at Clayton -- we are regulated in almost every state -- every state in which we have financing, which is practically every state. And in the last three years, we have had -- I think its 91 examinations by the state, 91 examinations. They come in. They look at our practices. They make sure that they conform with the laws. And in those 91, we -- I think the largest fine we've had has been $5,500, and the largest group of refunds we had was about $110,000. Yes, there were -- and those were regulated, not only by those states, were regulated by HUD, all kinds of people. When we can, we try to get people an FHA loan, because that's the best loan for them to get. But, as I say, most of our borrowers are below the 620 FICO score.

And it's true that 3% or so will lose their homes in a year. It's true that 97% of those people will have a home where their average principal and interest payment is a little under $600 a month, and that takes care of having a two- and perhaps three-bedroom house, well equipped. I invite you to go through it. And Clayton has behaved, in my book, extraordinarily well. The article talked about 30-year mortgages. Over 4.5 years ago, I said we're not going to have 30-year mortgages. So we don't have them, except for the FHA-guaranteed ones, which, of course, have a very low rate. So I have no -- I'm proud of the Clayton management. I'm proud of the fact they put, this year, maybe 30,000 people in homes at a very low cost, a very good home. And a very high percentage of those people are going to have those loans paid off, probably in 20 years, and have a home that has cost them -- has been a real bargain, basically. I'll get to the other question -- the 3G question, too in just a second, but we'll give Charlie a chance to say what he'd like to.

A - Charlie Munger {BIO 1406508 <GO>}

I don't know a lot about the mortgage practices at Clayton, but I certainly know that we've sold an enormous number of houses and we have a big share of the total market in manufactured.

A - Warren E. Buffett {BIO 1387055 <GO>}

About 50%.

A - Charlie Munger {BIO 1406508 <GO>}

50%. And it's a very constructive thing. Personally, I've always wondered why manufactured houses don't have a bigger share of the market. It's such an efficient way of creating quite usable houses. Part of the reason is that the track builders, under capitalism, got so efficient. And isn't Clayton now doing some track building itself?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes.

A - Charlie Munger {BIO 1406508 <GO>}

I think so, yes. So, Clayton is a very productive part of the economy, but we can't make lending to poor people who buy houses 100% successful for everybody. We wouldn't be running the business right if the foreclosure rate was zero. Too many people would deserve credit that wouldn't get it.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. The big causes of default are the loss of a job, death, and divorce. And that happens with high-priced houses as well, but it happens more often with people that are living closer to the edge. But I don't think that's a reason to deny them a house, and particularly when so many -- it turns out so well for so many. The 2008 recession was -- and '9 -- was very interesting, because all kinds of securitized deals, involving houses costing hundreds and hundreds of thousands of dollars, the default rate on those was many, many, many times what happened in our own case. And similarly with delinquency rates, our delinquency rates are running 3%, currently. And it -- the people want to live in those houses, and I think they deserve the right to. Incidentally, we had a -- a few years ago we had a couple houses here, we called them the Warren and the Charlie. The Charlie sold first, and it sold to one of the cameramen who was in the credits on the movie you just saw. And you can check with Matt, and he's -- Matt Mason -- he is very, very happy with that house he bought four or five years ago.

The second question was about 3G, and I don't think you can ever find a statement that Charlie and I have ever made, in terms of Berkshire's companies or anybody else's, where we said that there should be more people working than are needed in a company. And the 3G people have been successful in building marvelous businesses. And it is true that they have entered into some purchases where there were considerably more people running the business than needed. And the interesting thing is that after they reduced the headcount to the number needed, the companies have done extremely well.

I mean, you've seen Burger King outgrow its main competitor by a significant margin. You've seen Tim Horton have some very good figures in the first quarter. And I don't know of any company that has a policy that says we're going to have a lot more people than we need. But a good many companies end up in that position, and if 3G buys into one, they quite promptly -- and treat people well in terms of the severance -- but they get it down to what they need. And I hope our Berkshire companies are not being run with more people than they need, either. They usually aren't when we buy them, and we look for those companies that are well managed. 3G is -- will -- if they find out that 100 people are doing what 50 people can do, they'll get it to where 50 people are doing it. And I think that actually makes sense throughout American business. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, the alternate to the system of having your company right-sized, the right number of people, is what eventually happened in Russia. And there, everybody had a job. And the way it all worked out was some workers said, Well, they pretend to pay us and we pretend to work, and the whole damn economy didn't work. Of course, we want the right number of people in the jobs.

A - Warren E. Buffett {BIO 1387055 <GO>}

It's interesting. In the railroad business -- in the railroad business after World War II, in 1947 or thereabouts -- I think there were about 1.6 million people in the railroad business, and it was a lousy business. And capital was short for any kind of improvements. And now there are less than 200,000. So they've gone from a million-six to less than 200,000, carrying more freight, more distance, and doing it in far safer conditions. Safety has improved dramatically in the railroad industry. And if somebody thinks it would be better to be running the railroads with a 1.6 million people doing it, you would have a terrible railroad system. You wouldn't have anything like you have today. Efficiency is required over time in capitalism, and I really tip my hat to what the 3G people have done.

Okay. Jonny Brandt?

Q - Analyst

Thank you, Warren, for allowing me -- inviting me -- to be part of this 50th anniversary celebration. I have a question about Van Tuyl. Van Tuyl is a fabulously productive auto dealer that has, since its founding, used a traditional negotiated model with a particular successful emphasis on profitable add-on insurance and financial products. Meanwhile, at least some other auto dealers, CarMax and Don Flow among them, have adopted, or are moving towards, models which emphasize fixed prices, transparency, and low sales pressure. Given the evolving regulatory environment and changing consumer preferences, will Van Tuyl eventually need to adapt to this new mode of selling, or do you feel the traditional method of selling cars will be viable for decades into the future? If the market requires a new way of selling, how hard is it for a sales culture that has been successful for decades doing business one way to change to another?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. If a change is required, it will be made. And I don't know the answers to which way it's going to go on that. The -- it's true that people are -- and that's not new -- that's been experimented with before -- where people have tried a one-price system and no negotiating, no haggling and everything. And I think a very large number of people would like to see that system, except when they actually get into it, it seems to break down for some reason. It -- there's negotiation going on in a lot of businesses that -- and it always amazes me. People say they don't like it, but it's what ends up happening.

And so Van Tuyl will adapt to what the customer wants. We'll see how some of these experiments go. And I don't think there would be any problem at all if the world goes in that direction and Van Tuyl going to it. But I wouldn't be surprised if five or 10 years from now the system is pretty much the same. I wouldn't be totally surprised if it changes, either, but I can't predict the outcome. I can predict that Van Tuyl, and the subsequent auto dealerships we buy, I can predict that they will be a very important part of Berkshire and I think will be quite profitable in relation to the capital we employ in the business. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I very much like that acquisition, partly because I think we can do a lot more like it.

A - Warren E. Buffett {BIO 1387055 <GO>}

Do you think you'll be negotiating on cars 10 years from now, when you buy a new one?

A - Charlie Munger {BIO 1406508 <GO>}

It's been amazingly resistant to change for my whole lifetime.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes, happens in the jewelry business, too. I mean, there's certain items -- well, it happens in real estate. I mean, let's just say that some real estate firm said we're only going to take listings where you can't negotiate. Do you think? -- I'm not sure how it would do, in terms of obtaining both listings and

customers. People seem to want to negotiate. If they hear a house is priced at 200,000, they're not going -- unless it's some unusual situation -- they're not going to step right up and pay the 200. They're going to bid. When people are dealing with a big ticket item -- a lot of people -- their natural tendency is to negotiate and they particularly will do so if they think that's built into the system. So I'm not sure how it changes, but we'll do fine, whatever direction it goes.

Okay. Now we go to the shareholder at Station 1.

Q - Analyst

Hi, Warren. Hi, Charlie. Great to be here. This is my first time here, incredibly lucky to have my question answered. So my question is this: can you name at least five characteristics of a company that gives you confidence to predict its earnings 10 years out in the future? And can you also use IBM as a case study, how we check all those boxes?

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie, what are your five?

A - Charlie Munger {BIO 1406508 <GO>}

We don't have a one-size-fits-all system for buying businesses. They're all different, every industry is different, and we also keep learning. So what we did 10 years ago, we hopefully are doing better now. But we can't give you a formula that will help you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Now, if you're looking at the BNSF railroad as we were in 2009 or if you're looking at Van Tuyl in 2014, there are a lot of things that go through our minds. And most of the things that go through our minds are things that will stop us from going further. I mean, the filters are there and there are a lot of things that, if we see it in a business, including, maybe, who we're dealing with, will stop us from going on to the next layer but it's very different in different businesses. We are looking for things where we do think we've got some reasonable fix on how it's going to look in five or 10 years, and that does eliminate a great many businesses. But it's not the same -- it's not the same five questions at all. Certainly, when we're buying a business where we're going to have somebody that's selling it to us continue to run it for us a very big question is do we really want to be in partnership with this person and count on them to behave in the future when they don't own the business, as they behaved in the past when they do own the business. And that stops a fair number of deals but I can't give you five -- we don't have a list of five or if we do, Charlie has kept it from me.

You want anything more?

A - Charlie Munger {BIO 1406508 <GO>}

No.

A - Warren E. Buffett {BIO 1387055 <GO>}

Becky?

Q - Analyst

This question is for Charlie. It comes from John Baylor. He says, Charlie, you broke Warren of his cigar butt buying habits. With the significant innovation that is occurring in technology, is IBM similar to those textile mills in the 1960s, and did you try to talk Warren out of buying IBM?

A - Charlie Munger {BIO 1406508 <GO>}

The answer is no. I think IBM is a very interesting company. It totally dominated Hollerith machines the punch card computing and then when they invented electronic computing, it dominated that for a while. It's very rare that when a technological change comes along that people adapt as successfully as IBM did that time. Well, now they have the personal computer, and that's been a mixed bag. And -- but I think IBM is a very credible company. We own a lot of companies that have temporary reverses, or once were mightier in some ways than they are now. IBM is still an enormous enterprise, and I think it's still a very admirable enterprise, and I think we bought it at a reasonable price.

A - Warren E. Buffett {BIO 1387055 <GO>}

When we bought it, it was a two-to-nothing vote.

A - Charlie Munger {BIO 1406508 <GO>}

Yes.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay.

Incidentally, there's one thing I always find interesting. We get asked questions about investments we own, and people think we want to talk them up or -- we have no interest in encouraging other people to buy what -- the investments we own. I mean, we are better off, because either we or the company is likely to be buying stock in the future. Why would we want the stock to go up if we're going to be a buyer next year, and the year after, and the year after that? But the whole mentality of Wall Street is that if you buy something -- even if you're going to buy more of it later on, or if the company is going to buy its own stock in -- the people seem to think that they're better off if it goes up the next day, or the next week, or the next month, and that's why they talk about talking your book. If we talked our book, from our standpoint, we would say pessimistic things about all four of the biggest holdings we have, because all four of them are repurchasing their shares, and, obviously, the cheaper they repurchase their shares, the better off we are. But people don't seem to get that point. Do you have any idea why, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Warren, if people weren't so often wrong, we wouldn't be so rich.

A - Warren E. Buffett {BIO 1387055 <GO>}

He's finally explained it to me. Okay.

Gary?

Q - Analyst

Thank you. In his letter, Charlie talked about Berkshire's insurance success, "being so astoundingly large" that I believe that Buffett would now fail to recreate it if he returned to a small base while retaining his smarts and regaining his youth. Do you agree that you could not repeat that success today? And if so, what do you think are the conditions in the insurance industry today that would inhibit a repeat of that performance?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I had many, many, many pieces of luck, but I had three extraordinary pieces of luck, in terms of the insurance business. One was, when I was 20 years old, having a fellow on a Saturday, a fellow named Lorimer Davidson, be willing to spend four hours with some 20-year-old kid who he never heard of before, explain the insurance business to him. So I received an education at age 20 that was -- I couldn't have gotten at any business school in the United States. And that was just pure luck. I mean, I just happened to go to Washington. I had no idea I would run into him. I had no idea whether he would talk to me, and he spent four hours with me. So just chalk that one up, the chance of that happening again.

In 1967, I got lucky again when Jack Ringwalt, who, for about five minutes every year wanted to sell his company, because he would get mad about something, some claim would come in that he didn't like or something of the sort. And I told my friend Charlie Heider, I said, Next time Jack is in the mood, be sure to get him to my office.

And Charlie got him up there one day, and we bought National Indemnity. We couldn't have done that -- we not only couldn't have done it a day later, we couldn't have done it an hour later. You know, that -- that was lucky. And then I really got lucky in the mid '80s when, on a Saturday, some guy came in the office and he said, I've never worked in the insurance business, but maybe I can do you some good. And that was Ajit Jain. And how lucky can you get? So, if you ask me whether we can pull off a trifecta like that again in the future, I'd say the odds are very much against it. But the whole -- the whole thing in business is being open to ideas as they come along, and insurance happened to be something that I could understand. I mean, that was in my sweet spot.

If Lorimer Davidson had talked to me about some other business it wouldn't have done any good. But it just so happened he hit a chord with me on that in explaining it. I could understand what he was talking about. And I could understand what National Indemnity was when Jack had it for sale. And that's -- there's an awful lot of accident in life, but if you keep yourself open to having good accidents happen, and kind of get past the bad accidents some good things will happen. Might not happen in insurance -- you know, it can happen in some other field -- probably would happen in some other field -- if you were to start in today. So, no, we could not have -- you couldn't expect to have three lucky events like that happen, and there were many more along the way. But we -- I think if we were starting over again, we'd find something else to do. What about it, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yes. I don't think we would have that kind of success. Mostly we bought wonderful businesses and nourished them. But the reinsurance division was just created out of whole cloth right here in Omaha, and it's a huge business. Insurance has been different for us.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Station 2? And if you'll say where you're from too, please?

Q - Analyst

Dear Warren, dear Charlie. I'm Lawrence [ph] from Germany, and in my home country, you two are regarded as role models for integrity. And at Berkshire, its culture is its most important competitive edge. Hence, my question: how can we, as outside investors, judge the state of Berkshire's culture

long after you depart from the company?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I think it's fair that you do come with a questioning mind to the culture, post-me and Charlie, but I think you're going to be very -- I don't think you should be surprised, but I think you will be very pleased with the outcome. The culture -- I think Berkshire's culture runs as deep as any large company could be in the world. It's interesting you're from Germany, because just three or four days ago, we closed on a transaction with a woman named Mrs.Louis, in Germany. And she and her husband had built a business (inaudible) Over 35 years, they'd spent developing this business of retail shops, dealing with motorcycle owners, and lovingly, had built this business. Her husband died a couple years ago. And Mrs.Louis, in Germany -- it came about in sort of a roundabout way -- but she wanted to sell to Berkshire Hathaway. And that would not have been the case 30 or 40 years ago.

So it does -- it's a vital part of Berkshire to have a clearly defined, deeply embedded culture that pervades the parent company, the subsidiary companies. It's even reflected in our shareholders. And when you have 97% of the shareholders vote and say we don't want a dividend, I don't think there's another company like that in the world. So we have a -- our directors sign on for it and, there again, we behave consistently. Instead of having a bunch of directors who are -- love to be a director because they'd like to get $200,000 or $300,000 a year for showing up four times a year, we have directors who look at it as a great opportunity for stewardship, and who want their ownership, and have their ownership, represented by buying stock in the market, exactly like you do. So we -- it's -- we try to make clear and define that culture in every way possible, and it's gotten reinforced over the years to an extreme degree. People who join us believe in it; people who shun us don't believe in it, so we -- it's self-reinforcing. And I think it's a virtual certainty to continue and to become even stronger, because once Charlie and I aren't around, it will be so clear that it's not the force of personality, but it's the -- it's institutionalized that nobody will doubt that it will really continue for decades and decades and decades to come. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, as I said in the annual report, I think Berkshire is going to do fine after we're gone. In fact, it will do a lot better, in dollars. But, percentage-wise, it will never gain at the rate we did in the early years, and that's all right. There's worse tragedies in life than having Berkshire's assets and have the growth rates slow a little.

A - Warren E. Buffett {BIO 1387055 <GO>}

Name one.

A - Charlie Munger {BIO 1406508 <GO>}

Warren and I have one not very far ahead.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Yes, yes. Okay. Andrew? I should say culture is everything at Berkshire. And if you run into a terrible culture, it's -- the Salomon thing was up there on the screen, and it would be hard to turn Salomon into a Berkshire. I don't think we could have done it, Charlie.

A - Charlie Munger {BIO 1406508 <GO>}

I don't think anybody's ever done it on Wall Street.

A - Warren E. Buffett {BIO 1387055 <GO>}

No. It's just -- it's a different world. And that doesn't mean that Berkshire is a monastery, by any means, but it does mean that -- I can guarantee you that Charlie and I, and a great,

great many of our managers, are more concerned -- and Carrie Sova who put this meeting together and everything -- they are more concerned about getting a good job done for Berkshire than what they get out of it themselves. And it's great to work around people like that.

Andrew?

Q - Analyst

Okay, Warren. This question comes from Simone Wallace in New York. And she writes, Over the last 50 years, we Berkshire shareholders have, effectively, been long sugar consumption, through directly owned companies, such as See's Candies, Dairy Queen, in funding Heinz, and publically-traded investments, such as Coca-Cola today. Yet, from improvements in scientific research, we as a society have become increasingly attuned to the true costs of greater sugar consumption, in the form of rising health-care costs. We are seeing this awareness of sugar's impact in changing consumer behavior. Carbonated soft drink volumes are declining, and consumer packaged goods companies, focused on the center aisles of supermarkets, are struggling with organic growth. If we have reached -- have we reached an inflection point in human behavior in how consumers view sugar consumption? And do you think Coca-Cola's moat, and potentially that of Heinz's or Kraft's, is narrowing? And if not, what news would it take you to be convinced that it is?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I think it's an enormously wide moat, but I think it's also true that the trends you described are happening. But there will be 1.9 billion eight-ounce servings of Coca-Cola products, not Coca-Cola, but Coca-Cola products, consumed in the world today. I don't think you're going to see anything revolutionary, and I think you will see all food and beverage companies adjust to the expressed preferences of the consumers as they go along. No company ever does well ignoring its consumers.

But there will be -- I would predict -- 20 years from now there will be more people -- there will be more Coca-Cola cases consumed -- than there are now, by some margin.

Back in the late 1930s, Fortune ran an article saying that the growth of Coca-Cola was all over. And when we bought our Coca-Cola stock in 1988 people were not that enthused about growth possibilities for the product. I sit here as somebody who, for the -- in the last 30 years, one-quarter of all the calories I've consumed come from Coca-Cola. And that is not an exaggeration. I am one-quarter Coca-Cola. I'm not sure which quarter. But -- and if you really -- I don't think there is this choice. I think there's a lot to be said about being happy with what you're doing. If I'd been eating broccoli and Brussels sprouts, and all that, all my life, I don't think I'd live as long. Every meal, I would approach, thinking it's like going to jail or something. No. I think -- I think -- Charlie? Charlie's 91, and his habits aren't that different than mine. They're slightly better.

A - Charlie Munger {BIO 1406508 <GO>}

There's no question about it. The way I look at it is, sugar is an enormously helpful substance. It prevents premature softening of the arteries.

And the way I look at it, is that, if I die a little sooner that will just be avoiding a few months of drooling in a nursing home.

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie and I have enjoyed every meal we ever had, virtually, except when I was eating at my grandfather's and he made me eat those damn green vegetables. There, obviously, are some shifts in preferences, although it's remarkable how durable items are in this field. We -- Berkshire Hathaway -- I believe, was the largest shareholder of General Foods from about 1981 or thereabouts, to about 1984 when it was bought by Philip Morris. And that's 30-plus years ago, and those same -- those same brands -- they went through Philip Morris, they got spun out as Kraft, they broke Kraft into two pieces.

But now, we're going to own those brands, and they're terrific brands. Heinz -- Heinz goes back to 1869. The ketchup came out a little later. They went bankrupt, actually, when they were counting on the horseradish or whatever it was. But the ketchup came out in the 1870s. Coca-Cola dates to 1886. It's a pretty good bet that an awful lot of people are going to like the same thing. And when I compare drinking Coca-Cola to something that somebody would sell me at Whole Foods -- I don't know -- I don't see smiles on the faces of people at Whole Foods. So I like the brands we're buying, Andrew.

Okay. Gregg Warren?

Q - Analyst

Thank you, Warren. I just wanted to circle back and add on to Jonathan's question on Van Tuyl Group. What is it that attracted you most to the deal? Potential for consolidation in a highly fragmented industry, which would allow you to put some of your excess capital to work, or the unique positioning in the auto chain of the auto dealer sector, which has its hands not only in auto sales but financing insurance and parts and services? I know that Charlie just said that he'd like to do more deals like it, but where do you feel the greatest return will come from longer term? Rolling up auto dealerships or tapping into the advantages that are inherent in the full service model?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. There are not any huge advantages of scale, at least that I'm aware of, in owning lots of dealerships. But running dealerships well is a very good business. It's a local business. So I don't see that having some -- there's 17,000 dealers in the country, and if you ask the people here in Omaha to name a bunch of dealers, they'd come up with a bunch of local names. And I don't think that you widen profit margins, particularly, by having a thousand dealers versus having a hundred or even having one very good dealer. So we will be buying, I hope, more dealerships, but it will be based on local considerations. We don't see the finance business, in dealers -- we don't bring anything to that party.

John Stumpf is here from Wells Fargo. I think they're the biggest auto finance company in the United States. And they have a cost of funds advantage over Berkshire. Berkshire is able to borrow money at a low price, but I forget whether John's liabilities cost him something like 12 basis points or something like that last quarter. And we can't come up with money as cheap as the banks can, and they're the natural lenders for loans, so we're not going to be in the finance business. We will keep looking for dealerships, maybe groups of dealers. It doesn't give us a buying advantage from a manufacturer. And we will hope that we run those local operations very well and that they're regarded by the people who buy cars as a local business, not some part of some giant operation. So, I think you'll see us buying more, but I don't think you'll see us widening out margins from what existed before, except in the cases where we can run a local dealer better. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yes. And Van Tuyl has a system of meritocracy where the right people get the power and get some ownership. So on the -- it reminds me a lot of the Kiewit Company, an Omaha company and whose headquarters Berkshire resides as a tenant. And the Van Tuyl and Kiewit are kissing cousins. Those are very successful cultures, and I think they've got a very good thing going for them. The right people are prospering in Van Tuyl.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Station 9? And if you'll identify where you're from, please. I'm sorry. Station 3. You're number 9. I apologize.

Q - Analyst

Apology accepted.

A - Warren E. Buffett {BIO 1387055 <GO>}

We'd have cut off your mic if you hadn't.

Q - Analyst

Fair enough. My name is Stuart Kaye, and I'm from Stamford, Connecticut. And I wanted to follow up on the questions that have been asked about culture and stewardship at Berkshire Hathaway, because I'm currently in year five of helping build a firm called Matarin Capital Management, and we discuss values and culture quite a bit. And so I'd like some tips from you about what characteristics you thought about 45 years ago when you were building the culture and values at Berkshire Hathaway.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes, well I think culture has to come from the top, it has to be consistent, it has to be part of written communications, it has to be -- you know, has to be lived, and it has to be rewarded when followed, and punished when not. And then it takes a very, very long time to really become solid. And obviously, it's easier -- much easier -- to do it if you inherit a culture you like, and it's easier in smaller firms, I think.

I can think of a lot of companies -- very big companies -- in this country, and I don't think if Charlie and I were around them for 10 years we'd be able to accomplish much of anything. So it -- you know, it is a grain of sand type of thing. And people -- just like your child, you know, sees what you do rather than what you say, it's the same thing in a business, that people see how those above them behave and they move in that direction. They don't all move that way. We've got 340,000 people now working for Berkshire, and I will guarantee you that there's some number -- a dozen, maybe 50, maybe 100-- that

are doing something today that they shouldn't be doing.

And we -- what you have to do is when you find out about it, you have to do something about it. I didn't like, for example, making 30-year mortgages at Clayton five years ago. And I said, we're not going to make 30-year mortgages unless they're government guaranteed. And when we bought Kirby, there was some sales practices we didn't like, and we particularly didn't like them with older people. So we put in a golden age policy where, if you're over 65 and you bought a Kirby and for any reason you didn't like it, any time up to a year, you could send it and get all of your money back. And I encouraged people to write me if they had a problem on anything like that. So it takes a lot of time, and you'll -- you know, at GEICO we're going to -- you know, we're going to settle millions and millions and millions of claims. And I will guarantee you that when two people are in an auto accident, they don't agree 100% of the time on whose fault it was, so they may go away and be unhappy for a time. But we work all the time at trying to behave with other people as if our positions were reversed. That's what Charlie's always advised in all our activities, and we've tried to follow it. And we're certainly far from perfect at it, but if you keep working at it, it does get results.

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yes. I think the one thing that we did that's worked best of all is we were always dissatisfied with what we already knew and we always wanted to know more. And Berkshire, if Warren and I had stayed frozen in time, particularly Warren, it would have been a --

A - Warren E. Buffett {BIO 1387055 <GO>}

I'd like to do it, understand.

A - Charlie Munger {BIO 1406508 <GO>}

It would have been a terrible place. It's what we kept learning that made it work, and I don't think that will ever stop.

A - Warren E. Buffett {BIO 1387055 <GO>}

Carol?

Q - Analyst

This question comes from Mona Dyan . And it concerns two indicators, Warren, that you have discussed in the past about the general level of the stock market. The first one is the percentage of total market cap relative to the U.S. GNP, which you have said is probably the best single measure of where valuations stand at any given moment. This indicator is at about 125%. That is the ratio of total market cap to U.S. GNP, and that's about what it was when Warren talked about this back in 1999 just before the -- shortly before -- the bubble broke. The second indicator, which you mentioned in a famous 1999 speech that subsequently became an article in Fortune, is the corporate profits -- is corporate profits -- as percent of GNP. You had said at the time that that number ranged between 4% to 6.5% over a long period of time, which I believe was 1951 to 1999. Well, as of Friday, it is about 10.5% according to the St. Louis Federal Reserve site. That is way above the range you had mentioned. Are the current levels of either one, or both, of these indicators a matter of concern for the general investing public?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Well, the -- it might be -- the second figure, which is the profits as a percentage of GDP, might be a concern for other segments of society because what it indicates is that American business has done wonderfully well in recent years. And I know it says how -- what a terrible disadvantage it has, because of U.S. tax rates and a host of other things the facts are that American business has prospered incredibly. And the first comparison is very much affected by the fact that we live in an interest rate environment, which Charlie and I probably would have thought was almost impossible, not too many years ago. And, obviously, profits are worth a whole lot more if the government bond yield is 1% than they're worth if the government bond yield is 5%.

So it gets back -- and Charlie in that movie talked about alternatives and opportunity cost. And for many people, the opportunity cost is owning a lot of bonds, which pay practically nothing, or owning stocks, which are selling at fairly high prices historically, but they weren't selling at those historic prices with interest rates like this. So I would not -- I look at those numbers, but I also look at them in the context of the fact that we're living in a world that has incredibly low interest rates, and the question is how long those are going to prevail. Is it going to be something like Japan that goes on decade after decade, or will we be back to what we thought was normal interest rates? If we get back to what are normal interest rates, stocks at these prices will look pretty high. If we continue with these kinds of interest rates, stocks will look very cheap. And now I've given you the answer and you can take your pick. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, since we failed to predict what happened, and what exists now, why would anybody ask us what our prediction is in the future?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes, yes. We -- incidentally, the one thing I can assure you, Charlie and I, to my knowledge, or my memory, I can't recall ever us making an acquisition or turning down one based on macro factors that -- you know, and we talk about deals when they come along, but whether it was See's Candy, or whatever it might have been, the Burlington Northern we bought at a terrible time, in general economic conditions. But we don't -- it just doesn't come up, because we don't -- we know we don't know what the next 12 months, 24 months, 30 -- we know we don't know what that's going to look like. But it doesn't really make any difference if we're buying a business to hold for a 100 years. What we have to do is figure out what's likely to be the average profitability of the business over time and how strong its competitive mode is and that sort of thing. So, people have trouble believing that. They think we talk about it. We think any company that has an economist certainly, has one employee too many. Charlie? Can you think of anything rude to say that I haven't said?

A - Charlie Munger {BIO 1406508 <GO>}

Well, it would be hard to top that one.

A - Warren E. Buffett {BIO 1387055 <GO>}

I know. Okay.

Okay. Jonathan?

Q - Analyst

There's been an awful lot written about what should be done to improve the safety of the crude-by-rail infrastructure. Both this week and last month, federal regulators introduced new standards. These new standards include thicker tanks, better fire protection, electronically controlled pneumatic brakes, and speed limits in more populous areas to reduce the chance of derailments near where people live. The railroad association has complained that the brakes are too expensive, while others have complained about what they view as an overly-long timetable to switch out the old tank cars. Given the tank car industry's limits on manufacturing and retrofitting capacity, and the impact on overall rail network velocity from speed limits, do you think the new rules strike the right balance between efficiency and safety? For Berkshire, what impact will these new rules have on the operations of Marmon's Union Tank Car subsidiary and on the BNSF Railroad? Can you also update us on the BNSF initiative to purchase up to 5,000 of its own oil tankers -- oil tank cars -- which is a departure from historic industry practices, and what drove that decision?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Well, you've asked all the questions I'll be asking. But I think those rules just came out, what, two days ago now? Yes. And they're 300 pages. And little as I have to do with this meeting and everything, I have not read those, although I have talked very briefly to Matt Rose and also Frank Ptak who runs our -- the company that manufactures and leases tank cars, our interest -- actually, the interest of our railroad and our tank car manufacturing and leasing operation may diverge in various ways. Clearly, we've got an interest -- the country has an interest -- in developing safer cars, and we found that the -- some cars we thought were safe have turned out to be less safe than we thought going in.

The most dangerous kinds of thing we carry, of course, are -- as a common carrier, we have to carry chlorine, we have to carry ammonia, and we're required to carry that. We'd rather not carry it. There are dangerous products that have to get transported in the country, and they're -- it's more logical to transport them by rail than either truck or pipeline, and some of those we'd rather not carry but we do carry. I would say that the -- probably everybody will be somewhat unhappy with the rules, but the -- it's up to

Washington, and the government, to devise the rules under which something that is potentially dangerous is transported. And transporting by pipeline has its problems. Transporting by rail has its problems. And railroads have gotten dramatically safer over the years. Our safety figures -- and Burlington Northern leads the industry in safety -- but the safety figures get better and better year after year. And -- but you are -- but you're going to have derailments, and you better have very safe cars carrying that, and nothing will be perfect.

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yes. Well, big companies and successful companies, like Burlington Northern and Exxon and Chevron and so on, have a lot of engineers and they have long histories of trying to be way safer than average and knowing a lot about how to do it. And none of that is going to change. You'd be out of your mind to own these big companies and not run them with big attention to safety. And we're not out of our minds and neither are the people who run Burlington Northern. The safety is going to be improved continuously, and should be.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. And it has been consistently, but--

A - Charlie Munger {BIO 1406508 <GO>}

Yes.

A - Warren E. Buffett {BIO 1387055 <GO>}

But there are new problems. For one thing, the Bakken crude has been proven to be quite a bit more volatile than most of the crude that is --

A - Charlie Munger {BIO 1406508 <GO>}

It's not really crude. It's condensate. I mean, it's almost misnamed, to call it crude. It is more volatile.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. I can tell you -- and I may write about this next year in the report, though -- that Burlington Northern has the best safety record among the big railroads. And Berkshire Hathaway Energy, it's extraordinary, their safety record, in terms of utilities. And every new utility we purchase at Berkshire Hathaway Energy, we've brought -- the safety statistics, they've gotten far better after Greg Abel has taken over.

A - Charlie Munger {BIO 1406508 <GO>}

After they bought the Omaha pipeline, which had been mismanaged and safety had been improperly ignored, we watched those people, the Berkshire employees, just work day and night improving the safety. They didn't want more pipeline explosions.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. We went from last out of 40-some -- I think it was -- to either second or first. And if we were second, it was because our other pipeline was first.

Okay. Station 4?

Q - Analyst

Hello, Mr.Munger and Mr.Buffett. Nirav Patel from Haverhill, Massachusetts. What advice would you give to someone who's trying to network with influential people but doesn't have access to the alumni network of a top business school?

A - Charlie Munger {BIO 1406508 <GO>}

Let me take that one. I think you should do the best you can -- playing the hand you've got.

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie is very Old Testament on this. He didn't get much past Genesis. Was his question that he didn't have a lot of associations because of --

A - Charlie Munger {BIO 1406508 <GO>}

Well, he'd like to have you help him--

A - Warren E. Buffett {BIO 1387055 <GO>}

-- tap into--

A - Charlie Munger {BIO 1406508 <GO>}

-- tap -- do well without business school training. I never had any business school training, why should you have any?

A - Warren E. Buffett {BIO 1387055 <GO>}

And actually, I would say the business school training, particularly in investments, was a handicap about 20 years ago when they were preaching efficient market theory because essentially they told you it didn't do any good to try and figure out what a company was worth because the market had a price perfectly already. Imagine paying, $30,000 or $40,000 a year to hear that.

A - Charlie Munger {BIO 1406508 <GO>}

You were very lucky to avoid a lot that you've avoided.

A - Warren E. Buffett {BIO 1387055 <GO>}

How do you feel about your law school training, Charlie, while we're on it?

A - Charlie Munger {BIO 1406508 <GO>}

Well I have a son-in-law who recently explained how modern profit-obsessed law school -- law firms -- work. He said it's like a pie eating contest, and if you win, you get to eat a lot more pie.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay, Becky. You're on.

Q - Analyst

This question is a follow-up to the one that Jonathan Brandt just asked. It's an appropriate follow-up for that, though. It comes from Mark Blakley in Tulsa, Oklahoma, who says that one risk to Berkshire and BNSF appears to be a large railroad accident. It appears many recent accidents have occurred in rural areas. However, how would a worst-case scenario, perhaps one in a more urban area or a BP-type accident, impact BNSF and Berkshire Hathaway? And is the company insured or protected against such losses?

A - Warren E. Buffett {BIO 1387055 <GO>}

Our insurance -- reinsurance -- unit actually went to the four major railroads offering very high limits. I think we -- this is from memory, I could be off on this somewhat, but I think we offered something like $5 or $6 billion, excess -- or maybe a billion and-a-half or something like that that the railroad retained.

So we -- there's no question about it. If you had the exact wrong circumstances a train with a lot of ammonia or chlorine or something right in some terrible urban area, the possibility always exists that that can happen. It can happen -- you know, you can have plane crashes. There are things that are very small probabilities. But if we run trains millions and millions of miles, year after year, something will happen just like they happen in every other possible accident way. So you minimize it. You obviously -- you run trains slower in urban areas. They've already instituted that with crude. I think they've brought it down to 35 miles an hour in towns of 100,000. That's the maximum.

So you're always working to be safer; you'll never be perfectly safe. We do not -- we have some insurance at Burlington Northern, but we don't need insurance at Berkshire. You know, we've got the capability to take any loss that comes along. So we actually would be more likely to be offering that insurance, and we did offer that insurance, and the railroad industry didn't like our rates, which is understandable, and so they haven't bought it but that doesn't mean they won't at some time in the future. I should add one thing that I forgot to say to Jonathan. The -- I don't think we will be buying the 5,000 railcars. I think -- I don't know that for sure, but there's going to be a lot going on in terms of retrofitting. Our Marmon operation has actually taken on a new facility that will be working very hard-- once we know what the retrofit requires -- we will be, I'm sure, working three shifts on retrofitting cars, probably our own, probably some other people's. We'll be building new cars.

The industry has been waiting to see what the requirements would be before moving ahead. The first quarter of 2015, there were practically no tank cars ordered. There's a backlog, but there's -- no tank cars were ordered, because we need to see what the regulations are. But we'll be very active in retrofitting and in manufacturing new cars, but I don't think we'll be -- historically the railroads have never really owned tank cars. That goes back to the Rockefeller days. And I think the present method of having car lessors, such as the one we own, I think will continue in the future rather than having the railroads own them.

Okay. Gary?

Q - Analyst

I have a question on intercompany transactions within the insurance companies. In the last couple of years, you've had a number of them, including 50% of the business ceded up to -- from GEICO -- to National Indemnity. You did something similar with MedPro and with GUARD. You also moved some of the companies -- or the subsidiaries -- like Clayton Homes, out of the Geico sub and up into the holding company. It seems like a lot more activity than normal, and I'm just asking, what is the main purpose of all those movements, what financial flexibility might it provide you, and why now?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Well, there are a lot of things at Berkshire that the why now is answered by -- going to be answered by the fact, well, we just got around to it. The huge chunk of capital, in the insurance companies, is at National Indemnity. So we have moved through these, quote, share arrangements, we moved premium volume that is generated at GEICO or MedPro or different companies, we've moved that up to the parent, because that's where all the -- there's a -- you know, there's just extra layer after extra layer after extra layer of capital there, and it makes it a little simpler that way. It makes it a little simpler just in keeping all the money invested, as opposed to having 50 pockets or 75 pockets to look at it, if you have a couple of main pockets to look at it.

There's no real change in the certainty of payment of policies or anything of the sort. It really makes life a little -- just a little easier -- in terms of managing the money by having most of the -- most of the funds concentrated in National Indemnity. So there's no mastermind to it. We ended up with a few companies in GEICO Corp, which was a holding company for GEICO itself. And it just seemed that we probably ought to get those up to the parent company level and we put them there. But our general approach is just to keep every place loaded with more capital than anybody could possibly conceive of us needing. And that's going to result, more and more, probably, in the funds being concentrated in National Indemnity. Okay, station 5.

Q - Analyst

Good morning, Warren. Good morning, Charlie. My name is David Tollefson from Minneapolis, Minnesota. Currently, the U.S. is not a prospective founding member of the Asian Infrastructure Investment Bank, where many European countries are. The AIIB is relatively small, but if this is part of an ongoing trend in the next 50 years, how will that impact the U.S. multinational corporations? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, that's a subject I know absolutely nothing about, so let's hope Charlie does.

A - Charlie Munger {BIO 1406508 <GO>}

I know a little less than you do.

A - Warren E. Buffett {BIO 1387055 <GO>}

I really apologize to you, in terms of your question, but if we started talking about it, we'd be bluffing.

A - Charlie Munger {BIO 1406508 <GO>}

Yes.

A - Warren E. Buffett {BIO 1387055 <GO>}

Do you have a second question?

Q - Analyst

Off the top of my head, how about the dollar as a reserve currency? Do you have any issues or concerns in the next 50 again -- I know we're in a good position now-- but with us losing that position?

A - Warren E. Buffett {BIO 1387055 <GO>}

I think the dollar will be the world's reserve currency 50 years from now, and I think the probabilities of that are very high. Nothing certain, but I would bet a lot of money on that one. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I have a little feeling on that subject. I'm probably more nervous than a lot of people about printing a lot of money and spending it. There are times when you have to do it, I'm sure, and we just came through one. But I'm happier when we print money and use it improving infrastructure than I am when we just spread it around with a helicopter.

A - Warren E. Buffett {BIO 1387055 <GO>}

So what do you think is going to happen if we keep spreading it around with a helicopter?

A - Charlie Munger {BIO 1406508 <GO>}

I think it's always more dangerous than the economic profession thinks.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. With that, we'll go to Andrew.

Q - Analyst

This question comes from a local shareholder, Max Rudolph, who writes in, recently, several subsidiaries were renamed to include Berkshire or BH in their name, which Mr.Buffett has avoided doing previously, at least due in part, I imagine, to increased reputational risk should something go wrong. Can you discuss how you decide which subs are allowed to rebrand, and discuss those risks, given that Clayton, NetJets, and others, have received negative publicity this year? And attached to that question, Steve Rider of Chicago asks, Will Fruit of the Loom become Berkshire Undergarments?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, if it does, we won't pay him a royalty for the idea. The -- we did create a Berkshire Hathaway HomeService operation, which is a franchise operation. We bought 2/3 of the Prudential franchise operation a couple of years ago, and we have a contract where we can buy the -- where we will -- buy the remaining third in another couple of years. And so we were going to lose the rights to Prudential over time. And Greg Abel asked me about using Berkshire Hathaway, and I told him that they could use it, but that if I started hearing of any abuses of it or anything of the sort, we would yank it, and that maybe that would be a useful tool in making sure that people behaved like we wanted them to.

And so far, that's worked out fine. We've had no idea that we wanted to take Berkshire Hathaway into becoming a household name and that that would create extra value, but we were going to rename a large franchising operation. And, like I say, as long as the name does not get abused, that will be fine. And the Van Tuyl Auto -- we're calling it the Berkshire Hathaway Automotive Group. Certain of the dealers will have the right to use that as a tag line and others won't. And, again, if there's problems connected with it, we'll change it. But in a sense, that isn't bad. If there are going to be problems, I'd just as soon hear about them. If I hear about them because the name is Berkshire Hathaway, that may mean that I get on top of them faster than I would otherwise. We have no -- we have -- a good many of our companies, at the bottom of their letterhead or something of the sort, they say a Berkshire Hathaway Company, and that's fine.

But we have no -- we do not anticipate that we're going to turn it into some huge asset by branding a bunch of products that way. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

We'd be crazy to try and sell Berkshire Hathaway peanut brittle instead of -- Those old brand names are worth a lot of money.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Gregg?

Q - Analyst

This question is on the energy business. During last year's meeting, we touched briefly on the topic of distributed generation, a method of generating electricity on a small scale at the point of consumption, from renewable and nonrenewable energy sources. Much of this has come around the last several years due to the growth of renewable energy sources like solar and wind. Up until now, though, it has been difficult, if not cost prohibitive, for self-generators to store this energy. Now that Elon Musk has joined the fray this week with his idea of batteries for the home, for his new Tesla Energy initiative, which could lead the way for larger systems, and realizing that disruptive technologies can, at times, upend an industry's business model and competitive positioning, how long do you believe it will be before distributed generation becomes a meaningful threat to your utilities, especially if power can be stored more easily at the end user's place of business or home?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, you put your finger on storage being the key. And Charlie follows storage a little bit more than I do, and maybe I'll have Greg Abel talk about it. But obviously, distributed energy is something we pay a lot of attention to. One of the -- probably the best defense is to have very low-cost energy, and MidAmerican has done a terrific job in that respect. And the figures, in terms of people who have adopted solar in our territories, are just minuscule and will stay that way. But huge improvements in storage would make a difference in a lot of ways. And, Charlie, what are your thoughts on that?

A - Charlie Munger {BIO 1406508 <GO>}

Well, obviously, we're going to use a lot more renewable energy because the fossil fuels aren't going to last forever. And, obviously, Berkshire is very aggressive and very well located, in terms of this development. I grew up here in this part of the world, and to have 20% of the power of Berkshire utilities in Iowa coming from the wind, I regard as a huge stunt. And it's, of course, very desirable, in a windy place like Iowa where the farmers like the extra income, to be getting a lot of power out of the wind. And, of course, we're going to have a lot better storage, and the technology has been improving. And this is -- it's not a threat, it's a huge benefit to humanity, and I think it will be a huge benefit to Berkshire. And everything is working for us. I love owning MidAmerican in an era where we're going to have more storage, more wind, more solar, more grid. And I think we're so lucky. What the hell would we do if the fossil fuels run down, if we didn't have the sun to use indirectly in these forms? And, of course, the -- it's going to be a lot more storage. And, of course, there will be some disruption in the utility industry, but there will be more opportunity, I think, than disruption.

A - Warren E. Buffett {BIO 1387055 <GO>}

Just in the last week, we've announced two different -- we're already the leader -- and we've announced two different projects. One in Nebraska -- I think it's 400 megawatts in Nebraska. That will be the first time we've had a wind farm here. And then, we just got approval in the last couple days for, I think, a billion-and-a-half-worth more of wind in Iowa. And I think Charlie mentioned 20% but if we could -- if Greg Abel could take the microphone, I think it's a lot greater percentage than that now. It's a moving target. So I may not have kept Charlie posted on the number. But, Greg, would you bring people up to date on what percent we will be in Iowa when the present projects are completed, and also what has happened in Nevada and a few places like that? Greg?

Q - Analyst

So, I'd love to provide an update. Actually, as it's been touched on, we announced our 10th project in Iowa. That brings us to more than 4,000 megawatts built over the last 10 years in that state.

And at the end of 2016, we will now have 58% of our energy -- approximately 58% -- of our energy that we provide to our customers coming from wind. And then, if you continue to -- thank you. And then, if you continue to look at our other utilities and our unregulated businesses -- Warren, you've touched on this in the past -- we now have more than $18 billion committed to renewable assets across our different utilities. And if you look at NV Energy, our Nevada utility, for example, we've committed to retire 76 percent of their coal by 2019, and a large portion of that will be replaced with renewable energy. So, clearly a continued commitment to that.

A - Charlie Munger {BIO 1406508 <GO>}

Greg, in our utility business, do you think we have more disruption to fear, or more opportunity to love?

Q - Analyst

Distributed generation and solar bring great opportunities for all of our different utilities, and we'll embrace it.

A - Charlie Munger {BIO 1406508 <GO>}

The answer is, you couldn't be luckier, is what I'm telling you.

A - Warren E. Buffett {BIO 1387055 <GO>}

And one thing that has helped in this respect, is that wind and solar are-- the development of wind and solar at present -- are dependent on tax credits. In other words, the federal government has made a decision that the market system would not produce solar or wind under today's economics, but it has an interest, as a society, in developing it. So they have established a credit -- I think it's one-point -- electric is 1.9 cents a kilowatt -- for 10 years. And because Berkshire Hathaway Energy is part of the consolidated tax return of Berkshire Hathaway Incorporated, it has been able to invest far more money than it would make sense to invest on a standalone basis. Among electric utilities in the United States, there's really no one situated as well as MidAmerican Energy is, because it's part of this consolidated tax return, to really put its foot to the floor, in terms of developing wind and solar. So it's become the biggest developer, by far, among the utility industry, and it -- I think it's very likely to continue to be, simply because most utilities really don't pay that much income tax and, therefore, they're sort of limited in how far they can push development of wind and solar.

Okay. Station 6?

Q - Analyst

Hello. I'm Linen Cygaloski . I'm from Chicago, Illinois, and Berkeley, California. I'd like to thank you for giving the opportunity to ask this question. This is my first meeting. I plan to attend once every 50 years. And also, for your essay on the -- both of your essays -- on the past, present, and future of

Berkshire. As we reflect on the last 50 years, I'd like to ask you this question: what was your most memorable failure and how did you deal with it? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Well, we've discussed Dexter many times in the annual report, where I -- back in the mid-1990s -- I looked at a shoe business in Dexter, Maine, and decided to pay $400-or-so million for something that was destined to go to zero in a few years, and I didn't figure that out. And then on top of that, I gave the purchase price in stock, and I guess that stock would be worth, I don't know, maybe $6 billion or $7 billion now. It makes me feel better when the stock goes down because the stupidity gets reduced.

Nobody misled me on that, in any way. I just looked at it and came up with the wrong answer. But I would say almost any time we've issued shares, it's been a mistake. Wouldn't you say that, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Of course.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes.

A - Charlie Munger {BIO 1406508 <GO>}

We don't do it much anymore.

A - Warren E. Buffett {BIO 1387055 <GO>}

No. We probably could have pushed harder, particularly in the earlier years. We've always been -- well, we've had all of our own net worth in the company, we've had all our family's net worth, and we've had all these friends that came out of our partnership, many of whom put half or more of their net worth with us, so we've been very, very, very cautious in what we've done. And there probably were times when we could have stretched it a little and pulled off something quite large, that we made a mistake, looking back. But, I wouldn't want to take a 1% chance of wiping out my Aunt Katie's net worth or something. It's just not something in life that I could live with. So I would rather be a hundred times too cautious than 1% too incautious, and that will continue as long as I'm around. But people looking at our past would say that we missed some big opportunities that we understood, and could have swung, if we wanted to go out and borrow more money. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, it's obviously true. If we had used the leverage that a lot of successful operators did, Berkshire would be a lot bigger.

A - Warren E. Buffett {BIO 1387055 <GO>}

A lot bigger.

A - Charlie Munger {BIO 1406508 <GO>}

A lot bigger. And -- but we would have been sweating at night. It's crazy to sweat at night.

A - Warren E. Buffett {BIO 1387055 <GO>}

Over financial things.

A - Charlie Munger {BIO 1406508 <GO>}

Over financial things, yes.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, we won't pursue that.

Carol?

Q - Analyst

In your 2008 annual letter, you mentioned that a likely consequence of the Treasury and Federal Reserve's action to stabilize the economy would be, quote, an onslaught of inflation. Now that we are presumably nearing the time when the Federal Reserve will begin raising interest rates, could you share your thoughts regarding both the likelihood of accompanying high inflation, and the consequences that might follow? And if high rates of inflation did occur, how would the consequences for Berkshire compare to those for most large companies? And this question, I say belatedly, came from James Cook of Waterville, Maine.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, so far we've been very wrong -- or I've been very wrong. Charlie has probably been a little bit wrong, too.

A - Charlie Munger {BIO 1406508 <GO>}

Of course.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. The-- no, I would not have predicted that you could have five or six years of close to zero rates, and now get negative rates in Europe, and run fairly large deficit, although the current deficit is not that large. I mean, the country could sustain on average 2% or 2.5% deficits forever and not increase the ratio of debt to GDP. So the word deficit is not a dirty word. But very large deficits, and sort of uncontrollable, are scary. But we've taken the Federal Reserve balance sheet up from a trillion to over 4 trillion, and we've done a lot of things that weren't in my Economics 101 course, and so far nothing bad has happened, except for the fact that people who saved and kept their money in short-term savings instruments have just totally gotten killed, in terms of their -- the income that they received from that.

But it's still hard for me to see how if you toss money from helicopters that eventually you don't have inflation. Certainly, if the money supplied grows faster and faster relative to the output of goods and

services, something like that is supposed to happen.

But I've been surprised by what's happened. I've been -- you know, when Poland issues bonds at negative interest rates I did not have that list -- in my list -- of forecasts a few years ago. And so I think we're operating in a world that Charlie and I don't understand very well and that -- and to the second part of the question, I think Berkshire, in almost any kind of environment, will do better than most big companies. I mean, we are prepared for anything. We'll always be prepared for anything. And if we see really unusual opportunities, we're also prepared to act. And that gives us a real advantage over most big companies. We don't count on anybody else. We're sitting with over 60 billion right now. I'd rather be sitting with 20 billion and made a great $40 billion acquisition. But we will -- you know, we will be very willing to act if economic turbulence of any kind occurs, and we'll be prepared and most people won't be. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yes. We have made very little progress in life by trying to outguess these macroeconomic factors. We basically have abdicated. We're just swimming all the time, and we let the tide take care of itself.

A - Warren E. Buffett {BIO 1387055 <GO>}

And we really don't see -- we've not seen great successes by others who have been all involved in macro predictions. I mean, they get a lot of air time, but that's about all that happens.

A - Charlie Munger {BIO 1406508 <GO>}

The trouble with making all these economic pronouncements is that people gradually get so they think they know something.

It's much better just to say, I'm ignorant.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. We will find things, though, under any circumstances. They don't come at an even flow. They may not -- and you cannot predict the size or anything -- but you can be sure that over the next 10 years, you'll see a lot of things you didn't think were possible. And we will occasionally see something that makes sense for Berkshire, and we will be prepared to do it both psychologically and financially.

Okay. Jonathan?

Q - Analyst

For a variety of reasons, bonus depreciation on fixed assets investments in the noninsurance businesses perhaps being the most important, Berkshire's cash taxes have been meaningfully lower than reported taxes for the last several years. The cumulative difference between cash taxes and reported taxes, which could be viewed as another form of float, now stands at around 37 billion. Do you consider any portion of the cash flow from annual increase in deferred taxes to be economic earnings? Is this a sustainable dynamic, or do you expect the relationship between cash and reported taxes to ever flip, for instance, if bonus depreciation ever expires? Given Berkshire's massive appetite for capital spending at the utility and the railroad, is it possible, instead, that its deferred tax liability will never have to be paid, no matter what Congress does with bonus depreciation? And is it perhaps even likely that this form of float will continue to grow?

A - Warren E. Buffett {BIO 1387055 <GO>}

Probably the most likely answer -- there's two forms of float from deferred taxes. One is the unrealized appreciation on securities, and they're -- who knows what happens? I don't think the appreciation is going to disappear, but we may decide to realize some of it from time to time. In fact, we could realize a lot of it. If you move over to the depreciation, which you're talking about, on the 37 billion -- because the total deferred taxes, as I remember, maybe 60 billion or something like that -- that is a factor of accelerated depreciation. And one form or another of accelerated depreciation has been around a long time. Occasionally the -- I think the bonus depreciation one year went to 100%. I could be wrong on that. The -- certainly in our utility business, that helps our customer and it doesn't help us, basically. I mean, we get a -- we will get a return on equity, and that is not -- that's not free equity to us, or anything of the sort.

The regulatory commissions take that into account. Return on invested capital, in terms of how the surface transportation board would look at it, again, I don't think we benefit enormously by that. But it does mean there's less cash going out the door and we, therefore, don't need to borrow as much money for capital investment as otherwise. But I don't think I would look at that as a hidden form of equity. I'd rather have the deferred taxes than not have them, but it's not meaningful there. Now what could happen, is that, overwhelmingly, those deferred taxes were probably, entirely even -- to the extent they're in the United States -- were accrued at a 35% rate. So if the corporate rate changed, then you would have a major change in the deferred tax item. And there's always a possibility of that.

A - Charlie Munger {BIO 1406508 <GO>}

But it would be a book entry. It wouldn't mean much.

A - Warren E. Buffett {BIO 1387055 <GO>}

It wouldn't mean much. Yes, yes. We do -- the float from the insurance business, we regard as a terrific asset. The deferred tax liability is a plus, but it's not -- it's not a big asset.

Okay. Station 7.

Q - Analyst

Hi. My name is Dan Hutner from Vermont. I was wondering if you could talk about Henry Singleton's Teledyne, and whether you learned lessons from that, used it as a model, and what you think about how it ultimately unwound, and how you might want Berkshire to continue differently?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. That's a very good question. And Charlie knew Henry Singleton. I knew a lot about him. I mean, I studied him very carefully, but Charlie knew him personally, as well as studying him. So I'm going to let Charlie answer that. But there's a lot to be learned from both what Singleton did in his operating years and then what happened subsequently.

A - Charlie Munger {BIO 1406508 <GO>}

Henry Singleton was very interesting. He was a lot smarter than either Warren or I. Henry was the kind of guy that always got 800 on every test and left early. And he could play chess blindfolded, at just below the grand master level, when he was an old man. That said, I watched him invest, and I watched Warren invest, and Warren did a lot better. He just worked at it. Henry was thinking about inertial guidance, and Warren was thinking about securities. And the extra work enabled Warren to get by with his horrible deficit of IQ, compared to Henry. And the interesting thing--

A - Warren E. Buffett {BIO 1387055 <GO>}

But let's not quantify it.

A - Charlie Munger {BIO 1406508 <GO>}

No. The interesting thing about Singleton is he had very clever incentives on all the key executives, and they were tough, and they were important, and they were meaningful. And in the end, he had three different Defense Departments that got into scandals. He wasn't doing anything wrong. He wasn't trying to hurt the Defense Department on purpose. But the incentives got so strong, and the culture of performance got so strong, that people actually -- it went too far -- in dealing with the government, Teledyne did. And so, we haven't had any trouble like that, that I know of. Can you think of any, Warren?

A - Warren E. Buffett {BIO 1387055 <GO>}

No. And Charlie and I, we really believe in the power of incentives. And there's these hidden incentives that we try to avoid. One -- we have seen, both of us, more than once, really decent people misbehave because they felt that there was a loyalty to their CEO to present certain numbers -- to deliver certain numbers -- because the CEO went out and made a lot of forecasts about what the company would earn.

And if you -- if you go and say -- if I were to say that Berkshire's going to earn X per share next year, and we have a bunch of executives in the insurance business that set loss reserves and do all kinds of things, or companies in other areas that can load up channels at the end of quarters, at the end of years, I've seen a lot of misbehavior that actually doesn't profit anybody financially, but it's been done merely because they don't want to make the CEO look bad, in terms of his forecast or he's done it, because he doesn't want to look-- When they get their ego involved, people do things that they shouldn't do. So we try to eliminate incentives that would cause people to misbehave, not only for financial rewards, but for ego satisfaction. I think that's probably pretty unusual to even be considering that in the business, but we've seen enough, so we do consider it.

A - Charlie Munger {BIO 1406508 <GO>}

I might also report that at the end, Henry wanted to sell his business to Berkshire for stock, so he was very smart right to the very end.

A - Warren E. Buffett {BIO 1387055 <GO>}

We had a case at National -- it's interesting. You really have to understand -- should understand -- human behavior, if you're going to run a business, because when National Indemnity -- we're going back to the late 1960s -- Jack Ringwalt was a marvelous man, and he ran it, and he had another marvelous man who

worked for him, his tennis partner, and that fellow was in charge of claims. And when the claims man would come in to Jack and say, I just received a claim for $25,000 or something, for some long-haul truck or something, Jack would say -- Jack -- it was just his personality. He would start berating the fellow and say, How could you do this to me? And these claims are killing me, and all of that, and he was joking.

But the fellow he was joking with couldn't take it, really, and he started hiding claims.

And he just didn't -- he stuck them in a drawer. And that caused us to not only misreport fairly minor figures, but it also caused us to misinform our reinsurers, because they had an interest in the size of claims. And the fellow that was hiding the claims had no financial interest in doing it at all, but he just didn't like to walk into the office and have Jack kid him about the fact that he was failing him. And you really have to be very careful in the messages you send as a CEO. And if you tell your-- if you tell your managers you never want to disappoint Wall Street, and you want to report X per share, you may find that they start fudging figures to protect your predictions. And we try to avoid all that kind of behavior at Berkshire. We've just seen too much trouble with it.

Becky?

Q - Analyst

This question comes from Anthony Sterochi in Lincoln, Nebraska. He says, If government regulators deem Berkshire Hathaway's reinsurance business too big to fail, how would government regulation of the reinsurance business affect Berkshire Hathaway?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. The question -- there's two, essentially, regulatory aspects to it. One is there's the European -- and I hope I'm describing this right -- I may be wrong, a little bit, on some technicality -- there's a European group that is looking at insurers, generally, and has designated, I believe, nine or so insurance companies as -- I'm not sure what they call them -- but they deserve special attention, I'll put it that way. There's a technical name for it. The one that's more relevant in the United States is the Financial Stability Oversight Committee, I believe they call it, which designates so-called SIFIs, systemically important financial institutions. And large banks are in that category. And then the question is, what non-banks are in it? And they designated General Electric, and Prudential, and recently, Metropolitan, and Metropolitan is fighting the designation. The question is whether -- question isn't just whether you're large. I mean, Exxon Mobil is large, Apple is large, Walmart's large, and nobody thinks about them as SIFIs.

The definition on a non-bank SIFI would be 85% of revenues coming from financial matters, and we don't come remotely close on that. I mean, we're 20% or thereabouts. But the real question is whether problems that Berkshire might encounter could destabilize the financial system in the country. And we have not been approached. Nobody's ever called me. They spent a year with Metropolitan, even before they designated them. So there's -- we have no reason, in logic, or in terms of what we've heard, to think that Berkshire would be designated as a SIFI. I mean, during the last time of trouble, we were about the only party that was supplying help to the financial system, and we will always conduct ourselves in a way where the problems of others can't hurt us in any significant way. And I think we're almost unique, among financial institutions, in the layers of safety that we've built into our system, in terms of both cash, and operating methods, and everything else. So, it's a moot question. It -- the law exists. We haven't been approached about it as we -- as I know -- as I mentioned. Apparently it takes a year or so, even if they approach you while they listen to your presentation and look at your facts. And I do not think Berkshire Hathaway comes within miles of qualifying as a SIFI. Charlie?

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A - Charlie Munger {BIO 1406508 <GO>}

I think that's true. But I think that, generally speaking, there is still too much risk in a lot of high finance. And the idea that Dodd-Frank has removed it all permanently is nonsense. And people like hanging onto it.

Trading derivatives, as a principle, if you're shrewd, is a lot like running a bucket shop in the '20s or a gambling parlor in the current era. And you have a gambling parlor that you have a proprietary edge in, and you say it's sharing risk, and helping the economy, and so forth. That's mostly nonsense. The people are doing it because they like making money with their gambling parlor, and they like favorable labels instead of unfavorable labels. So, I think there's still danger in the financial system. And I also think our competitors don't like it that they deserve regulation and we don't. And I think there's danger in that too.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. One thing that may not be -- I haven't read much about it, but my understanding is that Dodd-Frank actually weakens the power of the Fed, and to some extent the treasury too to take the kind of actions they took in 2008 primarily. And those powers were needed to keep our system, in my view from really going into utter chaos. The ability to say, and have people believe you when you say it, that whatever needs to be done, will be done has resided in the Federal Reserve and with the Central Bank -- European Central Bank.

And the fact that people believed when Hank Paulson said that the money market funds are going to be guaranteed, that stopped a run on 3.5 trillion of money market funds that had lost 175 billion in deposits in the first three days, there back in September of one week. If that -- if people hadn't believed that, you would have seen that 175 billion turn into a trillion very quickly. I mean, the system would have gone down.

So the -- when you have a panic, you have to have someone, somewhere, who can say and be believed, and be correctly believed, that he or she will do whatever it takes. And you saw what happened in Europe when Draghi finally said that, and you saw what happened in the United States when Bernanke and Paulson, more or less together said it.

And if you don't have that, panics -- they will accelerate like you cannot believe. In the old days, the only way you could stop a run on a bank was basically, for somebody to come and pile up gold. I mean, they used to race it to the branches that were having a problem. I remember reading the history of the Bank of America on that, and how they would put out runs before the Federal Reserve existed, and the only thing that stopped it was to pile up gold.

I mean, if the CEO of the bank came out and said, our Basel II ratio is 11.4%, the line would just lengthen. It would not get the job done. Gold got the job done. Bernanke and Paulson got the job done, but the only way they got it done was saying, we're guaranteeing new commercial paper. We're guaranteeing that the money market funds won't break the bank. We're going to do whatever's necessary. I think Dodd-Frank weakens that, and I think that's a terrible thing to weaken. Okay. Gary?

Q - Analyst

You have started a direct workers' comp operation online, BHDWC.com. It looks a little bit like you're Geico-izing some of the commercial lines. What's the overall strategy of that effort, and how big do you think it can grow, and what concerns might you have on channel conflict with GUARD, who uses independent agents?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. We -- well, Progressive did pretty well with the channel conflict between direct writing and agents. We will find out what the consumer wants. But we are experimenting with online workers' comp. As you can tell, we've done pretty well with online direct auto over the years. We'll find out. I don't think that -- I don't think the channel conflict is a big problem for us. It might be a bigger problem for some other companies, but I don't think that's a big problem.

It's a trickier thing. We write commercial auto through GEICO, and that's grown and it's not small, but it hasn't achieved private passenger auto proportions at all. So we'll find out. But we believe in experimenting at Berkshire, and we've got the know-how to write that business in direct, and we'll find out if the customer wants to buy it that way. We've got an awfully good insurance business, but the nature of the insurance business has changed. I mean, GEICO was all direct mail back in 1936, when Leo Goodwin and his wife sat there and stuffed envelopes.

And the basic idea of saving people money on auto insurance continues to this day, but it went from direct mail to -- it went to the TV and the phone, went to cable TV, and then went to the Internet and -- and goes to mobile and it -- the world moves on. And the key is to be able to save people money and give them good service. And whatever way does that in the most effective way is going to be what wins 20 or 30 or 50 years from now, and we'll try to stay on top of it. Okay. Station eight.

Q - Analyst

Hello. My name is Paula, and I'm from Gainesville, Florida. And I would just like to ask Mr.Buffett, after all these years of interviews and meetings, what is the one question that you've never been asked that you would like to answer now?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I can think of the question I haven't been asked, but I'm not sure I want to answer it now. I think I've been asked almost all of them, and many of them, time after time after time. Charlie, do you have anything that you're just dying to be asked?

A - Charlie Munger {BIO 1406508 <GO>}

Well, if this lady will first tell us the worst thing she ever did in her life.

Q - Analyst

Those secrets are not --

A - Warren E. Buffett {BIO 1387055 <GO>}

Paula, I wish we could help you. Have you got another question you'd like to throw at us?

Q - Analyst

I could ask you another question.

A - Warren E. Buffett {BIO 1387055 <GO>}

Good.

Q - Analyst

Can I buy you lunch?

A - Warren E. Buffett {BIO 1387055 <GO>}

I think she's talking to you, Charlie. He always wins. You saw him in the movie. He always gets the girl.

A - Charlie Munger {BIO 1406508 <GO>}

Yes. I'm so heavily involved with those girls in the movie, I just don't have room on my list.

A - Warren E. Buffett {BIO 1387055 <GO>}

Thank you, Paula. Okay. Andrew.

Q - Analyst

This is a toughy, and I should say we've probably got -- or at least I got several dozen emails on 3G, and so this is a follow-up to what you talked about on 3G earlier. And specifically, actually, it's two questions in one that actually came from the audience after your response about 3G. So just to put it in perspective, those shareholders are in the audience, and they asked not to be named, so here we go. This shareholder writes, I intend no disrespect to 3G's money making abilities and, as a Berkshire shareholder, like the partnership very much. However, you took more than a decade to shut down the Berkshire mills.

You take great pride in letting Berkshire's managers run their companies for you, and as Charlie says, almost to the point of abdication. And that approach has made Berkshire a very attractive home for companies. You've even bought newspaper groups in the face of the internet tidal wave, and acknowledged they didn't have the same investment characteristics of other Berkshire businesses. Are you actually saying 3G's management method is congruent with yours? Asked another way, if 3G ran Berkshire, would there not be significant layoffs and consolidation among the companies and intense focus on short-term profits?

A - Warren E. Buffett {BIO 1387055 <GO>}

No, I think there would be -- there would be some companies they'd make changes in. But I would say that, GEICO, for example, 33,000 employees, or whatever the number is, is run just as efficiently as 3G would run it. I would say our home office, with 25 people -- we could have a home office with 500 people. We could have floors devoted to strategy, and floors devoted to human resources and comparing the salaries of everybody at all our different companies, and so on.

If they walked into that situation, they'd cut it back. I don't know whether they'd get it down to the 25 we have, but we do not believe in having extra people around. And our newspapers, unfortunately, they have had to cut back, as revenue has kept shrinking. And the idea that you run a fat operation just because you're making a lot of money -- we cut back on our textile business, I closed the Waumbec mill considerably before we closed the Berkshire mills. It was only when it became apparent that it was just hopeless, we gave up on it.

But in the meantime, every time at Berkshire -- I had a drawer full of proposals that said if we put in this kind of a loom, we'll be able to get rid of eight people, and we put in the loom. I mean, we were trying to reduce our labor complement all the time because we were in competition with people that were doing the same thing.

So I don't think there's any -- I don't think there's anything in -- we do have some businesses that probably have more people than we need, and I don't do something about it. But I don't encourage it in any way and most of our managers don't operate that way. And it's true, if 3G were running our operations, they would get more active at that than I will. But that doesn't mean that I endorse it. It just means that I basically tolerate it where I've got a manager that I think well of. I think better of the 3G way -- method of operation than I do of our operators where they really have excess people in it. We've got very few of those, but we do have a few.

So I would never advocate running a business at a loss. If you -- where it's going to continue. And you'll see that in our economic principles that's been in the back of the book -- back of the annual report for 30 years or so. And the same goes for having excess people around, and I think you'll see our attitude toward excess people best expressed in our office here that has 25 people, and Charlie's office in Los Angeles that has two, counting him.

A - Charlie Munger {BIO 1406508 <GO>}

I'd say we've got two-thirds of one. We're getting by with practically nothing.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Okay. Gregg?

Q - Analyst

This is sort of a follow-on to the 3G question. When we look at the body of work that the firm has put together in the consumer staples universe, Anheuser-Busch, InBev, Burger King, Tim Hortons, and now Kraft Heinz, one gets the sense that they view the average consumer staples firm as being undermanaged, with a potential for substantially greater levels of profitability.

Given the ongoing struggles of many packaged food firms, most of which compete in a mature category against private label and/or store brand offerings that undercut them in price and diminish the value of their brands, and many of them having to deal with large retailers, like Walmart that provide meaningful sales volumes, but are also quite demanding and continuously pushing for the lowest price available. Do you see the potential for further consolidation in the industry with a firm like Kraft Heinz emerging as a big consolidator? Or do you feel that Nestle's more recent squawking about the deal, and 3G Capital's reputation as being a bit heavy-handed with cost cutting, being enough to keep further consolidation at bay?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, there will be deals in the future. I mean, there are bound to be. But the strong brands, just look at the ones that General Foods added in the 1980s and the ones that Kraft has now that come from that same company. And I mean Coca-Cola sold more cases of beverages last year than any year in their history and they'll sell more this year. I mean, it's a strong brand is really potent stuff. I mean, take Heinz Ketchup or something of the sort. It's 60% brand share in the United States, but it's much higher in many other countries.

So you'll always have the fight between the retailer and the brand, and the retailer is going to use all the pressure they've got, and therefore the brand has to stand for something in the consumer's mind. Because, in the end, the retailer may want to shift to a house brand, a private label, but -- and they -- private labels have been around forever in the soft drink field. I mean, I can remember when, I was looking at Cott Beverage and all of those and thinking, what will it do to us? I remember when Sam Walton sent me the first six-pack. He told me, it's the first six-pack of Sam's Cola, 20 years ago, and believe me, Walmart has plenty of power, but so does Coca-Cola. And the brand -- you've got to nourish them. You've got to take very, very, very good care of them. They have to stand for the promise that's in people's mind about them.

But a lot of people have tried to -- I don't know how many dozens, or maybe hundreds, of cola beverages there have been over the years, RC Cola. They came up with the first diet product back in the early '60s, and that looked like a big maneuver. Wilkinson came up with the blade back in the '60s after Gillette, but Gillette ends up with 70%, by dollar value, worldwide of razor blades after 100 years.

So there's all -- you've got to protect a brand. You've got to enhance it in every way. You've got to get a promise in people's minds that gets delivered that way. But that's the question Charlie and I faced in 1972 when we looked at See's. See's was selling for $1.95 a pound, Russell Stover was selling a little cheaper, and you had to decide how much damage could a Russell Stover do if they came after See's, and they copied our shops, and all that sort of thing.

If you protect a brand -- if you got a terrific brand and you protect it, it's a fabulous asset. But you'll always have trouble dealing with Costco and Walmart and the rest of the guys -- Kroger, you name it, they're tough, too. But the great brands will survive and the great retailers will do well. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, we've almost exhausted this topic. There's no question about the fact that waves of layoffs frighten people. A job is a very important part of a person's life, and it's no small thing to lose it. So -- but on the other hand, I don't think you -- what would our country be if we kept everybody on the farms? All this prosperous group would be pitching hay and milking cows at 4:00 in the morning. No, we need -- we need our businesses to be right sized.

A - Warren E. Buffett {BIO 1387055 <GO>}

Station nine? Better have some fudge, Charlie.

Q - Analyst

Very exciting to see my superstars here. I'm Leo (inaudible) from China and a loyal fan of you and Charlie. Many Chinese investors feel all kinds of performance pressure, question, and even laughing at value investing. Many also believe that value investing, that doesn't apply to China, where the stock market just doubled over the last six months. I would like to ask Mr.Buffett, do you think value investment can be widely applied in all markets, or just the (inaudible) markets, just as the ones in the United States? Do you have any suggestions for value investors to hold against pressure and to be much happy? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay, I'm not sure I got all of it, but Charlie will help me. I certainly think investment principles do not stop at borders. So if I were investing in China or any place else -- India, UK, Germany, I would apply exactly the same sort of principles that I learned from the intelligent investor. I would think of, stocks as a small piece of a business. I would think of investment fluctuations being there to benefit me, rather than to hurt me. And I would try to focus my attention on businesses where I thought I understood the competitive advantage they had and where they would -- what they would look like in five or ten years. So I don't think I would change the principles at all. I'm not sure I got all of the question. Maybe Charlie can elaborate on the rest.

A - Charlie Munger {BIO 1406508 <GO>}

Well, the Chinese have a history of being very entrepreneurial and gambling very heavily when they have the opportunity, and it has created great volatility in the Chinese stock markets. And when things get bouncy and prosperous, like our Internet craze here in the United States, China looks a lot like Silicon Valley. I think China would be way better to be more value investor minded and less absorbed in waves of speculation. So I think the more China copies the way Berkshire operates, I think the better it will be for China.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. There's a certain irony, in that we will -- we would do the best over decades, if we operated in a market where people operated very foolishly. And the more people respond to short term events and exaggerated things or anything that causes people to get wildly enthusiastic or wildly depressed, actually is what allows people to make lots of money in securities.

And on the other hand, it's not the greatest thing for a society. And Charlie and I have benefited enormously by the fact that over a 50-year period, there have been a few periods, probably the most extraordinary being 1973 and '74, where you could buy stocks unbelievably cheap, cheaper than happened in 2008 and 2009. And it doesn't make sense to have that much volatility in the market, but humans behave the way humans behave, and they're going to continue to behave that way in the next 50 years.

I mean, if you're a young investor, and you can sort of stand back and value stocks as businesses and invest when things are very cheap, no matter what anybody is saying on television or what you're reading, and perhaps, if you wish, sell when people get terribly enthused, it is really not a very tough intellectual game. It's an easy game, if you can control your emotions.

And as Charlie says, we've talked about a little bit that the Chinese market may be more -- there may be more speculative influences in it, even than in the United States, because it's a relatively new development and it may lend itself to greater extremes, and that should produce great opportunities. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yes. But there's great opportunities for excess and nasty contractions after unnatural booms and so on. I think China is wise to dampen the speculative booms and to -- and I think the Chinese -- I don't think that value investing will ever go out of style. Who in the hell doesn't want value when you buy something? How can there be anything else that makes any sense except value investing?

A - Warren E. Buffett {BIO 1387055 <GO>}

It never gets that popular though.

A - Charlie Munger {BIO 1406508 <GO>}

People are looking for an easier way.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes.

A - Charlie Munger {BIO 1406508 <GO>}

And that's a mistake. It looks easier, but, in fact, it's harder. And there's a lot of misery to be obtained by misusing stocks.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Nobody buys a farm to make a lot of money next week or next month, or they buy, an apartment house. They buy it based on what they think the long-term future is. And if they get a -- if they make a reasoned calculation of that and the purchase price looks attractive, they buy it and then they don't get a quote on it every day or every week or every month or even every year, and that's probably a better way to look at stocks. Carol?

Q - Analyst

Mr.Buffett, you have expressed your optimism about the future of America many times and have often made the point that the U.S. simply has a superior economic system. But my question, and this is from Christopher Gottchio of New York City. My question concerns the risk of chemical, nuclear, biological and cybersecurity problems and the audience should reflect on the initial letters of those words when I tell you that Mr.Buffett has sometimes dubbed that C-N-B-C. Sorry, Becky.

A - Warren E. Buffett {BIO 1387055 <GO>}

I just do that to tease people, but the --

Q - Analyst

Wait a minute. One more. How do these threats affect your outlook?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, they are the great threat to the United States. The -- we will have -- we have and will have, a wonderful economic system. Your children are going to live better than you do, and your grandchildren are going to live better than they do. And that is -- there are fits and starts and ups and downs. But just go outside or -- as you fly home, just imagine what you're flying over looked like in 1776, and everything since then is profit.

I mean, the farms are incredibly more productive. The cities have grown. It's all here, and that's all come from unleashing the energies and brains of the American people and the system that has worked quite well despite all the deficiencies that we talk about all the time. So that hasn't been lost at all. And people get upset because we're having 2% growth. Well,

2% growth with 1% population growth means 20% gain in a generation, and 20% on 54,000 of GDP per capita is another 10,000 of GDP per capita coming in the next generation.

This country has a wonderful future, but as the questioner pointed out, that can all be nullified by either madmen, or rogue states, or religious fanatics, or sociopaths, or whatever it may be, who have -- who wish to have access to weapons of mass destruction. And to nuclear, which, as I used to think was the primary one, you can now add biological and chemical and cyber. And there will be an increasing number -- there already are a huge number of people that would wish harm, and particularly on the United States, although on others as well. And those people aren't going to go away, and they're going to look for more ingenious ways of utilizing the raw materials that they have access -- or might get access to and better delivery systems.

And we need an extremely vigilant security operation in the United States, and we will have threats. I can't -- I do a little bit about those things in a few ways -- but that's something we live with. But we also live in a country that is going to do extraordinarily well. And if we successfully ward off those threats, or at least minimize their impact on us, I still maintain that the luckiest person ever born in history, on a probabilistic basis, is the baby being born in the United States today. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, of course, we were a favored place, and we've had a favored outcome, and we've been lucky too. I think I probably lived in the most ideal era that any man in human history could have been born into. I think you have, too, Warren. But I don't think we should get too smug. China has come up a lot faster than any other big nation ever came up and --

A - Warren E. Buffett {BIO 1387055 <GO>}

But that's good for us.

A - Charlie Munger {BIO 1406508 <GO>}

Oh, I think, I can hardly think of anything more important than future close collaboration between the United States and China. I think you're talking about the two most important nations in the world going forward. And I think it is very important that we like and trust one another, and have very good relations, and work together to avoid bad consequences that come from other people's mistakes and misbehavior. I think both China and the United States would be crazy not to collaborate and increase trust. I don't think there's anything more important that we could do for our respective safety and for the general benefit of the world.

A - Warren E. Buffett {BIO 1387055 <GO>}

If you had your choice, would you rather be born now with all the qualities you've got, or when you were born?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I must say it's very interesting now, but it was always interesting. And I think that's too tough a question. I don't like these very theoretical questions. I'd rather think about something where I might gain some advantage or help somebody else to gain an advantage.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Then we'll move on to Jonathan.

Q - Analyst

Warren, you have up to this point said that Berkshire in the future will have a Chief Executive Officer and one or more Chief Investment Officers. You haven't explicitly said that a Chief Investment Officer cannot be the CEO, but that has for me at least been implied. Berkshire has been successfully managed for 50 years by a Chairman and Vice Chairman whose principal experience was in allocating capital amongst a number of businesses and industries with which they were familiar and whose attributes they could compare.

Since capital allocation is the key skill needed for a company structured the way Berkshire is, why couldn't the company's principal decision maker in the future also be someone who is experienced in choosing among different reinvestment options, with perhaps a second outstanding person expert in operations acting as Chief Operating Officer, albeit a route of the hands-off one, given Berkshire's extreme decentralization?

A - Warren E. Buffett {BIO 1387055 <GO>}

That's a very good question. It's not inconceivable. It's very unlikely, Jonny, that -- but as you say, the -- a Chief Investment Officer has a -- will have or should have a significant array of skills that would be useful, also for a Chief Executive Officer. But I would say, also, that, I would not want to move if I were voting on it -- I would not want to vote to put somebody whose sole experience had been investments in charge of an operation like Berkshire, who had not had any, also significant operating experience. I've said that I'm a better investment manager because I've been an operating manager, and I'm a better operating manager because I've been the investment manager. But the -- you -- operations -- I've learned a lot through operations that I wouldn't have learned if I'd stayed in investments all my life. I would not have been equipped to run it. I learned a lot of things about operations by being in operations. So if you had somebody that had the dual experience and was very good at investments, but had a lot of experience in operations, that would be conceivable, otherwise I wouldn't vote that way. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, every year at Berkshire, as now constituted, the owned and controlled businesses get more and more important, and the measurable securities are relatively less important. So I think it would be crazy not to go with the tide to some extent. And we need more -- we need expertise beyond that of a typical portfolio analyst.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. But the CEO should have some real understanding of investments and investment alternatives and all that. I've seen a lot of businesses run by people that really don't understand the math of investing or capital allocation very well. So having a dual background is useful, but actually our operating managers know -- some of them know a lot about investing. Okay. Station 10.

Q - Analyst

Hello. Warren, Charlie, it's a pleasure to be here. My name is Douglas Coburn. I'm originally from Caracas, Venezuela, but I'm here with a large group from Columbia Business School. My question --

A - Warren E. Buffett {BIO 1387055 <GO>}

Thank you.

Q - Analyst

My question is regarding Ted Weschler. Can you please share your views regarding his investment philosophy, his investment process, and the qualities that he brings to Berkshire?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Well, both Ted and Todd, the two investment managers, aside from myself at Berkshire are very, very smart about businesses and investments. I mean, they understand the reality of business operations. They understand what makes for competitive strength, and all of the things that you'd learn in business school or learn through investing.

And on top of that, they have qualities of character which are terribly important to me and Charlie. We have seen dozens and dozens and dozens of investment managers with great records over the years. We used to drop in and see some of those guys, that were running -- I'm talking back in the 1960s and '70s. And when I gave up my partnership, I knew probably 20 people with great records from the previous six or eight years, but I picked Bill Ruane to handle the funds of my partners going forward. And he set up a fund called Sequoia Fund, and 10,000 put in that fund has become over $4 million now.

Well, Bill was a terrific investment manager, but he was a terrific human being. And we really want people where they do more than their share, where they don't claim credit for things they don't do, where they, they -- just every aspect of their personality is such that you want to be around them, and you want to hand responsibility over to them. And Ted and Todd fit that bill, and there's plenty of investment managers in Wall Street with great records that don't fit that bill, in our view.

So that's about all I can tell you. Charlie met -- he met Todd first. I met Ted first. And we both -- when we talked about them, we talked about their record and the kind of stocks they owned, but we talked a whole lot more about what kind of people they were and we haven't been disappointed. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yes, I think the whole thing is working pretty well. And I think those people will be constructive around Berkshire for reasons apart from their expertise in handling securities. In fact, they already are.

A - Warren E. Buffett {BIO 1387055 <GO>}

They already very are.

A - Charlie Munger {BIO 1406508 <GO>}

They're -- they've just each one has helped buy a business recently.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. And they will help oversee it, too, the businesses. They're smart about business, and they know just exact -- they know the right touch to apply in terms of how much they get involved. I mean, Todd worked on Charter Brokerage. He worked on an acquisition we made from Phillips. Ted just worked on this operation over in Germany, went over there a couple of times. And he's just smart. He's got good sense. He knows how to deal with people, if a deal is to be made, he'll get it made. And we -- Charlie and I run into more dysfunctional people with 160 IQs, probably than anybody alive. But Salomon gave us a head start on that, as a matter of fact. Wouldn't you say that --

A - Charlie Munger {BIO 1406508 <GO>}

We've specialized in it.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes.

We've absolutely specialized in it.

We've seen -- take the Salomon -- we've seen a group of people whose IQs far surpassed those of people at Berkshire, and we've seen them self-destruct to make money they didn't need, when they were already rich. I mean, see that's madness. But a lot of people are just incapable of functioning well day after day, even though they're capable of brilliance from time to time. And we're looking -- we've got very solid people in Ted and Todd. They're very bright and they identify with Berkshire and not with themselves, and that's a -- it's a huge factor over time. Any more Charlie on that?

A - Charlie Munger {BIO 1406508 <GO>}

Well, yes. And that trustworthiness is more important than the brains. It's not that they don't have the brains, but we wouldn't hire anybody, no matter how able, if we didn't trust them.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Very occasionally. Yes. We'll get disappointed on that occasionally, but not very often. We're approaching noon. We'll come back at 1:00. I promised, seven years ago I made this bet, which was originally to produce $1 million for the charity of the winner, and another fellow who was in the hedge fund business -- and I offered this bet to anybody. Only one person took me up on it. And we made this bet where $1 million goes to the winner's charity, as to whether a group of five hedge funds, the funds would beat the S&P Vanguard fund. And my point being that the fees would not overcome -- would not be overcome by managerial brilliance and that the hedge funds would fall short. And the other fellow betting, essentially, that paying people 2-and-20, and having an override to the fund of funds was nothing to pay for the brilliance of getting Wall Street to manage your money.

And I promised that every year I would report the update. And the first year I fell far behind, but we reported it then. So we'll put that slide up. And as you can see, seven years into it -- it's interesting that just buying Vanguard fund with nothing but putting the S&P 500 in there has now given a cumulative return of 63.5% and the hedge funds are at 19%. The interesting thing is, some of that is underperformance, but the hedge fund managers have done very well during that period. If they were managing $1 billion, for example, at 2-and-20, you get $20 million a year just for coming to the office. The hedge funds haven't done bad. It's the investors in the hedge funds have paid a very big price.

We originally funded this with zero-coupon bonds. We each bought about 350,000 of zero-coupon bonds that would be worth 500,000 at the end of the period. We converted it to Berkshire Hathaway stock, so a few years ago, the fellow on the other side of the bet did it with me. And, so now it now looks like the winner will get appreciably more than $1 million. And if you want to entertain yourself, you can go to Long Bets on search, just put in Long Bets, and you'll find this organization out in Washington that sort of acts as the stakeholder, sets the rules for these long bets. And now there's hundreds of them up there, and they're on all kinds of predictions, and you can go there, and if you want to disagree with one of the parties on there, you can make these bets that pay off in 50 years or 25 years.

It's kind of an interesting site to visit and people give their arguments on both sides, and so if you don't have anything better to do with your time. Tape, go to a Long Bets and in the next hour, I have a lunch and I'll see you back here at 1:00 o'clock. Thanks.

Okay. Everybody will settle down, we'll move right along. I want to clear up one thing. My daughter told me that, because we had all those -- had all those slides that were in answer to Carol's first question, that Carol and I had discussed it ahead of time. I will guarantee you that I've discussed no questions with anyone on the panel, and they will tell you the same thing. But I knew I was going to be asked questions about Clayton, so I prepared the slides. It was an accident that it turned out to be the first question, but it was certain to be in the first few. So, Carol did not -- Carol in 60 years has never tipped me off on anything, nor have the other panelists. And everything -- but we were -- but I was prepared for the fact that people would be asking questions about Clayton. Okay. Let's move right along, and we'll go to Becky.

Q - Analyst

Okay. This is a question -- that's not the question. Hold on. Here it is. This is a question from John Wells, right here in Omaha, and he says, you've described inflation as a gigantic corporate tapeworm, which of Berkshire's businesses are best suited to thrive during a period of high inflation and why, which will suffer the most and why?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Well the best businesses during inflation are usually the best -- they're the businesses that you buy once and then you don't have to keep making capital investments subsequently. So you get -- you do not face the problem of continuous reinvestment involving greater and greater dollars because of inflation.

That's one reason real estate, in general, is good during inflation. If you built your own house 55 years ago like Charlie did, or bought one 55 years ago like I did, it's a one-time outlay, whereas if you're -- and you get the -- you get an inflationary expansion in replacement capital without having to replace yourself. And if you've got something that's useful to someone else, it tends to be priced in terms of replacement value over time, so you really get the inflationary kick.

Now, if you're in a business such as the utility business or the railroad business, it just keeps eating up more and more money, and your depreciation charges are inadequate and you're kidding yourself as to your real economic profits. So, any business with heavy capital investment tends to be a poor business to be in, in inflation and often it's a poor business to be in generally. And the business where you buy something once -- a brand is a wonderful thing to own during inflation. See's Candy built their brand many years ago. Now, we've had to nourish it as we've gone along, but the value of that brand increases during inflation, just as the value of, really any strongly branded goods.

Gillette bought the entire radio rights to the World Series in 1939. And as I remember, it cost them $100,000, and for that they got to broadcast the Yankees, I think, versus the Reds in 1939. And think of the number of impressions they made on minds in 1939 dollars for $100,000, and they were getting in the minds of young guys like myself. I was eight or nine. And millions of people -- and they did it in those dollars then. And of course, if you were going to go out and try out and do, have similar impressions on millions of minds now, it'd cost a fortune. And part of that is due to inflation. Part of it's due to other things. But it was a great investment, which could be made in 1939 dollars that paid off in terms of selling razors and blades in 1960 and 1970 and 1980 dollars. So that's the kind of business you want to own. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, yes, but if the inflation ever goes completely out of control, you have no idea how it's going to end up. If it weren't for the Weimar inflation, we might never have had Adolf Hitler. It was the twosome of the great German inflation followed by the Great Depression that brought us Hitler. And think of the price that the world paid for that one. We don't want inflation because it's good for See's Candy.

A - Warren E. Buffett {BIO 1387055 <GO>}

I didn't quite realize I was --

A - Charlie Munger {BIO 1406508 <GO>}

No, I wasn't criticizing you.

A - Warren E. Buffett {BIO 1387055 <GO>}

What's good for See's Candy is good for the United States. Okay. Gary?

Q - Analyst

Three years ago you noted that you had looked at a large commercial lines insurance company as a possible acquisition, and now you've started up Berkshire Specialty, which seems to be off to a good start. What are your thoughts on whether that has replaced the idea of taking over -- of buying or acquiring a large company or is Berkshire Specialty doing well enough that you're content with that organic growth?

A - Warren E. Buffett {BIO 1387055 <GO>}

I would say that, it's almost certain that we -- I don't want to say 100% certain -- but it's almost certain we will not take over a large commercial insurance company. We've got the ideal operation, in my view, in Berkshire Hathaway Specialty. We've got the right people running it. We've got Ajit overseeing it. We've got more capital than any commercial insurance company in the world, so that our securities are -- and therefore our policies are really better than anyone else's.

So, we've got all these things going for us. And if we bought a big operation, we would have paid a very substantial nondeductible acquisition premium, and this way we've actually made money while we're in the building stage. And I think it can be a very, very big operation five or 10 years from now. So it's almost zero probability that we'll buy somebody else. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I certainly agree with you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. The -- that's how he keeps his job. We'll go to, incidentally all the overflow rooms, including at the Hilton, got filled. I'm not sure where a couple -- where station 11 is, but we always lose a fair number at lunchtime. So I'm sure everybody can find a seat, but we do apologize to those who could not find a seat this morning. Station 11?

Q - Analyst

Yes. Hey, Warren and Charlie. How are you guys? Congratulations on 50 years.

A - Warren E. Buffett {BIO 1387055 <GO>}

Thank you.

Q - Analyst

So in this year's annual letter, Charlie wrote about the peculiar attributes that made the Berkshire system, and the leader of the system, a historically organizing entity -- organizational entity. So, my question to both of you is, what practical mental model or mental models would you impress upon a young, enterprising individual at the infancy of their career to build an important enduring enterprise of that particular distinction and impact? And if you could give, like, maybe some contrasting examples, like why is a Microsoft able to build itself into a dominating monolithic company versus a See's Candy, which can be a great enterprise to spin off cash flow but not necessarily be an enduring or not necessarily enduring, but an impactful enterprise to the level of a Berkshire or Microsoft?

A - Charlie Munger {BIO 1406508 <GO>}

Thank you, Warren.

A - Warren E. Buffett {BIO 1387055 <GO>}

You're the guy that wrote it. This is pineapple juice, incidentally. People were questioning that. They say it's good for your throat, if you're going to talk a long time.

A - Charlie Munger {BIO 1406508 <GO>}

Yes. Well, of course, reputation you get over a long period of time. Very few people are like Charles Lindbergh where you just suddenly have a great reputation. Most of us have to acquire one very slowly, and that was true in Berkshire's case. And any individual you just have to get the best reputation you can in the years you're allotted and the time available. And it may work out well, it may work out poorly. But it's a wise investment. I see, all the time, opportunities come to people where it's the credibility they've gotten in the past that causes them to have the new opportunity.

So, I think hardly anything is more important than behaving well as you go through life. And -- I think we actually try to behave better as we got more prosperous, and I think you'd be crazy if you didn't. So, I'd certainly recommend that you follow those old-fashioned principles. And I don't think there's any way of guaranteeing a total powerhouse brand, nor can -- if a result is a one in 50 million-type result, you're probably not going to get it.

A - Warren E. Buffett {BIO 1387055 <GO>}

Gianni Agnelli of Fiat, back in -- I think it was 1988 -- I was at dinner with him one time, and he said something to me that stuck with me. He said, when you get old, he says, you'll have the reputation you deserve. He says, for a while you can

A - Charlie Munger {BIO 1406508 <GO>}

Fool people.

A - Warren E. Buffett {BIO 1387055 <GO>}

Fool people, but he says, when, he was talking about himself at the time, but he said, when you get to be my age, he said, whatever reputation you have, it's probably the one you deserve. And I think the same is true of companies. And frankly it has helped Berkshire a whole lot that it has gotten a reputation to be a somewhat different sort of company. I mean, I don't think we set out to do that, exactly, but it has worked out that way. Andrew?

Q - Analyst

Warren, you have said that global warming has not increased Berkshire's payouts for weather-related events. Yet, other insurers, including Travelers have cited climate change as a risk factor that they use. Are Berkshire's models different and if so how?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. No. I've seen the -- of course, the SEC requires you put in all these risk factors, and the lawyers will tell you to put in, everything possibly you can think of, that you'll develop Alzheimer's or whatever it may be. They just want you to have a laundry list, so that it's all been covered in case of later litigation or something of the sort. So people do put in weather risk, and maybe they put it in because they've got some model that shows it. But, we price our business, basically we price it every year. It's not like a life insurance company. A life insurance company you make a contract that -- so much a thousand. And if you buy whole life insurance, you've set a price for -- if you're 20, you may have set a price for 60 or 70 years in the future.

But that is not the property casualty insurance business, which we're in. We set it one year at a time. And I see nothing that tells me that on a yearly basis that global warming is something that should cause me to change my prices a lot, or even a small amount. That doesn't mean that it isn't a threat to humanity or and terribly important. It just means that if I'm going to sell a one-year insurance policy, and I'm going to sell it on a $1 billion plant, I may care enormously about the fire protection, and other various other kinds of protection, within that plant. I may care about what's going on adjacent to that plant, and all kinds of things, but I am not thinking about global warming. It does not change the situation, in a material way, in any one-year period of time, in my judgment. And it -- if I was writing a 50-year wind storm policy in Florida, I would think very hard about what global warming might do in that case to the incidence and the intensity of potential hurricanes. But I do not think it has any material effect on the likelihood of -- or the intensity of a hurricane in Florida or Louisiana or Texas or next year. So, it is not a -- it's not something I would put in the 10-K as a threat. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

I don't think it's totally clear what the effects of global warming will be on extremes of weather. I think there's a lot of guesswork in that field, and a lot of people like howling about calamities that are by no means sure.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Do you think -- would it change your one-year prediction as to what the rate should be?

A - Charlie Munger {BIO 1406508 <GO>}

No.

A - Warren E. Buffett {BIO 1387055 <GO>}

No. It wouldn't change mine either, so I don't really understand why they put that in there.

A - Charlie Munger {BIO 1406508 <GO>}

A lot of people get very invested. It's like a crazy ideology. It's not that global warming isn't happening. It's just that you can get so excited about it you make all kinds of crazy extrapolations that aren't necessarily correct.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Look at it this way. Would you change the rate for tomorrow on insurance because -- from the rate today for global warming? I doubt it very much. Now, would you change it for 50 years, might very well. But I think that one year is much closer to one day than it is to 50 years, in terms of focusing on that factor.

So, I do not want our underwriters to sit there thinking a lot about in terms of writing a risk or the price at which to write that risk, I do not want them thinking about global warming. I want them thinking about whether there's a moral risk involved and who owns the property. I mean that can be very significant. There used to be one fellow called Marvin the Torch, that if you insured Marvin the Torch, global warming didn't really make much difference. His building was going to go. Marvin had a marvelous way of looking at it, though. He said, I don't burn buildings, I create vacant lots. Okay. Gregg?

Q - Analyst

When we look back at some of your bigger stock purchases during the past decade, two names actually stand out: ConocoPhillips and ExxonMobil. In the first instance, you bought shares near the height of the spike in oil prices in 2008, later acknowledging that this was a mistake given how dramatically oil prices fell during the crisis. While you've been able to swap some of those holdings, post a spin-off of Phillips 66 into operating assets, most of what you sold the last six years, by our estimates has been at a loss. Given that experience, it surprised some of us to see you take a meaningful position in ExxonMobil during the summer of 2013. While it looks like you were able to eliminate that stake at cost as oil prices fell last year, these types of investments, which can be negatively impacted by the volatility in oil prices, don't really seem to fit well with the other types of investments in your stock portfolio, many of which are built on strong franchises with unique competitive advantages. With that in mind, and given the track record that Greg Abel and his team at Berkshire Hathaway Energy have had acquiring and investing in energy assets, does it make more sense to leave future energy-related investments in their hands?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, there's nothing we like better than to back up Greg in buying utility properties. And -- but they -- we call it energy, but it's not oil and gas in Berkshire Hathaway Energy, and they're really in a dramatically different business than ConocoPhillips or ExxonMobil.

But we are looking, constantly for opportunities for Berkshire Hathaway Energy to spend big money, and it will. Berkshire Hathaway Energy, we paid $35.05 per share in 1999 to buy the stock. I was at $35, and I don't change my prices and Berkshire -- the company was then called MidAmerican -- they hired some investment bankers to come out from New York, and investment bankers spent a week here doing nothing. But they felt -- before they went home, they said, you've got to give us something because we're going to send a big bill. And I said, well, in that case, we'll pay $35.05 and you can say you got the last nickel out of me.

So my ambition ever since has been to have Berkshire Hathaway Energy earn $35.05 per share. It's never paid a dividend. It will probably earn about $30 a share this year, which is a great tribute to Greg and his management. But we will get the 35 or better because he will make some good deals. It's not at all analogous to the ConocoPhillips or ExxonMobil investments. As it turned out, we wrote ConocoPhillips down because we were required by the auditors to do it. We actually, by the time we got all through, we made some money in it, and we made a little money in ExxonMobil, too. But we will not be buying very often, oil and gas stocks, but we will -- we probably haven't bought the last one. In the end, we look at the cash, we look at available opportunities, both in investments and businesses, and we make decisions occasionally on buying something and sometimes we change our mind. And that will continue that way. It's been going on that way for a lot of years. And we have not distinguished ourselves at all in the oil and gas field, although we've made a little money, and we passed up one or two where we could have made a lot of money. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Yes. And with interest rates being so low and the dividend on ExxonMobil being the size it was, it was not a bad cash substitute, if you think only in those terms.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. It worked out Okay. There were other things we could have done a lot better, but that's always been true and will continue to be true. Station 1.

Q - Analyst

Mr.Chairman, Mr.Vice Chairman, my name is Andy Peake, and I'm from New York City. First, congratulations to you on a remarkable 50 years, and second, thank you for hosting a one-of-a-kind annual meeting where you patiently answer questions from shareholders. I believe you are both

A - Warren E. Buffett {BIO 1387055 <GO>}

Thank you.

Q - Analyst

I believe you are two of the most knowledgeable and authoritative people on planet Earth on the U.S. tax code. Our tax code is obviously broken at both the individual and the corporate levels. Today, we have 2.1 trillion in offshore corporate cash sitting there not being brought home. We have the highest corporate tax rates in the world, and for high-income earners in the U.S., other than hedge fund managers in states like New York and California, an all-in rate greater than 50%. What can be done to effect real change to bring about a simpler, more rational tax code? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, it takes 218 members of the House of Representatives and 51 U.S. senators, and a president that will sign the bill. The question is, how much you think the country should spend and then from whom do you get it? And I would point out that, despite the tax rates that all the corporate chieftains complain about, the share of earnings -- share of GDP accounted for by corporate profits is at a record. Corporate taxes 40 years ago were 4% of GDP. They're now running about 2%. They've decreased significantly while payroll taxes have increased. It's a real question.

And once you get special provisions in the code, it is really hard to get rid of them, absent a major revision of the code. I actually think -- I may be an optimist on this, but I'm -- I think both Ron Wyden and Orrin Hatch, the two ranking members, Senate Finance Committee, I think they're capable of working out something that they -- neither one of them likes, but they both like it better than what exists now, and I think it can be made considerably more rational. But in the end, if we're going to spend 21% or 2% of GDP, we should probably raise 19% of GDP.

We can take a gap of a couple percent without getting further into debt as a proportion of GDP than we are, so we've got that leeway. But you take 19% of 17.5 trillion or thereabouts, and you're talking, as Senator Dirksen said one time, real money. And how much you get from corporations, how much you get from individuals, how much you get from estate taxes, it's a fight up and down the line.

So I -- and in terms of the cash abroad, basically you can bring it back, you just have to pay tax at U.S. corporate rates. And our corporate rates are 35%. Charlie and I, a good bit of our life, operated with corporate rates of 52%, later at 48%, and the country grew well. American business prospered during that period. I don't shed any tears for American business, in terms of the tax rate overall. I think there could be a much more equitable code in terms of the corporate tax, but I do not think that the 2% of GDP that's being raised from corporate taxes, which is far lower than was the percentage 30 or 40 years ago, I do not think that's an onerous number. And for people who are getting a quarter or 0.5% on their CDs, who have retired, and with American business earning on tangible equity, which is the way they measure it, probably averaging close to 15%, I think equity holders are getting treated extraordinarily well compared to debt holders in this economy. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I agree with you, and I don't die over these little differences in the tax code, either. I live in California, of course, where -- there's, like, a 13.5% tax on long-term capital gains, nondeductible for federal purposes. That's a ridiculous kind of a tax to have in California because it drives rich people out. Hawaii and Florida have enough sense to know that rich people don't commit a lot of crimes, they don't burden the schools, and they provide a whole lot of medical expenditures that are good for everybody else's income. I think California has a really stupid tax policy. But I don't think the U.S. -- but I don't think the U.S. policy is -- I don't think the U.S. policy is bad at all.

A - Warren E. Buffett {BIO 1387055 <GO>}

And it's nondeductible because of the alternative income tax --

A - Charlie Munger {BIO 1406508 <GO>}

Yes, exactly.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. That really wasn't the case before, but it --

A - Charlie Munger {BIO 1406508 <GO>}

No, it's always --

A - Warren E. Buffett {BIO 1387055 <GO>}

Kind of slipped in.

A - Charlie Munger {BIO 1406508 <GO>}

No, they did it on purpose. No, they did it on purpose.

A - Warren E. Buffett {BIO 1387055 <GO>}

Early stages of paranoia.

A - Charlie Munger {BIO 1406508 <GO>}

Yes. But it is -- it's amazing. The idea of driving the rich people out, Florida is so much smarter than California on that subject. And it is really demented. Who in the hell doesn't want rich people coming in and spending in their state?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes, yes. Remember that as you come here to Nebraska for the meeting. I would say I really do think there's some chance this year -- and not a tiny chance. I know both Ron Wyden and Orrin Hatch. They're patriotic, they're smart, they want to do the right thing. They've got different ideas about what the right thing is, there's no question about that, but they also know they can't get any place without cooperating.

But I think the real opportunity, is if they work out of the public eye in doing -- in working on something and I wouldn't be surprised if they are. I think that's the way to get it done. Charlie has always pointed out, what would have happened if the Constitutional Convention back there in Philadelphia had been held with every delegate running out immediately to tell the TV cameras how right he was and how wrong everybody else was. It doesn't accomplish much to dig in on positions, and not be in a position to compromise, because it takes a lot of compromise to write something when you have two different -- fundamentally different views on some important aspects of the tax code. But those are two good guys, and I would not -- I don't think it's impossible that we have a new corporate tax code within a year. Okay. Carol?

Q - Analyst

This question, which is a little bit offbeat, comes from Jordan Shop of Melbourne, Australia. Mr.Buffett in the forward to the sixth edition of Benjamin Graham's Security Analysis, you identified four books that you particularly cherish. Three of these books were authored by Graham himself, and their influence on you is well-known. The contributions of the fourth book to your thinking, however that book was Adam Smith's The Wealth of Nations, published in 1776, what that book meant to you is seldom discussed. So my question is, what did you learn from The Wealth of Nations and how did it shape your investment and business philosophy?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, it doesn't shape my investment philosophy, but I certainly learned economics from it. And my friend Bill Gates gave me an original copy of it. I was able to study this. Adam Smith wrote it in 1776. There's just -- if you read Adam Smith and if you read Keynes, Ricardo, and then -- and if you also read that little book we've got out there called Where Are the Customers' Yachts? You will have a lot of wisdom. I forgot to mention, I was supposed to mention, too. We didn't want to put it on sale earlier because it would have given away the movie, but we do have Berkshire Bomber underwear out there, or sweatshirts, or whatever it may be, so Fruit of the Loom has those. And we have Fred Schwed's Where Are the Customers' Yachts? Book, which contains an incredible amount of wisdom and very few pages and very entertaining. But if you want to go for -- if you want to not only get a lot more wisdom but appear more erudite, you should read The Wealth of Nations also. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Adam Smith is one of those guys that has really worn well. I mean, he is rightly recognized as one of the wisest people that ever came along. And of course, the lessons that he taught way back then were taught again when communism failed so terribly, and places like Singapore and Taiwan and China, and so forth, came up so fast. The productive power of the capitalist system is simply unbelievable, and he understood that fully and early, and he's done a lot of good.

A - Warren E. Buffett {BIO 1387055 <GO>}

I took an idea of his on the specialization of labor, and he talked about people making pins or something, but I applied that actually to philanthropy. I mean, the idea that you let other people do what they're best at and stick with what you're best at, I've carried from mowing my lawn to philanthropy, and it's a wonderful thing to just shove off everything and say somebody else is better than I am at that, and then work in the field that's most productive for you.

A - Charlie Munger {BIO 1406508 <GO>}

Yeah. You didn't do your own bowel surgery, either.

A - Warren E. Buffett {BIO 1387055 <GO>}

No. I'm not sure I have any reply to that. Okay. Jonathan?

Q - Analyst

Warren, you have told the managers of your businesses to think of their businesses as something they will own forever and that their first priority should be to widen the moat and take care of their customers. In more than one case, according to people I've spoken to, Berkshire's subsidiaries that were formally publicly traded have run into trouble by -- now this is on the margin, mind you trying to maximize calendar year earnings and dividends to the parent as opposed to focusing on the long-term health of the business. Do you find that managements of formally public companies, through force of habit, perhaps have more trouble making decisions with only minimal concern for short-term results than would be the case for formally private companies? If this dynamic is a real one, is there something more that can be done to combat it? And I'm curious are most of Berkshire's compensation structures based on 12-month results or are they already based over multiyear periods?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. I don't think we've had any particular problem with public companies versus private companies that we've bought. I mean, if you took the aggregate of the public companies we bought and matched them up against the private companies, I don't know which group I would rather own or which has delivered the greater returns.

A - Charlie Munger {BIO 1406508 <GO>}

I don't know where he gets the idea.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes.

A - Charlie Munger {BIO 1406508 <GO>}

It's not apparent to us.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Well, you've heard Charlie. And I can't think of it myself. And, if we tell them to think about 100 years, we mean think about 100 years, and I think they know we mean it. They certainly know we run Berkshire in terms of our own decisions that way.

So, I think we set the right example, and I think we use the words to convey that belief as strongly as we can, and we try to reinforce -- we try to put it in the annual report, we try to talk about it in meetings like this. We believe in sort of hammering the same message out there over and over again.

Now, we don't ignore yearly results at all, it's just we don't live by them. But I get figures every month on virtually every business, and I read them with great interest, and I'm thinking about them all the time. I don't think they're unimportant, but we don't live by them. And I think what really counts is where we're going to be three years, five years, or 10 years from now. But I also -- I wouldn't -- if we're subpar in some area, I wouldn't accept the fact that we're working to maximize things in 10 years mean that we should be throwing away money, or anything like that in the short run, or not paying attention to the business. But I'd have to say what Charlie has I don't really agree with the premise. Okay. Station 2.

Q - Analyst

Dear Warren, dear Charlie. Thank you for 50 great years. I'm a happy shareholder and hope to have you continue long. My name is Victoria Von Tropp. I'm from Bonn in Germany. And my question is, you own companies both here in the U.S. as well as in

Germany. What differences in corporate culture and in performance do you see between German and U.S. starter companies?

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Differences between what --

A - Warren E. Buffett {BIO 1387055 <GO>}

I know the question. I'm just looking to you for the answer, not the question.

A - Charlie Munger {BIO 1406508 <GO>}

Now that he can hear so much better, he --

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes.

A - Charlie Munger {BIO 1406508 <GO>}

Well, we -- we've had a hard time buying things in Europe. It's been quite rare. And I think the traditions, and the family traditions are different in Europe than they are in the United States, and in some other countries. And Germany, of course has a long tradition of being very good at technology and capitalism, and that's been a godsend to Germany. And we've always admired the way the Germans have performed. The Germans actually work fewer hours than a lot of other people and produce a lot more and, of course, Warren and I are pretty good at that. So we're -- we admire the Germans, particularly the engineering side, and -- but we've been thinking about owning good German companies for a long time and we finally bought one.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. But I'll make a prediction. I will predict we buy at least one German company in the next five years. I think that -- I think we are far more on the radar screen than we were just a few years ago in Germany. I think we now have a woman over there who brought, through somebody else as well, but brought Louis to our attention. I think she is going to hear about more things because of her association with us on the transaction and the fact that we tried to get the word out as to her help with us.

So, I would really be surprised if we don't make at least one deal in Germany in the next five years, and I would look forward to it. I mean, we'll be very, very happy with, we have to get a business, we understand. I've had, probably four or five letters in the last couple of months, ever since the Louis deal was announced, but they've been very small businesses in practically each case. And -- but we'll get one. We're eager, we've got the money, and we do fit the family situation, occasionally. And prices may be a little more attractive there than in the United States, although I haven't seen anything yet that we've bought. But I would say that, there's a reasonable chance that the price of something we're offered over there might catch my attention more than U.S. prices, currently. Okay. Becky.

Q - Analyst

This question caught my attention not because, I think it's a complaint, but I think it's an actual question about the actuarial models that you use at GEICO. It comes from Stan Zion. And he says, my wife and I are stockholders of Berkshire Hathaway. I'm 78 and she's 74. We have a long-time accident-free driving record. Yet, when we applied to GEICO with our stockholder discount, GEICO was unable to beat our rates for comparable coverage with other fine companies, why?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, it's the reason that we probably can beat the rate maybe 40% of the time with people who contact us and 60% of the time we can't. No company is going to be the lowest in all cases. And we have our own underwriting criteria that involves many variables, one of which is age, but it wouldn't be a dominant one at that age. But we have many, many variables. And we make our calculations, and very good competitors like State Farm and Allstate, USAA, and so on they have somewhat different underwriting weightings and sometimes they come in below us.

But I don't think any company, of size will be the lowest more often than GEICO. We give out quotes on the telephone to many, many thousands of people every week. I get the figures every week, and I get the number of quotes, and I get the number of policies sold. And I can tell you the percentages are very substantial that we sell. And we're not selling them if we're charging them more than the people before them.

So it -- different people have different weightings for different variables. And the couple you referred to sound like they should get a very good rate from somebody, but they apparently got a better rate from somebody else other than us. And that's going to happen, perhaps 60% of the time, and 40% of the time we're going to get the business. And since we're only 11% of the whole market now, it means we've got a lot of policyholders yet to gather.

The -- it's an interesting question when you're looking at how to evaluate drivers. We know that 16-year-old boys are about as bad as they get. 16-year-old girls are a better class. Does that mean they're better drivers not necessarily. It may mean they don't have the same tendency to show off. It may mean they don't drive as many miles. It may mean a whole lot of things. So we ask a lot of questions, and other people ask different questions, and we will come up with different rates. But it's definitely worth 15 minutes to call GEICO. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I would say besides if -- when you get into the older people's group and you find you're not deteriorating as fast as most of your contemporaries, you may be paying an unfair price for the insurance, but it's a good tradeoff. (Laughter)

A - Warren E. Buffett {BIO 1387055 <GO>}

Gary. I haven't thought of it that way before.

Q - Analyst

The reinsurance market has changed dramatically over the last two or three years, a lot of alternative capital coming into the business, making it much harder to make the assumption that there would be a big opportunity after the next big catastrophic event. What is it that you and Ajit are planning to change, or do, to take advantage of whatever opportunities might be there?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, wouldn't our competitors like to know? The reinsurance business is not as good as it was, and it's unlikely to be as good as it was. There's a lot of money that's come into reinsurance, not because they want to reinsure people, but because it's become either a fashionable asset class for people that are looking for so-called noncorrelated investments and may not know what they're doing, but it's something you can sell people, that's an attractive line to go to pension funds with.

And then, secondly, it's a beard for doing, for asset management. So, if you go to Bermuda and start a reinsurance company, you can actually run a hedge fund, and you need a little business to make it look like you're doing something other than running a hedge fund, and locating it offshore so you don't pay any tax, but that's the primary motivation.

So when you get a whole lot of people that are bringing money in and they sort of need your facade of reinsurance to cover up what their real motivations are, you're likely to get less attractive prices in reinsurance. And that's been happening on a fairly large scale, and I would say that I would expect the reinsurance business in the next 10 years to not be as good as it has been -- I'm talking about the whole industry as it has been in the last 30 or something like that. It's a business whose prospects have turned for the worse, and there's not much we can do about it. We do find things to do. There are certain things that only Berkshire can do, and we've -- I mentioned in the annual report that there have been eight -- I think it was eight contracts written with premiums of $1 billion or more, and we've written all eight of them. So, we do -- there's a certain corner of the world that we've got a strong position in, and there's a few other things we will do, but it's not as good as it was. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I think, generally speaking, of course, it's going to be harder and, of course, this competition from promotional finance is getting more and more intense and they're more optimistic. They're searching for a robust narrative. We're not searching for a robust narrative, so we can sell something. We're playing the game for the long pull and other people just pretend to be doing so.

A - Warren E. Buffett {BIO 1387055 <GO>}

We could -- we've had the opportunity over -- for a long period of time to go out and promote reinsurance-type money, and really take advantage of people on it, because we would have the best reputation in the field, and we could attract a ton of money, and we could get a big overwrite on it. But it's not our game.

A - Charlie Munger {BIO 1406508 <GO>}

And we don't particularly admire the way it's being played.

A - Warren E. Buffett {BIO 1387055 <GO>}

Station three.

Q - Analyst

Mr.Buffett and Mr.Munger, my name is Neil (inaudible) from South Florida, and I'm currently in seventh grade. My question is how do you make lots of friends and get people to like you and work with you?

A - Warren E. Buffett {BIO 1387055 <GO>}

That's not a bad question. Very good question.

A - Charlie Munger {BIO 1406508 <GO>}

Well, I was pretty obnoxious when I was your age and asked a lot of impertinent questions, and not everybody liked me. And so, the only way I could get the people to like me a little bit was to get very rich and very generous. That will work.

A - Warren E. Buffett {BIO 1387055 <GO>}

People will see all kinds of virtues in you if they think you'll write a check. Yes. The two of us -- both Charlie and I were on the obnoxious side early on, but you should get a little smarter about human behavior as you get older. And I turned out to have some pretty good teachers as I went along in terms of what worked.

I mean, I have looked at other people during my lifetime and at these wonderful teachers. They weren't teachers in the standard definition, but they were people I admired and I thought to myself, why do I admire these people? And if I want to be admired myself, why shouldn't I take on some of their qualities.

So, it's not a complicated proposition. If you look around you at the people you like in your school, write down three or four things they do that make you like them, and then look around at the three or four people that turn you off, and write down those qualities, and decide that you're going to be a person you, yourself, would like, that you'd take on the qualities of the person on the left. You're generous, you're friendly, you accept things with good humor, you don't claim credit for things you don't do, all of these things. And they're all possible to do.

And if you like that in other people, people are going to like it in you. And if you find things that are kind of obnoxious, you're always late, you're always claiming credit for more than you do, and you're kind of negative on everything, and you don't like those in other people, get rid of them in yourself and you'll find out it works pretty well. (Applause)

A - Charlie Munger {BIO 1406508 <GO>}

And it really works in marriage. If you can change yourself instead of trying to change your spouse, that's a good idea.

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie has said the most important thing in selecting a marriage partner is that you don't look for intelligence or humor or character. He says you look for someone with low expectations. Okay. Andrew?

Q - Analyst

Okay. This is a question about NetJets. We received several related to NetJets. We've combined these two. The first is, can you comment on the lengthy dispute with NetJets' pilots who are picketing outside, and Whitney Tillson asks, what type of return on investment do you expect from the billions on order in aircraft for NetJets, and in a very pointed way, he writes, was buying NetJets a mistake?

A - Warren E. Buffett {BIO 1387055 <GO>}

No, I don't think buying NetJets was a mistake. We've had a few things where it looked like a mistake for quite a while and some of them turned out to be a mistake. But NetJets is a very decent business. We have a good business, the pilots have a good job. And the -- it's not really the right way to look at it, I don't think in terms of return on investment in the billions of dollars of orders we have because we resell those planes to owners.

And we do have a core fleet that represents an investment, but the investment is held in very large part, by the owners themselves. I own -- what do I own, 316, or something like that, of one type of plane that my children use. I own an eighth of another plane that I use. But that's my investment, it's not the NetJets investment.

The -- labor relations -- at Berkshire we've had hundreds of labor unions over the years, literally hundreds. In fact, we probably have hundreds at the present time. And we've only had -- in 50 years, we've had three strikes that I can remember. I don't think there have been any others. There could have been some one-day walkout, maybe. But we had a four-day strike at a Berkshire Hathaway textile operation, we had a four-day or so strike at the Buffalo News 30 years ago, and we had another strike at See's Candy one time.

So, we have no anti-union agenda whatsoever, and we think we have sensational pilots. I mean, I've flown NetJets, my family has flown NetJets now for 20 years, and we've had nothing but professional pilots and friendly pilots. And it's not -- it's in human nature to have differences, sometimes about what people get paid. Our pilots make an average of 145,000 a year. They worked -- they work seven -- they have options, but one of the options, and the main option is seven days on and seven days off. We pay for their time to get to where they're based. They can live anyplace in the country. And compared to our competitors at Flexjets or Flight Options or so on, or in charter, we pay well.

But it's perfectly understandable that employers and employees have some differences from time to time. And we'll get it worked out, but that doesn't necessarily come in a day or a week or a month. And our volume is up, in terms of flying. Our volume is up, in terms of owners in the United States. Europe is flat. But the United States is the bigger end of it. So it's a business I'm very glad we own. I'm proud we own it. It's a first-class operation. We give our pilots more training, I believe than anybody else. I'm flying on NetJets. My kids are all flying on NetJets. Our managers, in many cases are flying on it, so nobody cares more about safety. This is not a company where the CEO flies on his own jet and other people fly in other ways. So I -- and I get the same -- I get the same planes that the other people get and the same pilots. I mean, there's no special arrangements. So we've got this intense interest in safety, and we've got very professional pilots. And at the moment, we've got a difference of opinion about a contract, but that will get settled, in my view. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

I have never, in all the years had a NetJets pilot who didn't affect me as a wonderful fellow and a very skilled, able, and dutiful, reliable person. And I would say most -- I can think of no NetJets pilot that has ever in any way indicated that he's dissatisfied with his life, and a lot of them say they just love it, because of the -- I'm not at all sure the union is fairly representing the pilots.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. He said fellows. Actually, we have a lot of women pilots, too. Gregg?

Q - Analyst

Warren, looking at your acquisition of Duracell from Procter & Gamble, at the time of the deal, you noted that Duracell is a leading global brand with top quality products. You're obviously familiar with the business, which was initially acquired by Gillette in 1996. While Duracell does provide fairly steady cash flows and has a strong brand in market position, its core business is in decline, with advances in technology making alkaline batteries far less relevant than they were 20 years ago. Looking back historically, you've been willing to hang onto businesses operating in declining industries as long as they continue to generate some cash for Berkshire overall, so having Duracell in the portfolio is not necessarily out of the ordinary.

The question I have is, how much of a role did tax planning actually play in doing this deal, given the extremely low-cost basis on your P&G shares, some of which you've been selling the last several years? And would you have done this deal without tax considerations? And if so, at what price?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, both Procter & Gamble and Berkshire Hathaway had tax advantages in doing the deal this way, so they probably wouldn't have sold it at the price at which the deal took place, and we wouldn't have bought it at the price, without the tax benefits that each enjoyed. And this is something -- we had to have held our stock for over five years in Procter & Gamble. It's something that's been in the code a long time that we've had nothing to do with it being in the code, but it's part of the code. And it's somewhat similar to the real estate exchange arrangement, where you can exchange real estate and defer any tax. And we don't get a new tax basis on the Duracell, we keep the old lower tax base, just like on -- what do they call it? Is it section 1231 or -- real estate exchanges.

So it's analogous to that, and the answer is that, there wouldn't have been a transaction from Procter & Gamble's standpoint and there wouldn't have been a transaction, probably from Berkshire's standpoint, if it hadn't been for the fact that we could do an exchange arrangement. As to the declining business part, the battery business will be a declining business, but it will be around for a very, very, very long time on a worldwide basis. And Duracell has a very strong position. It's a very good business. And like you say I was familiar with it when I was on the Gillette board.

But the -- it will have unit declines over a period of time, but I think we'll do fine with the Duracell investment. I'm looking forward to getting the deal complete, which probably won't take place until the fourth quarter because we have to get it detached from a lot of other things like the IT and distribution centers and everything else that it's involved in with P&G. But P&G has been great to work with. They're making the transition, they couldn't be better to work with during that period, and I'll be very happy when we own it. Station 4.

Q - Analyst

Hello, Warren and Charlie. I am Marvin Blum, an estate planning lawyer from Fort Worth, Texas, home to four of your companies. And by the way, we're excited about the new Nebraska Furniture Mart and the Berkshire Hathaway Automotive Group in the Dallas/Fort Worth area. Next to Omaha, we hope you think of Fort Worth as your second home.

A - Warren E. Buffett {BIO 1387055 <GO>}

It's been good to us. And actually, we have five companies down there. MiTek just bought one.

Q - Analyst

All right. Even better. At the annual meeting a couple of years ago, I asked about your estate plan and your idea of leaving kids enough so they can do anything, but not so much that they can do nothing. Today, I'd like to ask you about your decision to sign the Giving Pledge, promising to give away at least one-half of your assets to charity. Can you talk about your views on philanthropy, and how to balance leaving an inheritance to your family versus assets to charity?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, it depends very much on the individual situation. And actually, I promised to give over 99% in my case. But that still leave plenty left over. As you know, the estate tax exemption has been moved up substantially here in the last couple of years, so you -- I might have a very different feeling if I'd had a child that worked actively, helped me build the business, and all that sort of thing, and it was a small business, and I wanted to give it to them. But that can be really done without any estate tax these days, particularly if a little planning is used ahead of time. It's a very individual thing. As Charlie, when you get to the figuring out what you do with your money, the options get very fairly limited. And as Charlie said the other day, he said where he's going it won't do him much good anyway. There's no Forbes 400 in the graveyard.

So the question is, where does it do the most good? And I think it does limited amounts to do some real good for my children, so I'll be sure that they have that, or they already have it, to a degree. And, on the other hand, when I look at a bunch of stock certificates in a safe deposit box that were put there 50 years ago or so, they have absolutely no utility to me, zero. They can't do anything for me in life. I mean, they can't let me consume 7,000 calories a day instead of 3,000. They can't -- there's nothing they can do. I've got everything in the world I want, and I've had it for decades. If I wanted something additionally, I'd go buy it.

So here these things are that have no utility to me and they have enormous utility to some people in other parts of the world. I mean, they can save lives. They can provide vaccines. They can provide education. There are all kinds of utility. So why in the world should they sit there for me or for, some fourth generation down of great-grandchildren or something, when they can do a lot of good now?

So that's my own philosophy on it, but I think everybody has to develop their own feelings about it and should follow where they go. I do think -- I do think they might ask themselves, what, where will it do the most good? And it can be pretty dramatic between what it can do for millions of people that don't really have remotely the same shot at having a decent life that I've had or what it, what it can do for me. I mean, if it -- I could have 10 houses, but, I could buy a hotel to live in. But would I be happier? It would be crazy. Charlie and I both like fairly simple lives. But the one thing we do know is we know what we like and what we don't like, and we don't judge it by what other people like.

So I don't have too much advice for anybody, but I would say start thinking about it. When I call people on the Giving Pledge, some of them -- I'll get some 70-year-old and he says, I don't want to think about it yet. And I always tell him. Are you going to make a better decision when you're 95 with some blond on your lap? That actually was tried a few years ago, as you may know. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

No, but it does occur to me that, that fellow that was complaining about the tax system should remember that when -- they recently changed the estate tax rules, so you can leave 5 million to your kids, and so forth. I think that's a very constructive change in the law. So I don't think we should assume that our politicians are always going to be totally crazy. That was a very desirable change, I think.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Carol.

Q - Analyst

The questione's name is Andre Bartel, and he's a Berkshire shareholder. Would it make sense, and I'm going to add my own edit here to say, and would it be legally permissible for Berkshire to distribute at some time in the future, any or some of the long-term equity investments for example Coca-Cola or American Express to the shareholders in a tax-sufficient way, as Yahoo is planning to do with the Alibaba stake for example? The idea would be to return capital to shareholders using assets that Berkshire is not actively managing, that is has not bought or sold for some time, and has very low incentive to sell because of income tax implications, while not taking away resources cash that could be reinvested by the Berkshire management better than by its shareholders.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes, I don't think Yahoo solved it, actually. Charlie, you follow that, too.

A - Charlie Munger {BIO 1406508 <GO>}

I don't think that we can do that with American Express and so forth. It's a bad example. We've got no way of doing that.

A - Warren E. Buffett {BIO 1387055 <GO>}

No. There used to be a way to do that many years ago, and it was done. I don't mean by us, but I saw other examples of it. But under the code, there's no way to use appreciated securities to redeem your own shares, to -- you can do it for something like acquiring, where you're exchanging it for like asset type thing on the Duracell arrangement, but there's no way to distribute it to shareholders without paying the full capital gains tax.

A - Charlie Munger {BIO 1406508 <GO>}

Yes, spinoffs of whole businesses to shareholders, if you held them a long time, but that's about the only thing you can do.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes, but even there, I mean, what Yahoo has done has not got rid of the tax.

A - Charlie Munger {BIO 1406508 <GO>}

I don't know anything about Yahoo.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. No. The -- or what they're planning to do. It may give them some other option if Alibaba wants to eventually redeem it themselves. I mean, there could be something where they could work out a deal with Alibaba. I do not see how that they've gotten rid of the tax, unless they do a subsequent transaction of some sort with Alibaba, but maybe they have different tax advice than I've seen.

I mean, I know all kinds of cases where people -- where corporations have unrealized -- large unrealized gains in marketable securities, and I have not seen in recent years, although I did see it early in my career when the law was different, but I've not seen in recent years any way that people have gotten that money into the hands of the shareholders without paying a tax at the corporate level. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

No. That's -- that's what we say.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Jonathan?

Q - Analyst

Berkshire owns many companies that benefit from single-family home construction: ACME, Johns Manville, Benjamin Moore, MiTek, and Shaw among them, not to mention the railroad. After the financial crisis, you said that young adults who are postponing household formation by living with parents or in-laws would eventually get sick of that arrangement and we would start to see normal rates of household formation once the job market improved or even if it didn't. Jobs are now more plentiful. Yet household formation still continues to be below rates thought to be normal, whether because of high student debt, a shift in attitudes about homeownership, or stricter mortgage terms for first-time buyers. Could something more secular be going on where household formation rates, relative to the population, could continue to be lower than historical rates? Could the U.S. become more like Europe where many adult children live with their parents or in-laws for quite some time, or do you think still, that the subdued rate of household formation is a mostly cyclical phenomenon, and that the rate will eventually revert to the historical mean, boosting single-family home starts and earnings for this group of companies?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. I don't know the answer, obviously, but I think the latter is more likely. I may be wrong. When's the last set of figures you've looked at in that connection? I've heard that it's turned up a fair amount in the last six months, but -- have you seen anything on that, Jonny?

Q - Analyst

Nothing really recently, no.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. I should know the figures, but I don't for the last six months or nine months. But my impression was they had turned up somewhat. I did my best on selling that ring in the movie to that guy, and they're going to form a household here in another month or two to which I've been invited. But the truth is, I don't know, what's going to happen on household formation. I would expect -- but I expected it earlier than this -- I would expect it to turn up. It always turns down in a recession, and you could argue that we're not all the way back from the recession yet. Your guess would be as good as mine. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

I feel exactly the same way, but I think I speak for a lot of members of the audience when I say I have some grandchildren that I wish would marry somebody suitable promptly.

A - Warren E. Buffett {BIO 1387055 <GO>}

What's the reason for your interest, Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

I don't think it's healthy for these people to hang around looking for pie in the sky or whatever in hell they're doing.

A - Warren E. Buffett {BIO 1387055 <GO>}

Are they in attendance today?

A - Charlie Munger {BIO 1406508 <GO>}

I don't know. Some of them may be. I don't want to name names.

A - Warren E. Buffett {BIO 1387055 <GO>}

No. I think you've already been pointed enough. Okay. Station five.

Q - Analyst

Gentlemen, thank you for a great day. My name is Mark Roy, and I am the Executive Director of the Immanuel Vision Foundation here in Omaha. Earlier today, I sat up in the corner and spoke to my son who is working and living in Indonesia, among the poorest of the poor, funded, incidentally, by the Gates Foundation. The contrast between where he is sitting today, and where I am sitting could not be more dramatic. You have been a model of philanthropic caring for the needs of others. You have demonstrated that it's not how many shares we have, but how we share with others. So following up on the last speaker, I want to ask, how can corporations be encouraged to make an even greater impact in the lives of those who are not shareholders?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. I agree, entirely with your motivation about increasing philanthropy. I am much more of a believer, however, in individual philanthropy than corporate philanthropy. I really feel that I've got everything I need, but I do also feel that I'm working for the shareholders and they should determine their own philanthropic activities, that it's their money.

Now, we participate in, I mean, I encourage all our companies to continue the philanthropic behavior that they had before we've acquired them, and we want them to participate in their communities and to help the entities that help their employees and their customers. But I don't really think it's my business ever to write a check to my alma mater or whatever it may be, and do it on company funds. I just -- I don't feel it's my money.

I really look at this as a partnership. We've always looked at it as a partnership. And we had a system some years back where all the shareholders could designate contributions, and I felt that was quite a good system. And then we had to give it up for reasons that -- I hated to give it up, but we had to do it.

The interesting thing about philanthropy, I mean, I have never given a penny to any organization that has cost me anything in my life. I mean, I've never given up a movie, I've never given up a trip, I've never given up a vacation, I've never given up a present to my kids. People give money this Sunday, that really, actually changes their lifestyle in a small way, and that hasn't happened with me. Everything I've given has been ungodly surplus, and I'm glad I can do it. But it's people like your son, that I really admire. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, my taste for giving away somebody else's money is also quite restrained.

A - Warren E. Buffett {BIO 1387055 <GO>}

I was on the board one time of an organization that needed to raise a fair amount of money, and it wasn't church affiliated or anything like that. And so they asked me to call on four or five corporate chieftains and they said, be sure not to ask them to give anything personally, just ask them to give corporate money. And just -- I said, I'm not going to do it, basically. If they're not -- if they won't put up their own money, why should they write checks on behalf of all their shareholders? So I've got real reservations about corporate philanthropy for the personal reasons to some extent of the CEO or the directors. Okay. Becky?

Q - Analyst

This question comes from Felipe, and he asks, do Charlie and you think that the euro currency has had a positive or negative effect overall on the eurozone economy, and do you think it would be a good decision for France to quit the euro currency and go back to the franc?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, that's too easy for me to answer, so I'll give it to Charlie.

A - Charlie Munger {BIO 1406508 <GO>}

I haven't got the faintest idea.

I think the euro had a noble motivation and had promise of doing a lot of good and it undoubtedly has done a lot of good. But it's a flawed system in some ways to put countries that are so different together, and it's straining at the moment. The big strains aren't in France. The big strains are in Greece and Portugal and so on. And I do think they created something that was probably unwise. They got countries in there that shouldn't have been there. You can't form a business partnership with your frivolous, drunken brother-in-law, you know, I mean, you have to make your partnerships with somebody else. And I think they lowered their standards a little and it's caused strains.

A - Warren E. Buffett {BIO 1387055 <GO>}

I think everything here is off the record, understand. They -- I think it's a good idea that needs a lot of work, still. And I think it has been a good thing, net to this point. But it -- it is flawed and the flaws are appearing, but that doesn't mean it can't be corrected. I mean, we wrote a Constitution in 1789 that, still took a few amendments, and some of them didn't happen for a long time in respect to some very important factors.

So I don't think the fact that it wasn't perfectly designed initially should condemn it to being abandoned, but I think that if there are flaws, you have to face up to them. And I think that, maybe the events that are happening currently will cause that. We could have had -- presumably we could have had a common currency with Canada and probably have made it work, I mean, if we decided --

A - Charlie Munger {BIO 1406508 <GO>}

Sure, we could have made it work.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. We could have had a North American currency with Canada and we'd have worked it out, and it might have even been useful. But we couldn't have had a hemisphere-wide currency with Venezuela in it or --

A - Charlie Munger {BIO 1406508 <GO>}

With Argentina.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. And so -- he loves to name names. Praise by name, criticize by category. And I actually think it's probably desirable to have a euro currency properly designed and enforced so that -- that the rules really apply. There were rules, originally on the euro, which got broken very early on, by not the Greeks, but by the Germans and the French as I remember. So --

A - Charlie Munger {BIO 1406508 <GO>}

The investment bankers let them -- they helped them prepare phony financial statements.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes.

A - Charlie Munger {BIO 1406508 <GO>}

They -- actually, it was investment banker-aided fraud.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes.

A - Charlie Munger {BIO 1406508 <GO>}

Not exactly novel.

A - Warren E. Buffett {BIO 1387055 <GO>}

So returning to our main point, I think the euro can and probably should survive and I think it's going to take some real changes, and maybe some examples to enable it to do so. I hope it really -- I mean, it's going to go in the direction of more cohesion or less, and very soon probably. And I think if it can figure out a way to do it with more cohesion, overall it will be a good thing for Europe. But it certainly, in its present form it's not going to work. Charlie? I don't know why I'm giving you another shot, but --

A - Charlie Munger {BIO 1406508 <GO>}

I think I've offended enough people.

A - Warren E. Buffett {BIO 1387055 <GO>}

Right. There's two or three in the balcony. Okay. Gary.

Q - Analyst

With the Van Tuyl acquisition -- or now Berkshire Hathaway Automotive -- there may be some natural synergies with GEICO, if it's nothing more than just putting a gecko on the salesman's desk. Would you expect to do anything in that regard to encourage getting more customers through that relationship?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes, I don't think so. You always have these things that, the investment banker will tell you will produce synergy and all that. Most times that doesn't work. And historically, selling auto insurance through dealerships hasn't been particularly effective. And if we were to do that, we would probably have to compensate people who did the insurance work -- or made the insurance sales out of Van Tuyl. That would add to costs. I mean, GEICO is a low-cost model, and it's a wonderful low-cost model. And Tony Nicely has done an incredible job of keeping those costs down and our -- and you can see it in our expense ratios. We spend a lot of money on advertising. But its success depends on delivering first-class insurance at a better price than other people can get, and the more people we put in distribution system or anything --

So I would doubt very much that we do anything along that line. I think that, those two companies will do better if run as two independent businesses than if we try to push through something. We -- Charlie and I have seen a lot of things on paper that involve that sort of a proposition and very, very few succeed. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I agree. It's a very dumb idea, and we're not going to do it.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Station six.

Q - Analyst

Mr.Buffett, in this environment of quantitative easing, low interest rates, and an overvalued stock market, what value in silver at these prices do you see, and do you still follow the silver market?

A - Warren E. Buffett {BIO 1387055 <GO>}

I really don't follow it much anymore. But at one time, we owned over 100 million ounces of silver, and I knew a fair amount about the supply and demand for it, and the prospective supply and demand. But I really don't -- I haven't paid much attention to it for a long, long time.

A - Charlie Munger {BIO 1406508 <GO>}

That's a very good thing too. We didn't do that well.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. We made a little money.

A - Charlie Munger {BIO 1406508 <GO>}

Yes.

A - Warren E. Buffett {BIO 1387055 <GO>}

The -- photography -- the interesting thing about silver is that there are some pure silver mines, but overwhelmingly silver is produced as a by-product in terms of copper mining and that. So it -- it doesn't respond as much to its own supply and demand characteristics -- that's still a factor as it does in terms of the supply and demand characteristics of the things of which it's a by-product, like copper. So, it's a very small market, too. But we came out better than the Hunt brothers, but other than that, we don't think about silver anymore. Okay. Andrew.

Q - Analyst

Charlie, question about activism. Activism continues to grow and, as Charlie stated at the 2014 annual meeting, he sees it getting worse instead of getting better. So the question is, we hope that Charlie and Warren will both be around forever, but unfortunately there will be a time when they're no longer here to manage the store.

A - Warren E. Buffett {BIO 1387055 <GO>}

I reject such defeatism.

Q - Analyst

If Warren is giving away his shares to charity over a ten-year period through his estate plan, and activists become increasingly more powerful, how will Berkshire defend itself from activists in the near and far future? And would you consider it a failure if Berkshire were broken up in the future and shareholders received a significant premium? And for you to consider it success, what would the premium need to be?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, if it's run right, there won't be a premium in breaking it up. It may look like it. I mean, people will say there's subsidiary A that would sell at 20 times earnings and the whole place would sell, like, at 15. But the whole place won't sell at 15 if you spin off the one at 20.

I mean, it -- I laid out in the annual report -- there are a lot of benefits to Berkshire in terms of having the companies in the same corporate tax return.

So I think it's unlikely that, on any long-term basis or intermediate-term basis that the value of the parts will be greater than the value of the whole. The best defense against activism is performance. But lately, there's been so much money pouring into activist funds, because it's been easy to raise money for that, I mean, it's been a successful way of handling money for the last few years, and institutional money then starts flowing into it, and the consultants recommend it, and all of that sort of thing.

And so, I would say that much of what I see as activism now, people are really reaching in terms of what they're -- of the kind of companies that they're talking about and the claims of what they can do and that sort of thing. I think the biggest -- if you're talking about my shares getting dispensed over 10 years after my estate is settled, and the voting power they have, and I think, by the time that gets to be a reality, I think the market value of Berkshire is likely to be so great that even if all the activists gathered together, they wouldn't be able to do very much about it. Berkshire is likely to really be a very, very large organization 10 or 20 years from now.

A - Charlie Munger {BIO 1406508 <GO>}

Besides, the Buffett super-voting power is going to last a long time.

A - Warren E. Buffett {BIO 1387055 <GO>}

Last a long time, yes. I always -- I've got these friends that call me -- other companies and they've got an activist, and they're worried about it. I just tell them to send them over to Berkshire. We'll welcome them. We'd love to have them buy our stock because they're not going to get anyplace. And that's going to be the situation for a long, long time. We should be a place where people can dump their activists. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, the thing that I find interesting is, in the old days when many -- most stocks sold for way less than they were worth in terms of intrinsic value, it was very rare to find an American corporation buying the stock in.

Now, in many cases, the activists are urging corporations to buy the stock in heavily, even though it's selling for more than it's worth. This is not a constructive activity, and it's not a desirable change, and it's not a very responsible activity for the activists.

A - Warren E. Buffett {BIO 1387055 <GO>}

There's been more stupid stuff written on such a simple activity as stock repurchase. Both stupid stuff written and stupid stuff done. I mean, it's a very simple decision in my view, as to whether you repurchase your shares. You repurchase them if you're taking care of the needs of the business and your stock is selling for less than it's intrinsically worth. That -- I don't see how anything could be more simple. If you had a partnership and the partner wanted to sell out to you at 120% of what the business is worth, you'd say forget it. And if he'd want to sell out to you for 80% of what it's worth, you'd take it. It's not complicated.

But there's so many other motivations that entered into people's minds about deciding whether to repurchase shares or not. It's gotten to be a very contorted and kind of silly discussion in many cases.

And Charlie is right. The -- if you look at the history of share repurchases, it falls off like crazy when stocks are cheap and it tends to goes up dramatically when stocks get fully priced. But it's not what we'll do at Berkshire. At Berkshire, we will presently, we would love to buy it by the bushel basket at 120% of book, because we know it's worth a lot more than that. We don't know how much more, but we know it's worth a lot more.

And we don't get a chance to do that very often. But if we do get a chance, we'll do it, big time. But we won't buy it in at 200% of book, because it isn't worth it. It's not a complicated question, but people that -- I've been around a lot of managements that announce they're going to buy X worth and then they buy it regardless of price. And a lot of times the price makes sense. But if it doesn't, they don't seem to stop, and nobody tries to -- seems to want to stop them. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I certainly agree with you. I don't think it's a great age, this age of activism.

A - Warren E. Buffett {BIO 1387055 <GO>}

Want to expand on that?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I -- it's hard for me to think of any activists I want to marry into the family.

A - Warren E. Buffett {BIO 1387055 <GO>}

I better stop before he names names. Okay. Gregg.

Q - Analyst

Warren, American Express, which is Berkshire's third largest stock holding has relied on powerful network effects and its valuable brand to generate economic profits over the years. It has created a virtual cycle with its collection of cardholders being desirable to merchants, who have been willing to pay higher transaction fees with those fees ending up funding rewards programs and services for American Express's cardholders. More recently, though, competitors have turned this model against the firm, targeting its cardholder base with ever-increasing levels of rewards and services, while charging merchants lower fees than American Express does.

The company also saw its image of exclusivity take a bit of a hit earlier this year when Costco ended a 16-year relationship with the firm, a move that affects one in 10 American Express cards in circulation and which will impact results this year and next. With restrictions on interchange fees and the growth and acceptance of mobile payment technologies likely to impact future revenue streams, and moves by the firm to go down-market in pursuit of transaction volume potentially diminishing the brand, how does American Express defend its moat?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, American Express has been pretty good at that, and particularly when Ken Chenault's been running it. The -- it will be -- it -- all aspects of payments will be subject to lots of innovation and various modes of attack. I think that American Express is still a very special company. And like I say, Ken has done a sensational job in anticipating a lot of these trends and guiding it into different markets. As you mentioned, it's going down in the -- into debit cards, effectively, and things of that sort.

I think there's a lot of loyalty with American Express cardholders. I do think a proprietary card is worth more than a co-branded card, but I think that -- I probably shouldn't get into the specifics of Costco. I've got a Costco director sitting next to me. But we're very happy with American Express, but we'd be even happier if the stock goes down and the 4 billion or 5 billion they spend a year buying in stock buys even more shares. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I like it a little better when they had a little less competition, but that's life.

A - Warren E. Buffett {BIO 1387055 <GO>}

Incidentally, you'll find in this 50-year history of Berkshire, American Express did wonders for us back in the 1960s. And there's a little history in there on the fact that it was an assessable stock until 1965, which nobody paid any attention to until 1963 on. But the company has an incredible history of adapting. I mean, they started out as an express company, move trunks around, and valuables around. And then the railroad came around and started doing the same thing, so they went to traveler's checks as a way to -- very handy way of moving money around the world. And then the credit card came along, Diners Club came along, in the 1950s, and that threatened the traveler's check and then they moved into the Travel and Entertainment card, as it was called then.

And the interesting thing is that Diners Club, who was first Ralph Schneider and Al Bloomingdale priced their card at, as I remember, $3 and they looked like they were sewing up the market. And American Express came along and did something very interesting. They priced their card, I think at $5, and actually established a better image. I mean, people that pulled out their American Express card at a dinner table, they looked like J.P. Morgan. And the guy that pulled out a Diners Club card, they'd have a whole bunch of flashy things on it, he looked like a guy who was kiting his expense account or something of the sort.

So you just automatically felt like a more important person with your American Express card. They have been very nimble, and very smart, and particularly in recent years, under Ken in terms of meeting all kinds of challenges. And I think they'll have plenty of challenges in the future, and I'm delighted we own 15% of the company. Okay. Station seven.

Q - Analyst

Hi. My name is Chang, originally from Seoul, South Korea, and working in Los Angeles, California. I've been traveling more than 27 countries, and last year I taught financial literacy lesson in one of the local elementary school in (inaudible) city.

Today here, we're talking about investments in capital markets, but young students in developing countries, they don't know how to save money, or they don't know the concept of interest. So, in order to overcome the educational challenges, I would like to provide volunteer opportunities to talented Americans to teach in South American schools to overcome the -- while they are traveling. So what do you think about my plan or do you have any advice? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie, do you have any advice?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I failed in this activity with some of my relatives, so I don't think I can improve South America. No, I think if you don't -- if you don't know how to save, I can't help you.

A - Warren E. Buffett {BIO 1387055 <GO>}

No, but the important thing is to get good habits early on.

A - Charlie Munger {BIO 1406508 <GO>}

Yes.

A - Warren E. Buffett {BIO 1387055 <GO>}

You really, you know someone said the chains of habit are too light to be felt until they're too heavy to be broken. And habits really make an enormous difference in your life.

So Andy and Amy Heyward have developed the Secret Millionaires Club, which I've helped out with a little, and our goal is to, in an entertaining way present good habits to young kids through a kind of a comedy series.

And I think that's -- it's actually having a pretty good effect. And here in a few days, we're going to have a -- here in Omaha -- we're going to have eight finalists in young kids from around the country that have developed businesses of their own, and I'm always enormously impressed with these kids.

But the importance of developing good habits yourself, or encouraging good habits in your children very early on, in respect to money, can change their lives. And, you know, I was $9,000 or $10,000 ahead when I got out of college, and I got married young and had kids very fast. And if I hadn't had that start, my life would have been vastly different. So it -- you can't start young enough on working on good money habits. And I do think the Secret Millionaires Club is very good, but there could be lots of other good ways of teaching those lessons. Okay. We now have moved solely to the audience, so we'll go to station eight.

Q - Analyst

Hello, Warren, Charlie. My name is Stefano Grass, and I come from Genova, Italy. It's great to be here today for the 50th anniversary.

Last year, I asked you what was the right level for leverage at Berkshire Hathaway, and why not to increase it. I argued that increasing liability more at the cheap level would benefit Berkshire, thanks to the investment capabilities of the present management. This year, I would like to get your view on the possibility of working on the other side of the balance sheet and using part of the cash sitting on bank chair -- bank accounts to reduce some of the liabilities currently on its balance sheet. For example, the index puts at Berkshire sold between 2004 and 2008, generated a premium of almost 5 billion. Few years down the line, Berkshire benefited from the float. The indexes are higher and the time to maturity of the put got shorter.

The question is, if the unwinding of the puts were acceptable by the counterparts which bought them, would you consider unwinding them at a reasonable price? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Are you speaking -- you're speaking specifically of the equity put options we have?

Q - Analyst

I'm speaking about them, but as just an example. I'm talking also of maybe reducing debts or doing other --

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Well, what we hope, of course, is that, what we call the excess cash, which is cash beyond 20 billion that we can put to work buying a business. But you can't do, one a week or one a month. So it's opportunistic. And I don't know whether the phone call that's going to result in the next deal will come in next week or it may come in a year from now. We will get calls and we will put money to work. We just -- we can't do it at an even flow. And we have, virtually no debt. If someone had told, the two of us 50 years ago that we'd be able to borrow money in euros with a long duration of 1% or something like that, we would have felt we would have ended up with a way different balance sheet than we have today. But, I mean, money is so cheap that it causes people to do almost anything on the asset side, and we try to avoid doing that because we don't -- we don't want to drop our standards too fast just because the liability side is costing us so little.

But I don't think -- obviously, if we can unwind a derivative trade on a basis where we thought we were mathematically ahead by a significant amount, we would do it. But I think that's very unlikely with the contracts we have now, so we'll probably -- I think it's very likely they just run out over time. We carry a liability of well over -- I think it's getting somewhere between 3.5 billion and 4 billion for something that has a settlement value today of 400 million. So it's very hard for us to -- it's very hard for us on the other side of the contract to arrive at a price that we both would be happy with. We're not going to deleverage Berkshire. There isn't that much leverage to start with. I mean, the float really is, essentially very close to permanent. I mean, it can decline a couple of percent in a year, but it can also increase a few percent.

So, I see no drain on funds of any consequence from the float for as far as the eye can see, and we have very little debt out. So I would not want to pay down the debt we have now. Now logically, we probably should take on more debt at these prices, but that's just not something that appeals to us. Maybe if we find a really big deal, we might take on a little more. I would like to at least have that as something I was thinking about. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

We'd love to have something come along where we actually felt a little capital constrained. We haven't felt capital constrained for a long time. It's a problem we'd love to have, something so attractive that we --

A - Warren E. Buffett {BIO 1387055 <GO>}

We'd stretch a little.

A - Charlie Munger {BIO 1406508 <GO>}

We'd stretch a little. That would be glorious. And it could happen, by the way.

A - Warren E. Buffett {BIO 1387055 <GO>}

And it could happen. Okay. Station nine.

Q - Analyst

Hi, Mr.Buffett and Mr.Munger. My name is George. I'm translating for my father, (inaudible) from Shanghai, China. Last year it was my father standing here asking his question, and this year it's me. I feel so lucky.

I know at the end of last year, you purchased a car sales dealer. This year, you said in your public letter that you are going to continue to buy. The ultimate purpose of investment is to seek the return. So my question is, whether the rate of return can be necessarily higher with the scale of the dealers? If so, why we cannot see that happen in China? How come the differences with the dealership business of the same nature in the United States and China? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. I don't know the dealership situation in China. I would say -- I think I mentioned this a little earlier -- that I don't think we're going to get significant benefits of scale as we buy more units in the auto field. I just don't see where it would come from. But we don't need it. What we really need is managers in those individual dealerships that have skin in the game of their own, and that run them, as first-class businesses, independently. And that's what we'll be looking for. We'll not be looking for scale. I don't know the situation in China. Maybe Charlie knows more about that. I think he does.

A - Charlie Munger {BIO 1406508 <GO>}

No. But I don't think we'd be very good at running dealerships in China. And I think the people who run Van Tuyl are very good at running the ones here, so --

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes with 17,000 here and we've got 81 of them, there's a little room to expand. The problem is going to be price. Our purchase probably caused people to move up their multiples by one or two people that have them, and we paid a full, but fair price for Van Tuyl and we'll be using that price, more or less as a yardstick. And we really thought we bought the best there, so, if anything we would be hoping to buy others, maybe for a bit less.

So we will not -- we may buy a lot of them, we may buy very few, just depending on price developments.

The -- we're having a big car year and profits are good in the dealership field. But when profits are good, we want to pay a lower multiple. I mean, because, if we're going to be in the car business forever, we're going to have some good years and we're going to have some bad years. And we would rather buy at a 10 or 12 times multiple of a bad year than buy at an 8 times multiple of a good year. And that's not necessarily the way that sellers think, although they probably understand it, but they don't want to think that way. So we'll see what happens.

Okay. Station 10.

Q - Analyst

Hi. Mr.Buffett and Munger, very excited to be here. My name is (inaudible) also from Shanghai, China. Because now (inaudible) a company providing wealth management to the high net wealth individuals in China. The company name is North, from North Ark listed at NYC [ph]. You two are my idols. What's your secrets of keeping so young, so energetic and so quick? Please don't say because of Coca-Cola. And as someone says that old papa could not understand the internet, but I don't believe that. What's your opinion? Will you pay more attention to internet? Could I invite both two gentlemen to answer my question? Thank you very much.

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie, I didn't get all that, so you --

A - Charlie Munger {BIO 1406508 <GO>}

Well, he asked are we going to be using the internet. Warren is a big internet user compared to me. And -- but --

A - Warren E. Buffett {BIO 1387055 <GO>}

I love it.

A - Charlie Munger {BIO 1406508 <GO>}

He plays bridge on it.

A - Warren E. Buffett {BIO 1387055 <GO>}

I use a lot of -- I use search. It's been a huge change in my life, and it costs me a $100 a year, or something like that. If I had to give up the plane or I had to give up the internet, the plane costs me a million-and-a-half a year, the internet costs me a $100 a year. I wouldn't want to give up either one of them, but I'd give up the plane.

A - Charlie Munger {BIO 1406508 <GO>}

Interesting.

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie's given up both.

A - Charlie Munger {BIO 1406508 <GO>}

Are we going to be doing more -- I think everybody's going to be doing more things on the internet. It is growing in importance. And so, like it or not, we're dragged into modern reality.

A - Warren E. Buffett {BIO 1387055 <GO>}

Doesn't sound like he likes it, does it?

A - Charlie Munger {BIO 1406508 <GO>}

No, I don't like it. I don't like multitasking. I see these people doing three things at once, and I think, God, what a terrible way that is to think. I am so stupid, though, I have to think hard about a thing for a long time. And the idea of multitasking my way to glory has never occurred to me. But at any rate, the internet is here and it's going to be more and more important and everybody's going to think more about it and do more about it, like it or not. And of course, the younger people are way more prone to use it than we are. But Berkshire -- you have what, how many Bloombergs now?

A - Warren E. Buffett {BIO 1387055 <GO>}

In the office?

A - Charlie Munger {BIO 1406508 <GO>}

Yes.

A - Warren E. Buffett {BIO 1387055 <GO>}

Do we have two or three. Mark? I don't know. They don't tell me about them. They sort of hide them when I come in the room.

A - Charlie Munger {BIO 1406508 <GO>}

We're into the modern world.

A - Warren E. Buffett {BIO 1387055 <GO>}

We have Marc Hamburg tells me we have three -- but we'll reevaluate that situation when I get back to the office. What's that? Oh, we're not paying for one. I like that. Let's see if we cannot pay for two. No, the internet -- and it's changed many of our businesses. I mean, it's changed GEICO's business very, very dramatically. And it's affecting -- it affects them all, to one degree or another. It's amazing to me, I mean, people get pessimistic about America. Just think in the last 20 or 25 years, well, just 20 years on the internet how dramatically it's changed your life, the game is not over yet. There's all kinds of things that are going to happen to make life better.

And Charlie may not think the internet makes life better, but when I compare trying to round up three other guys on a snowy day to come over to my house to play bridge, versus snapping the thing on and having my partner in San Francisco there and two other friends, and so on, in 10 or 20 seconds, I think the world has improved.

A - Charlie Munger {BIO 1406508 <GO>}

Well, if I had your partner, I'd think it had improved, too.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Station 11.

Q - Analyst

Hi. I'm Whitney Tillson, a shareholder from New York. Mr.Buffett, I know many shareholders have felt irritation to put it mildly, when you've weighed in on social issues such as tax policy or endorsed and raised money for a particular candidate, but I, for one, applaud it. I think everyone, but especially people who've achieved wealth and prominence and thus have real ability to effect change have a duty to try and make the world a better place, not just through charitable donations, but also through political engagement, and I'd say that even to people whose political views are contrary to my own.

My question relates to one of the big issues today, rising income inequality, and related to that, the campaign to raise the minimum wage, which has had some recent successes with some of the largest businesses in the country like Walmart and McDonald's. How concerned are you about income inequality? Do you think raising the minimum wage is a good idea? And do you think these efforts might meaningfully affect the profitability of corporate America?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. I think income inequality is, I think it's extraordinary in the United States to see how far we've gone. Well, just go back to my own case. Since I was born in 1930, the average GDP per capita in the United States has gone up six for one. Now, my parents thought they were living in a reasonably decent economy in 1930, and here their son has lived to where the average is six times what it was then. And if you'd asked them at that time, and they'd known that fact, that it would go from $8,000 or $9,000 in today's terms to $54,000, they would have said, well, everybody in America is going to be enjoying a terrific life, and clearly they're not.

So, I think it is a huge factor. There are a million causes for it, and I don't pretend to know all the answers, in terms of working towards solutions. But I do think that, everybody that is willing to work should have a reasonably decent livelihood in a country like the United States, and, how that is best achieved, I'm actually going to write something on it pretty soon.

I have nothing against raising the minimum wage, but to raise it to a level sufficient to really change things very much, I think would cost a whole lot of jobs. I mean, there are such things as supply and demand curves. And if you were to move it up dramatically, I think you would -- it's a form of price fixing. I think you would change the opportunities available to people very dramatically.

So I am much more of a believer in reforming and enlarging the earned income tax credit, which rewards people that work, but also takes care of those whose skills don't fit well into a market system. So I think you put your finger on a very big problem I don't think -- I don't have anything against raising the minimum wage, but I don't think you can do it in a significant enough way without creating a lot of distortions. Whereas, I do think the earned income tax credit makes a lot of sense, and I think it can be improved. There's a lot of fraud in it. It pays out this lump sum, so you get into these payday type loans against, I mean, there's -- a lot of improvements can be made in it. But I think the answer lies more in that particular policy than the minimum wage. And like I said, I think I'm going to write something on it pretty soon. And if there's anybody I haven't made mad yet I'll take care of it in the next one. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, you've just heard a Democrat speaking and here's a Republican who says I agree with him. I think if you raise the minimum wage a lot, it would be massively stupid and hurt the poor, and I think it would help the poor to make the earned income credit bigger.

A - Warren E. Buffett {BIO 1387055 <GO>}

Let's go to station one.

Q - Analyst

Hi. I'm Michael Monahan from Long Island, New York. Warren, Charlie, the higher education system has expanded, covering almost everyone who would like to receive a college education. This demand has translated into rising college costs. As a high school junior, I'm looking at prestigious institutions such as UPenn, Villanova, NYU, Fordham, and Boston University. On the other hand, my parents are experiencing sticker shock. All of these schools have a sticker price of over $60,000 with some students as shown in a businessinsider.com article, can pay over $70,000, as the case at NYU. How will the average American family be able to pay this in the future and, more importantly, how do you two feel about this?

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, the average American family does it by going to less expensive places and getting massive subsidies from the expensive places. If we had to give our college education to only people who could write cash checks for 60 or $70,000 a year, we wouldn't have that many college students. So most people are paying less or getting subsidies. And -- but I think it is a big problem, that education has just kept raising the price, raising the price, raising the price. And they say, but college educated people do better. It's a big bargain.

But maybe they do better because they were better to start with before they ever went to college, and they never tell you that.

A - Warren E. Buffett {BIO 1387055 <GO>}

It's a ridiculous argument. I think that's one of the silliest statistics that they publish, I mean, to say that a college education is worth X because people that go to college earn this much more than the ones that don't. You're talking about two different universes. And to attribute the entire difference to the one variable, that they went to college as opposed to the difference between the people who want to go to college and have the ability to get into college --

A - Charlie Munger {BIO 1406508 <GO>}

It's completely nutty

A - Warren E. Buffett {BIO 1387055 <GO>}

It's a fraud --

A - Charlie Munger {BIO 1406508 <GO>}

And about 70% of the people believe in it. So it gives you a certain hesitation about relying on your fellow man.

So I think most people have to struggle through with the system the way it is. There's a big tendency to have prices rise to what can be collected. And people just rationalize that the service is worth it. And I think a lot of that has happened in education, and, of course, a lot is taught in higher education that isn't very useful to the people who are learning it and, of course, a lot of those people would never learn much from anything.

So it's really wasting your time, and that's just the way it works. So I think there's a lot wrong.

What I noticed that was very interesting is that, when the Great Recession came, every successful university in America was horribly overstaffed and they all behaved just like 3G. They all, with a shortage of money, laid off a lot of people. And the net result was they all worked better when it was all over with the people gone. And so, this right-sizing is not all bad. I don't think there's a college in America that wants to go back to its old habits. And -- but you put your finger on -- it is a real problem to look as those sticker shocks. It's like any other problem in life. You figure out your best option and just live with it. We can't change Villanova or Fordham. They're going to do what they're going to do. And as long as it works, they'll keep raising the prices.

A - Warren E. Buffett {BIO 1387055 <GO>}

And it will keep working.

A - Charlie Munger {BIO 1406508 <GO>}

Yes. And that's pretty much the way the system works. When it really gets awful there's finally a rebellion. In my place in Los Angeles, the little traffic accident got so it cost too much to everybody because of so much fraud, and the chiropractors, and some of the plaintiffs' attorneys, and so on.

And finally, the little accidents were costing so much that they worried about the guy who lived in a tough neighborhood who couldn't afford to drive out to get a job. And the auto insurance companies thought, my God with prices going up like this, they'll have legislation creating state auto insurance or something.

So the net result is they put the plaintiffs' attorneys to trial in every case, and that fixed it. And maybe something like that will happen in higher education. But without some big incentive, I think higher education will just keep raising the prices.

A - Warren E. Buffett {BIO 1387055 <GO>}

On that cheerful note, we'll move to station two.

Q - Analyst

Thank you for taking my question. My name is Brendan Chin, I'm form Taipei, Taiwan. My question is, China is undergoing a number of structural changes. What do you -- when you take the pulse of the Chinese economy, what do you read and what advice would you give? Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie's the China expert. I think China's going to do very fine over a period of time.

A - Charlie Munger {BIO 1406508 <GO>}

Yes. I'm a big fan for what's happening in China. And as a matter of fact, I've just ordered -- prepared a bust of Lee Kuan Yew, the recently deceased ex-prime Minister of Singapore, because I think he's contributed so much to fixing, first Singapore, and then China. And one of the things Lee Kuan Yew did in China -- in Singapore was to stop the corruption, including cashiering some of his close friends.

And China is doing the same thing. And I consider it the smartest damn thing I've seen a big country do in a long, long time, and I think that to -- it's hard to set the proper example if the leading political rulers are kleptocrats. You don't want to be run by a den of thieves. You want responsible people. And what Lee Kuan Yew did is he paid the civil servants way better and recruited very good people. And he just created a better system and, of course, China is widely copying him. And it's a wonderful thing they're doing. So I'm very high on what's going on in China, and I think it's -- I think it's very likely to work. If you -- they've actually shot a few people. That really gets people's attention.

A - Warren E. Buffett {BIO 1387055 <GO>}

Now, we're starting to get some practical advice here. What has happened in China over the last 40 or so years, I mean, I -- it just strikes me as totally miraculous. I don't think -- I would not have believed that a country could move so far so -- a country of that size, particularly so far so fast. And it's --

A - Charlie Munger {BIO 1406508 <GO>}

It never happened before, in the history of the world, that a company so big had come so far. When I was a little boy, 80% of the population of China was illiterate and mired in subsistence poverty and agriculture. Now, just think -- and they've been through horrible wars and look at them. It's one of the most remarkable achievements in the history of the Earth. And a few people made an extreme contribution to it, including this Chinese politician in Singapore. And I give the Communist Party a lot of credit for copying Lee Kuan Yew. That's all Berkshire does is copy the right people.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. In 1790, the United States had 4 million people. China had 290 million people. They were just as smart as we were. They worked as hard, similar climate, similar soil. And for 200 -- close to 200 years, the United States went with those 4 million people to close to 25% of the world's GDP and China really didn't go anyplace. And then those same people, in 40 years, and they're not working harder now than they were 40 years ago -- they're not smarter now than they were 40 years ago in terms of the basic intelligence -- and just look at what's been accomplished.

I mean, it does show you the human potential when you find a system that unleashes it, and we found a system that unleashed human potential a couple hundred years ago, and they found a system that unleashed human potential 40 or 50 years ago. And when you see that example, it has to have a powerful effect on what happens in the future. And it's just amazing that you can have people go nowhere, basically in their lives for centuries and then just -- it explodes. And it just blows me away to see it, and you make it -- it's the same human beings, but they've -- they found a way to unlock their potential and I congratulate them for it.

And as Charlie said earlier, China and the United States are going to be the superpowers for as far as the eye can see. And it is really good for us, in my view, that the Chinese have found the way to unlock their potential. And I think it's imperative for two countries with nuclear weapons that, in this kind of world, that they figure out ways to see the virtues in each other rather than the flaws. We'll have plenty of disagreements with the Chinese, and they will with us, but remember that on balance, we're both better off if the other one is doing well. That's just my own view. Okay. Station three, please.

Q - Analyst

Hello, Mr.Buffett and Mr.Munger. My name is Chander Chawla, and I'm from San Francisco. Thank you for the last 50 years of sharing your wisdom and being an exemplar of integrity. Fifty years ago, when you were starting out or getting into new industries, how did you figure out the operational metrics for a new industry where you did not have previous experience?

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, we -- A, we didn't have it thought out that well, in a sense at that time. But we basically looked for companies where we thought we could understand what the future would look like five or 10 or 15 years hence. And that didn't mean we had to do it to four decimal places or anything of the sort, but we had to have a feel for it, and we had to know our limitations. So we stayed away from a lot of things.

And at that time, prices were different, so we -- in terms of knowing we were getting enough for our money, it was a much easier decision than it is currently. But it wasn't -- they weren't elaborate -- well, there were no planning sessions or anything of the sort. We just kept reading and we kept thinking and we kept looking at things that came along, as Charlie described it in the movie, and comparing Opportunity A with Opportunity B.

And in those days, we were capital constrained, so we usually had to sell something if we were going to buy something else. And that always makes for, that's the an interesting challenge, always, when you're measuring something you hold against something that has come along and to see which is more attractive. And we probably leaned very much toward things where we felt we were certain to get a decent result than where we were hopeful of getting a brilliant result. Went with our instincts, and kept putting one foot in front of the other.

Charlie, what would you say?

A - Charlie Munger {BIO 1406508 <GO>}

Well, that's exactly what we did, and it worked wonderfully well. And part of it is because we were such splendid people and worked so constructively, and part of it is we were a little lucky. We had some good fortune. Now, Warren says he was lucky to go to GEICO, but not every 20-year-old was going down to Washington, D.C., and knocking on the doors of empty buildings to try and find something out that he was curious about.

So we made some of our luck by being curious and seeking wisdom, and we certainly recommend that to anybody else. And there's nothing that produces wisdom more thoroughly than really getting your own nose whacked hard when you make a mistake, and we had a firm amount of that, didn't we?

A - Warren E. Buffett {BIO 1387055 <GO>}

We had plenty of them. If you read this book, you'll see about a few of them. We thought we knew the department store business in Baltimore and we thought we knew about the trading stamp business. We've had a lot of experience with bad businesses, and that makes you appreciate a good one. And to some extent, it sharpens your ability to make distinctions between good and bad ones. And we've had a lot of fun along the way. That helps too. If you're enjoying what you're doing, you're likely to get a better result than if you go to work with your teeth clenched every morning.

A - Charlie Munger {BIO 1406508 <GO>}

I think we were helped because we came from families where there was some admirable people, and we tended to identify other admirable people better than we would have coming from a different background. So, my deceased wife used to say, you can't accomplish much in one generation. We owe a considerable amount, both of us to the families we were raised in. I think the family standards helped us to identify the good people more easily than we would have if we'd had a more disadvantaged background. Do you agree with that, Warren?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Have you still got your father's briefcase?

A - Charlie Munger {BIO 1406508 <GO>}

I've still got it, but I don't know where it is. Can't carry it anymore. It's worn out. It's got holes in it.

A - Warren E. Buffett {BIO 1387055 <GO>}

I've got my dad's desk from 75 years ago. Okay. Station four.

Q - Analyst

Hi, Warren and Charlie. This is Cora and Dan Chen from Talguard in Los Angeles, and we're thrilled to be here again. Thank you for planting the seeds for which my generation can sit under the shade, and for my children's generation with The Secret Millionaires Club, so that they can sit under the shade. I walk amongst giants.

A - Warren E. Buffett {BIO 1387055 <GO>}

Go on. Go on.

Q - Analyst

That's all I have.

A - Warren E. Buffett {BIO 1387055 <GO>}

Don't hold back.

Q - Analyst

Seriously though, thank you so much for everything you've taught us. How were you able to persuade --

A - Warren E. Buffett {BIO 1387055 <GO>}

Thank you.

Q - Analyst

How were you able to persuade your early investors, all early on, besides your family and friends to overcome their doubts and fears and to believe in what you're doing? There's a lot of other asset classes out there, such as, a lot of people believe, real estate, bonds, gold. How were you able to get over that? And something I've been really dying to ask you --

A - Charlie Munger {BIO 1406508 <GO>}

We didn't do very well until we had a winning record.

Q - Analyst

Prior to the early winning record, how were you able to get them to buy into what you were trying to do? I mean, no one has ever done what you're doing, and no one has, still. And I've been really wanting to ask you, in the past, you said you're 90% Graham and 10% Fisher. Where does that percentage stand today? Thank you again from a grateful student of your teachings, and my children love what you do, too. They wrote you a letter.

A - Warren E. Buffett {BIO 1387055 <GO>}

Thank you. Thank you. A lot of it -- I started selling stocks here when I was 20 years old. I got out of Columbia. And although I was 20, I looked about 16 and I behaved like I was about 12. So I was not -- I did not make a huge impression selling stocks. I used to just walk around downtown and call on people, which is the way it was done, and then I went to work for Graham.

But when I came back, the people that joined me, actually -- one of my sisters, her husband, my father-in-law, my Aunt Alice, a guy I roomed with in college, and his mother, and I've skipped one -- but in any event, those people just had faith in me. And my father-in-law, who was a dean at the university -- what was then the University of Omaha, he gave me everything he had, and to quite an extent they all did.

And so it was -- they knew I'd done reasonably well by that time. That would have been 1956, so I'd been investing five or six years. And actually, I was in a position where when I left New York and came back to Omaha, I had about $175,000 and I was retired. So I guess they figured if I was retired at 26, I must be doing something right and they gave me their money.

And then it just unfolded after that. An ex-stockholder of Graham-Newman, the president of a college came out, Ben Graham was winding up his partnership for his fund and he recommended me. And then another fellow saw the announcement in the paper that we formed a partnership and he called me and he joined, and just one after another. And then, actually, a year or two later, a doctor family called and they were the ones that ended up with me meeting Charlie. So a lot of stuff just comes along if you just keep plodding along. But the record, later on, of the partnership attracted money, but initially it was much more just people that knew me and had faith in me. But these were small sums of money. We started with 105,000. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, of course that's the way you start, and -- but it's amazing. We've now watched a lot of other people start. And the people that have followed the old Graham-Newman path have one thing in common, they've all done pretty well. I can hardly think of anybody who hasn't done moderately --

A - Warren E. Buffett {BIO 1387055 <GO>}

Everybody did well, yes.

A - Charlie Munger {BIO 1406508 <GO>}

So, if you just avoid being a perfect idiot, and have a good character and just keep doing it day after day, it's amazing how it will work.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. It was accident, to a significant extent. If a few of those people hadn't have said to me, what should I buy? And I said, I'm not going to go back in the stock brokerage business, but I will -- we'll form a partnership and your fate will be the same as mine and I won't tell you what I'm doing. And they joined in, and it went from there. But it was not -- it was not planned out in the least at zero. I met Charlie, and he was practicing law, and I told him that was okay as a hobby, but it was a lousy business.

A - Charlie Munger {BIO 1406508 <GO>}

Fortunately, I listened. It took a while, however.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Okay. Station five. We've got --

Q - Analyst

Hi. My name is Arthur. I'm from Los Angeles. I want to thank you for having us in your hometown. And we've all been listening to your business prowess and all your successes. There's no question that you're good at business and finance and have fun doing it. But there are comments that you've made on income inequality, giving away 99% of your wealth, and I'm led to believe that you're motivated by more than just amassing wealth or financial gains. So, I'd like to speak to your value core and ask what matters to you most and why?

A - Warren E. Buffett {BIO 1387055 <GO>}

Charlie, what matters to you most?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I think that I had an unfortunate channeling device. I was better at figuring things out than I was at everything else. I was never going to succeed as a movie star, or as an athlete or as an actor, something, so -- and I, early got the idea that, partly from my family, my grandfather in particular, whose name I bore, had the same idea that really, your main duty is to become as rational as you could possibly be. I mean, rationality was just totally worshiped by Judge Munger, and my father and others.

And since I was good at that and no good at anything else, I was steered in something that worked well for me and -- but I do think rationality is a moral duty. That's the reason I like confucius. He had the same idea all those years ago. And I think Berkshire is sort of a temple of rationality. What's really admired around Berkshire is somebody who sees it the way it is. Wouldn't you agree with that, Warren? More than anything, more than --

A - Warren E. Buffett {BIO 1387055 <GO>}

You better see it the way it is -- you better see it the way it is.

A - Charlie Munger {BIO 1406508 <GO>}

See it the way it is. And so, that's the way I did it. But that goes beyond a technique for amassing wealth. To me that's a moral principle. I think if you have some easily removable ignorance and keep it, it's dishonorable. I don't think it's just a mistake or a lack of diligence. I think it's dishonorable to stay stupider than you have to be, and so that's my ethos. And I think you have to be generous because it's crazy not to be. We're a social animal, and we're tied to other people.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I would say -- this doesn't sound very noble, but the -- what matters to me most now, and probably has for some time, I mean, there are things that matter that you can't do anything about, I mean, in terms of health and the health of those around you and all that -- but actually, what matters to me most is that Berkshire does well.

Basically, I'm in a position where we've probably got a million or more people that are involved with us, and it just so happens that it's enormously enjoyable to me so I can rationalize it, the activity. But I would not be happy if Berkshire were doing poorly. That doesn't mean whether the stock goes down or whether, the economy has a bad year. But if I felt that we weren't building something every year that was better than what we had the year before, I would not be happy. And I get this enormous fun out of it, and I get to work with people I like and --

A - Charlie Munger {BIO 1406508 <GO>}

But that's very important. Truth of the matter is it's easy for somebody like Warren or me to lose a little of our own money, because it doesn't matter that much, but we hate losing somebody else's. It's -- and that's a very desirable attitude to have in a civilization. Don't you hate losing Berkshire money?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. That would be the only thing that would keep me up at night. Yes. We won't do it.

We can lose money on individual things, obviously. We can have bad years in the economy, and we can have years the stock market goes down a lot. That doesn't bother me in the least. What bothers me is if I do something that actually costs Berkshire in terms of its long-term value, and then I feel, I do not feel good about life on that day. But we can avoid most of that, fortunately. We do get to pick our spots. We're very fortunate with that.

A - Charlie Munger {BIO 1406508 <GO>}

Well, a good doctor doesn't like it when the patient dies on the table, either, you know. Not a new thought.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. Let's go to station six.

Q - Analyst

Hi, Mr.Buffett and Mr.Munger. My name is Petra Bergman, I'm from Stockholm, Sweden, in northern Europe. I work at something called EFN.SE. I wanted to ask you, from my point of view, what would be the answer to the most intelligent question I could ask you right now?

A - Charlie Munger {BIO 1406508 <GO>}

Everybody tries that question, and it would be wonderful if that would solve all your problems. But I don't think it's a very good question. Or perhaps I should say --

A - Warren E. Buffett {BIO 1387055 <GO>}

Let's phrase that differently, Charlie.

A - Charlie Munger {BIO 1406508 <GO>}

Well, what I mean is, you're asking too much of somebody when you -- you ask him to honestly say what is the most enlightening question he can answer.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. I get that asked by the students a lot. And I've had a lot of practice in hearing it asked, but I haven't had very much success in answering it. So I'll have to beg off on that one. How about seven?

Q - Analyst

Good afternoon, Warren and Charlie. Congrats on 50 years. My name is Jim and I'm from Brooklyn, New York. This is kind of a follow-on to a recent question. You both had success in investing, even before Berkshire Hathaway, as investors and as fund managers.

While it's well known you closely followed Graham's teachings, others, like Walter Schloss and his son also had success with similar teachings, yet different strategies. What would you cite as the most important reason for your early success with small amounts of capital, and given hindsight today, what might you have done to improve your strategy with these small funds?

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Well, I had a great teacher, I had exceptional focus, and I had the right sort of emotional qualities that would help me in being an investor. I enjoyed the game. You do give it all back in the end. It wouldn't make any difference if I, that was not the key thing. The game was enormously fun.

And I think Gene McCarthy said about football one time, it's just about, hard enough to be interesting but not so hard as to be beyond the capabilities of people understanding it, and that's kind of the way this game is. I mean, it's not like Henry Singleton, kind of questions he took on. It's actually a pretty easy game, and it does require a certain emotional stability. And I went at it hammer and tong. I went through the manuals and everything, but I was enjoying when I did it.

And, like I say, I started out -- between ages seven and about 19, I had that same enthusiasm, but I didn't really have any guiding principle. And then I ran into The Intelligent Investor and Ben Graham. And then at that point, I was able to take all this energy and everything, and enthusiasm for it, and now I had a philosophy that made a lot of sense -- total sense -- and I found that I could employ, and so the game became even more fun. But it wasn't really more complicated than that. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I don't have anything to add. I do think that, it's an easy game if somebody has the temperament for it and keeps at it because he's -- likes it and it's interesting interested in it. I have a problem that Warren has less of. I don't like being too much an example to people who want to get rich by being shrewd and buying and passively holding securities. I don't think that's enough of a life. If you wrest a fortune from life by being shrewder than other people and buying little pieces of paper, I don't think that's an adequate contribution in exchange for what you're taking. So, I like it when you're investing money for an endowment, or a pension fund, or your relatives, or something, but I never considered it enough of a life to merely be shrewd in picking stocks and passively holding them.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. Running Berkshire has been far, far more fun than running, in my case, multiple partnerships, or just an investment fund. I mean, that --

A - Charlie Munger {BIO 1406508 <GO>}

You'd be less of a man. If you'd run that partnership --

A - Warren E. Buffett {BIO 1387055 <GO>}

It would be a crazy way to go through life.

FINAL

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A - Charlie Munger {BIO 1406508 <GO>}

Yes.

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes. I mean, it just, Berkshire is incredibly more satisfying.

A - Charlie Munger {BIO 1406508 <GO>}

So if you're good at just investing your own money, I hope you'll morph into doing something more.

A - Warren E. Buffett {BIO 1387055 <GO>}

Okay. We'll do eight, and then we'll move onto the annual meeting.

Q - Analyst

My name is John Boxtose, I'm from South Dartmouth, Massachusetts. My question was regarding an interview that you gave, Mr.Buffett, several years ago. You made a very interesting point. It was about the old Wall Street Journal, if you will, the one before it was purchased by News Corp. You mentioned in the interview that Wall Street Journal, at some point in the past had very significant competitive advantages, but a number of them were largely unrealized. I was just wondering if you could elaborate on that, what the advantages were, how they were unrealized, et cetera. Thank you.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, Dow Jones, which owned the Wall Street Journal in the '60s and '70s, going into the era of the enormous spread of financial information -- and value of financial information, they basically, they owned the field. They had the news ticker and they had the Journal which, anybody interested in finance in the country identified with.

And they -- starting with that, in what would be an incredible growth industry, finance for the next 30 or 40 years they -- I forget a couple of those ventures they went into, and they bought a chain of small newspapers, I remember, one time -- and they just totally missed what was going to happen. You know, here comes Michael Bloomberg and, takes away financial information. They had such an advantage. And they didn't really see various areas that they could have pursued, which could have turned that company into something worth many hundreds of billions of dollars in all probability.

And they had a situation where a family owned it, and a lawyer essentially controlled the family's behavior, and they were sitting pretty. They were all getting dividends, but there was nobody there with any imagination as to what could be done in the financial field. So, starting with this position, they were a trusted name, they were in every brokerage firm in the country with a news ticker. I mean, I went to Walter Annenberg's house one time and he had the Dow Jones ticker there -- it just -- or the news ticker.

And it was -- they couldn't have been in a better place. They couldn't have started with a stronger position. They had a very good balance sheet. And they just let the world pass them by. Now, Rupert is changing it into a different newspaper. He's going into -- he's basically going into competition with the -- or he's gone into competition with the New York Times, so he -- but that's the game he likes. And it makes for a very interesting competitive situation. Charlie?

A - Charlie Munger {BIO 1406508 <GO>}

Well, they did end up with $6 billion or $7 billion, so they may have blown their opportunities, but they didn't destroy their fortune.

A - Warren E. Buffett {BIO 1387055 <GO>}

If you'd had the hand -- if Tom Murphy had had the hand --

A - Charlie Munger {BIO 1406508 <GO>}

Oh, yes.

A - Warren E. Buffett {BIO 1387055 <GO>}

It would have been in the hundreds of billions, wouldn't it?

A - Charlie Munger {BIO 1406508 <GO>}

Well, I don't know. I'm not sure if we had had that hand we would have --

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I'm not so sure. I'm talking about Murph. There were a lot of opportunities there.

A - Charlie Munger {BIO 1406508 <GO>}

Well, I think even Murph is more like us than he is like Bill Gates.

A - Warren E. Buffett {BIO 1387055 <GO>}

Well, I'm not sure where that goes, but --

A - Charlie Munger {BIO 1406508 <GO>}

Well, but I think it's hard to invent new -- entirely new modalities and so on.

A - Warren E. Buffett {BIO 1387055 <GO>}

I think Bill would have done well with Dow Jones, too.

A - Charlie Munger {BIO 1406508 <GO>}

Yes. He might --

A - Warren E. Buffett {BIO 1387055 <GO>}

Yes, I'd like to buy into that retroactively. Okay, 3:30 has arrived. We're going to go to the annual meeting in about five minutes. We've got a certain amount of formal business to take care of. And I thank you all for coming.

Let's reassemble and we'll conduct the business of the meeting. The meeting will now come to order. I'm Warren Buffett, Chairman of the Board of Directors of the company, and I welcome you to this 2015 Annual Meeting of Shareholders. This morning I introduced the Berkshire Hathaway directors that are present. Also with us today are partners in the firm of Deloitte & Touche, our auditors. They are available to respond to appropriate questions you might have concerning the firm's audit of the accounts of Berkshire.

Sharon Heck is secretary of Berkshire Hathaway, and she will make a written record of the proceedings. Becki Amick has been appointed inspector of elections at this meeting. She will certify to the count of votes cast in the election for directors and the motion to be voted at this meeting. The named proxy holders for this meeting are Walter Scott and Marc Hamburg.

Does the secretary have a report of the number of Berkshire shares outstanding, entitled to vote, and represented at the meeting?

A - Sharon Heck {BIO 19687453 <GO>}

Yes, I do. As indicated in the proxy statement that accompanied the notice of this meeting that was sent to all shareholders of record on March 5, 2015, the record date for this meeting, there were 824,920 shares of Class A Berkshire Hathaway common stock outstanding, with each share entitled to one vote on motions considered at the meeting, and 1,227,069,442 shares of Class B Berkshire Hathaway common stock outstanding, with each share entitled to one ten-thousandth of one vote on motions considered at the meeting. Of that number 592,750 Class A shares and 736,403,387 Class B shares are represented at this meeting by proxies returned through Thursday evening, April 30.

A - Warren E. Buffett {BIO 1387055 <GO>}

Thank you, Sharon. That number represents a quorum, and we will therefore directly proceed with the meeting. First order of business will be a reading of the minutes of the last meeting of shareholders. I recognize Mr.Walter Scott, who will place a motion before the meeting.

A - Walter Scott {BIO 1388841 <GO>}

I move that the reading of the minutes of the last meeting of shareholders be dispensed with and the minutes be approved.

A - Warren E. Buffett {BIO 1387055 <GO>}

Do I hear a second? I second the motion. The motion has been moved and seconded. Are there any comments or questions? We will vote on this motion by voice vote. All those in favor say Aye. Opposed? The motion is carried.

The next item of business is to elect directors. If a shareholder is present who did not send in a proxy or wishes to withdraw a proxy previously sent in, you may vote in person on the election of directors and other matters to be considered at this meeting. Please identify yourself to one of the meeting officials in the aisle so that you can receive a ballot. I recognize Mr.Walter Scott to place a motion before the meeting with respect to election of directors.

A - Walter Scott {BIO 1388841 <GO>}

I move that Warren Buffett, Charles Munger, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, Thomas Murphy, Ronald Olson, Walter Scott, and Meryl Witmer be elected as directors.

A - Warren E. Buffett {BIO 1387055 <GO>}

Is there a second? It has been moved and seconded that Warren Buffett, Charles Munger, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, Thomas Murphy, Ronald Olson, Walter Scott, and Meryl Witmer be elected as directors. Are there any other nominations? Is there any discussion? The nominations are ready to be acted upon. If are there any shareholders voting in person, they should now mark their ballot on the election of directors and deliver their ballot to one of the meeting officials in the aisles. Ms.Amick, when you are ready, you may give your report.

A - Becki Amick

My report is ready. The ballot of the proxy holders in response to proxies that were received through last Thursday evening cast not less than 657,744 votes for each nominee. That number far exceeds a majority of the number of the total votes of all Class A and Class B shares outstanding. The certification required by Delaware law of the precise count of the votes will be given to the secretary to be placed with the minutes of this meeting.

A - Warren E. Buffett {BIO 1387055 <GO>}

Thank you, Ms.Amick. Warren Buffett, Charles Munger, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, Thomas Murphy, Ronald Olson, Walter Scott, and Meryl Witmer have been elected as directors. Does anyone have any further business to come before this meeting before we adjourn? If not, I recognize Mr.Scott to place a motion before the moving.

A - Walter Scott {BIO 1388841 <GO>}

I move that this meeting be adjourned.

A - Warren E. Buffett {BIO 1387055 <GO>}

Second?

Q - Analyst

Seconded.

A - Warren E. Buffett {BIO 1387055 <GO>}

A motion to adjourn has been made and seconded. We will vote by voice. Is there any discussion? If not, all in favor say Aye.

Q - Analyst

Aye.

A - Warren E. Buffett {BIO 1387055 <GO>}

All opposed no, the meeting is adjourned. Thank you.