Annual General Meeting

Company Participants

- Becki Amick, Director Internal Audit
- Charles T. Munger, Vice Chairman
- Forrest N. Krutter, Secretary
- Ken Mass, President
- Unidentified Speaker
- Walter Scott, Executive Officer
- Warren E. Buffett, Chairman, President & Chief Executive Officer

Other Participants

- Analyst
- Andrew Ross Sorkin
- Becky Quick
- Carol J. Loomis
- Cliff Gallant
- Gary Ransom
- Glenn Tongue
- Hector Xu
- Jay Gelb
- John Norwood
- Stuart Kaye

Presentation

Warren E. Buffett {BIO 1387055 <GO>}

Good morning. I'm Warren. And then this hyperkinetic fellow is Charlie and we're going to conduct this pretty much as we have in the past. We'll take your questions, alternated among the media and analysts and the audience until 3:30 with a break around noon, for an hour. And then we'll have the regular meeting of the shareholders beginning at that time. Feel free to drift away and shop in the other room. We have a lot of things for you there.

We only have one scripted part of this meeting and See's candy has placed on all of the seats, a little packet. And what we'd like you to do, we're going to like -- we'd like to videotape, everyone eating their pop at the same time for posting on Facebook and for use by the media in today's meeting. So each of you will open up the lollipop. Now, first of all, you got to open, we like you to hold them up above your head. We're going to get a shot of 18,000. Again, here we come, and we'll get a few shots of that. We got it all, Maily. Okay, and now you can take off the cover and the good part comes and Charlie and I have -- we have fudge up here and we have peanut brittle and I said the meeting would run till 3:30. If we've consumed 10,000 calories each, we sometimes after the stop a little early at that point.

The only slide we have at this point is we did put out our earnings -- first quarter earnings yesterday. And in general, all of our companies are, with the exception of the ones in the residential construction business which was the case last year, and the case this year that all of the companies except those in that area, pretty much of shown good earnings. And in the case of the bigger ones, the five largest and non-reinsurance companies earned -- all had record earnings last year, aggregating of those five companies something over $9 billion pre-tax. And in the annual report I said, I thought they would -- the business didn't take a nosedive this year that they would earn over $10 billion pre-tax this year and certainly nothing we've seen so far would cause me to backtrack on that prediction.

The insurance -- if you read our 10-Q and turn to the insurance section, you will see that there was an accounting change mandated for all property casualty insurance companies, which rather technical, and I won't get in the details of it, change something that's called the deferred policy acquisition cost called DPAC. It has no effect on the operations at all on the cash, but it did change the earnings downward by about $250 million pre-tax for GEICO in the first quarter was, it's based on whether you defer some advertising. It has -- GEICO had a terrific first quarter, had a real profit margin of almost 9 percentage points and the flow through and everything good happened at GEICO in the first quarter, we had good growth. But we did make that accounting change, that accounting change also affects to a lesser degree, the second quarter and it may even trailed just a bit into the third.

But it -- the underlying figures are somewhat better than the figures that we've presented there. And so overall, we feel good about the first quarter. We feel good about the year. Maybe we should, even though we'll do it again at the meeting, but we should probably introduce the Directors. And I don't know whether the audience can see the people here. There's -- turn up the lights or something so they can. We'll start off, of course, with Charlie, Charlie Munger and then alphabetically if the -- Directors are just -- I was going to suggest that you withhold your applause until the end, but I know you sort of irresistible. So we'll make an excuse for him. For the remainder of the Directors if they stand and remain standing, and then you can applaud them at the end, if you will. We've got Howard Buffett, Stephen Burke, Susan Decker, Bill Gates, David Gottesman, Charlotte Guyman, Don Keough, Tom Murphy, Ron Olson and Walter Scott join here. Now, you can go wild.

Now we'll start with the questions and what we will do is we'll start over here with the media with one of them move to one of the analysts and then moved to one of the shareholders and we'll go by stations with the shareholders. And if we get -- Sometimes we've had as many as 60 or 62 questions, if we get to 54 at which point each person on the panel here, is had a shot at six questions. Then, from that point on we'll do nothing but the -- but from the shareholders from 54 on. So we'll see how that goes. And with that, we'll start off with Carol Loomis of Fortune Magazine.

Questions And Answers

Operator

(Question And Answer)

Q - Carol J. Loomis {BIO 7137249 <GO>}

Good morning. I'll make my mini speech, which the most important point, is that at either Warren or Charlie have an idea what we're going to ask. The other thing is that we received hundreds if not thousands of questions, we don't know the exact count. So we certainly couldn't use everyone, if we didn't use yours. We're sorry.

So for the first question, Warren. Two shareholders wrote me about the heavy responsibilities that will fall on your successor and his or her ability to deal with them. So I'll make this a two-part question. From Chris Ing, Mr.Buffett, you have stated that you believe the CEO of any large financial organization must be the Chief Risk Officer as well. So at Berkshire does the leading CEO candidate for successor as well as the backup candidates possess the necessary knowledge, experience and temperament to be the Chief Risk Officer. The related question is about the Goldman Sachs GE and Bank of America deals, all giving Berkshire warrants that you have a negotiated. Shareholder, Jack Cartier, ask whether these specific transactions could have been done with similar terms without your involvement. If not, what implications would that have for Berkshire's future returns?

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

Yes, I do believe that the CEO of any large -- particular financial related company and really should apply beyond that, but certainly with a financially related company should be the Chief Risk Officer. It's not something to be delegated. In fact, Charlie and I have seen that function delegated in very major institutions and the risk committee would come in and report every week or every month, and they report to the Directors and they have a lot of nice figures lined up and be able to talk in terms of how many sigmas were involved in everything. And the place was just right for real trouble.

So, I do -- I am the Chief Risk Officer at Berkshire. It's up to me to understand anything that could really hit us in any catastrophic way. My successor will have the same responsibility and we would not select anybody for that job that we did not think had that ability. It's a very important ability. It ranks right up there with allocation of capital and selection of managers for the operating units. It's not an impossible job. I mean, the basic risk could involve excessive leverage and then they could have involve excessive insurance risk. Now, we have people in charge of our insurance businesses that are themselves worry very much about the risk of their own unit. And therefore, the person at the top really has to understand whether those three or four people running the big insurance units are correctly assessing their risks and then also has to be able to aggregate and think how they accumulate delay over the units. That's where the real risk is, unless you're engaging in a lot of leverage at the --, in your financial structure, which isn't going to happen. Before I answer the second, Charlie, would you like to comment on that?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, not only was it this risk decision frequently delegated America, but it was delegated to people who are using a very silly way of judging risk of they've been taught in some of our leading business schools. So this is a very serious problem this man is raising. So-called value at risk and theories that outcomes and financial markets followed gaussian-curve invariably. It was one of the dumbest idea as I ever put forward.

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

He's not kidding either. We've seen an action. And the interesting thing is that we've seen in action with people that know better, that have very high IQs, that studied lots of mathematics. But it's so much easier to work with that curve, because everybody knows the properties of that curve, and can make calculations to eight places using that curve, but the only probability is that curve is not applicable to behavior in markets, and people find that out periodically.

The second question, but we're well equipped, Carol, to answer that question. We would not have anybody. We're not going to have an arch major in charge of Berkshire. The question about negotiated deal, there's no question, that partly through age, partly through the fact we've accumulated a lot of capital. No, partly fact that I know a lot more people than I used to know and partly because Berkshire can act with speed and finality that is really quite rare among large American corporations. We do get a chance occasionally to make large transactions, but that takes a willing party on the other side.

When we got in touch with Brian Moynihan at the Bank of America last year, I had grabbed up a deal which I thought made sense for us and I thought it made sense for the Bank of America under the circumstances that existed. But I never talked to Brian Moynihan before in my life. I had no real connection with the Bank of America. But when I talked to him, he knew that -- we met what we said so that if I said we would do $5 billion, I laid out the terms of the warrants, and I said we do it. And he knew that was good and that we had the money. And that ability to commit and have the other person know your commitment is good for very large sums and maybe complicated instruments is a big plus.

Berkshire will possess that subsequent to my departure. I don't think that every deal that I made would necessarily be makeable by our successor but they'll bring other talents as well. I mean I can tell you the successor that the Board has agreed on, is going to do a lot of things much, much better than I can do. So, if you give up a little on negotiated financial deals, you may gain a great deal just in terms of somebody's more energetic about going out and making transactions. And those deals have not been key to Berkshire.

If you look at what we did with General Electric and Goldman Sachs, for example, in those two deals in 2008, there were okay, but they are not remotely as important as maybe buying Coca-Cola stock, which was done in the market over a period six or eight months. We bought IBM over a period of six or eight months, last year, in the market. We bought all these businesses on are negotiated basis. So the values in Berkshire that have been accumulated by some special security transaction are really just peanuts compared to the values have been created by buying businesses, like GEICO, or Iscar, or BNSF maybe sort. It's not a key to Berkshire's future. But the ingredients that allowed us to do that will still be available and to some extent peculiar to Berkshire in terms of sizable deals. That somebody gets a call from most people may say, will give you $10 billion tomorrow morning and we'll have the lawyers working on it overnight and hear the terms and you there won't be any surprises, and they are inclined to -- believe it's a prank call or something sort of, with Berkshire and they believe it can get done. Charlie.

A - Charles T. Munger {BIO 1406508 <GO>}

Yes, in addition to a lot of the Berkshire Directors are terrific at risk analysis. Think of the keyword company succeeding as it has over decades in bid construction, work on oil platforms and tunnels and remote places and so on. That's not easy to do, most people will fail at that eventually and Walter Scott has presided over. That bit of risk control all his life and very routinely. And Sandy Godsman created one of my favorite risk control examples. One day he fired an associate, and the man said, how can you be firing me when I'm such an important producer. And Sandy said, yes, he says, I'm a rich old man and you make me nervous.

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

We do not have anybody around Berkshire makes us nervous.

Okay. Now, we go to our new panel, Cliff Gallant of KBW. We're getting the first question here from an analyst. I don't think that it's on

Q - Cliff Gallant {BIO 1854853 <GO>}

Can you hear me?

A - Charles T. Munger {BIO 1406508 <GO>}

Yeah.

Q - Cliff Gallant {BIO 1854853 <GO>}

Okay, sorry. Thank you again for the opportunity. The subject generally still is mortality. In your 2011 annual report, Berkshire disclosed that Berkshire Hathaway Reinsurance Group made changes in its assumptions for mortality risk, which resulted in a charge, specifically saying that mortality rates had exceeded assumptions in the Swiss re-contract. Conversely, in General Re's life Health segment, they reported lower than expected mortality. And I believe these trends continued into the first quarter that we saw in the report last night. What was the surprise in the Swiss Re contract? And is there a difference in basic assumptions and things like mortality rates among Berkshire's different businesses? In the property, casualty businesses for example, are the same assumptions and reserving philosophies applied company-wide?

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

Starting off with the Swiss Re example, we wrote a very, very large contract of reinsurance with Swiss Re I would say, around a year and a half ago now or thereabouts, and it applied to their business written I think in 2004 and earlier and they have a lot of business, it was

American business. And we started seeing -- we got reports quarterly and we started seeing mortality figures coming in quarterly that were considerably above our expectations and what looked like should be the case -- should have been the case looking at their earlier figures. So, at the end of last year, we have a stop loss arrangement on this. So, we set up a reserve that really reserves it to the worst case except we present value that. But, until we get -- until we figure out what can be done about that contract and we have some possibilities in that respect. We will keep that reserved at this worst case and so we took a charge for that amount. We do -- we are reinsuring Swiss Re and then they are re-insuring a bunch of American life insurers. And there is ability to re-price that business as we go along. But the degree to which we and Swiss Re might want to re-price that may be a subject of controversy, we'll see. So we just decided to put it up on a worst case basis.

Getting to the question of how GEICO reserves? How General Re reserves? There I would say that -- it's described to some extent in our annual report, but I would say that the one overriding principle is that we hope and our plan is to reserve conservatively. I mean, it's a lot different reserving in the auto business where on short tail lines, physical damage and property damage, you find out very quickly how you're doing. And if you look at GEICO's figures, we've had redundancies year after year after year. General Re was under reserved at the time we bought it and back in those 1999, 1998 years, those developed very badly; now, they've been developing favorably for some time. I think with Tad Montross, we've got a fellow that where I feel very good about the way he reserves but he is not. There's no coordination between him and Tony at GEICO nor with the G -- at Berkshire Hathaway Reinsurance. They all have I think the same mindset, but they don't -- they're three very different businesses. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, there was always going to be some contracts where the results are worse than we expected. Why wouldn't they buy our insurance if that weren't the case?

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

The -- it's interesting how -- I mean just take 9/11. It's very hard to reserve after something like 9/11 because to what extent is business interruption insurance. When you close the stock exchange for a few days, are you going to be able to collect on insurance? And when you close restaurants at airports 2,000 miles away because the airport's closed for few days, is that business interruption insurance? And I mean, there's a lot of questions come up. We turned out to be somewhat over reserved for 9/11 as it turned out. You've got the same situation going on in both Thailand and Japan, because as you know, the supply chain for many American companies was interrupted by the tsunami in Japan and the floods in Thailand. And if you're a car manufacturer in the United States and you aren't getting the parts, it does your business interruption insurance, cover the fact that there were floods for your supplier in Thailand or the tsunami hit in Japan and sometimes that stuff takes years and years to work out. On balance, I think you will find that our reserve generally developed favorably.

Okay. We go to the audience now up at post number one. And there he is.

Q - Analyst

Good morning, Mr.Chairman, Mr.Vice Chairman. My name is Andy Peak and I'm from Weston, Connecticut. In the past, you've made a few investments in China, PetroChina, in BYD to name two. Given the growing importance of China in the world, what advice would you give the new Chinese leadership and corporate CEOs such that you would make more investments in China? (Foreign Language)

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

Well, Charlie has made the most recent investment in China. So I'll let him handle that one.

A - Charles T. Munger {BIO 1406508 <GO>}

Yeah. We are not spending much time giving advice to China.

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

That's not because they're not hungry for our advice.

A - Charles T. Munger {BIO 1406508 <GO>}

If you stop to think about it, China has been doing very, very well from a very tough start. To some extent, we all seek advice there instead of giving. We have, I would say that we found it almost useless in 60 years of investing to give advice to anybody in business. We have found that we have a lot of control. It's kind of like controlling our peers by pushing on the noodle. It's amazing how little influence we've had when we've had 20% of the stock. People have this illusion of vast [ph] control of headquarters. The beauty of Berkshire is that we've created a system that doesn't require much control of the headquarters.

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

We -- if you look at our four largest investments, which are worth we'll say -- they're certainly worth $50 billion today, we've had some of them for 25 years, one of them -- another one for 20 years. The number of times that we have talked unless we were on the board which was at Coca-Cola, but the number of times we've talked to the CEO of those companies where we have $50 billion, I would say does not -- doesn't average more than twice a year and we are not in the business of giving them advice. If we thought that the success of our investment depended upon them following our advice, we go on to something else. (inaudible)

A - Unidentified Speaker

This question comes from a shareholder named Ben Nol [ph] and I got several different emails that were very similar to this one, but I'm choosing Ben's question. He writes that while pleased by your announcement to buyback stock at a 110% of book value, he feels like a bit of a chump for sometimes, having paid nearly 200% of book in the past few years. Since you've stated repeatedly that it's as bad to be overvalued as to be undervalued, why didn't you warn us previously when the price book relationship was very different? Or have you not felt that Berkshire was trading above intrinsic value over the last decade?

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

Yeah. We've written in the back of the report how we prefer to not to see our share sell at the highest possible price. I mean, we've got a whole different view on that than many managers. If we could have our way, we would have the stock trade once a year and Charlie and I would try to come up with a fair value for intrinsic business value and it would trade at that. That's incidentally what some private companies do, but you're not allowed that luxury in the public market and public markets do very strange things.

If Charlie and I think Berkshire is overvalued and that would be a very interesting proposition to have us announce half an hour before the market opens someday and I was suppose saying G [ph] , we think your sock is overpriced, I mean, and we would have to do that with every shareholder simultaneously and they would -- who knows how they would react. We have never -- I don't think certainly never consciously done anything to encourage people to buy our stock at a price we thought was above intrinsic value. The one time we sold stock under some pressure back in the mid-1990s when somebody was going to do something with the stock that we thought would be injurious to people, we created a stock and we thought the stock was a little bit on the high side then and we put on the cover of the prospectus, something I don't think has ever been seen, which is we said that neither Charlie nor I would buy the stock at the price nor would we recommend that our family did it.

And if you want a collector's item for a proxy for material -- offering material, get that because I don't think you'll see that one again. We think that if we are going to repurchase shares from people that we ought to let them know what that we think we're buying it too cheap. I mean, we wouldn't buy out if we had two or three partners and somebody wanted to sell out, but we probably try to arrive at a fair price. But if we didn't, if it was established by our market and they were going to sell too cheap, we tell them, we thought they were selling it too cheap. We are not selling -- we are not saying that 111%, we're using a 110%, or both 111% or 112% has intrinsic business value, we know it's significantly above 110% and I don't think we will ever announce because I don't see how we would do it. I don't think we'll ever announce that we think the stock is selling considerably above intrinsic business value, but we will certainly do nothing to indicate that we think the stock is attractively priced, if that comes about. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

I've had nothing to add.

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

Jay Gelb from Barclays.

Q - Jay Gelb {BIO 21247396 <GO>}

Thank you. My question is also on share buybacks. Warren, in last year's annual letter, you said not a dime of cash is left for Berkshire for dividends or share repurchases during the past 40 years. In 2011, Berkshire changed course and announced a share repurchase authorization. What I'd like to focus in on is, what is Berkshire's capacity for share buybacks based on continued strong earnings power? How attractive is deploying excess capital and share buybacks compared to acquisitions even above 1.1 times book value? And what are your latest thoughts on instituting a shareholder dividend?

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

Yeah. The 1.1 is a figure that we feel very comfortable with. So we would probably feel comfortable with the figure somewhat higher than that higher than that. But we want it to be dramatically or very significantly undervalued to do buybacks. And we want to be very sure that every shareholder themselves knows that we think that it's dramatically under or significantly undervalued when we do it. But we have a terrific group of businesses. The marketable securities that we only think are going to be worth more in the future, but we carry them at what they're selling for today. So they're not -- that's not an undervalued item in the balance sheet. But some of the businesses we own are worth far more money than we carry them. And we have no significant businesses worth any significant discount from the carrying value.

So we would -- from strictly a money-making viewpoint, we would love to buy billions and billions and billions of dollars worth of stock at -- and we'll move that up to tens of billions at 110% of book. I don't think it'll happen but it could happen. You never know what kind of markets you run into. And if we get the chance to do it, as long as we don't take our cash position below $20 billion, we will -- we would buy it very aggressively at that price. We know we're making significant money for remaining shareholders, the value per share goes up when we buy at 110% of book and therefore -- and it's so obvious to us that we would do it on a bigger scale, if given the chance to and if it did not take our cash position down below a level that leaves us comfortable. Charlie, anything?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, some people buy their own stock back regardless of price. That's not our system.

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

Well, we think it's -- we think a lot of the share repurchase are idiotic.

A - Charles T. Munger {BIO 1406508 <GO>}

Yes.

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

I mean, yeah, and -

A - Charles T. Munger {BIO 1406508 <GO>}

I was trying to say that more gently.

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

We've never done it before. They - it's, I mean it's for ego. I've been in a lot of boardrooms where share repurchase authorizations have been voted and I will guarantee you, it's not because the CEO is thinking the way we think at all. They like buying their stock better at higher prices, and they like issuing options at lower prices, it's just exactly the opposite of what we would think. We will only do it for one reason and that's the increase of per share value the day after we've done it. And if we get a chance to do that with both in a big way, we'll do in a big way. I don't -- strictly operating as a financial guy, I would hope we get a chance to do a lot, but operating as a fiduciary for hundreds of thousands of people, I don't want to see them.

A - Charles T. Munger {BIO 1406508 <GO>}

Yeah. We hope the opportunity never comes.

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

Yeah. But if it does, we'll grab it. Okay. Station 2 shareholder.

Q - Analyst

Hello, Ms - Hi, Mr.Buffett. My name is Bernhard Fura [ph] from Austria, Vienna. My question is about banks. What's your view on the European banks? What's your view on U.S. banks? And what must happen that you invest in European banks? Thank you.

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

Well, I have a decidedly different view on European banks and American Banks. The American banks are in a far, far, far better position than they were three or four years ago. They've taken most of the abnormal losses that existed or that were going to manifest themselves in their portfolios from what's now three and a half or four years ago. They buttress their capital in a very big way that they've got liquidity coming (inaudible) the bigger banks. The American banking system is in fine shape. The European banking system was gasping for air a few months back, which is why Mr.Draghi opened up his wallet at the ECB and came up with roughly EUR1 trillion of liquidity for those banks.

Now, EUR1 trillion is about $1.3 trillion and $1.3 trillion is about one-sixth of all the bank deposits in the United States I mean, it was a huge act by the European Central Bank and it was designed to replace funding that was running off from European banks. European banks had more wholesale funding than American banks on average. If you look at the Bank of America, Wells Fargo, they get an enormous amount of money from a natural customer base. European banks have tended to get much more of it on a wholesale basis and that money can run pretty fast. So the European banks need more capital. In many cases, they've done very little along that line. One Italian bank had a rights offering here three or four months ago.

But basically, they have not wanted to raise capital probably because they didn't like the prices at which they would have had to do so. And they were losing their funding base. The problem on the funding base has been solved by the ECB because ECB gave them some money for three years at 1%. I'd like to have a lot of money at three years at 1%, but I'm not in trouble, so I can't get it. But I just -- if you look at our banking system, it's really remarkable what's been accomplished. I thought at the time that the treasury and the Fed were maybe a little over doing it when they brought those bankers to Washington and banged their heads together and said, you're going to take this money whether you like it or not. But overall, I think that policy was very sound for this country's economy. And if some banks were forced to raise capital they didn't need, which I might not have liked as a shareholder of one of them, overall, I think that our society benefited enormously. I think the Fed and the treasury has handled things quite sensibly during the period. When if they hadn't handled this sensibly, that our world today would be a lot different. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Yeah. Europe has a lot of problems. We don't. We've got this full federal union and the country that runs the Central Bank and print its own money and pay off its own debts and so on. In Europe, they don't have a full federal union and that makes it very, very difficult to handle these stresses. So, we're more comfortable with the risk profile in the United States.

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

It's night and day. I mean that in the fall of 2008, when essentially Bernanke and Paulson and implicitly the President of the United State said we'll do whatever it takes. You knew that they had the power and the will to do whatever it took. But when you get 17 countries that have surrendered their sovereignty as far as their currency is concerned, you know you have this problem. Henry Kissinger said it a long time ago. He said if I want to dial -- if I want to call Europe, what number do I dial when you have 17 countries. And just imagine if we'd had 17 States in 2008 and we had had the governors of those States, I'll go to Washington and agree on a course of action. When money market funds were there, there was a panic in there, the panic in commercial paper, you name it, we would have had a different outcome. So I wouldn't -- I would put European banks and American banks in two very different categories. Andrew?

A - Unidentified Speaker

Thank you, Warren. This question comes from a shareholder who works at a coal mining company, and he asked the following. Burlington Northern and Mid-American are two key links in a critical supply chain. Can you describe your views on coal and natural gases investments? And can you discuss how the current low price environments impact the prospect for each of these businesses? You seem to have created an elegant hedge as Burlington Northern suffers from the decline in coal, Mid-American May benefit from the fire sale in its fuel sources.

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

Yeah. Well, Mid-American will never really benefit or be penalized too much by the price of coal because if coal is cheap, the benefit is going to be passed on to customers, and if it was expensive, the costs are going to be passed on. Mid-American really is a -- it's a regulated public utility. It has several -- we have two Mid-Americans, we have a Mid-American holding and the Mid American that operates an island. And we have utilities on the West Coast, but those utilities are passed through organizations. They need to be operated efficiently in order to achieve their rate of return. But if they are operated efficiently and in the public interest whether coal or labor or whatever it is may go up or down, really doesn't affect them although it affects their customers.

Coal traffic is important to all railroads in the United States and coal traffic is down this year. This may interest you. This year in the first quarter, kilowatt hours used in the United States went down 4%-- 4.7% and that is a remarkable decrease in electricity usage, 4.7% and that affected of course, the demand for coal. But the other thing that's happening is as you mentioned, natural gas got down under $2, is a little higher now, but it got done under $2 at the same time oil was $100. And if you told Charlie or me five years ago, that you'd have a 50:1 ratio between oil and natural gas, I don't -- I think we would have asked you what you were drinking. Did you ever think that was possible Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

No, I think what's happened -- happening now is to use your word, it's idiotic. We are using up a precious resource which we need to create fertilizer and so forth, and sparing a resource which is precious, but not as precious which is thermal coal. If I were running the United States, I would use up every ounce of thermal coal before I touch a drop of natural gas. But that's -- the conventional view is exactly the opposite. I think those natural gas reserves we just found are the most precious things we could leave our descendants. I'm in no hurry to use it up and the gas is worth more than the coal.

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

Despite the wild things we've seen in pricing, particularly this ratio of natural gas prices to oil, you can't change -- I mean the installed base is so huge when you get into electricity generation that you can't really change the percentages too much, although there has been a shift in recent months to where gas generation is feasible. It has supplanted some coal generation and certainly in the future, you're going to see a diminution in the percentage of electricity generated from coal-less country, but it won't be dramatic because it can't be dramatic, it just can't. The megawatts involved are just too huge to have some wholesale change. It's going to be very interesting to see how this whole gas-oil ratio plays out because it has changed everyone's thinking and it changed in a very short period of time. I mean, three years ago, people wouldn't have said this was possible.

A - Charles T. Munger {BIO 1406508 <GO>}

The conventional wisdom of the economics professors says it happens in a free market and must be okay and it'll work out best in the end. That is not my view with a 100% accuracy. I think there're exceptions to that idea. And I think it's crazy to use up natural gas at these prices.

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

Okay. Gary Ransom of Dowling.

Q - Gary Ransom {BIO 3446828 <GO>}

Telematics is the latest pricing technology in the auto insurance business whereby you put a little device in your car and you can either get a discount or some other determination of your pricing based on actual driving behavior. What is GEICO doing to keep pace with that change? And are there any other initiatives that GEICO has in place to maintain its competitive advantages in pricing?

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

Yeah. Well, progressively as you know, it's probably been the leader in what you just described and we have not done that at GEICO. But it's -- if we think there becomes a superior way to evaluate the likelihood of anybody having an accident, I think we have 50 -- I think you have to answer 51 questions, which is more than I would like if you go to our website and to get a quote, and every one of those is designed to evaluate that your propensity to get in an accident.

Obviously, if you could ride around in the car with somebody for six months you might run quite a bit about the propensity if they didn't know you were there like with your 16 year old son. The -- but I do not see that as being a major change, but if it becomes something that gives you better predictive value about the propensity of any given individual to have an accident, we will take it on and we will try to get rid of the things that don't really tell us that much all the time. We're always looking for more things that will tell us, if we look around at these people in this room, one by one, what tells us their likelihood of having an accident the next year.

We know that youth is for example, I mean there's no question that a 16 year old male is much more likely to have an accident than some guy like me that drives 3,500 miles a year and is not trying to impress a girl when he does it. So, that was pretty obvious. Some of these others - some things are very good predictors that when necessarily expect to be. Credit scores are but and they're not allowed in all places, but they will tell you a lot about driving habits. We will keep looking at anything, but I do not see any -- I don't see in this new experiment anything that threatens GEICO in any way. GEICO in the first quarter of the year -- now the first quarter is our best quarter, but we added a very significant number of policies, I forget what that exact number was.

And February turns out to be the best month for some reason, but we were up there getting pretty close to 300,000 policies. So our marketing is working extremely well and our risk selection is working extremely well and our retention is working well. So GEICO is quite a machine, that's one of the -- that's a business that we carry as I've mentioned in the past. I think we carry it at $1 billion roughly, a $1 billion over its tangible book value. It's worth a whole lot more than that. I mean, based on the price we paid, that figure would come up these days to certainly something more like $15 billion more than carrying value. And we wouldn't sell it there. We wouldn't sell it at all, but that would not tempt us in the least. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Nothing to add.

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

Okay. Station three.

Q - Analyst

Hi, Charlie and Warren. My name is Chris Reece. I'm here with a group of MBA students from the University of Virginia in Charlottesville. In recent years, business schools have taken a lot of blame for some of the recent state of the economy. What would you suggest to change the way that business leaders are trained in our country?

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

Well, I wouldn't -- I don't know Charlie, I wouldn't blame business schools particularly for most of the (inaudible). I think they've talked to students a lot of nonsense about investments, but I don't think that's been the cause of great societal problem. What do you think?

A - Charles T. Munger {BIO 1406508 <GO>}

No, but it was a considerable sin.

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

Well, you want to elaborate on what was the more sin?

A - Charles T. Munger {BIO 1406508 <GO>}

No, I think business school education is improving.

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

Is the implication from a low base or --?

A - Charles T. Munger {BIO 1406508 <GO>}

Yes.

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

I'd agree with that. In investing, I would say that probably the silliest stuff that we've seen taught at major business schools probably has been maybe it's because it's the area that we operate in, but has been in the investment area. I mean, it is astounding to me how the schools have focused on sort of one fad after another and in finance theory and usually been very mathematically based. When it's become very popular, it's almost impossible to resist if you're -- if you hope to make progress in faculty advancement going against the revealed wisdom of your elders can be very dangerous to your career path at major business schools and really investing is not that complicated.

I would have a couple of courses, I would have a course on how to value a business and I would have a course on how to think about markets. And I think if people grasped the basic principles in those two courses that they would be far better off than if they were exposed to a lot of things like modern portfolio theory or option pricing. I mean who needs option pricing to be in an investment business. And when people -- when Ray Kroc started McDonald's, I mean he was nothing but the option value of what the McDonald stock had been or something, he was thinking whether people would buy hamburgers and what would cause him to come in and how to make those fries different than other peoples and that sort of thing. It's totally drifted away the teaching of investments. I look at it -- I look at the books that are used sometimes and there's really nothing in there about valuing businesses and that's what investing is all about it. If you buy businesses for less than they're worth, you're going to make money. And if you know the difference between the businesses that you can value and the ones that you can't value, which is key, you're going to make money, but they've tried to make it a lot more difficult. And, of course, that's what the high priests in any particular arena do, they have to convince the lady that the priests have to be listened to. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, the (inaudible) creeps into the accounting duel, a very long-term option on a big business, you understand the stock of a big business that you understand or even a stock market index should not be -- the optimal way to price it is not by using black-scholes, and yet the accounting profession does that. They want some kind of a standardized solution that requires some not to think too hard and they have one.

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

Is there anybody we forgotten to offend, we'll send a note up. Carol?

A - Unidentified Speaker

Well, talking about not offending, talk of the Buffett rule is all over newspapers and TV, but I believe your concept of what should happen to taxation of very high earners is different from what is now promulgated as the Buffett rule. Could you clear us up on this? This is a question from Leo Slavesman [ph] from the Kansas City metropolitan area.

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

Yeah, I would say this, it has gotten used in different ways. I think intentionally in some cases because it was more fun to attack something that I hadn't said than tried to attack what I had said. Basically, the proposal is that people that make very large incomes pay a rate that is commensurate with what people think is paid by people with those incomes. I mean, I think most people believe when they look at the tax rates and all that if you're making $30 or $40 or $50 million dollars a year that you're probably paying tax rates in the 30% area at least.

And many people are, but the figures are such that if you look at the most recent year and you aggregate both payroll and income taxes because they both go to the federal government on your behalf, if you take the 400 largest incomes in the United States, they averaged $270 million each. That's per person, $270 million each. 131 of those 400 paid tax rates that were below 15%. Now counting payroll taxes too. And it was they were paying at less than what the standard payroll tax was up till we've had this give back here recently, but payroll tax was 15.3% for most of the last decade.

So under the Buffett rule, we would have a minimum tax only for these very, very high earners that essentially would restore their rate to what it used to be back in 1992 when the average income of the top 400 was only $45 million. There were only 16 out of the 400 that were at 15% or below but now there's 131. There's still plenty of them paying in the 30s, I wouldn't touch them. But I would say that when we're asking for shared sacrifice from the American public, when we're telling people that we formerly told, we're given promises on Social Security and Medicare and various things, and we're telling them we're sorry, but we kind of over-promised and we're going to cut back a little. I would at least make sure that the people with these huge incomes get taxed at a rate that is commensurate with the way they used to be taxed not that long ago and probably -- and is commensurate also with the way that two-thirds of the people in that area get taxed at higher rates. So, it's gotten butchered a little bit, but it would affect very, very, very few people. It would raise a lot of money.

A - Charles T. Munger {BIO 1406508 <GO>}

Warren, isn't the suggestion that you can give about half of 30% to charity instead of the government.

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

Well, but the tax rate is still after the charitable deduction. You have to give -- if you're going to give 50% and you get a deduction, it has to be all cash if you start giving appreciated securities. And that if you give to a private foundation, you're down to 20%. Yeah.

A - Charles T. Munger {BIO 1406508 <GO>}

But there is some exception in this proposal now, isn't it? Obama's proposal, that charitable contributions help you.

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

Well, there is a -- there's a bill I'll actually by a Senator at White House of Rhode Island, I mean, that is the only actual bill that was voted on and it did not get the vote, it got 51 votes in the Senate and needed 60. I can't tell you the exact precision on what it included there. I don't have any -- there're going to be all kinds of other ways of getting at the same proposition. I just think that people like me that have huge incomes and I have no and no tax planning. I don't have any gimmicks. I don't have Swiss bank accounts, I don't have any that kind of stuff. But when I get all through, I've done -- I made the calculation four different times -- three different times, 2004, 2006, and 2010, and in all three of those years, when my income was anywhere from $25 million to $65 million or so million, I came in with the lowest tax rate in our office and we had maybe 15 to 22 or so people in the office at different times during that. And everybody in the office was surprised, they were all in the 30s and I was several times in this area of 17% and that's because the tax law has gotten moved over the years in a way to favor people that make huge amounts of money. Imagine having $270 million of income and there were, I believe there were 31 of the 400 that were below 10% on tax rates and that counts payroll taxes as well.

And like I say, my cleaning lady, instead I've been asked to explain, I (inaudible) cleaning lady. Well, my wife wants it very clear, she doesn't have a cleaning lady. This is a cleaning lady at the office, Mary that I -- my wife has gotten (inaudible). She does not have a cook, she does not have a cleaning lady and she got a little tired of me implying that she had one. So, it's my cleaning lady at the office, has been paying 15.3% social security taxes at the same time that an appreciable number of people making 100s of millions of dollars a year are paying less than 10%, that I think it's time to take a look at that. Okay. Cliff?

Q - Cliff Gallant {BIO 1854853 <GO>}

Over the past two years, the world has witnessed number of surprisingly large financial losses from major catastrophes including earthquakes in Chile and Japan and New Zealand as well as floods in Thailand. Near term, what do you expect the impact on reinsurance pricing will be for catastrophe risk? And longer-term, does this trend of increased frequency of major catastrophes affect Berkshire's view on the global reinsurance business?

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

Yeah. It's very hard because the random nature of quakes and hurricanes and that sort of thing sort of thing, it's very hard to know when you really have had a trend. We've had that situation in global warming. I mean, there's been a godly warm here in the last few months, but few years ago, it was extremely cold and anything that moves as slowly as the things in affecting our globe, separating out the random from new trends is really, is not easy to do. We tend to sort of assume the worst. I mean, if we see more earthquakes in New Zealand have existed in the last few years and existed over the last 100 years, we don't say that will extrapolate the last couple of years and say that's going to be the case, this huge explosion of quakes. But we also don't take the 100-year figure anymore.

We have written -- in the last few months, we have written far more business in Asia, and by that I mean New Zealand, Australia, Japan, and Thailand, we've written quite a bit more, a lot more business than we wrote a year ago or two years ago, or three years ago because they've had some huge losses and they have found that the rates that they had been using were really inadequate and they are looking for large amounts of capacity in some cases. And we are there to do that if we think the rate's right, but nobody knows for sure what the right rate is. I mean, we can tell you how many 6.0 or greater quakes have happened in California in the last 100 years and how many category 3 hurricanes have hit both sides of Florida.

Whatever, there's all kinds of data available on that. But the question is, how much does it tell you about the next 50 years? And so, if we think we're getting a rate that if a fairly negative hypothesis would indicate, then we move ahead and we've done that in the Pacific. I don't know whether you know it, but if you -- last year, we have had two or three quakes in Christchurch in New Zealand, but I believe the second one caused like $12 billion of insured damage. And if you think of that in relationship of a country of 4 million or 5 million and you compare that to the kind of catch we've had in the United States, that's 10

Katrinas, there have been some really severe, and Thailand was the same way with the floods. It was -- the losses were just huge in respect to the entire premium volume in the country. So, when that happens, everybody re-evaluates the situation and we are perfectly willing to take on very big limits if we think we're getting the right price. We have we have propositions out for as much as $10 billion of coverage and we don't want that $10 billion to correlate with anything else and we want to be sure we get the right price. But and we may write some at some point. It's certainly, the market for cap business in some parts of the world is significantly better from our standpoint than it was a year or two ago, but that's not true every place. Okay, Station 4.

Q - Analyst

Good morning. Mr.Buffett, Mr.Munger. My name is Vernon Cushion. Barry and I asked this question on behalf of a group of investors that made the trip up from Overland Park, Kansas. Mid-American has a large investment in wind and solar power. What effect do subsidies and incentives have on that business? And could you share your thoughts on a sustainable energy policy? I gather, we should be conserving our natural gas. What is the most appropriate use of that resource?

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

Yeah. Well, I believe the on wind and we're much bigger on wind than solar although we've entered solar in the last six months or so, we got two solar projects that we own about a half of each one of them. But we've been doing wind for quite a while and I think the subsidy is $0.022 for 10 years per kilowatt-hour, and that's a federal subsidy and there's no question that makes wind projects in areas where the wind blows fairly often. That makes wind projects work whereas I wouldn't work without that subsidy, the math just wouldn't work out. So the government by putting in that $0.022 subsidy has encouraged a lot of wind development, and I think if there had been none, my guess is there would have been no, I don't think any of our projects would make sense without that subsidy.

In the case of solar, the projects we have got a commitment from Pacific Gas and Electric to a very long-term purchase commitment. How that ties in with their particular obligations or anything, I mean, there may be some subsidy involved in why they wish to buy it at the price they do from us. I'm sure there is, I don't know the specifics of it, but neither one of those projects, neither solar nor wind, and if Greg Able is here and wants to go over to a microphone, then correct me on. This would be the, but I don't think any solar wind would be working without subsidy. And of course, you can't count on wind for your base load. I mean, it's -- it works and it's clean, but if the wind isn't blowing, it does not mean that everybody wants to have their lights off. So, it's a supplementary type of generation, but it can't be part of your base generation. Charlie, do you have any thoughts on that? And Greg --

A - Charles T. Munger {BIO 1406508 <GO>}

We have Greg as well.

A - Unidentified Speaker

Go on Charlie.

A - Charles T. Munger {BIO 1406508 <GO>}

Well, of course, eventually, we're going to have to take a lot of power from these renewable sources and of course, we're going to have to help the process along with subsidies and I think it's very wise that's what the various governments are doing.

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

Yeah, you can say the future is subsidizing oil and natural gas now in a sense. Is Greg up there, if you have a -

A - Charles T. Munger {BIO 1406508 <GO>}

He needs a mic.

A - Unidentified Speaker

Zone 7.

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

Yeah.

A - Unidentified Speaker

Just to touch on both the wind projects and the solar one. You were exactly right. Obviously, the subsidy associated with the wind has allowed us to build now 3,000 megawatts across our two utilities. And you were absolutely correct, we would have not moved forward without that type of subsidy. On the solar, there's actually a couple other incentives that are in place. You get a very large incentive associated with constructing the assets. We get -- we recovered 30% of the construction costs as we build it. Significant advantage there relative to Berkshire being a full taxpayer where a lot of other entities in the U.S. are not or the corporate entities that are competing for those projects relative to ourselves often don't have the tax appetite for those type of assets. So we do benefit from the underlying tax structure. There's no question both in wind and in solar.

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

Greg said on a point that people don't or often don't understand about Berkshire. We have a distinct competitive advantage. It's not unique, but it's a distinct competitive advantage and that Berkshire pays lots of federal income tax. So when there are programs in the energy field, for example that involve tax credits, we can use them because we have a lot of taxes that we're going to pay and therefore we get a dollar for dollar benefit. I don't have the figures, but I would guess that perhaps 80% of the utilities in the United States cannot reap the full tax benefits or maybe any tax benefits from doing the things that we just talked about because they don't pay any federal income taxes. They've used bonus depreciation, which was enacted last year and that we get a 100% write off in the first year. They wipe out their taxable income. And if they wiped out their taxable income through such things as bonus depreciation, they do have -- they cannot have any appetite for wind projects that were they get a tax credit or in the solar arrangement. So by being part of Berkshire Hathaway, which is a huge tax payer, Mid-American has extra abilities to go do a lot of projects without worrying about whether they sort of exhausted their tax capacity. It's an advantage we have. Becky.

A - Unidentified Speaker

This question comes from John in Brunswick, Georgia. He says, you are clearly entitled to speak your mind on any and all subjects as an individual. But the recent publicity around the Buffett tax has become quite loud. And as a shareholder, I fear it is limiting to some degree the interest in the Berkshire stock on principle for some people. For instance, my 84 year old father is not interested in investing in Berkshire because of his opposition to this tax position. And otherwise, he likely would. While being a public company CEO, should some of the political dialogue be somewhat muted for the betterment of the company and its share price?

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

Yeah. That's a question that is raised frequently. But I really -- in the end, I don't think that any employee of Berkshire. I don't think that the CEOs of any of the companies that we own stock in should in any way have their citizenship restricted in. I mean, it's we did not - when Charlie and I took this job, we did not decide to put our citizenship in a blind trust and the people are perfectly willing. It's fine, if they disagree with us. I think it's kind of silly. I don't know the politics of necessarily of (inaudible) or Muhtar Kent or John Stumpf, I got a pretty good idea good idea with (inaudible) at one-time. But, they run these businesses in which we have 10 -- (inaudible) I mean we got $11 billion or $12 billion dollars with her. I don't know what her politics are and I don't know what her (inaudible). She's got all kinds of personal views I'm sure that probably are better than mine, but it doesn't make any difference. I just want to know how she runs the business and I really think that 83 or 84 year old man making a decision on what he invests in based on who he agrees with politically. And it sounds to me like you had own fox. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, I want to report that Warren's view on taxes for the rich has reduced my popularity around one of my country clubs.

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

(inaudible) in from hanging around the country club, I'm all for it.

A - Charles T. Munger {BIO 1406508 <GO>}

And it's a disadvantage I am willing to bear in order to participate in this enterprise, yeah.

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

Charlie and I, we don't disagree on as many things as you might think, but we certainly disagreed on some things over 53 years. It's never an -- we've never had an argument in 53 years. And maybe you can get one started here if you work on it. But yeah, it's just -- it's irrelevant. I mean, roughly half of the country is going to feel the one way in this

November and the other half's going to feel a different way. And if you start selecting your investments or your friends or your neighbors based on trying to get people that agree with you, totally are going to live with a pretty peculiar (inaudible). Okay, Jay.

Q - Jay Gelb {BIO 21247396 <GO>}

Warren, this question is on acquisitions. Would you consider an acquisition in excess of $20 billion? And if so, would it be funded in terms of existing cash as well as issuing debt and equity or perhaps even selling existing investments?

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

Yeah, we considered one here just a month or two ago, which we would have likened -- I wish we could have made it. There was about probably about $22 billion. I mean it gets -- above $20 billion, it gets to be more and more of a stretch particularly because we won't use our stock at all. We used stock in the Burlington Northern acquisition and we felt it was a mistake, but we were using it for what in effect turned out to be about 30% of the deal and we felt that we were doing well enough with the cash that overall that the mix was okay, but we would not use our stock now and we wouldn't even use it for 30 or 40% of some deal and it's hard to imagine. So we really have to --

A - Charles T. Munger {BIO 1406508 <GO>}

It's hard to imagine but conceivable, yeah.

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

It could happen, but I don't think it will happen.

A - Charles T. Munger {BIO 1406508 <GO>}

I don't either.

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

So we looked at this $22 billion or $23 billion deal and we would have done it if we could have made the deal, but it would have stretched us, but we would not have pushed it to the point where it would have taken our cash below $20 billion. We would have sold securities, we would have done whatever was necessary. They have a $20 billion cash balance when we got done with the deal, but I would have had to sell some securities I didn't want to sell. I liked the deal well enough, so I would have done it. Now, if that had been $40 billion, I don't think we -- no matter how well I liked it, I don't think, I would have wanted to peel off $25 billion or so of marketable securities trying to get it done. Certainly, wouldn't want to be in limbo, not knowing exactly where the money was going to come from and therefore, being subject to some terrible shock in the world in the market. If you have a $20 billion deal, though I've got an 800 number so. But you've actually sort of hit the point, where we start squirming a little bit as to where we wouldn't come up with the money. On the other hand, the money is building up month by month. So, we will -- if we can make the right $20 billion deal, we'll do it. And next year, if we haven't made a deal, I'll probably say if we can find the right $30 billion deal, we would do it. Okay, station 5.

Q - Analyst

Glen Molenaar, Westlake, Ohio. First of all, I want to thank you for having us here today, very nice. Warren, I'd like to have dinner with you tomorrow night at Gratz.

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

We'll have them bidding a glide here in June, it went for $2.6 million last year.

Q - Analyst

My question is about jobs coming back to the U.S. I noticed (Technical Difficulty) number of companies have started to bring jobs back here. Is Berkshire Hathaway looking at doing that for any job they've shipped out of the United States?

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

Well, I have to finish my fudge here. The (Technical Difficulty) -- I would say that of the 200 number of jobs we have listed in the back of the report, I think it's about 270,858 at year end. I'm just trying to think, we probably -- I don't think we have more than 15,000 on the outside of those 270 outside the United States. So as I put in the annual report, we invested in plant and equipment, not in stocks, but in plant and equipment, and not in acquisitions over $8 billion last year and 95% or so of that was in the United States. So we don't really have a lot around the world. I'm not opposed to it. I mean, our ISCAR operation which is based in Israel, operates throughout the world. I mean, they -- I've been to their plants in Japan, I've been to their plants in Korea, I've been to their plants in India, the product they sell is going to be sold throughout the world. The U.S. is an important market for them, (Technical Difficulty) but it's not a majority of their business or anything like it. So that company has about 11,000 employees or so and relatively few of theirs are going to be in the United States.

We'd like to do more business in the United States, but we'd like to do more business in Korea and Japan and India and you name it. We have utility operations in the UK, but other than -- we just bought a business in Australia at Marmon here recently. Well, we bought just last day or so it's been announced, we're buying for CTB, which we've had a terrific history with (inaudible) has been a great man to manage businesses and just in the last day or two, we bought an operation based in the Netherlands although they have employment here. But I would say that (Technical Difficulty) it's extremely likely that in 10 years from now when you look at the breakdown of our employees that we have, many, many more employees, maybe hundreds of thousands more employees and some of those will be outside this country, but most of them will be in the country, in this country. We find out there's lots of opportunity in the United States. There is no shortage of opportunity in that $8.2 billion or whatever was last year. We love putting that money out and we'll put out more this year. And this is -- I mean it's a real land of opportunity that's not the knock opportunities elsewhere. But we find lots of things to do that we think make a lot of sense in this country. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

You can't bring a lot back if it never left.

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

That's the long version of my answer. Andrew?

A - Unidentified Speaker

Well, Warren I should say I was not planning to ask you this question, but in the past hour I've received probably two dozen emails from shareholders in this room who want the question asked. So I will ask it, it's very simple question. How you're feeling?

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

I feel terrific. And I always feel terrific incidentally, that's not news. I love what I do, I work with people I love. It's more fun every day. And it basically -- I seem to have a good immune system, I mean, my diet is such that, as any fool can plainly see, that I'm eating properly. All I can say is it works and I have four doctors, at least a few of I think own Berkshire Hathaway, but without a screen I put everybody through. And my wife and my daughter and I listen to the four of them for an hour and a half about two weeks ago. And they described various alternatives and none of them are well not that -- the ones that they recommend do not involve a day of hospitalization. They don't require me to take a day off from work. The survival numbers are way up, where it's 99.5% for 10 years. So, maybe I'll get shot by a jealous husband, but (Technical Difficulty) this is not -- this is a really minor event and Charlie will tell you how minor it is.

A - Charles T. Munger {BIO 1406508 <GO>}

Well, as a matter of fact, I rather resent all this attention and sympathy Warren is getting. I probably have more prostate cancer than he does.

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

He's bragging.

A - Charles T. Munger {BIO 1406508 <GO>}

I don't, I don't know because I don't let them test for it.

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

He's not kidding.

A - Charles T. Munger {BIO 1406508 <GO>}

Anyway, I want the sympathy.

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

My secretary was getting too much attention. So I decided to throw the spotlight back on myself. In all seriousness, it is a non-event and the med center is about 2 minutes from the office and for two months, I'll have the drop over there every afternoon and it'll take a few minutes and I may have a little less energy, but I mean I'll do fewer dumb things, who knows. Okay, Gary.

A - Unidentified Speaker

Yes, your insurance your insurance operations have taken on a good chunk of some runoff property casually businesses. There is another business that has an increasing amount of runoff and that's the annuity business, Hartford ING, Cigna, et cetera. Is there a time or are there conditions under which, you might consider taking on some of those liabilities?

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

Sure. In effect, some of our business we're taking on some annuity. But not like I mean, it's generally classified as property, casualty. But we would take on annuity books. The problem is there, we're not going to assume anything much better than the risk-free rate and making a bid for that sort of thing. I mean, we do not like the idea of taking on long-term liabilities and paying 150 basis points above treasuries or something to do that and there are people that will do that. They may not be quite as likely to fulfill those promises in the years to come as we would. But we want to get money on the liability side and attractive rates. Now, the most attractive is that we can write property, casualty business and an underwriting profit and get it for nothing. But we're willing to pay for annuity type liabilities and I don't think it's impossible you'll see us do a little of that. We've done some in the UK, we've actually taken out little bit, but it's not huge, but we're going to take on more. Okay station 6.

Q - Analyst

Good morning, Warren and Charlie. Glad you're feeling well. My name is Ryan Boyle. And I'm 26 and working for a private equity firm in Chicago. If you were me and had the chance to start over, what areas would you love to get into? And do you think that my generation will have the same number of opportunities as yours? And if not, would you look to focus on emerging markets?

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

I think you have all kinds of opportunities. I would probably do very much what I have done in life, except I do a little -- I try and do it a little earlier and I would have tried to be a little bit better, when I was running a partnership in terms of aggregating the money faster. I used to work with $5,000, contributions from partners and I would try to develop an audited record of performances early as I could. I would try to attract some money and then when I'd build up a fair amount of money out of investing, I would try to get into something much more interesting, which would be buying businesses to keep. You mentioned private equity, which very often is buying businesses to sell, but I don't want to be buying and selling businesses. I mean, if I establish relationships with people that come to me with their business and they want to join Berkshire, I wanted to be for keeps and that's been enormously satisfying, but it takes some capital again into that business and I didn't have any capital when I started out. So I build it through managing money for myself and other people combined. And like I said, I would get us through that process as fast as I could, and then into the -- into a game where I could buy businesses of significance and interest to me, and I spend the rest of my life doing it just as I've done, Charlie.

A - Charles T. Munger {BIO 1406508 <GO>}

Well, I've got nothing to add to that either.

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

And I do it with Charlie incidentally. Carol?

Operator

This comes -- this question comes from man who believes the stock -- the Berkshire stock is being held down some by your talking about the Buffett rule. I know you've said you doubt that. But he suspects that at least 95% of the people in this arena believe that Berkshire Hathaway stock is undervalued. If you don't think it's the Buffett rule, could each of you give us your opinions about why the stock stays stuck at these levels?

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

We've run Berkshire now for 47 years. There have been several times - four or five times when we've thought it was significantly undervalued.

We saw the price get cut in half at least four times or roughly in half in fairly short periods of time. And I would say this, if you run any business for a long period of time, there could be times when it's overvalued and sometimes when it's undervalued. Tom Murphy ran one of the most successful companies, the world's ever seen and in the early 1970s. His stock was selling for about a third of what you could have sold the properties for and Berkshire back in 2000, 2001, whenever it was that I wrote in the annual report that we were also going to repurchase shares, was selling at what I thought it was a very low price. And we didn't get any repurchase, but that stocks -- the beauty of stocks is they do sell at silly prices from time to time. I mean that's how Charlie and I've gotten rich. Ben Graham writes about it in chapter 8 of the intelligent investor.

Next, were chapters 18 chapters 20 are really all you need to do to get rich in this world and chapter 8 says that in the market you're going to have a partner named Mr.Market, and the beauty of him as your partner is that he's kind of a psychotic drunk and he will do very weird things over time. And your job is to remember that he's there to serve you and not to advise you. And if you can keep that mental state, that all those thousands of prices that Mr.Market is offering you every day on every major business in the world practically, that he is making lots of mistakes and he makes them for all kinds of weird reasons. And all you have to do is occasionally oblige him when he offers either buy or sell from you at the same price on any given day, any given security. So, it's built into the system, that stocks get mispriced and Berkshire has been no exception to that. I think Berkshire generally speaking has come closer to selling around its intrinsic value over a 47-year period or so.

Then most large companies, if you look at the range from our high to low in a given year and compare that to the range high low on 100 other stocks, I think you'll find that our stock fluctuates somewhat less than most, which is a good sign. But I will tell you in the next 20 years, Berkshire will someday be significantly over valued, at some point significantly undervalued and that will be true for Coca-Cola and Wells Fargo and IBM and all of the other Securities that I just don't know at which order and at which times. But the important thing is that you make your decisions based on what you think the business is worth. If you make your buy and sell decisions based on what you think of business is worth and you stick with businesses that you think you got good reason to think you can value, you simply have to do well in stocks.

The stock market is the most obliging money-making place in the world because you don't have to do anything. You sit there with thousands of businesses being priced at the same price for the buyer and the seller and it changes every day and you've got lots of information about most of those businesses and you don't have to do anything. Compare that to any other investment alternative you've got. I mean, you can't do that with farms. If you own a farm and the guy has the farm next year and you kind of like to buy him out or something, he's not going to name a price every day at which he'll buy your farm or sell his farm. But you can do that with go with Berkshire Hathaway or IBM. It's a marvelous game and the rules are stacked in your favor if you don't turn those rules upside down and start behaving like the drunken psychotic instead of the guy that's there to take advantage of him. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, what's interesting about this place is that, I think we've had a lot more fun when we got rich enough, so we bought businesses and stocks to hold instead of to resell. It's an enormously more constructive life. So, as fast as you can work yourself into our position, the better off you'll be.

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

And you should be very encouraged by the fact, that he's only 88 and I'm only 81. Just think, it may take a little while. Cliff?

Q - Cliff Gallant {BIO 1854853 <GO>}

So I guess along those lines, you talk about the drunken market, have systemic fear risk -- or, systemic risk fears ever caused you to pause in your eagerness to buy equities? Back in 2008-2009, why weren't you more aggressive back then?

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

You'll probably find this interesting. Charlie and I, to my memory, in 53 years, I don't think we've ever had a discussion about buying a stock or a business or selling a stock or a business, that has been -- where we've talked about macro affairs. I mean, if we find a business that we think we understand and we like the price at which it's being offered, we buy it. And it doesn't make any difference, what the headlines are, it doesn't make any difference what the Federal Reserve is doing, it doesn't make any difference what's going on in Europe. We buy it. There's always going to be good and bad news out there. And which gets emphasized the most depends on the moods of people or newspaper editors or whomever and there's a ton of bad.

I bought my first stock in June of '42 and what had happened? We were losing the war and until the Battle of Midway. I mean -- so it was a country that all my older friends had gone disappeared. We weren't going to make any kinds of goods that were people wanted. We're going to build battleships and things to drop in the sea, and we were losing. But stocks were cheap and I wrote that article in October of 2008 in the Times. I should have written it a few months later, but in the end I said, we've just had a financial panic and it's going to fall over into the economy, and you're going to read all kinds of bad news. But so what, America is not going to go away and stocks are cheap. You got to -- we look to value and we don't look to headlines at all.

And we really don't -- everybody thinks that we sit around and talk about macro factors. We don't have any discussions about macro factor. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Yes. But we did keep liquid reserves at the bottom of the panic, that if we'd known it was not going to get any worse, we would have spent. But we didn't know that.

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

Yes. We know what we don't know and we all -- we know we don't want to go broke, I mean we start with that. And we know you can't go broke if you got a fair amount of liquid reserves around and you don't have any near-term debts and so on. So our first rule is always to play tomorrow and no matter what happens, but if we've got that covered and we can find things that are attractive, we buy.

Charlie has a little company called the Daily Journal company, and he sat there with a whole lot of cash and when 2008 came along, he went out and bought a few stocks; he won't tell me the names of them but -- and he -- that was the time to use the money, not to sit on it. Was that the name of the stock, Charlie?

You don't get anything out of them. Station 7?

Q - Analyst

Mr.Buffett and Mr.Munger, thank you for your inspiration and insight. When you look at the stable of businesses that Berkshire owns, which business has greatly improved its competitive position over the last five years and why? And then conversely, perhaps you might name a business that was not so lucky?

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

Yes. We don't like to dump on the ones that aren't -- that haven't done as well, but there's no question -- and fortunately, the big ones have done well. There's no question even though we didn't own all of it, that we actually have owned a significant piece of Burlington Northern over the last five. But the railroad business for very fundamental reasons, which I should have figured out earlier, has improved its position dramatically over the last, maybe 15 or 20 years, but it continues to this day. I mean it is an extremely efficient and environmentally friendly way of moving a whole lot of things that have to be moved. And it's an asset that couldn't be duplicated for, you name it three, four, five, six times, what it's selling for. So that it's a whole lot better business than it was 5 or 10 years ago.

Now, GEICO is a whole lot better business than it was 5 or 10 years ago. Although I think you could have predicted the chances were good that, that was going to happen. But, we have -- we're approaching 10% of the market now and you go back to 1995, we had 2% of the market. We had the ingredients in place to become much larger, and then fortunately, we had Tony Nicely who absolutely maximized what was there to be done. And GEICO's worth billions and billions and billions of dollars more than when we bought it.

And the Burlington is worth considerable billions more than when we bought it, even thought it was recently. MidAmerican has done a great job. We bought that stock at $34 or so a share in 1999 and I think we appraise it now at around $250 a share and that's in the utility business.

So ISCAR has been wonderful since we bought it. We bought that six years ago, and they just don't stop, they do everything well. And I would not want to compete with them. So we've -- there are a number of them.

A - Charles T. Munger {BIO 1406508 <GO>}

More than 80% or so of our businesses by value, at least increased their market strength.

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

Yes. By value I would say more than 80%.

A - Charles T. Munger {BIO 1406508 <GO>}

More than 80%, yes.

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

But not by number, but by value.

A - Charles T. Munger {BIO 1406508 <GO>}

By value, we're not suffering at all. We're never going to get the rate to 100%.

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

And the mistakes that have been made in the purchasing. I mean, it's where I misgauged the competitive position of the business. It isn't because of the faults of management. It's because I just -- either because I had too much money around or because I was been drinking too much Cherry Coke or whatever it was. I assessed the future competitive position in a way that was really inappropriate. But it wasn't because it really changed on me so much. And we've done some of that.

But the big ones have worked out very well. Gen Re which took like real problems for some years. I mean Tad is running a fabulous operation there. Ajit has created something from nothing that's worth tens of billions of dollars and he created that out of walking into the office in 1985 and entering the insurance business for the first time, but he just brought brains and energy and character to something and we backed him with some money and he's created a business like nobody, I've never seen. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

We've been very fortunate and what's interesting is the good fortune it's not going to go away merely because Warren happens to die. I won't help him but --

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

You'll have an explanation of that in the second half of this. Becky?

Q - Becky Quick {BIO 16400962 <GO>}

This question comes from Joel Bannister[ph] in Dallas, Texas, who says, "Warren, you personally run the derivative book. Who will manage these weapons of mass destruction after your tenure? We don't want to end up like AIG under someone else's watch." And he also adds, "P.S. I am wearing the wedding ring you sold to my wife last year at the annual meeting at Borsheims."

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

Well, obviously a man of intelligence. Yes, I don't think there'll be much of a derivatives book after -- in fact, there won't be much of a derivatives book while I am around. I mean, it's not that big a deal, but there will be -- there could well be -- well, I'll go back to there will be because it's almost required in certain of our utility operations that they engage in certain types of derivative activities. The utility boards that they respond to want them to hedge out certain types of activities, and then they engage in swaps of generation. There are number of activities that -- there's some derivatives that fit into doing that, but it's not of a huge scope.

The railroad formerly hedged diesel fuel, for example. They may do that in the future or they may not. I mean that was it. So there's a few operating businesses that will have minor positions. I don't think that, I think it's unlikely that whoever follows me, well, there'll be several investment guys that follow me, at least two and they're on board now. Todd Combs and Ted Weschler. We hit a home run with both of them. We got better than we deserve, but Charlie and I like that and they -- it's unlikely they do anything -- very unlikely they do anything in derivatives, although I wouldn't restrict them from doing it because they're smart people and sometimes derivatives get mispriced. So -- but it's not going to be a huge factor at Berkshire.

I think we're going to do really probably quite well with the derivative positions that we have. We've done fine with the ones that have expired so far, and I like the positions, but the rules have changed in relation to collateralizing, and I don't like ever exposing us to anything that would cause me to worry about Berkshire's financial condition if the Federal Reserve were hit by a nuclear bomb tomorrow or anything of the sort or Europe, something terrible happened. We just -- we think about worst cases all the time around Berkshire. Charlie and I probably think about worst cases more than any two managers you'll ever find and we are never going to expose ourselves to a worst case. And a requirement to collateralize things means that you are putting yourself in a position, where you may have to come up with some cash tomorrow morning. And we're never going to do that on any significant scale, because we don't know what tomorrow morning will bring. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

We wouldn't have the derivatives that bothered some people. We never would have entered if we'd had to sign normal contracts. We had better credits than anybody else and we got better terms, and I think by the time that has all run off, we will have made at least $10 billion, maybe a lot more. In other words, we're going to be very lucky we did those contracts.

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

Jay?

Q - Jay Gelb {BIO 21247396 <GO>}

Warren, when you discuss Berkshire's intrinsic value, why do you value the insurance business at only cash plus investments per share? And what's a reasonable multiple to apply to the pre-tax earnings of the non-insurance businesses?

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

Well, I would -- I don't value the insurance business quite the way you said. I would value GEICO, for example, differently than I would value Gen Re. And I would value even some of our minor companies differently, but basically I would say that GEICO is worth as an intrinsic value, that's greater -- significantly greater than the sum of its net worth and its float. Now, I wouldn't say that about some of our other insurance businesses, but that's for two reasons. One is, I think it's quite rational to assume a significant underwriting profit at GEICO over the next decade or two decades. And I think it's likely that it will have significant growth and both of those are value items of enormous value.

So, that adds to the present float value, but I can't say that about some other businesses. But in any event, what you come up with your own valuation on that. In terms of the operating business, obviously different ones have different characteristics, but I would love to buy a new bunch of operating businesses that had similar competitive positions and everything. Under today's conditions I would love to buy those at, certainly 9x pre-tax earnings, maybe 10x pre-tax earnings. I am not talking about EBITDA or anything like that, which is nonsense, but I'm talking about regular pre-tax earnings.

If they have similar characteristics, we'd probably play a little more now because we know so much more about them than we might know about some other businesses. What would you say, Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

When you use the word EBITDA, I thought to myself, I don't even like hearing the word. It is so much nutcase thinking involving EBITDA, earnings before what really counts in costs.

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

We prefer EBE which is earnings before everything.

A - Charles T. Munger {BIO 1406508 <GO>}

Right.

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

It's nonsense. And I mean, if you compare a business that leases pencils or something like that where they all get depreciated in a two-year period and then compare that to some businesses that uses virtually no capital, like See's Candies, it's just nonsense, but it works for the people to sell businesses. It's like Charlie's friend that used to sell fishing flies, right?

A - Charles T. Munger {BIO 1406508 <GO>}

Right. They don't sell these lures to fish.

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

Station 8.

Q - Analyst

Hi. Thanks. Neil Steinhoff[ph] from Phoenix. Thanks for holding the meeting today. You mentioned a while ago that you're concerned about you and Charlie exposing yourself. Well, I for one am glad that you're not doing that. Since 1999, the Berkshire Hathaway stock has -- we have not gone up appreciably, whereas gold has gone up multiple times. I don't own your stock for the glamour. I own it to earn money. What happened?

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

Well, I would say this that when we took over Berkshire, gold was at $20 and Berkshire was at $15. So gold is now at $1600 and Berkshire is at $120,000. So you can pick different starting periods. Obviously, if you pick anything, it's gone up a lot in the last month or year. I mean, it will beat 90% of -- or, 95% of other investments. But the one thing I would bet my life on essentially is over a 50-year period, not only will Berkshire do considerably better than gold, but common stocks as a group will do better than gold and probably farmland will do better than gold. I mean, if you own an ounce of gold now and you caress it for the next 100 years, you'll have an ounce of gold 100 years from now. If you own a 100 acres of farmland, you'll also have a 100 acres of farmland 100 years from now and you'll have taken the crops for 100 years and sold them and presumably bought more farmland in the process.

It is very hard for an unproductive investment to be productive investments over any long period of time and I recognize that -- it's very interesting. I can say, bonds are no good and Bernanke still smiles at me. And I can -- or, I can say some stock is no good and people -- but if you say anything negative about gold, I mean it arouses passions with people which is kind of fascinating because usually if you thought through something intellectually, it should really make much difference what people say, it should be that. The question is whether your facts are right and your reasoning is right. But when you run into people that are really excited about gold, and I came from a family where my dad loved gold and he was tolerant, he could take a discussion of it. I find many people have trouble with it. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, I have never had the slightest interest in owning gold. It's a much better life to work with businesses and people engaged in business. I can't imagine a worse crowd to deal with than a bunch of gold bugs.

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

Andrew?

Q - Andrew Ross Sorkin {BIO 6340618 <GO>}

We got a couple of questions on this topic. "You said in an interview on CNBC that you had bought shares in JPMorgan for your personal account. Can you explain how you decide to make a personal investment versus one in your role as a fiduciary for us as shareholders of Berkshire? And while you're at it, could you please share some names of stocks you've recently bought for your own account?"

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

The truth is, I like Wells Fargo better than I like JPMorgan, but I also -- and we bought -- we're buying Wells Fargo stock, and that takes me out of the business of buying Wells Fargo. So therefore, I go into something that I don't like quite as well, but that I still like very much. And that's one of the problems I have is that, I can't be buying what Berkshire is buying and I've got some money around and therefore, I go into my second choices or into tiny little companies, like I did with Korean companies and that sort of thing. But my best ideas are all in Berkshire, that I can promise you. Charlie? Charlie bought real estate too and different things to avoid that problem.

A - Charles T. Munger {BIO 1406508 <GO>}

Yes. But basically, the Munger family is in two or three things only. Diversification is my idea -- something I have practically no interest in, except as it happens automatically in a big place like Berkshire. I rejoiced the day I got rid of a quote -- stock quoting machine and I like this buy-and-hold investing. It's a lovely way to live a life and you deal with a better class of people and it's worked pretty well for all of us. So -- and I don't think you need to worry about Warren's side investments. His investments in Berkshire are so huge and those are so small relevantly, that if that's your main problem in life, you have a very favored life.

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

Well, if you have 98.5% of your money in Berkshire and you really are trying to do your thinking about what's best for the 1.5%, you're a little bit crazy. You should be thinking about Berkshire which I could assure you I do, but there could be --

And he does like Wells Fargo better than JPMorgan.

Yes, I do. Yes. And we have 400 and some million shares of Wells Fargo in Berkshire and I think -- I like JPMorgan fine obviously. But I know Wells better, it's easier to understand. So what -- we bought Wells Fargo in the first quarter, we bought Wells Fargo last year, we bought an awful a lot of years. And if I wasn't managing Berkshire, but instead was sitting with my own money, I'd have a lot of money at Wells Fargo and I probably have some money in JPMorgan, too. Garry?

Q - Gary Ransom {BIO 3446828 <GO>}

When Berkshire bought BNSF, it raised the surplus of the property casualty industry by about 4%. It's unusual to have a property-casualty company own such a large non-operating company. I'd also characterize your whole organization chart is challenging, a lot of different pieces to it which gives the rise to the issue of capital efficiency. And I'm just wondering are there any parts of your organization structure that have any hindrance, whether it's regulatory or otherwise to making use of the capital in the best way generally and in particular for BNSF?

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

Yes. Well, I would say that money in our life companies has less utility to us. I'd rather have $100 million in our property and casualty companies and $100 million in our life companies because we're more restricted as to what we can do with the money in the life company. So -- and we've got a fair amount of money in life companies and that money cannot be used as effectively over a period of years in my view, as money we have in the property casualty business. It's a disadvantage to being in the life business versus the PC business. And the best place, obviously the number one place that where we like to have money is in the holding company and we've got about $10 billion in the holding company right now, that you have the ultimate flexibility with.

Most of our operating businesses keep more cash around than they need, but it's there. And as long as I have $20 billion in some place, I feel comfortable. We'll never have anything that can come up remotely, that would cause me to lose any sleep, as long as I start with the $20 billion. That's probably considerably more than we need, but it just leaves us comfortable and it makes us feel we can do other things aggressively as long as we know the downside is protected.

The -- having the railroad in National Indemnity was just something we thought was nice to have a huge asset like that there that should make the rating agencies and everyone feel comfortable and there's no disadvantage to us.

Very interesting, the rating agencies -- at least one rating agency said, they didn't want to give us any credit for that asset in there, although if we had 20% like we had earlier, they would have given us full credit for the market value. I didn't push them too hard on that. But there's a fair amount of logic. I think to where things are placed, if we were to make a big acquisition, it might require shifting some funds from one place to another, but we will always leave every place more than adequately capitalized. And if you can figure out a way that I could use the life funds more, like I can use the property casualty funds, call me, I got an 800 number.

A - Charles T. Munger {BIO 1406508 <GO>}

Well, two things are peculiar about that casualty operation. One is that it has so much more capital in relation to insurance premiums than anybody else. And the other is that it has among the assets in that great surplus of capital, is something like the Burlington Northern Railroad, which makes it immensely stronger from the viewpoint of the policyholder. It's a huge advantage you're talking about, not a disadvantage.

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

Yes. Here's a property casualty company that has an asset that's unrelated to insurance will probably make $5 billion pre-tax or more. So, if we're writing -- well, in that entity we're writing less than that. But let's say we're writing $25 billion of premiums, that means we can write at 120 and just our insurance -- just our railroad operation will bring us to the underwriting neutrality. I mean, it's a terrific. It's like having a royalty or something that --

A - Charles T. Munger {BIO 1406508 <GO>}

It's a wonderful position we had.

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

And nobody else has it.

A - Charles T. Munger {BIO 1406508 <GO>}

And nobody else has it and they wouldn't let us do it if we weren't so strong.

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

Station 9.

Q - Analyst

Yes. John Horton, Water Street Capital, Jacksonville, Florida. "Since Berkshire will likely need to offer a stock component for very large acquisitions like Burlington Northern, wouldn't Berkshire of lower its cash outlay by increasing the price of its stock to near here fair value perhaps by offering a 2% to 3% dividend or a promise percentage of cash earnings? Might this have the effect of actually lowering the cash outlay needed for such active positions? As 30-year shareholders with almost $1 billion of exposure, we like this approach. Thank you.?

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

Yes. We would obviously prefer to have our stock sell at exactly intrinsic business value, even though we don't know that precise figure. But Charlie and I would have a range that would not differ too widely and if it's over the intrinsic business value and we could use it as part of the consideration for buying something else that intrinsic business value, and then use cash for the balance, we would like that situation and that's very likely to occur in the future. It's occurred in the past. Berkshire without paying a dividend is sold probably at or above intrinsic value as much of the time in the last 35 or so years as it has below. I mean, it'll bob and I do not think a dividend would be a plus in terms of having itself at intrinsic value most of the time I think that might be just the opposite.

I mean, here we are. We're willing to pay in a $1.10 on the $1 for what's in there. So, the idea of paying out money, which we think is worth at least $1.10 on the $1 within the place and I would turn into $1.00 on the $1 when paid out. Just does not appear attractive to us, unless we find we can't do things in the future that makes sense. But our goal and we put it in the annual report. Our goal is to have the stock sell at as close to intrinsic business value as it can. But with markets -- the way markets operating, most of the time it will be bobbing up or down from that level and we've seen that now for 40-plus years and we've tried to, at least in a way point out what we think is going on. And if it ever -- and it will. I mean, when it trades at intrinsic business value or higher and there may be times when we will use it.

We'd still prefer using cash though. Cash is our favorite medium of purchase, just because we're going to generate a lot of it. And we hate giving out shares. We do not like the idea of trading away of See's Candies or GEICO or ISCAR or BNSF. The idea of leaving you with a lower percentage interest in those companies because of any acquisition, ambitions of ours is anathema to us. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

What he suggested is a very conventional approach. And we think it's better for the shareholders to do it the way we're doing it.

I should point out, I'm in the position giving away all of my stock between now and 10 years after my death when my estate is settled. But I'm giving away every year. It will do more good in terms of its philanthropic consequences. If it's at a higher price than lower price, I mean there's nobody here that has more of an interest in the stock selling at what I'll call a fair value as opposed to a discounted value than I do, because I know I'm not a seller but I'm disposing of the stock. And I would rather have it by X quantity of vaccines than 80% of X. So it isn't like we've got some great desire to have the stock sell cheap. If it does sell cheap, we'll buy it in, but our interest is really in having it seller at more or less the fair value. And we think that if we perform reasonably well in terms of running the business and if we tell the truth about the business and explain to a selected group of shareholders who are interested in that aspect of investing that over time, it will average that and that's happened over the years. But it doesn't happen every year.

If people get excited enough about internet stocks, they are going to forget about Berkshire. When they get disillusioned with internet stocks, then I'm going back 10 or 12 years on that. But that -- there've been times when people have gotten very excited about Berkshire and there's times when they've gotten very depressed. Charlie, anything?

Okay. Carol?

Q - Carol J. Loomis {BIO 7137249 <GO>}

This question comes from Kevin Getnowsky[ph] of Yutan, Nebraska. And to it, I've added one question at the end which came from another shareholder writing about the same subject. "You have described the newspaper business in the past this chopping down trees, buying expensive printing presses, and having a fleet of delivery trucks all to get pieces of paper to people to read about what happened yesterday. You constantly mention the importance of future intrinsic value and evaluating a business or company. With all of the new options available in today's social media and the speculation of the demise of the newspaper media, why buy the Omaha World-Herald?" Was there some -- this is the question from the other one. "Was there some self-indulgence in this?"

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

No. I would say this about newspapers. It's really fascinating because everything she read is true, and it's even worse than that. The newspapers have three problems, two of which are very difficult to overcome and one if they don't over -- the third if they don't overcome it, they're going to have even worse problems, but maybe can be overcome.

Newspapers -- news is what you don't know that you want to know. I mean everybody in this room has a whole bunch of things that they want to keep informed on. And if you go back 50 years, the newspaper contained dozens and dozens and dozens of areas of interest to people where it was the primary source. If you wanted to rent an apartment, you could learn more about renting in apartments by looking at a newspaper than going anyplace else. If you wanted a job, you could learn more about that job. If you want to know where bananas were selling the cheapest this weekend, you can find it out. If you want to know how your -- what's -- whether Stan Musial went 2 for 4 or 3 for 4 last night, you went to the newspapers. If you want to look at what your stocks were selling at, you went to the newspapers.

Now, all of those things which are of interest to many, many, many people have now found other means -- they found other venues where that information is available on a more timely, often cost-free basis. So newspapers have to be primary about something of interest to a significant percentage of the people that live within their distribution area. And there were so many areas, where they were primarily 30 or 40 years ago that you could buy a newspaper and only use a small portion of it and it still was a valuable to you. But now, you don't use a newspaper to look for stock prices. You get them instantly off the computer. You don't need -- you don't look for the newspapers for apartments to rent in many cases or jobs to find or the price of bananas or what happened in the NFL yesterday.

So, they've lost primacy in all of these areas that were important. They still are primary in a great many areas. The World-Harold tells me every day a lot of things that I want to know, that I can't find someplace else. They don't tell me as many things as they did 20 or 30 or 40 years ago that I want to know, but they still tell me some things that I can't find out elsewhere. Most of those items, overwhelmingly those items are going to be local. They're not going to tell me a lot about Afghanistan or something of the sort that I want to know, but I don't know. I'm going to get that through other medium, but they do tell me a lot of things about my city, about local sports, about my neighbors, about a lot of things that I want to know. And as long as they stay primary in that arena, they've got an item of interest to me.

Now the problem they have is, they are expensive to distribute as the questioner mentioned. And then, the second problem is, that throughout this country, we have 1700 newspaper -- daily newspapers. We have about 1400 now. The -- in great many cases, they are going up on the web and giving free the same thing that they're charging for and delivery. Now I don't know of any business plan that has sustained itself for a long time. Maybe you can think of -- maybe Charlie can think of one, but that has charged significantly in one version and offers the same version free to people, that had a business model that would work over time. And lately, in the last year even, many newspapers have experimented with and to some extent succeeded in those experiments, in getting paid for what they were giving away on the net that otherwise, they were trying to charge for in terms of delivery.

I think there is a future for newspapers that exists in an area where there's a sense of community where people actually care about their schools and they care about what's going on in the given geographic area. I think there's a market for that. It's not as bulletproof at all as the old method when you had 50 different reasons to subscribe to the newspaper. But I think if you're in a community where most people have a sense of community and you don't give away the product and you cover that local area and telling people about things that are of concern to them and doing that better than other people, whether it be high school sports, I've always use the example of obituaries. I mean people still get their obituaries in the newspaper. It is very hard to go to the internet and get obituaries, but I'm interested in Omaha and knowing who's getting married or dying or having children or getting divorced or whatever it may be.

If I lived -- when I lived in White Plains, New York, I really wasn't that interested in it. I did not feel the sense of community there. So we have bought -- and we own a paper in Buffalo, where there's a strong sense of community and we make reasonable money in Buffalo. It's declined and we have to have an internet presence there where people have to pay to come on. We have to develop that, but I think that the -- I think the economics based on the prices we paid and we may buy more newspapers, I think the economics will work out okay. It's nothing like the old days, but it still fulfills an important function. It's not going to come back and tell you what your -- and tell you that on Wednesday, what stock prices closed out on Tuesday and have you rush to the paper to find out. It's not going to tell you what happened in basketball last night, when you've gone to ESPN.com and found out about it. But it will tell you a whole lot about what's going on, if you're interested in your local institutions and we own papers in towns where people have strong local interest. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, we had a similar situation years ago, when World Book's encyclopedia business was about 80% destroyed by Bill Gates. He gave away a free computer with every bit of software.

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

We charged $5, I think Charlie.

A - Charles T. Munger {BIO 1406508 <GO>}

And well, whatever it was. But we are still selling encyclopedias and we still make a reasonable profit, but not nearly as much as we used to. Some of these newspapers we hope will be the same kind of investments. But they're not going to be our great lollapaloozas.

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

The prices were -- well, I want to -- we actually may be doing more in newspapers, and we will be going where there's a strong sense of community. But if you live in Grand Island, Nebraska, where we have a paper, or North Platte, and your children live there and your parents probably live there, your church is there, you are going to be quite interested in a lot of things that are going on in North Platte, and in the state of Nebraska, that you won't find readily on television or the internet. And you'll be willing to pay something for it and advertisers will find it a good way to talk to you, but it won't be like the old days. Cliff?

Q - Cliff Gallant {BIO 1854853 <GO>}

Thank you. Just on that general topic. It is true that in the past, some of your investments have been greatly affected by technology in newspapers or World Book. Are there other businesses where you're concerned about technology affecting them, for example, Amazon or online grocery stores? Could they affect business indirectly, like McLane?

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

Amazon's a tough one to figure. I mean, Amazon, it could affect a lot of businesses that don't think they're going to be affected today in the retailing area. It's huge. It's a powerhouse. I don't think it's going to affect the Nebraska Furniture Mart, but I think it could affect some of the other retailing operations that we have. It won't affect the Nebraska Furniture Mart.

I should report to you that in the first four days, Tuesday, Wednesday, Thursday and Friday of this week, our business at the furniture mart is up about 11% over last year. So you people are doing your part there. We had a -- on Tuesday, we did over $6 million of business. Now those of you are in the retailing business thinking about a Tuesday and $6 million plus of volume, we will do more probably tomorrow -- today. But those are huge, huge volumes and we're going to go to Dallas in a couple of years. We got a 433 acre plot of ground down there. And I think we're going to have a store that will make any records we've set in the past look like nothing.

Going back to Amazon now in terms -- GEICO was very affected by the internet. And at first we missed that. I mean, GEICO has got an interesting history. It was mail originally, if you go back in the late '30s and early '40s and it was very successful. And then it moved, not leaving cable -- mail totally behind, but it moved to television big time. And then the internet came along and I thought originally that only young people would look for quotes on the internet and that -- I mean, I never would have done that. I would have been calling on rotary dial phone and saying -- when they said, number please first, to get my quote on GEICO forever, but it just changed dramatically to the internet.

So, things do change very significantly and if the consumer finds something that they like to do better in some new way, and Amazon has been an incredible success. It's very hard to find people who have done business with Amazon that are unhappy about the transaction. They have happy customers and business that has millions and millions of happy customers can introduce them to new items, and then -- and it will be a powerhouse. And I think it could affect a lot of businesses. It's hard for me to figure out.

A - Charles T. Munger {BIO 1406508 <GO>}

I think it's almost sure to hurt a lot of businesses a lot.

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

Which ones you think it'll hurt the most, Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, anything that can be easily bought by using a home computer or an iPad, for that matter.

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

Which of our businesses you think are going to get hurt?

A - Charles T. Munger {BIO 1406508 <GO>}

I won't be buying the stuff because I'm a habit bound. Besides I almost never buy anything, but I think it will hugely affect a lot of people. I think it's terrible for most retailers; not slightly terrible, really terrible.

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

Well, with that cheerful assessment, we will go to the station 10.

Q - Hector Xu {BIO 21797568 <GO>}

Hi. This is Hector from Aegon Industrial Fund Management Company in China. My question is, you mentioned acquiring insurance float with zero or even negative cost is one of the key competitive advantages of Berkshire Hathaway. And we also found that the average leverage of Berkshire always about 100%. I guess the net asset growth will significantly decline without using that leverage. Therefore, to own an insurance company or acquire insurance float will be an important strategy if institutions want to copy Berkshire business model. Would you please give me a comment?

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

Charlie, I didn't get a lot, so you --

A - Charles T. Munger {BIO 1406508 <GO>}

I didn't get it all either. But we have a very peculiar model and it works very well for us. I think it's very hard for other people to get the same result.

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

Yes. I think it's almost impossible at the size. I mean, it's taken a long, long time to get here. It's taking a great amount of consistency and that consistency has been allowed because basically, we've had a controlling shareholder during that time. So we've not had to bow to any of the urgings of Wall Street or whatever maybe the fad of the day. We have had a culture that where we could write out 13 or 14 principles more than 30 years ago, and we've been able to stick with them. And that's very hard to do for most American corporations. And I think it's very hard to do when managers come and go and they have small shareholdings. I think it takes a very unusual structure to be able to do it.

And it took a long time to get to the point where people with large private businesses in this country who really cared about where those businesses were lodged after they give up their stewardship. Took a long time to have it get so that a great many of those people would think of Berkshire first. And the nice thing about it is, if they think of Berkshire first, they don't think of anybody second. So we get the call. We don't do well buying businesses at auction. I mean, if somebody's only interest is to get the top price for their business, seldom we'll get one. We did buy one at auction, I mean but it was an add-on with the Dutch company we bought yesterday, we bought at auction. But that sometimes happens with our smaller acquisitions, but the big private acquisitions are going to come to Berkshire because they want to come to Berkshire. And that's a significant competitive edge and I don't see how anybody really challenges on that.

A - Charles T. Munger {BIO 1406508 <GO>}

Well, not only do I think other people would have a hard time copying it effectively. I think if Warren went back to being 30 years of age with a modest amount of capital and not much else, he'd have a hell of a time doing it again, too.

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

I'd like to try. Okay. Becky?

Q - Becky Quick {BIO 16400962 <GO>}

This question comes from David Schermerhorn[ph] in Boulder, Colorado. And he writes that, "Berkshire Hathaway has several substantial investments in other publicly traded companies. As a shareholder, Berkshire is entitled to annually cast votes on matters such as election of directors, advisory vote on executive compensation, approval of stock option plans and so forth. So could you tell us what goes into your thinking and decisions with respect to how you vote our shares in these companies?"

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

Yes. We virtually never have voted against management, but we've done it a couple of times. There have been ---

A - Charles T. Munger {BIO 1406508 <GO>}

Yes, in 50 years.

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

Yes. There have been a couple of times when we thought on the question of stock option expensing, when that was put on about and if we, there may have been a particularly egregious option grant or something we might have voted against, but our general feeling is that when we're a large shareholder of the company that we certainly generally like the business, we generally like the management. We realize that they're not going to subscribe to our views 100% and in many cases 90% or 80%. Doesn't mean we think they're bad people or anything. They just -- they have a different -- they're sort of judging by behavior elsewhere and they're perfectly decent people. But they don't think about things exactly the same way we do. But that doesn't rule out owning a big piece of the business, and we are not in the business of trying to change people. We don't try and change people when we buy the entire business. We think it's like marrying somebody to change them. It just doesn't work very well.

A - Charles T. Munger {BIO 1406508 <GO>}

Doesn't work very well with children either.

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

And we know we don't want anybody to marry us to change us. So I mean, we're not going to do it. We accept people the way they come pretty much. Doesn't mean we decide we'll associate with anyone, but we don't expect everybody to be clones of us. And if we were to see a particularly dumb merger and particularly egregious stock option plan, we might vote against it. It would pass anyway. We wouldn't conduct a campaign against it, but we have seen a few of our companies engage in some, what we thought were really dumb deals. And we've usually been right, but we couldn't stop them, but we have -- I think we have voted against maybe one or two of them. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, I think you said it all.

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

Okay. Jay?

Q - Jay Gelb {BIO 21247396 <GO>}

This question is on Berkshire's commercial insurance operations. Berkshire has a smaller presence in primary commercial lines insurance compared to its much larger reinsurance and auto insurance businesses. Under what circumstances would Berkshire be open to increasing the scale of its primary commercial insurance operations including acquisitions?

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

Yes. We thought we could either expand internally, which would be tough, or buy a great company in the commercial field, which would -- that would be the more likely way. We do it. Now we got a chance, I don't know, six or seven years ago to get in the medical malpractice field when GE wanted out and we bought that and then we added to that with our Princeton Insurance acquisition last year. So we did get a chance to go and do a first-class company with a first-class manager in Tim Kenesey about six or seven years ago and we jumped at it and GE was just getting out of the insurance business.

So, it's hard to think of very many commercial insurance companies that I would get excited about, very few. There might be a couple. And we'd like the business. I mean, they're very few personal lines companies we'd like, but we love GEICO obviously. They're very few reinsurance companies we would like, but we love the ones we've got. And if we can find -- we could find a quality company in commercial lines, and presumably it would have quality management, we'd buy that in an instant. We've got nothing against that business. Station 11?

Q - Analyst

Mr.Munger and Mr.Buffett, this is Whitney Tilson[ph] . I'm a shareholder from New York. I have a question for Debbie. I'm just kidding. I applaud the fact that you've --

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

She's in the President's box.

Q - Analyst

I applaud the fact that you've set a price above which you won't buy back your stock, but it seems based on the trading of the stock since the announcement that while it may have put a floor on the stock. It also may have put a ceiling on it slightly above 1.1x book value. If so, this is obviously contrary to your desire to have the stock trade close to intrinsic value which you've said is far higher than 1.1x book. Have you considered being a little more flexible in the price at which you'd buy back your stock depending on how well your business is going? And what other opportunities are available? For example, I would have much preferred if you bought back $3.4 billion of your own stock at 1.15x book value last quarter rather than the stocks you bought of other companies?

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

Yes, so would I. But the -- I'm afraid, I don't think it puts the ceiling on. But I do think it certainly has an effect on the floor. It doesn't make a floor. I mean, you and I have seen enough of markets to know that, if things get chaotic or anything like that, floors disappear. So I think there could be circumstances under which we would buy a lot of stock but I don't think they're highly likely at all.

I think if we are at $115, and believe me $115 would not be a crazy price. I don't think we'd probably buy a lot more stock. It might have the effect of the stock selling a little above that or even a lot of it just like $110, we can do the same thing. I do think it signals to a lot of people that they don't have much to lose if they buy it just slightly above the price we've named and perhaps they've got a lot to gain. But I don't think it -- I don't think it sets a ceiling, Whitney. When people feel differently in markets, it could sell at a much different price.

If I thought we would buy a whole lot more stock at a slightly higher price, I would probably adjust the price but I don't think that's the case. I think it would just cause everybody to think. I can buy it at this little higher price and have very little to lose, just like they may very well think now. But you get into any kind of a chaotic market and we will have chaotic markets in the future, and we might buy a lot of stock. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, I got nothing to add to that either.

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

Okay. We'll just have one or two more and then we'll break. Andrew?

Q - Andrew Ross Sorkin {BIO 6340618 <GO>}

Okay. This question comes from a shareholder named David Kaz[ph] of Maryland. He says, "One of Berkshire's largest investments in recent years has been Walmart. Has your opinion of this company changed as a result of the Mexican bribery scandal?

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

No. I think they made -- it looks -- if you read the New York Times story in that there's always another side to it, but it looks like they may well have made a mistake in how that was handled, but I do not think it and it may well result in a significant fine, but I don't think it changes the fundamental dynamic. I mean, Walmart does operate on low gross margins, which means it offers low prices and that works in retailing and a lot of other things they do work in retailing. So I do not see -- I mean, it's a huge diversion of management time and it's costly and a whole bunch of things. But I don't think the earning power of Walmart, five years from now will be materially affected by the outcome of the situation. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, these are interesting issues. I'm unaware of any place where Berkshire is slipping on this, but we have so many employees that it's not inconceivable, we could have some slippies somewhere. And as big as Walmart, you're going to have an occasional glitch. I don't think there's something fundamentally dishonorable about Walmart.

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

When you have something as big as Berkshire, you're going to have an occasional glitch. I mean, we have 270,000 people today interacting with customers and government officials and vendors and all kinds of people. I will guarantee you somebody's doing something wrong. In fact, I would guarantee you at least, probably 20 people are doing something wrong. You can't have a city of 270,000 people and not have something going on, and we can talk until we're blue in the face about what people should do and not do.

But people don't get messages sometimes the same way that you give them, where layers removed from people operating and others and a lot of people just do crazy things.

So it is a -- I mean, it is a real worry. If you're running a business like this, that you don't worry about the fact somebody's doing something wrong, because there is going to be somebody doing something wrong. What you worry about is that it's material and nothing gets done about it and that you act fast, if you hear about something and we've got hot lines and we've got all communications and everything. But that does not stop the fact that right now, somebody is doing something wrong at Berkshire and if we get twice as large someday, we'll have more people and we try to convey to the managers that, when they find out about something, act on it, immediately let us know. We can handle bad news as long as we get it promptly. But I'm very sympathetic to anybody running hundreds of thousands of people, to the problems of the ones that -- sometimes they don't even think they're doing something wrong.

I mean, you get 270,000 people together, maybe even a crowd this size, they'll have some very peculiar people.

Okay. We're at noon roughly. I made this bet four years ago with a group at the Protege Partners about the S&P versus -- or, an index fund versus five funds of funds. And I told them at the time, I'd put up the results every year. And as you can see, I can't see it from here, but the first year it was huge down here. And as you might expect just like us, we beat the S&P a lot in the down here. And the last three years, the S&P has beaten them, but we're still a tiny bit behind the hedge funds at the end of four years. There's six years to go. You might find it interesting, we each bought a zero-coupon 10-year bond so that there would be $1 million to go to the charity of selected by either them, or by me, depending on who won the bet.

And that zero-coupon bond has performed magnificently, much better than Berkshire. So we should have bought nothing but zero-coupon bonds. But the zero coupon bond because interest rates are so low, and was practically selling at par. So, we have petitioned the stakeholder in this case and I don't think we've heard yet. But to let us sell the zero-coupon bond and put the money in Berkshire, and I'll guarantee him that it will be worth more than $1 million at the end of 10 years. But so far, the best thing you could have done was, ignored both of us and just looked at where we were putting the money and I will keep you up-to-date on this bet as we go along and we're having a lot of fun.

We'll come back in an hour and then we'll go till 3:30 and then we'll have the business of the meeting and in the meantime shop to your heart's content. Thank you.

(Break)

Okay, round 2. Gary, you're up.

Q - Gary Ransom {BIO 3446828 <GO>}

Am I up yet?

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

You're up.

Q - Gary Ransom {BIO 3446828 <GO>}

Okay. A question on General Re. If I look back at the General Re property-casualty premiums that's been cut in half roughly from 10 years ago. Maybe a little more stable recently. Can you give us some idea of how you've had to adjust the personnel over that time? And then also, what opportunities are there for General Re to grow as we go forward?

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

Yes. Gen Re, I think got off the track. It may -- probably was off the track when we bought it, and I didn't spot it.

A - Charles T. Munger {BIO 1406508 <GO>}

Sure it was.

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

Yes, okay. I was in charge of that part. They had -- I think they got more concerned about growth and satisfying certain personnel in terms of their activities than they had about emphasizing profitability, and it took us a while to figure that out. And when Joe Brandon came in, he operated 100% in terms of focusing on underwriting profit instead of premium volume and Tad Montross has followed through on that with terrific results, but it did mean getting rid of a lot of business that didn't make any sense.

They did an awful lot of what I would call accommodation business. So it's true that the PC volume dropped very significantly during that period but it's not volume that we miss. The life business kept growing consistently during that period. Their life business strikes me as very, very good. They've got a little long-term care mixed in there that we wish we didn't have, but I think Gen Re is -- it's right size in terms of people. It's got an underwriting discipline to it and I wouldn't be surprised if it grows at a reasonable rate in the future. But it -- there was a major change that had to be made in the culture at Gen Re and you don't make that overnight and you don't keep a lot of the business or some of the business that you got through a wrong culture when you do straighten it out.

It's a terrific asset to us now. And I think that -- I think the life business will continue to grow. And I would bet the PC business grows too, but it will only grow if we see the chance to do it on a profitable basis.

That's one we feel enormously better than we had some years back. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, it was a major fix-up operation, but we finally got it done.

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

We don't go looking for those, though.

A - Charles T. Munger {BIO 1406508 <GO>}

No.

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

Okay. Station 1.

Q - Analyst

Hi. Dan Lewis[ph] from Chicago. I wanted to get your thoughts on two of my concerns about a post Buffett Berkshire. Do you worry that some of your key operating and investing managers might leave for more lucrative opportunities once they realize they're working for one of their peers instead of a legend? And you think it's possible that a large investor or hedge fund could ever gain enough control of Berkshire to force a change in the unique culture and structure?

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

Yes. I think that -- I would say virtually no that the successor we have in mind will not be the kind that will turn off our managers because that the manager is in mind is a -- successor in mind has got the culture as deeply embedded in as I do. They would not -- our managers would not -- I don't think the question of leaving for more lucrative jobs, I think it would be because they love the kind of environment in which they exist, and if that environment didn't exist, it wouldn't be a question of whether the alternative was more lucrative. Many of them, a majority could retire, wouldn't need to work at all. They're only going to work if it's more fun for them to work than to do anything else in the world. Because they've got the money to leave in a great many cases.

The conditions, it's the same reason I work. I mean, I'm 81 and I am doing what I find the most enjoyable thing to do in the world. And there are a couple reasons for that. I get to paint my own painting and I have a lot of fun working with the people I work. And our managers work for the same reason, they do get to paint their own paintings.

And my successor will understand that just as well as I do. And there would be a lot of people that might very well manage other companies, that I think if stuck in my position would lose a fair number of managers. They just have a different style and our managers don't need that style.

In terms of a takeover, I think that really gets unlikely. The size is a huge factor and even because of the A and B shares, the A shares get converted to B shares when I give them away. And even in 10 years from now, it would be likely that I would own or my estate would own something in the area, perhaps, of 20% of the votes thereabout. So, the

Buffett family will probably have 10 times the voting power for a long time of anybody else. So I really -- I think it's extraordinarily unlikely for both those reason, size and the concentration that will exist and the longer we go the larger we will get. So the -- as the voting power aspect goes down the size aspect goes up. So I don't think there will be a takeover of Berkshire.

And I really -- you do not need to worry about my successor. In many ways, he will be better than I am. He will be totally imbued with the culture. The company is imbued with the culture, it would reject anything. The Board of Directors reflect that culture. It's every place you look around, Berkshire stands for something different than most companies, and that's not going to change.

Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, what I said last night was that the first $200 billion was hard and the second $200 billion with the momentum in place, is likely be pretty easy, compared to what's been accomplished in the past. So I don't think it's going to hell at all. I think the momentums are in place and the right kind of people were in place and the culture is by and large pretty well loved, I would say, by the people who've chosen to be on it. Nobody's going to want to change it. The businesses are in place to take it to $400 billion.

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

The business -- we have the businesses to take it to $400 billion.

A - Charles T. Munger {BIO 1406508 <GO>}

Well, but in addition to that, I think people of the type who have sold to us when we were the only acceptable buyer, I think will come to our successors because they will be the only acceptable buyer, at least for some significant part of what's done. So I don't think it's going to be all that difficult.

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

Don't make it sound too attractive, Charlie.

Carol?

Q - Carol J. Loomis {BIO 7137249 <GO>}

You're interested in businesses that throw off lots of cash. For instance, See's Candies, as well as those where you expect significant capital reinvestment needs, for example, Burlington Northern. What is it about a capital consuming business that persuade you to forego the cash yield you seem to have historically preferred? How do you balance the expected need for reinvestment in a capital consuming business against the other possible uses of cash Berkshire may have in the future such as new investments or stock repurchases?

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

Well, cash consuming businesses by their nature are unattractive unless the cash they consume gets to earn a reasonable return. And in the electric utility business, we can expect cash retained to perhaps earn an average of 12% or something like that, which we regard as quite satisfactory. It's not as exciting as having some business that's going to grow 20% a year and not require any capital. I mean, there are few wonderful businesses like that. But it's perfectly satisfactory.

Same way with the railroad business.

We are going to invest a lot of capital over the next 10 years. And railroads every year we will spend way more than depreciation charges. I think the prospect of earning reasonable returns on that are pretty darn good. But if I had to put a lot of money into some capital-intensive business, where all we were doing was staying alive with that money, we would be in a terrible situation. And we don't have -- in any meaningful way, we do not have any capital consuming businesses where I see that as the prospect.

It's true, if you go back to a world where we thought we could earn 20% on equity or something of the sort, then there's very few capital consuming businesses work, huge amounts of incremental capital can earn at a 20% rate, so that would be disadvantageous. But we don't know how to make 20% on equity going forth in the future with the kind of sums we're working with and we will be very happy if we can earn 12% or something like that on equity. Particularly when some of that capital is being consumed is generated by float which doesn't cost us anything and we've got some small advantage there. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, I think it's going to work pretty well. There's some Mungers here. I hope you won't listen to the siren songs of others. We kind of stay with the family heirloom.

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

My family's just hoping for an heirloom.

Cliff?

Q - Cliff Gallant {BIO 1854853 <GO>}

Along those lines about -- in regard to float, in your annual letter this year you say that, you expect the rate of growth in your float to slow going forward. How slow? What are the drivers? Is it possible that float could shrink going forward?

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

The float could shrink because we have lots of retroactive contracts, that by their nature, the float runs off, although not on a really rapid rate and the float at GEICO is going to grow. I mean that the float at our smaller insurance companies, but we'll probably net grow over time a little bit, but it's a lot of money.

In Ajit's operation, where we have a lot of the retroactive stuff, it's very, very tough. You've always got a melting ice cube that you got to add a little more water to. And I have felt -- I felt when the float was $40 billion, it probably wasn't going to grow very much and now we're at $70 billion. And so, we are looking for ways to intelligently grow the float all the time. I mean, it has been true ever since I got in the insurance business in 1967. So, the desire is always there.

We've been reasonably imaginative and figuring out ways to do it and still have the float cost us less than nothing. We've got this smartest guys in the business out there working on it, but the numbers are huge now and you do have a natural runoff from the retroactive contract. So I just thought that it was fair to tell the shareholders that they really should -- while they look at that history of float growth that they really can't extrapolate that. If we got lucky, we could add a fair amount more.

But it's also -- it's possible that it will actually dwindle down a little bit and not at a fast rate and it certainly more than possible that it won't grow it very much of a rate from here on.

Ajit told me that when I put that in the annual report, that became a challenge to him. So I'm glad I stuck it in there and he wants to make me look like an idiot, which isn't too hard sometimes and I may have to stick some other things in the annual report next year that if I get the attention. If I had to bet on whether float will be higher or lower five years from now, I probably bet just a slight bit higher, but I also wanted the shareholder to know there's a possibility that it will decline a bit. We're working on things though. Everyday, we're working on things to try and figure out how do I increase it.

Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Yes. The casualty insurance business, by its nature, is not a terribly good business. You have to be in the top 10%, really do it all well, and I think we're very lucky. We probably have the best large-scale casualty insurance business in the world. Just because it came out of nothing, doesn't mean it's nothing now. And -- but I don't think it'll be wildly. It won't grow wildly, will it, Warren?

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

No.

A - Charles T. Munger {BIO 1406508 <GO>}

No. But if you have something that's very good and it doesn't grow wildly, that's not the end of the world. Yes.

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

Yes. It certainly brought us to where we are today.

A - Charles T. Munger {BIO 1406508 <GO>}

Yes.

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

It's done wonders for us and there's been multiple people would have done -- I mean -- but the jobs that Tony has done at GEICO, he's created billions and billions of dollars of value for Berkshire shareholders. And that's true and certainly with Ajit, it's huge.

A - Charles T. Munger {BIO 1406508 <GO>}

We get used to having Ajit work miracles and he'll probably continue to do so over a long time. But if Matt Rose has to carry some of the future freight, but that's all right.

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

Okay. Station 2.

Q - Analyst

Greetings to all of you from the Midwest of Europe. I'm Norman Rentrop from Bonn, Germany. Warren, thank you very much for being so open about your health situation. You are in my thoughts and in my prayers, and I wish you a thorough healing.

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

Thank you.

Q - Analyst

As I have traveled a long way and can no longer ask questions in Pasadena, I'm hoping for an elaborate answer from you, Charlie, as well. My question is, how do you value declining businesses? You were talking about the encyclopedia business brought down by Encarta or retailing disrupted by Amazon and others by comparison shopping. How do you value declining businesses?

A - Charles T. Munger {BIO 1406508 <GO>}

You want me to answer that one. They're not worth nearly as much as growing businesses. Well -- but they can still be quite valuable if a lot of cash is going to come out of them.

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

Yes. Generally speaking, it pays to stay away from declining businesses. It's very hard. You'd be amazed at the offerings of businesses we get where they say, it's -- I am going to upset Charlie, but they say, it's only 6x EBITDA and then they project some future that doesn't have any meaning whatsoever. If you really think of business is declining, most of the time you should avoid it. Now, we are in several declining businesses, the newspaper business is a declining business.

We will pay a price in that business -- we do think we understand it pretty well. We will pay a price to be in that, but that is not where we're going to make the real money at Berkshire. The real money is going to be made by being in growing businesses. And that's where the focus should be on. I would never spend a lot of time trying to value a declining business and think I'm going to get one free, what I call, the cigar butt approach where you get one free puff out of the cigar butt that you find. It just isn't -- the same amount of energy and intelligence brought to other types of businesses is just going to work out better. And so we -- our general reaction unless there's some special case is to avoid new ones. We're playing out certain declining businesses by their nature. But we started with declining businesses. We started with textiles in New England and we tried U.S.-made shoes and we've --

A - Charles T. Munger {BIO 1406508 <GO>}

Department store in Baltimore.

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

Department store in Baltimore, Howard and Lexington Street.

A - Charles T. Munger {BIO 1406508 <GO>}

Trading stamp company. We're specialist in --

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

Yes, we have one business that did $120 million or so of sales in 1967 or '8, and what we do last year about $20,000?

A - Charles T. Munger {BIO 1406508 <GO>}

Yes.

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

$20,000, yes.

A - Charles T. Munger {BIO 1406508 <GO>}

I presided over it myself.

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

Yes. Well, I want to say I helped. I mean he didn't do it all by himself.

A - Charles T. Munger {BIO 1406508 <GO>}

No. No. I mean, I've sat there at the location and watched the --

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

We thought of bringing the sales chart down here and turning it upside down to impress you. But Charlie is still in charge of this business and I can't get him to sell it, but make me an offer.

A - Charles T. Munger {BIO 1406508 <GO>}

But if you think what came out of those three declining businesses, all of which failed, it's so many billions you -- it's hard to imagine how much came out of those. We're not looking for an opportunity to do it again.

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

No. But it was in 1966. Maybe we should because in 1966, Sandy Gottesman, one of our directors, and Charlie and I, we put $6 million into a company. We called it Diversified Retailing, although we only had one operation, but it was kind of like Angelo Mozilo calling his one location in New York Countrywide Mortgage at the time.

And we bought a department store at Howard and Lexington Street. Now, in our defense, I would have to say there were four department stores at Howard and Lexington Street in Baltimore, and all four of them were gone. But that $6 million has turned into about $30 billion starting with that --

A - Charles T. Munger {BIO 1406508 <GO>}

Failed business.

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

Failed business, yes. And of course, Blue Chip Stamps was another example of that because that was another company that -- and then. of course, Berkshire was the textile business. So we were sort of masochistic in the early days. Becky?

A - Charles T. Munger {BIO 1406508 <GO>}

Ignorant too.

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

Okay. That was the word that came to mind, but I didn't really like to use it.

Q - Becky Quick {BIO 16400962 <GO>}

This question is from Bill Nolan[ph] , who's a shareholder from West Des Moines, Iowa. He says, "Many of us are interested in what you, meaning Berkshire, are buying and you won't tell us that. Using Charlie's principle of invert, invert, always invert, maybe you can help us by suggesting what to avoid and stay away from, specifically what in the investment world today strikes you as folly, fad, unsustainable, crazy, or dumb?"

A - Charles T. Munger {BIO 1406508 <GO>}

A lot.

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

Well, we -- I think, I would describe it as we try to stay away from the things to start with that we don't understand. And when I say don't understand, it isn't that I don't understand what a certain business does. But when I say understand it means that I think I have a reasonably -- a reasonable fix on about what the earning power and competitive position will look like in 5 or 10 years. So I've got some notion of how the industry will develop and where the company will stand within the industry. Well, that eliminates a whole bunch of things.

And then beyond that, if the price is crazy, even though I understand it, that eliminates another bunch, so you get down to a very small universe and you get down to a particularly small universe when we're working with lots of money as we are now. But we -- well, I would say this. I can't recall any time in the last 30 years, at least, that we bought a new issue. Have we, Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

I can't think of one.

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

No. I mean, the idea that somebody is bringing something to market today, a seller who has a choice of when to come to market and that's security, where there's going to be a lot of hoopla connected with it, is going to be the single cheapest thing to buy out of thousands and thousands and thousands of businesses in the world is nonsense. So I mean --

A - Charles T. Munger {BIO 1406508 <GO>}

And when it carries a 7% commission or higher, it's ridiculous.

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

It's ridiculous. So you know it can't be the most attractive thing now, but people get excited about what's coming and all that sort of thing. But I will guarantee you that if you have thousands of opportunities among stocks all over the world and most of them are not being promoted or being sold with special commissions and number of something else, and then some other security is coming to market that day, when the seller picks the time to bring it as opposed to just this auction market operating otherwise, it just doesn't make any sense to spend five seconds thinking about new issues. So we don't think about them.

And we also -- there's industries we know that may have a wonderful future, but we don't have the faintest idea who the winners will be. So we don't think about those either. So there's a whole lot of things we don't think about, and we have a -- Charlie and I have a number of filters that things have to get through very quickly before we were willing to think about them. And sometimes we were thought of as rude, probably Charlie sort of that way a little more often than I am. Sometimes we're thought of as rude, because people will call us and they start explaining some idea to us and it just doesn't make it through the first filter or two. And so we just -- we think we're saving their time if we just politely say, that we just have no interest, if we don't want to have you finish the sentence.

But we do that, don't we, Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Yes.

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

We don't have to do very many things that work. I mean, that's the beauty of this business. You don't have to be able to spell 500 words or something to get to the end of the spelling bee and beat everybody else. You just have to do one or two things every now and then that where you don't make a big mistake and where every now and then one works out real well. And the solution -- you'll get a good result. You can't have a big disaster. You just -- that's what we try to avoid. We do not ever want to lose a significant percentage of Berkshire's net worth and so far we haven't.

A - Charles T. Munger {BIO 1406508 <GO>}

I think there are a couple of little rules of thumb. It's got a really large commission in it, forget it, don't read it. Because the chance of somebody's paying a very high commission to give you a big advantage is -- it's a very low. And the other thing that is, I think helpful on in reverse is a place to look, looking at things that other smart people are buying, that is not a crazy search method as a sorting device for opportunities to consider.

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

Charlie knew me when I used to look at -- I grabbed the Graham-Newman reports as fast as they would come out.

A - Charles T. Munger {BIO 1406508 <GO>}

Yes.

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

If Graham-Newman was doing something and it was certainly worth my time to look at.

A - Charles T. Munger {BIO 1406508 <GO>}

No. Warren has made a lot of people rich he doesn't even know. You just copied him.

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

Don't go into things with big commissions, Jay?

Q - Jay Gelb {BIO 21247396 <GO>}

On the subject of regulation, a question I often get from investors is, what are the implications if Berkshire ends up being subject to the Investment Company Act of 1940, because of insurance becoming a smaller part of Berkshire's overall business?

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

I don't -- I may be --

A - Charles T. Munger {BIO 1406508 <GO>}

That's too remote. That's not going to happen.

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

Yes. I used to -- I read the Investment Company Act of 1940 probably 20 times, because it was quite pertinent when I was setting up my partnership and all that. I don't remember every detail now and -- but I see no way that Berkshire comes close to that. We used to worry about both personal holding company status and investment company status, but we steered -- we made very clear that we steered clear of both of those. But now, I think we're a million miles away from it now.

A - Charles T. Munger {BIO 1406508 <GO>}

Yes. We really need financial heft we have to make our basic businesses work. We are not just an investment company.

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

We've got 257,000 or 270,000 employees, and eight companies -- we own eight companies, that each would qualify for the Fortune 500 standalone. So it's -- people thought of us as an investment company long after we were nothing remotely like one, and where we had no intention of going in that direction, but the background of both of us cause people to hang on to that notion longer than it was appropriate. Station 3.

Q - Analyst

Hello, Mr.Buffett and Mr.Munger. Good afternoon. My name is Yung[ph] . I'm from Toronto, Canada. I appreciate you giving me this opportunity to stand here and ask a question. And my question is, how long do you think it will take China to appear a giant company like Coca-Cola and in which industry you think it will be? Thank you.

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

How long will it take China to do what?

A - Charles T. Munger {BIO 1406508 <GO>}

I didn't quite get that one.

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

Connection to Coca-Cola. How long will it take China to do what?

Q - Analyst

Just how long do you think it will take China to appear a great company like Coca-Cola and in which industry you think?

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

Well, China already has some great companies. It's hard to think of a great branded goods company, but China has some very great companies already.

A - Charles T. Munger {BIO 1406508 <GO>}

Yes. (inaudible) I can't pronounce them, but they've got some very great companies.

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

Yes. So far it has not been Chinese fast food companies that have been exported to the United States as opposed to -- we've got over 500 Dairy Queens now in China. We tend to export certain products well, some consumer products, entertainment products that sort of thing. But China's got some huge companies and they may eclipse in market value. Some of the ones such as Coca-Cola, we're talking about. Let's see that was Station 3. Andrew?

Q - Andrew Ross Sorkin {BIO 6340618 <GO>}

Okay. This question comes from Larry Pitkowsky from the GoodHaven Fund. Also, another shareholder also asked a similar question that I've tried to combine. Given that you're now in IBM, are there any other entrenched leaders in technology that are to use one of your terms inevitable in the same way that Coke and Gillette were? For example, is Google inevitable? Is it reminiscent of the advertising agencies you owned in the 1970s, i.e., a toll bridge on all digital spending that's highly likely to keep growing over time? What are the one or two things about Google, for example, that you think are real risks? And what about Apple?

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

Well, those are extraordinary companies obviously and both -- they're both huge companies. They make lots of money, they earn fantastic returns on capital. They look very tough to dislodge where they have their strengths. I would not be at all surprised to see them be worth a lot more money 10 years from now, but I wouldn't want to buy either one of them. I do not have -- I do not get to the level of conviction that would cause me to buy them, but I sure as hell wouldn't short term either. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

I think we can fairly say that other people will always understand those two companies better than we do. We have the reverse of an edge and we're not looking for that.

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

Now he's going to say isn't the same thing true in IBM.

A - Charles T. Munger {BIO 1406508 <GO>}

Well, I don't think it is. I think IBM is easier to understand.

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

Yes. The chances of being way wrong in IBM are probably less, at least for us than being way wrong with Google or Apple. But that doesn't mean that those -- the latter two companies aren't going to do say far better than IBM. But we wouldn't have predicted what would happen with Apple 10 years ago. And it's very hard for me to predict what will happen when the next 10 years. Certainly they've come up with these brilliant products, there's other people trying to come up with brilliant products and I just don't know how to evaluate. The people are out there working either in big companies or in garages that are trying to think of something that will change the world, the way they have changed it in recent years.

A - Charles T. Munger {BIO 1406508 <GO>}

And what do we know about computer science.

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

There's no reply. Gary?

Q - Gary Ransom {BIO 3446828 <GO>}

Politics sometimes affects your businesses. Recently, we've seen some coal plant closings turndown of XL Pipeline, all of which seem to have potential effect on BNSF revenues. Can you talk about what -- how you manage that risk or what the impact might be of some of those political issues?

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

Yes. Well, BNSF runs their own business very much. I went down to Fort Worth once after we bought it a few years ago, and I have been there since and I probably talked to Matt on the phone, I don't know, once every three months or something of the sort. But there's no question that railroads, utilities, insurance companies are all very much affected by the political process. Fortunately, I think in the railroad industry, we've got economics on our side. And economics usually went out. I mean, if we can move a ton of product 500 miles on one gallon of diesel, and that maybe three times or so sufficient as trucking. And that may be why the railroads are currently moved say 42% of all intercity traffic. But I don't think our percentage is going to go down. The railroad industry as a whole, no matter what the politics maybe. It's just too compelling to move heavy traffic long distances over steel rail. And in terms of congestion, in terms of emissions, all kinds of reasons.

So, we've got a wonderful product and there will always be struggles in the political arena between competitors in railroads and customers in railroads. It's just -- it's the nature of the game and there'll be some of that in utilities too. But overall, I like our position in that. They do have to be involved in politics. I mean, the railroads -- all four of the big railroads are going to be involved in the political process because people who have got -- who would like to change some of the rules either as customers or competitors are going to be in politics, too, and things will get decided in state capitals and more important in Washington, of importance.

So they'll have lobbyists and they'll play a political game and their opponents will. I like our position. It would be very dumb for the country to do anything that discourage the railroad industry from spending the kind of capital that will need to be spent to take care of the transportation needs of this country in the future, that if you think about the money, it will have to be spent on highways and the costs involved in there and the congestion problems, the emissions problems and everything.

The country has a strong interest in the railroad industry having every incentive to invest, and the railroad industry pays its own way. We will spend $3.9 billion this year. And a lot of it will go to improve our present system an awful lot and some will go toward expansion of the type and the country will be better off on that and the federal government will not write a check for it. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Yes. It's a nature of things that there are waves of good breaks and bad breaks. Burlington Northern was enormously helped when you could double the container carriage by making the tunnels a little higher and the bridges a little stronger. And they were enormously helpful when they found all this oil in North Dakota, and there weren't any pipelines. And they will get some bad breaks too occasionally, where somebody will take away a little freight. But averaged out, it's a terrific business with terrific management. I don't think our main problems are political at all.

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

No. The railroad industry running. We're headed by a prominent democrat. The railroad industry was -- that may not be a help, Charlie.

Right after World War II, now there was a lot of passenger traffic then, but the railroad industry I think had as many as 1,700,000 employees in the United States. And here we are today there's less than 200,000. I mean that -- railroads have become so much more efficient, it just by huge factor and it's a fundamentally very good way to move heavy stuff a long distance. I mean, you just -- it's hard to conceive of anything and it's nice maybe to have barge traffic, but you only got a few rivers that are going to lend themselves to real volume along that line. And so you have air, pipeline, vehicles, planes, trains. Trains are pretty darn good. Okay. Station 4.

Q - Analyst

Section 4 does not have any questions at this time. Thank you.

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

Well, that's the first. Carol, have you run out?

Q - Carol J. Loomis {BIO 7137249 <GO>}

I am prepared as I am. This is a question about the table on the first page of the annual letter, which shows the relative performance of the S&P 500 index against Berkshire' book value. This is an unfair apples-to-oranges presentation. An investor in the S&P 500 index can easily earn the returns shown for the S&P, but an investor in Berkshire will not earn the returns implied by the company's book values figure shown. Instead, he or she will earn returns over any given period that depend on the market's assessment thereof, that is the price-to-book value ratio, and we've seen that go down in the last few years. A fairer comparison would be against the annual percentage change in the book value per share of the S&P 500, with dividends included. Wouldn't your shareholders be better served by better information?

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

Well actually, you can make the calculation two different ways as alternatives to what we do. You could have the market value of the S&P, which is in there with dividends added back versus the market value of Berkshire. Berkshire would show up better on that table than it does in the table I present. In other words, our advantage over the S&P would be larger if calculated that way because we started at a discount from book value and we ended up at a premium. So, it would bounce around during the years, but overall, our gain would be probably at least -- well, it'd be about 35-or-so percent higher in aggregate over the time than is shown by the book value gain, which is a lot of dollars when you get make the calculation. You could also show the book value of the S&P versus the book value of Berkshire, but that figure will be a wash pretty much because if you take the S&P's price-to-book value, if that maintains the ratio at the beginning to the same ratio at the end, it's a wash as to how that calculation comes out.

So I think we could show -- we can make a calculation that was more favorable to Berkshire. I don't think what the person suggests there would result in a calculation that's less favorable to Berkshire.

A - Charles T. Munger {BIO 1406508 <GO>}

Long term, the stock value has tracked fairly well to the book value.

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

But it's overperformed book value for the whole time.

A - Charles T. Munger {BIO 1406508 <GO>}

-- which -- point is the question seem but you've been criticized for making yourself look worse.

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

Yes.

A - Charles T. Munger {BIO 1406508 <GO>}

It's alright, you can bear it.

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

I've done the other two. Cliff ?

Q - Cliff Gallant {BIO 1854853 <GO>}

When -- in studying the collapse of AIG, learnings we learned is there were parts of the company, which understood there were certain financial risk in the market and they were lowering their exposure. Well, at the same time there are other parts of AIG, which were actually increasing their exposure to the same risk. In terms of enterprise risk management at Berkshire, how do you make -- how do you share information across units to make sure that the same mistakes aren't made?

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

I didn't totally get that. Did you get that, Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, he was talking about how do we share information across units. Well, if there's any sharing they're doing it, we're not.

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

Yes. We don't have any -- we are the most uncoordinated pair of individuals and operating both in sports or at the executive level. There are certainly some people at Berkshire that have some contact with other people of Berkshire, but there's nothing in the way of an organized way of doing that. I mean, Tad and Tony and Ajit are friends and Don Wurster and they see each other sometimes, so they're -- and I'm sure they talk insurance. But we don't make any attempt. If somebody goes in to get a quote from Gen Re and gets a quote from Ajit, there's no -- we have no system that prevents -- earthly coordinates them our two units to give the same quote or anything of the sort.

We want our businesses to run very autonomously. And we want the managers of those businesses to feel like they're their own business. That's enormously important in Berkshire. So, we don't tell the people at Clayton Homes to buy their carpet from Shaw or to buy their paint from Benjamin Moore. We don't -- we just don't do that and you can say, that's kind of silly. But it's helped us.

But any gains we would get from doing that by selling incremental units, I think would be far offset by the change in the feeling of the manager as to whether they're really running their own business.

We hand people billions of dollars, and they had our stock certificates. They have been running those businesses for decades in many cases. And we want them to feel the same way the next day. When they've got the money and we've got the stock certificates as the day before, when they have the stock certificates and we had the money. And the moment we start telling them how to change the way they operate or to coordinate with this guy or get this person's approval or anything like that, that just erodes that advantage which we think is very substantial that they have this proprietary feeling about their business. Have I answered that, Charlie?

Yes. We're trying to fail at what you wanted us to succeed at.

I'll have to think about that a little. Station 5.

Q - Analyst

Hello, Charlie and Warren.

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

I'm Warren, yes.

Q - Analyst

Yes. My name is Richard Cooper and I'm from Honor, Michigan and I'm a professional forester. Trees are one of America's greatest resources, and it seems that a well-run forest products firm would fit well with Brookshire's holdings. You've got the transportation system to move the product. You have the construction firms to use the product. Furniture companies, home builders and you got insurance companies to cover the insurance end of the holdings. Have you given any thought to getting a forest products firm?

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

Well, your question touches the answer we just gave. We would not really consider the other activities that Berkshire has in determining whether we would get into forest products. We looked at forest products companies, but we don't think about them in terms of how they may divert their product to some other subsidiaries of ours or how other subsidiaries might benefit from selling them something. To date, we've looked at several. To date, we've really never found any that met our test for returns against purchase price. I mean, it's a business that's easy or reasonably easy to understand, I mean it terms of the economics and its permanence and all of that sort of thing, but the math has escaped us in terms of being compelling. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

It's -- a lot of forest products companies convert themselves into flow-through partnerships of some kind, so they don't pay normal full corporate income taxes the way we do. Berkshire is actually organized so that would be a disadvantage. We'd be at a disadvantage in bidding for forest.

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

Yes. We're at the disadvantage in terms of any kind of activity that people who manage to convert in the past through organization. So, particularly, take REIT, real estate investment trust. They have eliminated one tax in their structure that we would bear and like Charlie says, you have firms like Plum Creek Timber and those sort of operations, where they have eliminated the federal income tax and we don't have any structure like that. So just going in we have the structural disadvantage that is really quite significant. Becky?

Q - Becky Quick {BIO 16400962 <GO>}

This question comes from Scott Bondurant[ph] who is from Chicago, Illinois, and he's a shareholder and he asks, "Can you please elaborate your views on risk? You clearly aren't a fan of relying on statistical probabilities, and you highlight the need for $20 billion in cash to feel comfortable. Why is that the magic number and has it changed over time?

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

Well, it isn't the magic number and there is no magic number. I would get very worried about somebody that walked in every morning and told us, precisely how many dollars of cash we needed to be, secured at three sigma or something like that. But Charlie and I've had a lot of -- we saw a lot of problems develop in an organization that expressed their risks at sigma. And we even argued sometimes with the appropriateness of how they calculated their risk and they --

A - Charles T. Munger {BIO 1406508 <GO>}

And it was truly horrible.

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

Yes. They were a lot smarter than we were, that's what that depressing. But we both have the same bend of mind, whereby we think about worst cases all the time and then we add on a big margin of safety, and we don't want to go back to go. I mean, I enjoy tossing those papers in the other room, but I don't want to do it for a living again. So, we undoubtedly build in layers of safety that others might regard as foolish. But we've got 600,000 shareholders and we've got members of my family that have 80% or 90% of their net worth in the company. And I'm just not interested in explaining to them, that we went broke because there was a one hundredth of one percent chance that we would go broke and there was a remaining probability was filled by the chance of doubling our money. And I decided that, that was just a good gamble to take.

We're not going to do that. It doesn't mean that much. We are never going to risk what we have and need for what we don't have and don't need. We'll still find things to do where we can make money. So, we don't have to stretch to do it. And as my job -- and Charlie thinks the same way. I mean, we don't talk -- have to talk about it much, but it's our job to figure out what can really go wrong with this place.

And, we've seen September 11th and we've seen September of 2008. And we'll see other things of the different nature, but similar impact in the future. And we not only want to sleep well all of those nights, we want to be thinking about things to do with some excess money we might have around. So it is -- if you're calibrating it in some mathematical way, I would say it's really dangerous. I could give you a couple of examples on that. But unfortunately they're -- I've learned about them on a confidential basis, but some really great organizations have had dozens of people with advanced mathematical training and make -- and thinking about it daily, making computations and they don't really get at the problem. So it's at the top of the mind always around Berkshire and your returns in 99 years out of 100 will probably be penalized by us being excessively conservative and one year out of a hundred, we will survive when some other people won't. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Yes. How do these super smart people with all these degrees and higher mathematics end up doing these dumb things, I think it's explainable by the old proverb that, "To a man with a hammer, every problem looks pretty much like a nail." They learned these techniques and they just twist the problem so it fits the solution, which is not the way to do it.

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

And they have a lack of understanding of history, I would say, that one of the things in 1962 when I set up our office Kiewit Plaza, where we still are, it's in a different floor. I put seven items on the wall. Our art budget was $7. And I went down to the library and for $1 each I made photocopies of the pages of -- from financial history. And one of those cases, for example, was in May of 1901 when the Northern Pacific Corner occurred and it's kind of interesting in terms of being in Omaha, because Harriman was trying to get control of the Northern Pacific and James J. Hill was trying to control the Northern Pacific. And unbeknownst to each other, they both bought more than 50% of the stock.

Now when two people buy more than 50% of the stock each and they both really want, they're not just going to resell it, interesting things happen.

A - Charles T. Munger {BIO 1406508 <GO>}

To the shorts.

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

And that paper of May 1901, the whole rest of the market was totally collapsing because Northern Pacific went from $170 a share to $1,000 a share in one day, trading for cash because the shorts needed it. And there was a little item at the top of that paper, which we still have at the office, where a brewer in Troy, New York, committed suicide by diving into a vat of hot beer, because he'd gotten a margin call. And to me the lesson -- that fellow probably understood sigmas and everything and knew how impossible it was, that in one day a stock could go from $170 to $1,000 and cause margin calls on everything else. And he ended up in Nevada of hot beer and I've never wanted to end up in the vat of hot beer.

So, those seven days that I put up on the wall, life in financial markets has got no relation to sigmas. I mean, if everybody that operated in financial markets had never had any concept of standard errors and so on, they would be a lot better off. Don't you think so, Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, sure.

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

Here, have some fudge.

A - Charles T. Munger {BIO 1406508 <GO>}

It's created a lot of false confidence. And -- now, it has gone away. Again, as I said earlier, the business schools have improved. So has risk control on Wall Street. They now have taken the Gaussian curve and they've just changed its shape.

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

Threw it away.

A - Charles T. Munger {BIO 1406508 <GO>}

They threw it away. Well, they just made a different shape than Gauss did, and it's a better curve now, even though it's less precise.

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

They talk about fat tails, but they still don't know how fat to make them. They have no idea.

A - Charles T. Munger {BIO 1406508 <GO>}

Well, but they knew -- they've learned through painful experience. They weren't fat enough.

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

Yeah. They learned the other was wrong, but they don't know what's right.

A - Charles T. Munger {BIO 1406508 <GO>}

But we always knew that there were fat tails. Warren and I, in the Salomon meetings, would look over at one another and roll our eyes when the risk control people were talking.

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

Okay. Jay?

Q - Jay Gelb {BIO 21247396 <GO>}

This question is on Swiss Re. Berkshire's quota share treaty with Swiss Re, covering 20% of Swiss Re's property-casualty risk, ends in 2012. Does Berkshire plan to replace that premium volume through another transaction?

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

Well, we would hope to -- we always hope to get more good volume, but what we do has no relationship to the expiration of that contract. I mean, that contract was a five-year contract. It's a big contract, billions of dollars a year. But the fact that, that expires and our premium volume will go down by multiple billions does not cause us to do one thing differently than we would do otherwise.

We've got the capacity to write billions and billions of business, and we would love to do it if we were expanding the Swiss Re contract, and we don't want to write any dumb business when we lose that contract. It's just -- it's a non-event, in terms of future strategy. It's not a non-event, in terms of losing some business that we like, but it's a non-event in terms of any future strategy.

We regard every decision, you know, as independent. We don't lose -- if money comes in, that doesn't cause us to want to think about doing something today that we weren't thinking about doing the day before. We just don't -- we don't operate that way. We'll have things that come along that are terrific, and that doesn't mean that the next day we don't want to look for something in additionally that's terrific. Every decision is sort of independent.

A - Charles T. Munger {BIO 1406508 <GO>}

I don't think there's another large insurance operation in the world that is more cheerful about losing volume than we are. If it doesn't make sense --

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

We don't want it.

A - Charles T. Munger {BIO 1406508 <GO>}

If the business has to shrink, we let it shrink.

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

We don't measure ourselves in any way --

A - Charles T. Munger {BIO 1406508 <GO>}

By size.

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

-- by size, except by the growth in value over time. Okay. Station 6.

Q - Analyst

Wendy Wasserman [ph] from Boston. Warren, best wishes on a speedy and complete recovery. My question is regarding Fannie Mae and Freddie Mac. You wrote that you expected the housing market to be improved by now but that it hasn't improved. You spoke about demographics and the housing-dependent parts of the business. You did not, however, speak about Fannie and Freddie. Fannie Mae, the Federal Reserve, and Freddie Mac are the three largest financial institutions.

Then comes J.P. Morgan and Bank of America. Fannie and Freddie have been in conservatorship for three-and-half years, the longest. Initially they had combined assets of 1.6 trillion, each a Lehman Brothers. Now they have 5.5 trillion, adding 4 trillion of off-balance sheet items and government mortgage modification programs. They are public companies with operating losses, a negative net worth, owned by the government, acting at times with the power of the government, financed with a blank check from Treasury, and taxpayers, who are usually also homeowners.

Most near-bankrupt companies shed assets. These two added assets and liabilities. AIG and General Motors have emerged; these two have not. Contrary to popular belief, the securities law did not need the biggest rewriting since the Great Depression. The 1933 and 1934 Securities Acts worked. Sarbanes-Oxley works. Fannie and Freddie, and the 1938 and 1968 governing laws, do not, no matter how much they have contributed to U.S. housing standards.

What is the solution? How many years can they stay in conservatorship? Can the resolution trust authority be used? Are they truly too big to fail? What role will banks, like Wells Fargo and U.S. Bancorp, who are leading mortgage players play, now that they are well capitalized? What happens to the MBS market and the mayor system? How can housing improve even with better demographics without an answer to Fannie and Freddie?

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

Well, I got through college answering fewer questions than that. I would say that the overall tone of your remark, which indicates that you think Fannie and Freddie are a mess, is probably justified. And of course, the reason they're a mess is, we haven't figured out yet, or we can't get agreement, on what the best structure is to have in this country going forward to generally finance mortgages.

There's no question that a government guarantee program brings down the overall cost of financing mortgages over time. And then, we had one, of course -- we've had several -- but we had one in Fannie and Freddie that went wild when we introduced the profit motive into the mix of two institutions that really were half trying to serve a housing mission and half trying to serve a profit mission, and gradually the profit mission sort of overcame the housing mission. Congress hadn't sorted that out yet. It's a huge item, obviously. There are roughly 50 million residential mortgages in the United States, you know, and they total 10 trillion or so. It's important that you have a market that does minimize costs for borrowers who have adequate down payments and adequate income and all of that. And I think for a while, we were going in that direction with Fannie and

Freddie, and then they left the tracks. But that's going to get -- how long they can stay in conservatorship? They can stay there a long time. They will stay there, in my view, until politically we get some kind of a resolution that -- as to a future policy -- that both parties can go along with, and it looks to me that's a ways off. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, of course, the interesting thing is that Canada, right to the north, kept a more responsible real estate lending system, and they had almost no trouble. We departed completely from sanity and decency and morality in mortgage lending in the United States, and the government of the United States participated in the folly, and they did it in a big way. And it was wrong not to step on the boom that was obviously so full of fraud and folly. And I sometimes say that Alan Greenspan overdosed on Ayn Rand when he was young. He thought if an axe murder happened in a free market, it was probably all for the best. And so, we had -- there's a lot of disgraceful behavior we have to regret, in terms of what happened, and it caused enormous damage. And a modest little country like Spain, and another one called Ireland, you had something, somewhat similar.

People just allowed craziness to go unchecked, and that was a big mistake. And Greenspan was really wrong. It's the duty of the government to step on crazy crooked booms and prevent them by keeping sound policies, as Canada did. And so, you put your finger on a very disgraceful episode in United States history. But once we were into it, I think we had no option, but to do exactly as the government did, which was to nationalize Fannie Mae and Freddie and try to make them behave better in the future, and that's what's happened.

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

It's going to be a long runoff. And Congress, it wasn't just the Fed-- Congress did their share in that, too. But it was --

A - Charles T. Munger {BIO 1406508 <GO>}

Everybody did.

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

Everybody did. I mean, it --

A - Charles T. Munger {BIO 1406508 <GO>}

By the way, we didn't.

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

Charlie, we resigned from the Savings and Loan League a good many years ago, just because we thought such nutty stuff was going on and --

A - Charles T. Munger {BIO 1406508 <GO>}

It was disgraceful.

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

Yeah. And Charlie got lectured for it, too.

A - Charles T. Munger {BIO 1406508 <GO>}

Yes, I did.

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

They made him go to school, learn how to loan money, and I think one of the regulators said, "Well, what kind of people do you lend money to?" And, I think Charlie said, "Well, the one thing we do is we don't lend money to people like you." And then, and for some reason we had regulatory problems after that.

A - Charles T. Munger {BIO 1406508 <GO>}

I was not popular because he said you're using the government's credit in our savings and loan. And therefore, you have to make a lot of dumb loans, because we're telling you to. And I said, "We're not using the government's credit. As a condition of one of our mergers, Berkshire Hathaway agreed you'd never have trouble with our savings and loan. We're paying you insurance premiums, and you're using our credit." This did not make me popular.

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

No.

A - Charles T. Munger {BIO 1406508 <GO>}

And he was a florid-faced alcoholic. I remember it very well.

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

I do too, but --

A - Charles T. Munger {BIO 1406508 <GO>}

We left the savings along business.

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

We have more problems when Charlie wins an argument. But it's a lot of fun.

A - Charles T. Munger {BIO 1406508 <GO>}

Well. Okay. Andrew?

Q - Andrew Ross Sorkin {BIO 6340618 <GO>}

Okay. Here's the question. Please tell us more about your experience this past year with Todd Combs and Ted Weschler. What did they do well, and did they make any mistakes?

And please discuss how you compensate them a bit more. In an interview, you said that Todd Combs was well compensated for the performance of his stock picks last year. Should we be worried about a short-term horizon for compensation? How do you ensure that Todd and Ted don't chase high-flying stocks for the sake of compensation?

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

Well, we've always been more concerned about how our record is achieved than the precise record itself. And with both Todd and Ted, Charlie and I were struck by, not only a good record, but intellectual integrity and qualities of character, a real commitment to Berkshire, a lifelong-type commitment. And we've seen hundreds and hundreds of good records in our lifetimes. We haven't seen very many people we want to have join Berkshire. But these two are perfect. And we pay them each a salary of a million dollars a year, and we give them 10% of the amount by which their portfolios beat the S&P. So that, if they beat the S&P by 10 points, they get one point, for example, and we get nine points. But we do it on a three-year rolling basis, so that you don't get the seesaw effect.

And each one gets paid 80% based on their own efforts and 20% based on the other persons, so that they have every incentive to operate in a collaborative way rather than sit there jealously guarding their own ideas and hoping the other guy doesn't do very well. So, it's a -- I don't think we could have a better -- it's the same structure on pay, basically, that we had with Lou Simpson for 20-some years, except he did not have a partner. To the extent that they employ people underneath them, that comes out of their performance record, and it's worked far better than either Charlie and I had hoped, and we had pretty high hopes.

We had $1.75 billion with each of them at year end, but we've added another billion each on March 31, so they're running $2.75 billion apiece. I don't look at what they do. I see it eventually when I look at a GEICO portfolio at the end of the month or something of the sort. But they operate through their own brokers. They don't -- I've told them, that the only thing I want to know is, if they're getting into a new name, I just want to know the name, so I'm certain that it isn't something that I am familiar with some inside information on or something, so that there's no inadvertent appearance that we would be -- or that their purchase would have been influenced by something that I knew about.

That's never come up. They can't -- they can't -- if there's something we would have to file a 13D on, they would have to check with me. But basically, none of that's going to happen. Never happened with Lou, either. I mean, they operate in different stocks. They've got a much bigger universe than I have, because they're working with $2.75 billion instead of $150 billion, so they can look at a lot more things.

And they've cheerfully pitched in for other duties that they don't really get compensated directly on, but that are helpful to Berkshire. And they will -- they'll do a great job for Berkshire when they're running a whole lot more money than they are now. Ted only joined us this year. Todd did substantially better than the S&P last year, so he racked up a big performance gain, a third of which was paid to him in the first year, but the two years is deferred and he could lose that back if he were to underperform. And so, I think we've got a good system and terrific people. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

What's interesting about it is that at least 90% of the investment management business of the United States would starve to death on our formula. I think -- and I think these people will do pretty well with it. So --

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

Yeah.

A - Charles T. Munger {BIO 1406508 <GO>}

And not only that, they'll be terrific for the long pull for Berkshire. They're the kind of people we like having around headquarters.

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

Yeah. I hope they get into that -- those 400 taxpayers I mentioned, but if they do, even under the present haul, they'll be paying taxes in the mid-30s. They are doing what they did before which -- they ran hedge funds, but they're going to work every day thinking about the same things, and they get taxed at 35% plus. And if they were running hedge funds, they'd get taxed at 15%. And for all of those in the audience who can reconcile that, there'll be a free Dilly Bar.

A - Charles T. Munger {BIO 1406508 <GO>}

I think each of them could earn more money in a different format, but with a less desirable lifestyle.

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

Yeah. We have a little free Coke machine at our office.

A - Charles T. Munger {BIO 1406508 <GO>}

Well, they get to hang around with a fellow eccentric of the same type as Warren.

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

Okay. Gary, before we go too far with this.

Q - Gary Ransom {BIO 3446828 <GO>}

My next question is on GEICO, a little bit more detailed question. In the fourth quarter of last year, the GEICO combined ratio went up over 100% for the first time since, I think, in some quarter in 2001. Now I realize a quarter doesn't make a trend, but something unusual happened in the quarter. Can you tell us more about that?

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

The biggest thing that happened was a decision, or maybe a couple of decisions. Tony Nicely could elaborate more on them. But they involved Florida and some interpretation down there, I think, of the PIP coverage that caused us to set up some extra reserves that -- they weren't extra. I mean, they were called for by what was happening in Florida at that time. But it was a one-time sort of arrangement. And in the first quarter of this year, on a comparable basis, as you've probably seen in our Q, we wrote at about 91. So, the basic business is good, but the Florida decision cost us significant money, because it changed our potential liability for a bunch of claims already outstanding. And my guess is you're more familiar with the exact terms of that than I am, but that is the bottom-line answer on it.

And GEICO, every metric for GEICO that I've seen this year, in terms of retention, combined ratio on seasoned business versus new, all of that sort of thing, is quite consistent with our general record. GEICO is a terrific asset for Berkshire. I mean, it will be worth -- it's worth a lot of money now. And will be worth a lot more money in the future.

Station 7.

Q - Stuart Kaye {BIO 17175021 <GO>}

Hello, Charlie and Warren. My name is Stuart Kaye from Matarin Capital Management in Stamford, Connecticut. You mentioned earlier today that one of Burlington Northern Santa Fe's competitive advantages is its environmentally, friendly business relative to transportation alternatives. When evaluating other investment opportunities, what financial statement or other publicly available data do you use to gauge whether a company is both environmentally responsible and a good investment?

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

Well, in terms of what's a good investment, you know, we try to look at every aspect, everything we can that will tell us how the world is going to develop for both that industry and the company in the future. And sometimes we feel a lot of confidence about that. If we're looking at Coca-Cola, we think we know a lot about how the world will look with the Coca-Cola company over the next 5 years or 10 years or 20 years. If we're looking at some retail business or something, we would not have the same degree of conviction at all.

I mentioned the environmentally-friendly aspect of it. It is just-- requires less, in the way, of the world's resources to move goods, you know, on a steel rail in large containers, you know, with only a couple people involved with 120 cars, a train a mile long, than it does if you're working, you know, with trucks that have many, many more people and much more in the way of fuel to deliver the same kind of tonnage. So, there's no -- we don't -- there's no magazine we go to or books we go to or anything like that. We just look at the dynamics of the specific industry and company. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Warren, even though he's an unseasoned young man, was able to figure out that if you used a lot less fuel per ton of freight, you were causing fewer undesired particles to go into the air.

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

That's about the limit of my capabilities, folks.

Okay. Station 8. We've gotten into the -- we've covered 36 questions from the two panels. So, we're now going to keep going around the audience as long as the questions last, we're going to give you more than your share at this point.

Q - John Norwood {BIO 17200868 <GO>}

Good afternoon, Warren and Charlie. Up here.

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

Yeah. I see you.

Q - John Norwood {BIO 17200868 <GO>}

All right. Very good. John Norwood from West Des Moines, Iowa. We spent a lot of time today talking about two out of the three things you fellows said, you spend a lot of time thinking about. One is allocating capital; one is managing risk.

We've had just one question related to motivating your people and tied into executive compensation. So that's what I'm interested in learning more about: executive compensation, how you motivate Berkshire managers, financial versus non-financial incentives. Can you speak more about that? Thanks.

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

Yeah. Well, obviously, Charlie and I have thought a few times about why do we do what we do when we don't need the money at all. And we jump out of bed excited about what we're going to do every day, and why is that the case? Well, we get the opportunity to paint our own painting every day, and we love painting that painting, and it's a painting that will never be finished. And you know, if we had somebody over us that was saying why don't you use more red paint than blue paint, and we had all the money in the world, we might tell them what they could do with the paint brush. But we get to paint our own painting, and ours overlap. We have more fun doing it together than we would have doing it singly, because it is more fun to do with people around you that are pleasant and interesting to be around, and we also like applause.

So, if that works with us, we say to ourselves, that was not a brazen. If that works for us, why shouldn't it work for a bunch of other people who have long been doing what they like to do. And now, in many cases, have all the money they possibly need, but still, they may have to sell us their business for one reason or another connected with family or taxes, who knows what else. But they really like what they've been doing. That's the reason - probably, the reason they've been so good at it -- part of the reason they've been so good at it.

So, we give them the paint brush. Let them keep the paint brush. And we don't go around and tell them to use more red paint than blue paint or something of the sort. And we applaud and we try to compensate them fairly, because though they aren't primarily doing it for the money in many cases, nobody likes to be taken advantage of. So, but that has not been a big problem at Berkshire. We have not had compensation problems over time. If you think about it, over 40-odd years, the times when compensation has been of importance are practically nil. And it -- we don't -- we'll just take that we've talked about the investment -- the compensation of two investment people. Those people are making below hedge fund standards, below private equity standards, and having a less favorable tax treatment.

They'll still make a lot of money, I mean, huge amounts of money. And I hope that they are having a good time doing what they're doing. I think that's why they're here. And I think they'll enjoy it a lot more over the years than going around to a bunch of people explaining why they're worth 2 and 20 even in the years, that aren't so good and trying to attract new money when other people are making bigger promises someplace else. It's just a different way to live your life.

So, we want to have our managers enjoying their lives and enjoying their business lives. And we get rid of some of the things they don't like, a lot of them. I was with a fellow the other day that had come from England. And he's got plenty of business problems to work on, and he's spending a significant part of his time talking to investors, which does him no good. I mean, he ought to be talking to customers or, you know, employees or something, but he -- I think a number of managers may have to spend time talking to lawyers or talking to bankers or talking to investors and what they really like to do is run their businesses, and we give them the best opportunity to do that. So, I can't put passion into somebody about their jobs, but I can certainly create a structure that will take that passion away from them.

And Berkshire is a negative art in that way. We focus on not messing up something that's already good, and that's my job. And I think the person that follows me will have a very similar job. But we have a unique -- we have a bunch of managers nobody else can hire and, you know, how many companies of size can you say that about around the country these days that, and I think we will retain that advantage for many, many decades to come. It works, and people know that it works within the company. So, it's self-reinforcing, and there's nothing like getting proof that what you've designed works to, to cause you desire to perpetuate it and to build upon it. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, and we don't have any standard formulas like they have in some big companies where X percent is on diversity and Y percent is on something else and Z percent is on something else and everybody is putting all this stuff through a big human resources department. And every incentive arrangement with a key executive is different from every other, so we can't help you with a standard formula. We don't have one.

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

Yeah. Our businesses are all so different. It would be crazy to try and have some master arrangement, you know, that involved return on capital. There are some businesses that don't use any capital in our companies or operating margins. They're just, you know, we could hire consultants in compensation to come in and they --

A - Charles T. Munger {BIO 1406508 <GO>}

We never have.

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

No. We never will. But, you know, they would want to please the people they were working for and get referred elsewhere. I mean, I will guarantee that you can go to many corporations, if you've got a comp committee, it meets periodically, and the human relations VP comes in and probably suggests a compensation consultant to take. And, you know, who does a human relations VP want to -- whose approval do they want? The CEO's.

Whose approval does the compensation consultant want? Well, they want to get recommended elsewhere by the CEO and the human relations VP. So, what kind of a system do you get? You get what I call ratchet, ratchet, and bingo, you know. We're not going to have any of that at Berkshire, and like I say it's worked very well.

Now, we've had people make lots of money at Berkshire. I mean, that we've got numbers in eight figures, you know, a page-and-a-half or so, I saw it the other day, that would be at a million dollars and over, and we'll have more. But it does relate to logical measures of performance in practically all cases. And the amount of time we spend on it is just -- I am in the compensation committee for 60 or 70 people, and I'm not overworked. Anything further on that, Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, in past years, I've made the remark that, about compensation consultants that prostitution would be a step up for them.

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

Charlie is also in charge of diplomacy at Berkshire. We told you we'd get to everybody in terms of offending them before the day was over. It didn't even take until 3:30.

Station 9.

Q - Analyst

Good afternoon, gentleman. (Inaudible), Arlington, Virginia. I have a question for you. What will it take to get America growing by 4% again?

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

Well, Charlie, that's too easy for me. You take it.

A - Charles T. Munger {BIO 1406508 <GO>}

A lot. A lot. It's not going to be easy.

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

No. But if population grows 1% a year and GDP, in real terms, grows 2.5% a year, by the standards of 2,000 years or 5,000 years, that would be remarkable. I mean, it would result in a quadrupling of real GDP per capita every century.

We don't -- it's nice to have 4% in real terms, but 2.5%, it may be slow in getting us out from the slump that we entered into a few years ago, but it's a really -- it's a remarkable rate of growth for a country that already enjoys a very high standard of living.

It's a remarkable rate of growth for a country that has 1% a year gain in population. It is huge over one person's lifetime. I've used this a lot of times, but in my lifetime, the real GDP per capita has increased six-for-one.

A - Charles T. Munger {BIO 1406508 <GO>}

But it's nowhere near 4% per annum.

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

No. It's staggering. It's staggering. And we have $48,000 or thereabouts of GDP per capita in the United States. We are unbelievably rich. But an awful lot of people are not feeling that way, and in many cases for good reason. But we've got a tremendous country to work for, I mean, to work with. It's got all kinds of strengths. And it has this huge abundance that, -- if my parents back in 1930, if you'd told my mother and father that when I was 81, that I would be living in a country that had six times the per capita output of their day, they would have thought that this would be a utopia. And it hasn't been bad, I might add. But our country is not a mess. Our politics may be a mess, but the output is, it's terrific.

Charlie, if you had to guess the real growth rate per capita over the next 20 years in the United States, what do you think it would be?

A - Charles T. Munger {BIO 1406508 <GO>}

That's after inflation?

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

No. No. This is just real.

A - Charles T. Munger {BIO 1406508 <GO>}

Right. Yeah. Real. That's what I mean. After taking inflation out of it?

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

Yeah.

A - Charles T. Munger {BIO 1406508 <GO>}

Well, if God were making the guarantee, I would settle for a very low figure. I think we're a very mature economy, with a lot of social safety net, and a lot of competition from new nations rising, I think 1% per capita in real growth would be a sensational result.

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

Yeah. Which in 20 years means, people would be living close to 25% better on average. That's not bad. That's the next generation -- in one generation.

A - Charles T. Munger {BIO 1406508 <GO>}

You get your expectations too high. When you think that 4% is what the world ought to provide, you're asking for trouble.

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

It won't do it.

A - Charles T. Munger {BIO 1406508 <GO>}

That's what happened in the housing boom. People got these foolish dreams, and they just started doing foolish things to try and reach unattainable objectives.

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

But if you had the 1%, you would be talking about each generation living something over 20% better than their parents did.

A - Charles T. Munger {BIO 1406508 <GO>}

From this base, it would be a sensational result.

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

And we'll probably get it, in my view. It won't come in even increments, but the system still works. And incidentally, you've actually seen -- even after the incredible crash, in effect, that we had in the fall of 2008, you've seen an enormous amount of resilience here and, of course, you compare it with Europe and it looks particularly strong, but --

A - Charles T. Munger {BIO 1406508 <GO>}

Yes. But the resilience has been better for the businesses than it has been for the employment situation, which is too bad.

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

Yeah. Business has done extraordinarily well. Business profits as a percent of GDP were right at the height, you know, last year -- and of course our own worth. I mean, that produces a lot of strains on the political system. Well, we've mused enough on that. So, let's go to station 10.

Q - Analyst

Hi, Warren. Arthur Lewis [ph] from Denver, Colorado, new home of Peyton Manning. But my question is --

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

It's also the home of Johns Manville.

Q - Analyst

My question is with the election coming up, have you thought about making a donation to a super PAC to try to protect a competitive advantage?

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

No. I won't. You know, I wish it never -- citizens United never happened. It's very tempting. And I will hear this argument put forth to me. People will say, well, you know, we don't believe in it either, but they're doing it on the other side, and you've got hundreds of millions pouring in on the other side and you're going to tie your hands behind your back, you know, just over principle.

But, you know, I think the whole idea of super PACs is wrong, and I think the idea of huge money by relatively few people influencing politics, I think we've got enough of a push toward a plutocracy from a lot of other factors that we don't need to throw it into the voting process.

And I might say that -- I'll say this for Sheldon Adelson who was -- he and his wife I think have probably put $12 million in or something. He says this, and I believe him entirely. I mean, he says the same thing. He thinks the system is wrong, but he says that's the way the system is. So, he has to -- you know, he has to play or other people will play and he won't be. I can understand that, but I don't want to do it. I mean, I just think that, you know, you've got to take a stand someplace. And the idea that I should toss $10 million into some super PAC, which is going to spend its whole-time kind of misleading people about the opponent's behavior or record, I don't want to see democracy go in that direction. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, I'm ordinarily so negative and I am extremely negative about our -- the nature of our politics with the both parties doing the gerrymandering and requiring this unified thought so that the crazies on each side get all this power. And I remember when we did the Marshall Plan with bipartisan support, that's more my kind of a world. So, I don't like it. That said, I think we're lucky to have two candidates as good as we have. Considering the system, I think we've done pretty well this year.

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

How would you feel about contributing to a super PAC if the other side had way more going to their super PACs?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, there are certain subjects, where I would give money to a super PAC, if I thought it would work. If I thought I could really reduce legalized gambling in the United States by a major amount, I would be willing to spend some money to get it done. I think it does us no good. And to the extent we have allowed our securities markets to be more like gambling casinos, I think that's a dumb outcome, too.

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

Yeah. If you've got a super PAC out there, call on Charlie, not me. 11.

Q - Glenn Tongue {BIO 1886802 <GO>}

Glenn Tongue, T2 Partners, shareholder from New York. In an interview with Becky yesterday, Mr.Munger commented that in the old days, the vast majority of Berkshire's value was embedded in the investment portfolio, which is presumably worth around book value. Today the majority is in the controlled businesses, which we believe are worth a substantial premium to book. In light of this, Berkshire Hathaway's intrinsic value, as a multiple of book value, should be increasing over time, yet Berkshire's price-to-book value has been declining. I'm trying to understand this.

Since the beginning of the year, Berkshire's investment portfolio -- I'm sorry -- since the beginning of last year, Berkshire's investment portfolio has increased in value by $20 billion and you've acquired Lubrizol. The controlled businesses are going gangbusters, yet the stock price hasn't budged. Is "Mr.Market" simply in one of his manic moods?

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

Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, I'd say no. But I'd say it's in the nature of things that the market is not going to do exactly what you want when you want it. I think over time, "Mr.Market" will treat the Berkshire shareholders fine, and I wouldn't worry too much about what happens over this 6 months or this 12 months. I don't think you're really all that welcome in this room if the short-term orientation is what turns you on.

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

I think you'd agree, though, probably, that Berkshire is somewhat cheaper relative to its price than it was a year ago.

A - Charles T. Munger {BIO 1406508 <GO>}

Yes. Absolutely, if that's your test, should you feel better about the margin of safety in Berkshire? Yes, it's fine. Okay. Station 1.

Q - Analyst

Good afternoon. Based on your earlier -- oh, this is Roberta Cole [ph] from the Twin Cities of Minnesota. Based on your earlier comments you made this morning, we understand you will buy back shares to help increase share value.

Our confusion, and appreciate clarification, arises as to why you are unwilling to distribute a dividend on a sporadic basis when the stock is too expensive to buy back, and you have the excess cash so that you could do that, particularly in a low interest rate environment. We look forward to clarification. Thank you.

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

Yeah. By and large, we feel, perhaps unjustifiably, but so far justified, that we can create more than a dollar of present value by investing. Sometimes, if the stock is cheap, we can create more than a dollar of present value by simply repurchasing shares. But even if that option isn't available, we feel that by every dollar we retain, we can -- overall, we can turn that into a greater than a dollar of present value.

And for 47 years, that's worked. I mean, we have -- every dollar retained is turned into more than a dollar of value. So, if somebody wanted to create their own income stream out of it, they were much better off selling a little bit of stock every year than they were by getting a dividend out of it. They would have more money working per share in Berkshire if they sold off 2% of their holdings than if we actually paid them out in 2% dividends. So, the math has been compelling to this point. Now, the question is whether we can keep doing that in the future? But, so far, at any point in our history, if we had paid out dividends -- and I paid out $0.10 a share back in the 1960s which was a big mistake, but -- we won't repeat that. If we paid out dividends, our shareholders, net, would be worth less money than they are by having left it in, and I think that will continue to be the case, but who knows? Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, I think the dividends will come in due course, because eventually we'll find it difficult to multiply the rabbits, but we hope that that evil day is delayed.

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

And even events of the last few years are encouraging in that respect.

A - Charles T. Munger {BIO 1406508 <GO>}

Yeah. Absolutely. Particularly encouraging.

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

Yeah. I would feel better about -- well, the last few years have been better than we anticipated, in terms of being able to put money to work in ways that we think are creating more than a dollar of present value at the time we did it.

A - Charles T. Munger {BIO 1406508 <GO>}

You know, Mid-America may have very unusual opportunities in the next 10 years or 15 years to employ an enormous amount of capital at a very reasonable return.

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

Perhaps $100 billion.

A - Charles T. Munger {BIO 1406508 <GO>}

What?

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

Perhaps $100 billion.

A - Charles T. Munger {BIO 1406508 <GO>}

Perhaps $100 billion. And you can see why that doesn't make us too excited about dividends.

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

We'll think about it when we're older.

A - Charles T. Munger {BIO 1406508 <GO>}

A lot older.

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

Number 2.

Q - Analyst

Hi, Warren and Charlie. This is Thomas Schulz [ph] from Germany. You once said that if you had just $1 million to invest now, you could achieve returns of 50% per year. Given what you know now, how would you be able to improve on the already spectacular performance of when you started out with your partnership?

A - Charles T. Munger {BIO 1406508 <GO>}

We can't do with our present resources what we did once. There are a lot of things I can't do that I used to do better.

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

Well, you can confess to those, Charlie.

A - Charles T. Munger {BIO 1406508 <GO>}

And so --

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

Well, but I think he may be driving it to the point that, have we learned things in managing since we were at that level where we can do even better with $1 million now than we could have done with $1 million then, and I would say the answer to that is yes. Wouldn't you?

A - Charles T. Munger {BIO 1406508 <GO>}

Yeah. I think that's true.

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

Yeah.

A - Charles T. Munger {BIO 1406508 <GO>}

There's enough craziness out there. If you have endless time and only a very small amount of money, I think you could find ways to do pretty well.

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

And in the course of 50 years or so years, we have probably learned more, or been exposed to more, that if we were back at the million-dollar level we would know more places to look, I think.

A - Charles T. Munger {BIO 1406508 <GO>}

Well, I say what's interesting about Berkshire, and many of you have been around for so long you've actually seen it happen. Berkshire's record would have been terrible compared to the way it turned out, if Warren hadn't kept learning and learning and learning all the way. I mean, each decade, to make the record decent, he had to learn to do some things he didn't know how to do at the start of the decade. And I think that's pretty much the human condition, and of course, he's getting old. I worry about him a lot.

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

I'll resist commenting. Okay. Station 3.

Q - Analyst

Hi. My name is Jeff Chen [ph] I'm from San Francisco. I'm 26, and I run a software start-up out there. My question is about mistake minimization. I found that I've made a lot of mistakes in my business, looking back, and I want to know besides thinking harder and learning from your own mistakes, what are the most effective techniques you've used to minimize the mistakes?

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

Yeah. Well, I -- we made mistakes. We'll make more mistakes. We do -- we think not so much. We think in terms of not exposing ourselves to any mistakes that could really hurt our ability to play tomorrow. And so, we are always thinking about, you know, worst-case situations and there are -- on the other hand, we have a natural instinct to do things big, both of us.

So, we have to think about whether we're doing anything really big that could have really terrible consequences. And, I would say this, that: a) I don't worry much about mistakes. I mean, the idea of learning from mistakes. The next mistake is something different. I mean, so, I do not sit around and think about my mistakes and things I'm going to do differently in the future or anything of the sort. I would say that the -- you may get some advantage. I think I've learned something over the years. I haven't learned more about a basic investment philosophy. I got that when I was 19 and I still -- I think I've learned more about people over the years. And I'll make mistakes with people. You know, that's inevitable. But I think I'll make more good judgments about people. I'll recognize the extraordinary ones better than I would have 40 years or 50 years ago.

So, I think that improves, but I don't think it improves by certainly any conscious sitting around and focusing on what mistake did I make with that person or this person. I just don't operate that way. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Warren, I would argue that what you've done, and what I've done to a lesser extent, is to learn a lot from other people's mistakes. That is really a much more pleasant way to learn hard lessons. And we have really worked at that over the years, partly because we find it so interesting, the great variety of human mistakes and their causes. And I think this constant study of other people's disasters and other people's errors has helped us enormously. Don't you, Warren?

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

Yeah. Well, that's true. In terms of reading of financial history and all that sort of thing, I've always been absolutely absorbed with reading about disasters.

And there's no question. I mean, when you look at the folly of humans, I've focused on the folly in the financial area -- there's all kinds of folly elsewhere, but just the financial area will give you plenty of material if you like to be a follower of folly. And I do think that understanding -- and that's what gave us some advantage over these people that have IQs of 180, you know, and can do things with math that we couldn't do. They just -- they really just didn't have an understanding of how human beings behave and what happens. 2008 was a good example of that, too. So we've -- we have been a student of other people's folly, and its served us well. Now's the station 4, have we got a question yet?

Q - Analyst

John Boxters [ph] Dartmouth, Massachusetts, which as you know is next door to New Bedford, a former home of Berkshire. My question is how do you build barriers to entry, especially in industries which have few?

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

Industries which have?

A - Charles T. Munger {BIO 1406508 <GO>}

Few barriers to entry.

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

Oh.

A - Charles T. Munger {BIO 1406508 <GO>}

How do we build barriers?

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

Pretty tough.

A - Charles T. Munger {BIO 1406508 <GO>}

Yeah. We sort of buy barriers. We don't build them.

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

Yeah. Well, think about that, because it's true. It's very -- there are some industries that are just never going to have barriers to entry. And in those industries, you better be running very fast, because there are a lot of other people that are going to be running and looking at what you're doing and trying to figure out, you know, what your weakness is or what they can do a little bit better.

You really -- you know, a great barrier to entry, you know, is something like this. If you gave me $10 billion, $20 billion, $30 billion and told me to go in and try and knock off the Coca-Cola Company with some new cola drink, I wouldn't have the faintest idea how to do it.

I mean, there are billions of people around the world that have something in their mind about Coca-Cola, and you're not going to change that with $10 billion or $20 billion.

A - Charles T. Munger {BIO 1406508 <GO>}

Yeah. But our great brands we bought, we didn't create.

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

We didn't create them. No. We eat them, but we don't create them. But you know, not so many years ago, you remember Richard Branson, he came to this country and he came up with something called Virgin Cola. And, you know, they say a brand is a promise. Well, I'm not sure what promise he was trying to convey by that particular branding, but you know, you haven't heard anything about that since. I don't know how many cola drinks there have been in the history. Don Keough would probably know but there's been hundreds, I'm sure. And those are real barriers, but it's hard to do.

I mean, the people -- as Pfizer finds out with Lipitor, you know, the time runs out and what was an absolute gold mine still is a pretty good mine, it's not what it was by a long shot. But we've got a number of businesses that have -- well, nobody's going to build another railroad, you know. We have a competitor and we will have competitors in alternative methods of transportation and all of that. But if you're buying something at a huge discount from replacement cost and it's an essential sort of activity, you've certainly got a barrier to new competition. But the UP is out there fighting for every bit of business every day, of course. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Yeah. We have found in a long life that one competitor is frequently enough to ruin a business.

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

Well, I did find that out. I started with a gas station out at 30th and Redick here in Omaha, and we had a Phillips station next to it. I had a Sinclair station. And you know, whatever he charged for gas was my price. I didn't have much choice. You don't like to be in a business like that.

Number 5.

Q - Analyst

Hi. I'm Kyle Miller [ph] from Kansas City, Missouri. And I was wondering about the BYD electric car company. And if, with the new cars going on sale in the U.S., if that will hopefully increase the value of the company?

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

Charlie is our expert on BYD, and he will now carry forth.

A - Charles T. Munger {BIO 1406508 <GO>}

Well, the car market in China is a huge market, and they happen to be located in China. So that's the main focus of BYD. I think the first cars they will try and bring here will be for fleets in California where we have environmental troubles and so on, and there may be a market for electric cars with that. And of course, there are various subsidies that come to people who use electric cars.

I have some relatives who commute into Washington, D.C., and they can only use the fast lane on the freeway if they buy a Prius, and that's been very helpful to Toyota. And we'll see a lot more of that sort of thing.

Generally speaking, I think BYD is an interesting company, if you stop to think about it. Here's one of eight children of a peasant that becomes a famous engineering school professor, and before he's reached 50, he's won the equivalent of China's Nobel Prize. And he has created a company which has 180-some thousand employees, a land holding about the size of Macau, and 100-and-some million square feet of buildings. It's a very interesting start-up company.

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

What percent of the cars do you think in 2030 will be electrics?

A - Charles T. Munger {BIO 1406508 <GO>}

Not many.

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

I shouldn't have asked.

A - Charles T. Munger {BIO 1406508 <GO>}

I think society -- it's like the wind power that's being subsidized in Iowa. We should subsidize electric cars in various ways, as they do in Washington, D.C. by letting them use the fast lane on the freeway, in order to get the technology going so that we can wean ourselves from oil more quickly. So, I think there will be more subsidies, and there will be more electric cars, but I'm not expecting a sudden revolution.

I drove the latest version of BYD's electric car. I was driven around the block Tuesday, and I was flabbergasted at how much improved that car was. It's simply amazing how fast people in China are learning to do what took us a long time to learn. The world is getting very much more competitive.

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

Okay. Area 6.

Q - Analyst

Good afternoon, Warren and Charlie. Jay Srinivasan [ph] from Mumbai, India, residing in Austin, Texas. I want to thank you for a great show again, and over the few years that I've been here, I've truly enjoyed hearing both of you speak and especially ability to synthesize and clarify so many issues on important things like, you know, valuation, the philosophy of life, or sometimes even the trivial things, Warren, like you clarifying two years ago about, you know, your joke on Charlie Rose about Sophia Loren. They've all been extremely beneficial.

My question is regarding some clarification around the insurance business, and especially how you value it. Now, typically we've had, you know, a lot of float information and the underwriting profit or loss info. And so, in one way we've been geared to think about it is the value of the investments that you get -- the present value of the investments that you get from the future expected float. However, I think last year, you also talked about the economic goodwill, especially in GEICO, and I think you were using some ratio, 90% of that year's insurance premiums. So I was wondering if you could just talk to us a little bit about the different ways you could look at valuing the different insurance businesses. That would be of huge help. Thank you.

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

Well, the economic value comes from the ability to utilize float if obtained at a bargain rate. Now, if interest rates were 7% or 8% and float even cost you 2% to obtain, it still would be very valuable. But the economic -- at GEICO, for example, I think it's quite reasonable to expect a fairly substantial underwriting profit, on average, for as far as the eye can see, and growth for as far as the eye can see. And then coupled with that is a growing float, because float grows with the premium volume. Well, that's the most -- you know, that is a very attractive combination of factors that comes about, because GEICO is a low-cost producer.

And it has some real advantages, in terms of scale, in terms of the whole method of operation, that makes it very hard for other companies to duplicate their cost structure. It's always good, though, to own a low-cost producer in any business, but it's very, very nice in the insurance business.

Now, Ajit's business did not come the same way at all. I mean, at GEICO we have, you know, almost -- we have well over 10 million policies, and that's a statistical-type business. And so, we have, you know, hundreds of thousands of drivers in New York, and we have them by age and profession and all kinds of things. So, it's a very statistical type business, and that coupled with a low cost, is very, very likely to produce a good result over time.

In Ajit's business, he has to be smart on each deal, because something comes along and somebody wants to buy coverage for events causing the loss of more than $10 billion in Japan in the next year. That is not -- you can't look it up in any book, and you can't do enough transactions just like that one to even know whether your calculation was right on that specific deal. Now, if you make 100 calculations on 100 of these types of deals, you'll soon find out whether you have the right person making those calculations or not. But the economic goodwill with Ajit's operation is based much more on the skill to price individual transactions and the ability to find the people even that want those transactions. Whereas at GEICO, it's based basically on a machine. But it's enormously important how that machine is run, and Tony Nicely has absolutely knocked the ball out of the park, in terms of managing it.

In the years prior to when he took over, it was -- you know, it had gone along at 2% of the market and really hardly gone anyplace. And Tony is quintupled, virtually, our share of the market, while at the same time producing great underwriting results. So, he took a machine that had a current -- had a lot of potential. And then, he exceeded even the potential that I thought it had. So, you get the value in different ways.

It does relate in the end to a combination of growing a large float, and extremely low-cost float, and in our case, the cost of float has been negative, so people are actually paying us to hold $70 billion of their money, and that's a lot of fun. And I think that the chances of that continuing are really quite high, although I don't think the chances of the $70 billion growing at a fast clip are high at all. I think we'll be lucky to hold onto the $70 billion. But I think the chances of the fact of us being able to get that at a less-than-zero cost is good, and I think that will even be true if interest rates go up to 4% or 5% or 6% or 7%. I think we may very well be able to do it, and that's a huge asset under circumstances like that. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Yeah. And we're currently in a low-return environment from conventional investment float, but that won't last forever. And there were times in the past when Ajit would generate a lot of one-of-a-kind float, and Warren would make 20% or 30% with it before we had to give it back. That was a lot of fun, and we did it over and over and over again. Whether that will ever come again on that scale, I don't know, but it doesn't have to.

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

You know, when we have $30 billion, presently our cash position, well, really if you counted all the companies, it's probably $36 billion or $37 billion. We're essentially getting nothing on that. So, if you -- our earning power today is being affected by current Fed policies.

And I -- you know, that is not going to be a normal rate for many, many, for over the longer term. So, we -- in that sense, our normal earning power is being depressed by Mr.Bernanke, but probably for very good reason. Seven?

Q - Analyst

Ola Larson [ph] Salt Lake City. Five years, six years ago, you wrote in your annual shareholders report that the current account deficit, the trade deficit, couldn't go on indefinitely. Of course, a very large part of that is crude oil import. Now some people in the energy markets are sort of talking about United States becoming independent in the energy market. Could you shed some light on how this might affect the trade deficit? Thank you.

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

Yeah. It will be a huge plus, obviously, if our total energy production increases substantially and what we have to import costs us less. I mean, it is a big factor in the current account deficit. We're doing a lot in oil. I don't see us getting self-sufficient in oil, but gas is huge. Our picture has changed a lot in the last three years, in terms of energy.

Charlie and I might argue that, over time, we'd still be better off using somebody else's up and keeping our own for a long time.

A - Charles T. Munger {BIO 1406508 <GO>}

That's my view.

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

Yeah. For a long time, I mean, we were an oil exporter in my lifetime, a substantial oil exporter. And it might have been better if we would have been using Saudi --

A - Charles T. Munger {BIO 1406508 <GO>}

It would have been better.

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

Yeah. You can't get by with much with Charlie here. It would have been better. Okay. It would have been better, if we had been using Saudi Arabia's oil then and just, in effect, treated all of those huge reserves we had in places like East Texas and such as a strategic petroleum reserve which we just kept around for another century, but --

A - Charles T. Munger {BIO 1406508 <GO>}

It would have been much better.

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

Yeah, it would have. But our picture has changed for the better, and that means our current account deficit picture has changed for the better. We still got a ways to go, but it does look better than three years or four years ago. Don't you think so, Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, I think the, those are I think, that's a very complex interaction. In my view is that the single-most precious resource in the United States are its hydrocarbon reserves, the ones that are right here and, of course, I want to use up. I'm a puritan. I always want to suffer now to make the future better, because I think that's the way grown-ups should behave. So, I'm all for using up the other fellow's oil and conserving our own. You know, I think the idea of energy independence is one of the stupidest ideas I've ever heard grown people talk about.

Think of what terrible shape we'd been in if we'd achieved total energy independence way earlier. We wouldn't have any oil and gas left at all. Wouldn't that be a wonderful condition? We don't want energy independence. We want to conserve this stuff. And thank God other people have some of this precious stuff they're willing to sell. I have the exact opposite idea on this subject than most people. And of course, I think I'm right.

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

This is Charlie's version of saving up sex for your old age.

A - Charles T. Munger {BIO 1406508 <GO>}

No, we're going to use the oil.

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

Okay. Number 7. Was that 7?

Q - Analyst

Jim Powers [ph] Newton, Massachusetts. A few minutes ago, you were talking about per capita GDP, and if it went up 1% a year, each generation would be 20%, 25% better off than the previous one. In Boston right now, we have a big controversy where the executive officer of Liberty Mutual Insurance Company has been making over $50 million a year in compensation plus other perks. And that amount of money, in an 1 hour or 2 hours, is more than 95% of the employees of that company make in the course of a year. The newspapers have been commenting on the concentration of the profits of that mutual insurance company not going to the insurance policyholders who own the company, because it's a mutual insurance company, and the lack of compensation going to the average employee.

What good does it do the average American for the economy to improve 1% of GDP per year, if they don't enjoy some of that themselves?

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

We certainly agree. They -- without commenting on any specific individuals, but obviously, if we start out with $48,000 per capita GDP and we do increase by 20% or so, each generation, you would certainly hope that that would not keep bubbling to the people at the top, as it has during the past generation. I mean, the past 20 years we have not seen the progress that the country overall has made distributed in any kind of way except very, very much at the top.

And the tax code has encouraged that. The tax code is -- the tax code, which was taking those people making the $45 million incomes in 1992, was taking 27% or 28% from them. When they got up to $270 million now, it's taking a figure that's more like 18%. So, we've got a tax code that has become more and more pro the ultra-rich, and coupled with what you see, and you've seen in compensation, and what the CEO makes in relation to the average worker and all that. We've gone a long direction -- a long way, in making sure that what we were promised in the way of trickle-down benefits has not been achieved.

A - Charles T. Munger {BIO 1406508 <GO>}

It's also true that most of the great mutual insurance companies. And there are a lot of them in the United States, do not have that kind of compensation abuse in them.

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

That's true, for example --

A - Charles T. Munger {BIO 1406508 <GO>}

That's quite fair.

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

State Farm, or something like that, does not have that.

A - Charles T. Munger {BIO 1406508 <GO>}

No, no. Most of them don't. And that's a very egregious example, but Boston has always led in egregious examples.

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

No. It's the corporate world --

A - Charles T. Munger {BIO 1406508 <GO>}

It got there early, you know, it mastered the art.

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

The corporate world has been -- there's been a lot more egregious behavior in the corporate world than the mutual world.

A - Charles T. Munger {BIO 1406508 <GO>}

Well, that's why it's so anomalous, really.

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

Yeah. Yeah.

A - Charles T. Munger {BIO 1406508 <GO>}

No wonder it's drawing some attention.

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

The rich like it that way. You have to understand that. But the tax code is basically, that is an important place where people decide, you know, who actually bears the cost of this government, and we have moved away from the rich on that as they have gotten further and further away from the middle class, in terms of earnings. And, you know, there's a -- there may be a natural tendency in a democracy to work toward a plutocracy. If you think about the effect of money in politics, if you think of the nature of how market systems work, you know, there may be some underlying trends that push a democracy toward plutocracy, and you need countervailing factors to prevent it.

A - Charles T. Munger {BIO 1406508 <GO>}

I don't think you ought to be too discouraged about Boston, either, because when I first went to Boston, the mayor was running the city from the federal penitentiary.

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

Was that Curley or

A - Charles T. Munger {BIO 1406508 <GO>}

Yes. Mayor Curley.

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

Yeah.

A - Charles T. Munger {BIO 1406508 <GO>}

And nobody in Boston saw anything peculiar about it.

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

If you live long enough, you'll see everything.

A - Charles T. Munger {BIO 1406508 <GO>}

Yeah. Right.

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

Area 8.

A - Charles T. Munger {BIO 1406508 <GO>}

9, he says.

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

9? Okay. 9.

Q - Analyst

My name is Brian Chilton [ph] also from the Boston, Massachusetts, area.

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

I'm surprised you admit it.

Q - Analyst

I was tempted. Warren, a lot of today's questions referenced risk. It seems to me one of the biggest risks facing us is the pure sovereign debt levels both here in the U.S. and in many countries in Europe. The liquidity injections by the Fed, and more recently the ECB, have given us some breathing room, but how do these large debts get balanced and do they concern you?

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

Well, the nice thing about sovereign debt is, they cannot pay you, in the end, and you can't grab anything from them, unlike other kinds of debts.

And, you know, the truth is that the, the world has seen many, many failures of sovereign debt. I remember when Walt Wriston, back in the early 1980s, said sovereigns don't default. Well, the truth is they've defaulted many, many times over history. And what happens then is you get a big reallocation of wealth.

Now, the wealth doesn't go away. I mean, you don't lose the farms, you don't -- you lose the financial (inaudible), you don't lose the people with their skills and all of that sort of thing. I mean, there may be some marginal losses. But I don't know how it plays out in Europe. We have seen the ECB here recently give the trillion dollars to banks which are loaded with sovereign debt, which really is questionable in many cases. And I wouldn't be surprised, in some cases, if they haven't used some of those -- some of the borrowing to even buy more of it. So, it's like giving a guy with a margin account with some perhaps bad assets in it even more money to play with to further leverage themselves up and make an even bigger bet. But when they did that at MF, or whatever it was, Global, you know, then it had a bad ending, and it might have a bad ending over there.

I would much prefer, you know, a world that was getting its fiscal house in order, including in the United States. The counterargument, of course, is that when you're in a recession, or close to it, as some or all of Europe might be, that that will feed on itself and be destructive in the same way that it was in the early '30s in the United States. But we have been having in the United States, it's very interesting. We talk about the fact that there was a stimulus bill a few years ago, even though they didn't call it that, and whether it was adequate and inadequate and all that.

When the government is operating at a deficit that's 8% to 9% of GDP, that is stimulus on a huge, huge level. They don't call it -- they may not call it, but that is, by definition, huge fiscal stimulus. So, we have been having consistent, huge fiscal stimulus in this country, and we will have to wean ourselves off of that fairly soon. And the interesting, I think, almost -- leaders of both parties realize that you probably have to get revenues up to something around 19% of GDP and you have to get expenses down to 21% of GDP. And that that will work fine over time, but you have a situation where both sides feel they will show weakness by going first.

And you also have a situation where the leader, probably, of at least one party can't speak for their party, so that you can't have negotiations in private, which are probably the way to get something like this solved. I would avoid. Well, I would -- certainly at these rates, I would totally avoid buying medium-term or long-term government bonds. I think that's the obvious answer. I wish I had answers that would solve the problem further beyond than that. But in terms of your own situation, I would stay away from medium or long-term government bonds, our own, or those of other countries. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, of course, he's asking the really intelligent question of the day, and of course we're having difficulty answering it. It is very hard to know how much of this Keynesian stuff will work after you've lost all your fiscal virtue. You know you come to a time, if you're a government which has pretty much lost all its fiscal virtue, that the Keynesian stuff won't work, and the money printing won't work, and it's all counterproductive, and you're heading for calamity.

We don't know the precise point at which it stops working. And somebody like Paul Krugman, who I think is a genius, but I also think he's more optimistic about doing well with various economic tricks after you've lost a lot of fiscal virtue than I think is justified by the facts. I think it's very dangerous to go low on fiscal virtue and, of course, here in the United States, we've used up some of our store.

And it's very important that we not go too far in that direction because we want to be able to do what we did in the great recession, where we avoided a huge calamity because we had enough fiscal virtue left so the economic tricks would work. So, it's a terrible problem. And I ask you the question, Warren. Is it inconceivable that we could get a very mediocre result in the United States as a result of all this trouble?

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

I think we'll get a good result over time.

A - Charles T. Munger {BIO 1406508 <GO>}

I know you do, but is it inconceivable? I'm trying --

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

Well, we can have problems, but I --

A - Charles T. Munger {BIO 1406508 <GO>}

I'm a little less optimistic than he is. I'm roughly in his position. I think there's some slight chance that we can get a pretty mediocre result.

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

Let's say I came to you right now with a budget that made sense in general, in what it achieved, that it had a 19% revenue built into it and 21 percentage of expenditures. Would you want to adopt that now?

A - Charles T. Munger {BIO 1406508 <GO>}

I think the reason intelligent people disagree on this subject is because it's so difficult. Everybody wants fiscal virtue, but not quite yet. They're like that guy who felt that way about sex. He was willing to give it up but not quite yet.

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

Saint Augustine.

A - Charles T. Munger {BIO 1406508 <GO>}

Saint Augustine, yes.

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

He's a hero to many of us.

A - Charles T. Munger {BIO 1406508 <GO>}

I think these are very, very hard questions. And I have one thing I'm sure of, that it is safer, if you're going to these deficit financing things, to use the money intelligently to build something you're sure to need than it is to just throw it off the end of trains or give it to crooked lawyers. And so, I think we all have an interest in making sure that whatever tricks we play are intelligently used, because it will protect our reputation and reality in having this fiscal virtue.

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

I'll let you design the 21%, that gets expended.

A - Charles T. Munger {BIO 1406508 <GO>}

Oh, if I were doing it, I would expend it sensibly on infrastructure that I knew we were going to need, and I would have a massive program, and I would have the whole damn country pay more cheerfully, like we were so many Romans in the Punic Wars. In one of the Punic Wars, the Romans paid off two-thirds of the war debt before the war was over. That's my kind of.

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

That's our campaign slogan, folks. Punic Wars again.

A - Charles T. Munger {BIO 1406508 <GO>}

But the answer is, I think we do need more sacrifice. I think we need more patriotism. We need more sensible ways of spending money, and we need more civilized politics. But it's still a hard question. I think we should go on to an easier one. Warren is not strained, but I'm at my limit.

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

Okay. We'll do one more question, from area 10.

Q - Analyst

This will be an easier question.

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

Good.

Q - Analyst

Thank you so much both for being here today, and I hope when you're both in your 90s and your 100s, you'll still be here doing these meetings.

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

Thank you.

Q - Analyst

And I'm Candy Lewis [ph] from Denver, Colorado. And my question has to do with taxes and what do you feel is the ideal corporate tax rate to get this economy started and excited?

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

Yeah. Last year the actual taxes paid were about 13% of profits, as I remember. So, the corporate rate is 35%. And last year you were allowed to write-off 100% of most kinds of fixed-asset purchases. I don't think the corporate profits are not the problem, or corporate balance sheets, or corporate liquidity, is not the problem in the economy moving. I mean, there is money available, huge amounts of money available in the corporate world, including at Berkshire, to push forward on opportunities.

You know, we will -- we're spending money where we see opportunity. And we spent lots of money in the railroad business, we spent lots of money in the energy business, and we built plants elsewhere and did other things. But -- so it is not a lack of capital at all that's holding back, nor is it tax rates, in my view, that are holding back, at all, investment. You know, this country prospered in the '50s and the '60s when the corporate rate was 52% and people actually paid it. When it was cut to 48%, we all rejoiced. And our GDP per capita grew. So, it is not a factor holding back.

I will tell you, I mean, corporate tax rates last year were 1.2% of GDP. Medical costs were 17-and-a-fraction percent of GDP. And there we have at least a 7 percentage point disadvantage against the rest of the world, which is a big multiple of all the corporate taxes paid. So, if you ask me about the tapeworm of American industry, you know, it's basically our medical costs. We've got a huge cost disadvantage against the rest of the world. Now, that's unbelievably tough to address, but that is where -- as Willie Sutton would say, that's where the money is. And you can fiddle around with corporate tax rates. I don't think that will have any big effect on the economy.

You may achieve greater fairness within the corporate tax code, I wouldn't argue about that at all. And incidentally, the Treasury -- I mean, I think both parties agree that they would like to see a lower overall corporate tax rate, but one that applies more equally across corporations, so that the -- but getting from here to there is going to be very, very difficult. Because, it's fine when you talk about it in the terms I just used. But once you put specific proposals out, everyone whose tax rate is going to go up, and some have to go up if others are going to go down, everyone whose tax rate is going to go up will fight with an intensity against that bill that far outstrips the intensity with which those on the other side fight. It's a real complex problem that way. But corporate tax rates are not our country's problem, in my view. Charlie?

A - Charles T. Munger {BIO 1406508 <GO>}

Well, I used to say when I was younger that I expected to live to see a value-added tax, and now I'm not so sure. But I think it's going to come eventually and probably should. It equalizes the import-export effect of the taxes, and I think it's quite logical to tax consumption. I think we get in a lot of trouble when we give people the money and then come around later and try and take it back.

Human nature really resists that. And I think it's much better, if you're going to rely on taxes, to have taxes that are sort of taken out right off the top, and they don't vary so much from year-to-year. I come from a state where the state income tax is based on capital gains, go way up and then they collapse. And of course, the politicians spend like crazy when they go up, and there's agony when -- it's a crazy way to have a tax system. So, we have a lot of problems.

And I don't think a 52% tax rate, we may have gotten by with it when we sort of led the world, but I'm not so sure it would be such a good right now to have our tax at 52% and the rest of the world taxing corporate profits at 15% or something. That might have a lot of perverse consequences. And since so little money is involved, it's not where the game should be played. And if Warren could save a lot of money on medical expense for everybody, why, he probably would have done it already. It's really hard.

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

It's hard. So, we'll end with a hard one. And I thank you all for coming. We're going to reconvene in about 10 minutes to conduct the business of the meeting. And thank you.

We'll now go to the business meeting. We follow a script here, at least to quite a degree. And the meeting will now come to order.

I'm Warren Buffett, Chairman of the Board of Directors of the company. I welcome you to this 2012 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 their firm's audit of the accounts of Berkshire.

Forrest Krutter is secretary of Berkshire. He will make a written record of the proceedings.

Becki Amick has been appointed inspector of elections at this meeting and she will certify to the count of votes cast in the election for directors and the motions to be voted upon 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 - Forrest N. Krutter

As indicated in the proxy statement that accompanied the notice of this meeting that was sent to all shareholders of record on March 7, 2012, being the record date for this meeting, there were 934,158 shares of Class A common stock outstanding, with each share entitled to one vote on motions considered at the meeting, and 1,075,302,988 shares of Class B common stock outstanding, with each share entitled to 1/10,000th of one vote on motions considered at the meeting. Of that number, 640,153 Class A shares, and 664,293,280 Class B shares are represented at this meeting by proxies returned through Thursday evening, May 3rd.

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

Thank you. That number represents a quorum and we will therefore directly proceed with the meeting. The first order of business will be a reading of the minutes of the last meeting of shareholders, and 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 the shareholders be dispensed with and the minutes be approved.

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

Do I hear a second? 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 wishes to withdraw a proxy previously sent in and vote in person on the election of directors, you may do so. Also, if any shareholder that is present has not turned in a proxy and desires a ballot in order to vote in person, you may do so. If you wish to do this, please identify yourself to one of the meeting officials in the aisles, who will furnish a ballot to you.

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, Don Keough, Thomas Murphy, Ron Olson, and Walter Scott 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, Donald Keough, Thomas Murphy, Ronald Olson, and Walter Scott be elected as directors.

Are there any other nominations? Is there any discussion?

The motions are ready to be acted upon. If there are any shareholders voting in person, they should now mark their ballots on the election of directors and allow the ballots to be delivered to the inspector of elections.

Miss Amick, when you are ready, you may give your report.

A - Becki Amick

My report is ready. The ballot of the proxyholders in response to proxies that were received through last Thursday evening, cast not less than 697,021 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, Miss Amick. Warren Buffett, Charles Munger, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, Donald Keough, Thomas Murphy, Ronald Olson, and Walter Scott have been elected as directors.

The next item of business is a motion put forth by the AFL-CIO Reserve Fund. The motion is set forth in the proxy statement. The motion requests Berkshire Hathaway to amend its corporate governance guidelines to establish a written succession planning policy, including certain specified features.

The directors have recommended that shareholders vote against this proposal.

I will now recognize Ken Mass to present the motion. To allow all interested shareholders to present their views, I ask Mr.Mass to limit his remarks to five minutes.

A - Ken Mass {BIO 16074004 <GO>}

Mr.Buffett -- Mr.Buffett, members of the board of directors. My name is Ken Mass. I represent the AFL-CIO, a federation of 56 unions, representing more than 12 million members. I'm here today to introduce the AFL-CIO shareholders proposal for succession planning. Our proposal urges the board of directors to adopt and disclose a policy on CEO succession planning.

Planning for the succession of CEO is one of the most important responsibilities of the board of directors. Having a succession plan in place is particularly important at a company like Berkshire Hathaway where the CEO has created tremendous value. Shareholders are thankful for Warren Buffett's leadership as CEO.

Last year, shareholders became concerned when David Sokol resigned from the company after allegations of improper trading. Mr.Sokol has been rumored to be a possible successor to Mr.Buffett.

We filed our proposal last fall, because we feel that an internal CEO candidate is needed to carry out Mr.Buffett's legacy. Internal candidate may be maintained -- can help maintain, Berkshire Hathaway's strong culture.

In Mr.Buffett's letter to shareholders earlier this year, he disclosed that the board of directors had identified his successor, as well as two superb backup candidates. We were relieved to hear this news. We are not asking the company to disclose the name of Mr.Buffett's successor. All we're asking for is the board of directors' update shareholders annually on the status of its succession planning.

We are pleased that Berkshire Hathaway has adopted all of these practices we recommended in our shareholders proposal, except for an annual reporting. We hope the company will continue to keep shareholders informed about the status of its succession plan.

Thank you again, AFL-CIO for considering this proposal. Thank you.

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

Thank you, Mr.Mass. Is there anyone else that wishes to speak? Okay. If there's no one -- no one else, I would say, Mr.Mass, you know, we are on the same page. We regard it -- and I speak for all the directors, we regard it as the number one obligation of the board to have a successor, and one that we're very happy with, as to both ability and integrity, and that we know well, to step in tomorrow morning if I should die tonight. And we spend more time on that subject than any other subject that might come before the board.

So, we do not disagree with you on the importance of it. We have taken it very seriously, and I note that you do not ask us to name the candidates, and I think there are obvious disadvantages to doing that. So again, we're on the same page on that.

And so, as I understand it, you basically want to be sure that, we report annually to you that the subject continues to be at the top of the list, and I can assure you that it will. And in terms of affirming that fact, I would say that certainly more often than once a year, I get -- in some public forum -- I get asked questions, where I get to answer precisely, the question that you want me to address, and I think that will continue in the future.

We have not built it into any formal item in the proxy statement, which your organization has suggested we do, but we have covered it in the annual report. We cover it at these meetings. We cover it when I'm interviewed, frequently. And I don't think that anything would be gained by putting it in some other form, but I do want to say that we -- I'm glad you take it seriously. We take it seriously. And I think we're going to get a result that you'll be very happy with, although I hope it doesn't happen too soon.

So, with that I would say that the motion is now ready to be acted upon. If there are any shareholders voting in person, they should now mark their ballots on the motion and allow the ballots to be delivered to the inspector of elections.

Miss Amick, when you're ready, may you give your report.

A - Becki Amick

My report is ready. The ballot of the proxyholders in response to proxies that were received through last Thursday evening, cast 32,179 votes for the motion and 672,285 votes against the motion.

As the number of votes against the motion exceed a majority of the number of votes of all Class A and Class B shares outstanding, the motion has failed. 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>}

The vote was about 95% -- 5%, and thank you, Miss Amick. The proposal fails. Does anyone else have any further business to come before this meeting before we adjourn? If not, I recognize Mr.Scott to place a motion before the meeting.

A - Walter Scott {BIO 1388841 <GO>}

I move that this meeting be adjourned.

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

Is there a second? A motion to adjourn has been made and seconded. We will vote by voice. Is there any discussion? If not, all in favor say yes. Aye. Yes. All opposed say, no. Thank you.