Annual General Meeting

Company Participants

- Alexis Christoforous, News Anchor, Business Correspondent
- Andrew Ross Sorkin, Financial Columnist
- Andrew Serwer, Editor-in-Chief
- Charles Thomas Munger, Vice Chairman
- Gregory Edward Abel, Chairman, President & Chief Executive Officer
- James Hansen, Adjunct Senior Research Scientist; Director, Climate Science, Awareness and Solutions Program
- James Jones, Director, Katie School of Insurance & Financial Services
- Jane Kleeb, Editor and Founder
- John P. Gainor, President & Chief Executive Officer
- Kathy Ireland, CEO and Chief Designer
- Mario J. Gabelli, Chairman and Chief Executive Officer
- Mark Vasina, Director of Administration
- Matthew K. Rose, Executive Chairman
- Nicole Sinclair, Markets Correspondent
- Paul Anka, Singer, Songwriter, and Actor
- Rebecca K. Amick, Director-Internal Auditing
- Richard Miller, Associate Professor, Systematic Theology
- Robert P. Miles, Teacher
- Ronald L. Olson, Director
- Sharon L. Heck, Secretary & Vice President
- Unverified Participant
- Walter Scott, Independent Director
- Warren Edward Buffett, Chairman & Chief Executive Officer

Other Participants

- Adam Brett Bergman, Analyst
- Becky Quick, Squawk Box, Co-Anchor; On the Money, Anchor
- Clifford Gallant, Analyst
- Cristian Campos, Signal Maintainer
- Greggory Warren, Analyst
- Jonathan Lawrence Brandt, Analyst
- Mindy Jensen, Community Manager

MANAGEMENT DISCUSSION SECTION

Alexis Christoforous

Hello, and welcome to the first ever livestream of the Berkshire Hathaway Annual Shareholders' Meeting on Yahoo! Finance. We are live at the CenturyLink Center in Omaha, Nebraska where some 40,000 people waited in the pouring rain this morning to hear Chairman and CEO, Warren Buffet, the world's most famous investor be peppered with questions for the next seven hours for all of the world to see.

I'm Alexis Christoforous of Yahoo! Finance coming to you from the Exhibition Hall where all the Berkshire brands come to sell their wares this weekend, including the Clayton Home behind me that is selling for $78,900. It's a modular home and it is actually at a discount for Berkshire shareholders .They get it for $10,000 less than they would if they weren't shareholders.

All right. In just a moment you're going to hear from the Oracle of Omaha himself. But you know what, we've got our own oracle here at Yahoo! Finance. It is Editor in Chief, Andy Serwer joining in front of the Fruit of the Loom store. And Andy I know it's already been a very busy morning here. There have been newspaper tosses and cheerleaders. What are we going to see it's a magnitude of the man, isn't it?

Andrew Serwer

That's right Alexis, and people have been streaming into this Fruit of the Loom exhibit all morning looking to buy stuff, and as well all across this giant exhibition hall to other Berkshire companies like See's Candy, GEICO, Dairy Queen and they're buying all of this Berkshire bric-a-brac basically. You can see these T-shirts, underwear, Heinz Ketchup, Kraft Mac & Cheese; there's some See's Candies and T-shirts. Even this Buffet fan. And basically, all these people are here just to hear what Warren Buffet has to say. He is the Oracle of Omaha, and as you suggested, the world's greatest investor. But even more than that, he is an incredible businessman who's built Berkshire Hathaway up into one of the most important and biggest companies in the world.

He employs over 350,000 Americans, does tens of billions of dollars of sales every year. Has all these companies. But even more than that, Buffet has become an American icon who influences sports, the arts, movies, politics and government as well, Presidents, Senators, CEOs from around the world want to hear him speak and that's why everyone's here today, Alexis.

Alexis Christoforous

Yeah. Well, a little bit that Midas touch, right, Andy. He certainly has become part of pop culture. Well, listen, we have got you covered. Here is the schedule, all right. All these times by the way are Eastern Daylight Time. At 10:30 AM, the meeting begins when Warren Buffet and Charlie Munger are questioned by a panel of journalists, analysts and the audience of shareholders. Warren Buffet and Charlie Munger are asked about anything under the sun. Then they break for lunch, and that's when Yahoo! Finance coverage resumes. We will be bringing you analysis and some special guests you won't want to miss. Then at about 2:00 PM Eastern, the Q&A resumes. At about 4:30 Eastern, there is a short recess. Yahoo! Finance has you covered with anything you may have missed. And then at 4:45 Eastern, the formal meeting begins. Now here is the beauty of this. You don't have to be on a desktop to watch this all. Yahoo! Finance is streaming this all on our app as well. So take us on the go.

All right. There are diehards all over the world who know all the ins and outs of Berkshire and Buffet. But for the uninitiated, the company touches almost every brand you can think of, from the moment you wake up until the moment you go to bed. I want you to meet someone called Jane Berkshire (3:50) and all the Berkshire-related products she uses every day.

[Video Presentation] (3:56 to 5:29)

All right. Now let's hear from the man himself. Andy I know you sat down with Warren Buffett recently and he gave you a preview of what we're going to see today, right?

Andrew Serwer

That's right, Alexis. I've had the opportunity to speak with Buffet a number of times over the years. I sat down with him recently to talk about this weekend and how it's become this incredible extravaganza. Take a listen.

People love to hear what you and Charlie have to say. But you throw the newspapers and we have all these kind of little mini-events that surround it. So you contributed building it up, right?

Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. It's - there is a little bit of (6:02) in there.

Andrew Serwer

But you never - did you ever plan on it getting to be what it is today?

Warren Edward Buffett {BIO 1387055 <GO>}

No, I never dreamt it would get this large. I mean we have had to move the venue about six times. Fortunately they built a new convention center here, six years or seven years ago, or we would have had to - I don't know what we would have done. It surprised me. We had well over 40,000 last year, and if you go back 25 years Berkshire didn't even have 40,000 shareholders. So it - it just keeps going.

Andrew Serwer

And you're kind of maxed out, which is one reason why you decided to livestream. Can you talk about why you've decided to livestream this at Yahoo! Finance?

Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. Well, there's a couple of reasons. But one reason certainly is that we sort of maxed out and we couldn't take much of them way further names (6:44) at the meeting. The room at the convention center, the main room holds about 18,000. There is five wonderful rooms and last year we filled all those, and we had to go across the street to the old motel (6:58), and so we had a couple of more big rooms over there that were pretty full. So in effect we were starting to stream in a little bit to our own audience. So that was one reason. But beyond that, I know, it's - we get people from all over the world. We have maybe a 100 - 200 from Australia, hundreds from China. They come from all over, and not everybody can afford that. It's not an easy expense to afford. So this gives people a chance, who don't want to spend a lot of money on airplanes, and it's just difficult to get to, from very - I think we had 55 countries that people came from last year. So maybe we will lease your forum (7:43).

Andrew Serwer

So, it's - it's a big event. You go up on stage with Charlie Munger, your partner, do you get nervous...

Warren Edward Buffett {BIO 1387055 <GO>}

Yeah.

Andrew Serwer

What's it like going up there?

Warren Edward Buffett {BIO 1387055 <GO>}

No, no. Charlie grew up in Omaha. But he only comes here now for the annual meeting once a year. And incidentally (7:55) we don't see each other until just right before the meeting starts, because he is off doing something, and I'm off doing something. And when I know the movie is coming to an end, I'm still out with the audience, watching the movie, which starts at 8:30 Central Time and runs till 9:30 and about 9:25, I - they start rolling the credits on the movie, and Charlie gets up. He sees me get up and we walk backstage. And then when the movie finally is over, we walk out on the stage. But we have - we don't talk about - we don't consult over anything. I have no idea, what he is going to say, and I walk out there and Charlie is 92, I'm 85. He lost an eye some time ago. So I just told him, I can see and he can hear. We got to work together. I think we have no choice. Maybe I can't remember his name anymore, but that's a minor detail.

Andrew Serwer

Do you have a theme to the meetings or is there some sort of program at all?

Warren Edward Buffett {BIO 1387055 <GO>}

No, we go wherever the questions lead us. We have - we have three journalists, we have three Wall Street specialists, and then we have the crowd. So we keep alternating among them and last year we had over 60 questions. And we get no advance notice of it. We do not know from the crowd who is going to be asking questions. They draw at various stations, where we have a microphone, and anything goes. And if you have been to the meeting I would say that, frankly now the questions come from anybody in Omaha, and a great - a good number come from people outside the United States.

Andrew Serwer

I mean you learn something every time you talk to the man, Alexis. And what was most striking to me from that conversation was his flexibility. I mean here's an 85 year old guy, who famously doesn't really know much about technology, who's decided to stream this meeting.

Alexis Christoforous

Exactly. I mean he is one of the oldest CEOs in the world. And this was his idea. He's embracing the technology and we applaud him for that.

Andrew Serwer

I mean he continues to learn every day. The man is like a sponge. He reads constantly. He's constantly talking to people. He is very, very curious and I think that's part of what's made him so successful.

Alexis Christoforous

For sure. Sharp as a tack. Thanks for bringing us that interview Andy.

Andrew Serwer

All right. Alexis.

Alexis Christoforous

And here is a little context for you. Yahoo! Finance's Lawrence Lewitinn did the math, thankfully. Thank you Lawrence, and the price of one share of Berkshire stock 25 years ago today was $8,075. Today, it is $218,530. Now that's a profit of $210,455 or 2,506%. That means, your $8,075 investment is now worth 26 times what it was in 1991. So on an annualized basis, it's a return of 14.1% per year, every year for 25 years. You'll be hard pressed to find those returns anywhere else. You've in essence doubled your money on average, every five years and three months.

Q&A

Q - Alexis Christoforous

All right. With Buffet's worth at $62 billion, people will be listening to his every word, especially this man, Bob Miles, the foremost Buffetologist. He is the author of three books on Buffet. He also teaches an MBA course at the University of Nebraska, and we'd like to welcome Bob in when he is here. Is Bob here? Oh, Bob Miles, come on over. Come on over here, Bob. Get to my left. We want to chat about today's event. You're our Buffetologist as we said. Thanks so much for being here. What year is this for you now at the meeting?

A - Robert P. Miles {BIO 19735683 <GO>}

This is my 20th year. I first came out when the meeting was held at a former race track called our Ak-Sar-Ben Race Track, which is Nebraska spelled backwards.

Q - Alexis Christoforous

Okay. I wouldn't have known that. Thank you. So you've really seen this thing grow. Talk to me about the mysticism of Warren Buffet and why this faithful crowd follows him and hangs on his every word?

A - Robert P. Miles {BIO 19735683 <GO>}

Well, I think he is just a regular guy, who speaks the truth unlike Wall Street. Warren at the meeting, when I first attended 20 years ago, would say Wall Street will sell you anything that you're willing to buy, and that Wall Street is the legal pickpocket for the average investor. He educates us, he entertains us and he gives us the hard truths about finance, the economy, and life.

Q - Alexis Christoforous

Tell me – yeah, he's sort of like everybody's grandpa or uncle in many ways, right. Talk to me about what we might expect him to say during the meeting. We know that he is holding on to shares of IBM at a loss right now. IBM stock is down more than 14%. It's usually policy not to talk about individual stocks at this meeting. But you think he might – and do you think maybe IBM was a mistake?

A - Robert P. Miles {BIO 19735683 <GO>}

Well, he says I may have done a mistake. He said that recently. He may talk about it, but he is likely to not talk about anything that he's purchased or they are holding or that they've sold. But IBM maybe an exception. I think he is likely to talk to you about Precision Castparts, which is their largest acquisition. And in fact, it's an acquisition that was brought to him by the likely successor to Warren Buffett, on the investment side, Todd Combs.

Q - Alexis Christoforous

And that's my other question. Do you think he is going to address his succession plan here today? I mean, he is 85. We all know he's going to live to like 200. But is he going to talk about that succession plan today?

A - Robert P. Miles {BIO 19735683 <GO>}

No. He is not likely to talk about that except possibly joke that he plans to work till five years after his retirement, and then communicate with regular (13:25) with the board of directors.

Q - Alexis Christoforous

I do not doubt it. Bob Miles. Thanks so much for stopping by. Enjoy the rest of the weekend.

A - Robert P. Miles {BIO 19735683 <GO>}

Thank you for inviting me, and I hope you have a great broadcast and worldwide casts throughout the world of Berkshire Hathaway.

Q - Alexis Christoforous

Thanks so much. We are making history here. Thanks so much Bob. We appreciate it.

A - Robert P. Miles {BIO 19735683 <GO>}

Thank you.

MANAGEMENT DISCUSSION SECTION

Alexis Christoforous

All right. Well, look, the fun has just begun. We are just minutes away from Warren Buffett taking the stage. And coming up, you're going to hear from someone who knows Buffett better than most. And remember during the conversation we want to hear from you, the hashtag is #brklivestream and don't forget that Yahoo! Finance app is livestreaming this as well. You're watching Yahoo! Finance's worldwide exclusive livestream of the Berkshire Hathaway annual meeting.

[Video Presentation] (14:07 to 15:35)

You're watching Yahoo!'s exclusive livestreaming of the Berkshire Hathaway annual meeting, coming to you from the CenturyLink Center in Omaha, Nebraska. And we want to welcome our viewers in the United States and around the world.

I'm Alexis Christoforous, joined by Yahoo! Finance Editor in Chief, Andy Serwer and we are just moments away from the beginning of this highly anticipated meeting. One of the traditions this week in Omaha is the fourth annual Newspaper Toss. It was held moments ago right here inside the CenturyLink Center. And in the past, Bill Gates and Kathy Ireland have competed against Buffett. And Buffett has famously said he has tossed 0.5 million papers in his lifetime. And the rules are pretty simple. Buffett says, if you can make it closest to the door from 35 feet back, beat him and he'll buy you a Dairy Queen ice cream. So never say Warren Buffett didn't do anything for you.

All right. People have been lining up since 3 AM in the pouring rain, it's tough conditions out there today in Omaha to get inside here. They were running, once the doors opened into this exhibit hall. So just who are these people? Our own Nicole Sinclair went out to find out.

[Video Presentation] (16:44 to 18:17)

Q&A

Q - Andrew Serwer

All right. I recently sat down with one of Warren Buffett's oldest and dearest friends, the journalist, Carol Loomis (18:23) who had written for Fortune Magazine for 60 years. She knows everything about Warren Buffett, take a listen.

A - Alexis Christoforous

While the reputation of the annual meeting itself just built over the years. And it was not only Warren, but it was Charlie, Charlie Munger, who is such a character and an amazing guy. And so people began to understand that this was something worth listening to. These two guys who were nearly the age they are today when they begin to build, not only that, but they ran into other people, who were in their business, investments, value investing.

Dinners began to be held by some of these value investors, and I saw you the other day quote Warren, as saying that there are some of PT Warren in him (19:19), and Warren began to bring out the PT Warren (19:23) aspect, and so eventually we had a five kilometer race. We have him – the newspaper throwing contest. I mean, that's an amazing thing. The CEO, look at him, in a newspaper throwing contest. And then the floor itself of where they sell the merchandise, and the variety of stuff that is there; books for sale, See's Candy, Dairy Queen's, you name it, you can buy it there.

Q - Andrew Serwer

I mean it's incredibly insightful and also fun.

A - Alexis Christoforous

Right. Absolutely – people love to come here. They love it.

Q - Andrew Serwer

So Carol, I want you to pretend, like I've never heard of Warren Buffett.

A - Alexis Christoforous

Okay.

Q - Andrew Serwer

And I want you to explain to me, what makes him so special?

A - Alexis Christoforous

So he is just extremely smart. Secondly, he spent his entire life trying to learn business, learning over everything that he could possibly could about business. So he has his encyclopedic knowledge of business, so when any subject comes up about business he can comment on it immediately, and lucidly and often in a very funny way. And then thirdly, if an opportunity comes along in business he can assess it very quickly and either to buy a large stake in a company, like Coca-Cola, which he did four decades ago, or to buy more and more, to buy a whole business. He is just – his judgment about what to do in those situations is just incredible.

Q - Andrew Serwer

Carol, Warren is 85 years old.

A - Alexis Christoforous

Right.

Q - Andrew Serwer

You're around the same age?

A - Alexis Christoforous

Yeah. Little bit – a little bit older.

Q - Andrew Serwer

Little bit older. Why do you guys keep doing this? Why does Warren keep going like this, when he doesn't have to?

A - Alexis Christoforous

He loves work. He loves everything about it. He loves reading, and he reads immense quantities of everything. There are no people around him that he doesn't like. He just works with people he does like. And he just finds the whole experience wonderful. And he has said to me that he thinks most CEOs, and certainly he would be one would pay to have their jobs. And he certainly would. And of course it's almost true that he does pay, because he only gets a $100,000 salary. But even so he loves his work.

Q - Andrew Serwer

Buffet has his detractors, Alexis, some people for instance say that he can be kind of hooky. But I kind of think that's a really a redeeming quality. So many people are so serious about business all the time and he really brings fun and joy and real passion to what he does and I wish there was more of that in the business world.

MANAGEMENT DISCUSSION SECTION

Alexis Christoforous

Hear that, very, very charming gentleman and he make is it all accessible and people definitely relate to that. All right, great interview with Carol Loomis. Thanks a lot, Andy.

Andrew Serwer

Thanks Alexis.

Alexis Christoforous

And we're just a couple of minutes away from the start of the Berkshire Hathaway Annual Meeting, the main event here exclusively on Yahoo! Finance. All right, the arena is getting ready for Warren Buffet and Charlie Munger to take the stage. You've been commenting on social media using the #brklivetsream. We will have those for you in just a moment.

[Video Presentation] (22:45 to 24:31)

Q&A

Q - Alexis Christoforous

Welcome back to our live stream at the Berkshire Hathaway Annual Shareholder meeting. I've got a very special guest here. You may recognize him folks, as the legendary entertainer, singer, song-writer, Mr. Paul Anka. Thank you so much for being here, what a treat.

A - Paul Anka {BIO 1835792 <GO>}

Well, thank you. It's good to be here, I always love coming here.

Q - Alexis Christoforous

Now I have to admit, when I think Warren Buffett, I don't think Paul Anka. Tell me, give me the connection, how did you meet Mr. Buffett?

A - Paul Anka {BIO 1835792 <GO>}

Well, I met Mr. Buffett, a little while back. I was asked to entertain in Las Vegas at his net-chat meeting, and we hit it off. And of course, I knew of him. I'd met him on a periphery at a few events. But we got to talking and we got the song My Way, which apparently he likes a lot. And one thing led to another, and I found that he and I began singing it together as a duet at special events. And besides that, it's just when he touches your life, he touches your life...

Q - Alexis Christoforous

Well.

A - Paul Anka {BIO 1835792 <GO>}

You never let go that. And I've never let go that, and we've been in touch through the years and My Way has been a link to us and kind of performing it together and hopefully, we'll get to do that at the White House soon.

Q - Alexis Christoforous

Oh, that sounds like a plan. We want to be there for that. He - it's a sitting song for him. He has done it his way all these years. I know you've changed up the lyrics, right to fit with - any other songs you might duet with him, you think?

A - Paul Anka {BIO 1835792 <GO>}

Well, let me see. It won't be Puppy Love, it won't be Having My Baby. It might be, Yeah, You Are My Destiny or the Times Of Your Life.

Q - Alexis Christoforous

Oh, I want my faves...

A - Paul Anka {BIO 1835792 <GO>}

Yeah.

Q - Alexis Christoforous

He can carry a tune, I was here yesterday and he and Bill Gates were in the gold cart, just a couple of billionaires hanging out, and he took out his ukulele and he started singing I Have Been Working On The Railroad, he can carry a tune, right?

A - Paul Anka {BIO 1835792 <GO>}

Oh, he definitely can carry a tune. Without doubt, he sings with a lot of passion. He knows what he is doing and absolutely carry a tune. And one day and we've talked about it, hopefully we're going to get Mr. Gates in there with Mr. Buffet and I'm going to recruit Carlos Slim. It's been a goal of mine, I'm serious.

Q - Alexis Christoforous

That's great.

A - Paul Anka {BIO 1835792 <GO>}

Everyone has been in accord. Mr. Gates just seems to not quite get to the gate.

Q - Alexis Christoforous

I think if anybody can get him there, it's Warren Buffett. Are you a shareholder of Berkshire Hathaway?

A - Paul Anka {BIO 1835792 <GO>}

Yes. I am.

Q - Alexis Christoforous

Class A or Class B or should I not ask?

A - Paul Anka {BIO 1835792 <GO>}

You don't want to ask.

Q - Alexis Christoforous

Okay. Now, what about performing, anything coming up that your fan should know about?

A - Paul Anka {BIO 1835792 <GO>}

Well, I'm always performing. I am going on tour. Month of May I will be down to South. I'll be hitting Texas. I will be hitting up North, the New York area. Then July, I do the East Coast again, the Boston area, Atlantic City, New York area and then I go to Europe. So I'm all over the place.

Q - Alexis Christoforous

My gosh, I'm tired just hearing that. We are so happy you're still out and about and doing your music.

A - Paul Anka {BIO 1835792 <GO>}

Thank you.

Q - Alexis Christoforous

Paul Anka, thank you so much for being here.

A - Paul Anka {BIO 1835792 <GO>}

It's a pleasure. Thank you so much.

Q - Alexis Christoforous

Enjoy the weekend.

A - Paul Anka {BIO 1835792 <GO>}

I shall.

MANAGEMENT DISCUSSION SECTION

Alexis Christoforous

Thank you. All right, we are just seconds away from Warren Buffett and Charlie Munger taking that stage. It's the main event, we're going to be back immediately after the presentation, remember, for an hour long, half time show. Joining us live will be famed investor, Mario Gabelli; superstar, super model turned super business women Kathy Ireland and the man, Warren Buffett called a genius, Breaking Bad creator, Vince Gilligan. All right. You can see it all on the Yahoo! Finance and on the Yahoo! Finance app. I want to throw it down a ways at this exhibit hall to my colleague, Editor-in-Chief, Andy Serwer here at Yahoo! What's going on there as we countdown the moment to the main event, Andy?

Andrew Serwer

Well, you know what, I'm just thinking Alexis, looking at all these different companies here that Berkshire Hathaway really represents the American economy or Buffett's take on it. All these different types of businesses, and it's really amazing that the company performs so well, it outperforms the economy, even though it represents it. Meaning he has cherry picked the best parts of the economy and invested in it. And his shareholders have done very well that way.

Alexis Christoforous

And I think that's part of the allure for people, who don't want to have to think about it so much. They're kind of like – Buffet's sort of like their money manager, right, because you said, he cherry picks, watches the investments, he is in it for the long haul. He says that all the time. And he sort of demystifies investing a bit. He makes things simple and like we said reachable for people, and interactive for people?

Andrew Serwer

Yeah. That's right. And you've never seen happier 40,000 people in your entire life. I mean, these people – look at them, these people are all smiling. They're all in great moods. And who can blame them because they've invested in Berkshire Hathaway, and it's worked like a charm.

Alexis Christoforous

Yeah. And you know his subsidiaries here are – have definitely found a way to capitalize. And as you know, a lot of the money that is collected here, some of that goes to charities that the subsidiaries and that Warren Buffet care about. So they're giving back to the community. And like Brooks Running Company for instance, we interviewed the CEO yesterday came out with a sneaker, just for Warren Buffet. It has his face on it. So you can, I guess be in Warren Buffet shoes. They are as closest as you can get to being in Warren Buffet shoes. So they all tried to come up with something unique to their product that has the Warren Buffet stamp on it.

All right. Andy, we're going to check in with you in just a few minutes. But we want to tell everybody to welcome back to Yahoo! Finance's worldwide exclusive livestream of the Berkshire Hathaway Annual Meeting. We have just moments to go before the big show. And we got like – as we said earlier 40,000 people have descended on this center for this weekend and the weather has not been cooperating. Heavy rain came into the Omaha area overnight, but I could tell that people were still lining up to get into this hall and there you see a live picture of inside the arena and here's Warren Buffett.

Warren Edward Buffett {BIO 1387055 <GO>}

Good morning. I'm Warren Buffett. This is Charlie Munger. I'm the young one. You may notice in the movie incidentally that Charlie is always the one that gets the girl. And he has one explanation for that. But I think mine is more accurate, that as you know every mother in this country tells her daughter at an early age, if you're choosing between two very old and very rich guys, pick the one that's older.

I'd especially - we're webcasting this for the first time. So I'd especially like to welcome our visitors from over the world. We're having this meeting simultaneously translated in to Mandarin and that poses certain problems for me and Charlie because I'm not sure how sensible all our comments will come out once translated into Mandarin. I'm not so sure how sensible they come out initially sometimes, but we're delighted to have people around the world joining us. Now the drill of the day is that I'll make a couple of introductions and we'll show a couple of slides.

And then we'll go on to questions from both, our two panels and from the audience. We will rotate them. And we'll do that until about noon, actually about a quarter to 12:00, I'll give you a run down on a bet that was made that we report on every year. But then I'll also in connection with that explain and it ties in with it, what I really think is probably the most important investment lesson in the world. So we'll have that about a quarter to 12:00. And I hope that keeps you around. And then, we'll break at noon for an hour for lunch. We'll reconvene at 1 o'clock. We'll proceed until 3:30 with questions. We'll then adjourn for 15 minutes and at 3:45 convene a formal meeting.

I'd like to just make a couple of introductions. I hope Carrie Sova is here. Do we have a spotlight. Carrie puts this whole meeting together. There she is, wonder woman. Carrie joined us as a receptionist about six years ago, and I just kept throwing more and more problems at her. And she put together the 50th anniversary book which we've actually expanded further this year. We have a revised edition. Charlie and I autographed a 100 of them. We endorsed first of them (34:01) among the group being sold. And Carrie while doing that, she also had a young baby girl, her second baby late in January. But then she's going to hit to put on this annual meeting. It's a remarkable achievement and I really want to thank her, it's been terrific.

Actually, we have one surprise guest. I think my youngest great grandchild who will be about seven months old is also here today, and if he happens to break out crying a lot, and don't let it bother you. It's just his mother's explaining to him my views on inherited wealth. And we - we also have our directors with us, and they're here in the front row. I'll introduce them if they'll stand when introduced. Withhold your applause no matter what - how extreme the urge to applaud them individually. And when we're finished then you can go wild.

First of all, Howard Buffet, Steve Burke, Sue Decker, Bill Gates, Sandy Gottesman, Charlotte Guyman, Tom Murphy, Ron Olson, Walter Scott and Meryl Witmer and that's our wonderful growth.

We just have two slides to show you now. The first one is a preliminary summary figures for the first quarter. And you will notice that insurance underwriting, these are after tax figures by category, are down somewhat. The basic underwriting at GEICO is actually improving. But we had some important hailstorms in Texas before the end of the quarter. We've actually had some since the end of the quarter too. So, there were more cat losses in the first quarter than last year.

The railroad earnings are down significantly, and railroad car loadings throughout the industry, all of the major railroads were down significantly in the first quarter and probably will continue to be down, almost certainly will continue to be down the balance of the year. We have two companies which we added to the manufacturing service and retailing deal Precision Castparts and Duracell, but they were added during the quarter. So there are full earnings shown in these figures. In the other category we have – I don't want to get too technical here and you should read the 10-K or 10-Q when it comes out next weekend.

But when we borrow money and other currencies, the only currency we've done that with is the euro, but we have a fair amount of money that we've borrowed in euros and the nature of accounting is that the change in value, the foreign exchange change in value each quarter is actually shown in interest expense. So as the euro goes up, we have a lot of extra expense shown that way. As it's not a realized factor, but it moves from quarter-to-quarter. And if euro goes down, it offsets interest expense.

So technicality to some extent, because we have lots of assets in Europe and they are expressed in euros when they go up it does not go through the income account. It goes directly to other comprehensive income. So I just – that figure which looks little unusual, that's the reason for it.

And we always urge you to pay no attention to the figures below operating earnings. They will bounce around from quarter-to-quarter and we make no attempt to manage earnings in any way, that then will be smoother. We could do that very easily, but it'd be ridiculous we make investment decision, solely on the basis of what we think the best investment decision is, not on the basis of our (39:26) earnings in any quarter or in any year. And in the first quarter, we exchanged – we completed the transaction that was began over a year ago, whereby we exchanged our Procter & Gamble stock for cash and for Duracell and that accounts for the – largely accounts for the large capital gain in the quarter.

So those are the figures for the first quarter and then that to illustrate what we're sort of all about here, I put up a second slide and I started this slide in 1999. The reason being that at the end of 1998, we affected a large merger with Gen RE and at that point, we sort of ended a different era. After 1998 merger with Gen RE we had little over a one million five hundred and some thousand A equivalent shares out. And our shares up to that point, we've increased the outstanding shares by more than 50% over the 30 some years preceding that point.

Since that time, as I know here, we've only increased the number of shares over the next 17 years. We've only increased the shares outstanding by 8.2%. So these figures represent a fairly unchanged share count since that point, whereas the share count has changed quite a bit before. And as you know, in terms of operations I have told you that our goal at Berkshire is to increase the normalized earnings - operating earnings every year. I have said sometimes it will only be -turn out to be only a little bit and sometimes we can get some fairly decent jumps. But that's the goal now.

Earnings will not increase every year, because there's such a thing as a business cycle and in the times of recession, we're going to earn less money, obviously than in times when things are much better overall. And on top of that we're heavily in an insurance business and earnings there can be quiet rather low because of catastrophes and this chart shows you what's happened to the operating earnings since that time, and again pointing out that shares outstanding have gone up very little during that period.

You'll notice in 2001, when we suffered significant insurance losses due to 9/11 we actually were in the red, in terms of operating earnings. And you'll notice the figures are very irregular. But over time by adding new subsidiaries, by further developing the businesses we have, by bolt-on acquisitions by re-investment of retained earnings, the earnings have moved up in very irregular fashion quite substantially.

I put in also the capital gains we've achieved through investments and derivatives and they totaled some $32 billion after tax, close to $50 billion pre-tax. Those were not important in any given year, those numbers can fall all over the place. The main advantage from my standpoint in that $32 billion is it gives us money to buy other businesses. What we really want to focus on but we hope is that figure are under operations five years or 10 years or 20 years from now, grow substantially partly because we retain earnings from operations, and partly because our operations improve in their own profitability, and partly because they make bolt-on acquisitions, partly because we have gains from securities which enabled us to buy even more businesses.

But we don't manage, as you know we don't manage to try to get any given number from quarter-to-quarter. We never make a forecast on earnings. We don't give out earnings guidance. We think it's silly that, we do not have budgets at the parent company level. Most of our subsidiaries have budgets but they don't submit them or they are not our required to submit them, to headquarters. We just focus day-after-day, year-after-year, decade-after-decade I'm trying to add earning power, sustainable in growing earning power debenture.

So that's a quick summary. Now we'll move on to the questions, I'll just ask of the audience that, you limit your question to question, the notable questions have a way of sneaking in occasionally. But, so let's keep them to a single question. We'll start off with the journalist group on my right and we will start off with Carol Loomis (44:56).

Q&A

Q - Alexis Christoforous

Good morning. I'll make my very short little speech about the fact that the journalist and analysts who have given Charlie and Warren, no hint on what they're going to ask. So they will be learning for the first time what's that going to be also. This question comes from Eli Moises (45:18). In your 1987 Letter to Shareholder, you commented on the kind of companies Berkshire like to buy. Those that required only small amounts of capital. You said "both because so little capital is required to run these businesses, they can grow while concurrently making almost all of their earnings available for deployment in new opportunities. Today the company has changed its strategy. It now investment in companies that need tons of capital expenditures are overregulated and earn lower returns on equity capital. Why did this happen?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. Well, it's one of the problems of prosperity. The ideal business is one that takes no capita, but yet grows. And there are a few businesses like that and we own some. But we're not able - we love to find one that we could buy for to $10 billion to $20 billion or $30 billion, that was not capital intensive and we may, but it's harder and that does hurt us in terms of compounding earnings growth. Because obviously if you have a business that grows and gives you a lot of money every year, and doesn't take it - it isn't required in its growth. You get a double barrel effect from the earnings growth that occurs internally without the use of capital and then you get the capital it produces to go and buy other businesses.

And See's Candy was a good example of that I've used that. Back when the newspaper business was good, our Buffalo Newspaper for example was a good example of that. The Buffalo Newspaper was making at one-time $40 million a year and had no capital requirement. So we could take that whole $40 million in going to go buy something else with it. But capital - increase in capital acts as an anchor on returns in many ways. And one of the ways is that it drives us into a - just in terms of availability, it drives us into businesses that are much more capital intensive. You just saw a slide, for example, on Berkshire Hathaway Energy where we just announced, just in the last couple of weeks, we announced a $3.6 billion investment coming up in wind generation, and we pledged overall to have $30 billion in renewables.

Anything that Berkshire Hathaway Energy does, anything that BNSF does takes lots of money. We get decent returns on capital, but we don't get the extraordinary returns on capital that we've been able to get in, in some of the businesses we've acquired that are not capital intensive.

As I mentioned in the annual report, we have a few businesses that actually earn a 100% a year on true invested capital, and clearly, that's a different sort of operation then something like Berkshire Hathaway Energy, which may earn 11% or 12% on capital, and that's a very decent return, but it's a different sort of animal than the business that are very low capital intensive - intensity, Charlie?

FINAL

Bloomberg Transcript

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well, when our circumstances changed, we changed our minds.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Slowly and reluctantly.

A - Charles Thomas Munger {BIO 1406508 <GO>}

In the early days, quite a few times we bought a business that was still producing at 100% per annum on our rebate board and didn't require much reinvestment. If we had been able to continue doing that we would have loved to do it. But when we couldn't we went to Plan B. And Plan B is working pretty well. In many ways, I have gotten, so I sort of prefer it. How about you, Warren?

A - Warren Edward Buffett {BIO 1387055 <GO>}

That's true. When something is forced on you, you might as well prefer it. Yeah. They – well, I mean we knew that was going to happen and the question is does it trigger -- does it lead you from what looked a sensational result to a satisfactory result and we don't – we're quite happy with a satisfactory result. The alternative would be to go back to working with very tiny sums of money and that really hasn't gotten a lot of serious discussion between Charlie and me.

Okay. From the analyst group, Jonathan Brandt.

Q - Jonathan Lawrence Brandt {BIO 17988091 <GO>}

Hi, Warren, thanks for having me again.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Thanks for coming.

Q - Jonathan Lawrence Brandt {BIO 17988091 <GO>}

My first question is about Precision Castparts. Besides your confidence in its talented CEO, Mark Donegan, what in particular do you like about their business that gave you the confidence to pay a historically high multiple? Are there ways Precision can be even more successful as essentially a private company? For instance, are there long-term investments to support client programs or acquisitions that Precision can make now that they couldn't realistically have done as a publicly traded entity?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. We completed the acquisition of Precision Castparts at the end of January this year. We agreed to – we made the deal last August and you covered the most important asset in your question, Mark Donegan, who runs Precision Castparts is an extraordinary manager. I mean we've seen very – Charlie and I've seen a lot of managers over the years, and I would almost rank Mark as one of a kind. I mean, he is doing an extremely important work in terms of making - primarily making aircraft parts. I would say that there's certainly no disadvantages to him to be working as a - and for that company to be a subsidiary of Berkshire and not be a public company. And I think he would say - and I think Charlie and I would agree with him that over time, there could be some significant advantages. For one thing, he can spend 100% of his time now on figuring out better things to do with aircraft engines. And it was always his first love to be thinking about that, and he did spend most of his time, but he also had to spend some time explaining quarterly earnings to analysts and perhaps negotiating bank lines and that sort of thing. So his time, like all of our managers can be spent exactly on what makes the most sense to them and their business.

Mark does not have to come ever to Omaha to put on some show for me in terms of justifying a $1 billion acquisition or planned investment. He waste - he doesn't have to waste his time on anything that isn't productive and running a public company you do waste your time on quite a bit of stuff that isn't productive. So I would say we've taken the main asset of Precision Cast and made it - made him in this case even more valuable to the company.

In terms of acquisitions, Precision's always made a number of them, but as being part of Berkshire, there's really no limitations on what can be done. So there again, his canvas has been broadened, enlarged with the acquisition by Berkshire. I see no downside whatsoever again. If he needs capital, I've got an 800 number and he wasn't paying much of a dividend before, but he doesn't have to pay any dividend now. And Precision Cast will do better, better under Berkshire than it would have independently, although it would have done very, very well independently. Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yeah. Well, in the early days we used to make wise ass remarks and Warren would say, we buy a business, (53:50) because sooner or later and maybe it will. And we did buy some businesses like that in the early days and they were widely available. Of course we prefer to do that. But the world has gotten harder and we had to learn doing new and more powerful ways of operating.

A business like Precision Castparts requires a very superior management that's going to stay superior for a long time. And we gradually have done more and more and more of that and it's simply amazing how well it works. And I think to something extent we've gotten almost as good banking superior managers as we were in the old days of banking and operating our businesses.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. We would love to find. We won't be able to find them because they're very rare birds. But we would love to find them, other three or four of a similar type to Precision Cashparts where they forever are going to be producing something that where quality is enormously important, where the customers depend very heavily on them when there is contracts that extend over many years, and where people don't simply just take the whole bid in order to get this gadget of one sort or another. It's very important that, that you have somebody there that has enormous skill, running the business and their reputation among aircraft manufacturers, engine manufacturers, is absolutely unparalleled.

Okay, now we go to the audience, and we'll go up to section one, and if you'll give your name, and where you're from, I'd appreciate it.

Q - Alexis Christoforous

Hi. Good morning. My name is Gaspal (55:44). I'm Spanish, and I come from London. I admire you both in many ways, but I would like to know that when looking backwards, what would you have differently in life in your search for happiness?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well, I'm 85, and I can't imagine anybody any happier than himself. By action or whatever, I mean I'm certainly here eating exactly what I like to eat, doing in life exactly what I love to do with people I love. So it really doesn't get any better than that. And I did decide fairly early in life that my favorite employer was myself. And that – I think that – I manage to avoid really aggravation of almost any sort. Really, if you or those around you that you love have health problems or something, I mean that is a real tragedy, and there is not much you can about it, but accept it. But Charlie and I have really been blessed. I mean here Charlie is 92, 85 and he is doing everyday something that he finds fascinating. He – I think he probably finds what he is doing at 92 is interesting, it's fascinating, is rewarding, socially productive, any period you can pick in his life.

So we've been extraordinary lucky, we've been we're lucky, it's a partnership. It's more fun doing things as a partnership. So I've no complaints. I will be very surely should be to (57:41) have any kind of complaint. And I would say if you're talking about business life, I don't think I would have started with a textile company. Charlie.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well looking back, I don't regret that I didn't make more money or become better known or any of those things. I do regret that I didn't wise up as fast as I could have, and there is a blessing in that too. Now I'm 92, I still have a lot of ignorance left to work on.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay Becky (58:28), quick.

Q - Alexis Christoforous

This question comes from Solomon Akerman (58:33), who is in Frankfurt Germany. He wants to know why Berkshire has significantly sold down their holdings in Munich Re, which is the world's biggest reinsurance company based in Germany, while sticking with the reinsurance operations within Berkshire, like Berkshire Hathaway Reinsurance and General Re. Would you reduce exposure to Berkshire Hathaway Reinsurance and General Re if there were listed companies and he is hoping that this can bring out some of your insights as to what's happening in the reinsurance business right now.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah, we - I said in the annual report that I thought it was very likely that the reinsurance business would not be as good in the next 10 years as it has been in the last 10 years. I may be wrong on that. That's just a judgment based on seeing the competitive dynamics of the reinsurance business now versus 10 years or 20 years ago. Both Munich - we sold our entire holdings which were substantial of Munich Re and Swiss Re. We owned about 3% of Swiss Re and we owned more than 10% of Munich Re. And last year, we sold those two holdings. They're fine companies. They're well-managed companies like the people that run them. I think their business, the business of the reinsurance companies generally is less attractive for the next 10 years, than it has been for the last 10 years.

In part that's because what's happened to interest rates. A significant portion of what you earn in the insurance comes from investment of the flows, and both of those companies, and for that matter almost all of the reinsurance industry is somewhat more restricted in what they can do with their flow, because they don't have this huge capital cushion that Berkshire has, and also because they don't have as great amount of unrelated earning power that Berkshire has.

Berkshire has more leeway in what it can do, simply because it does have capital, that's many times what its competitors have, and it also has earning power coming from a whole variety of non - of unrelated areas, unrelated to insurance. So it was not a negative judgment in any way on those two companies. It was not a negative judgment on their managements, but it was at least a mildly negative judgment on the reinsurance business.

Now we have the ability of Berkshire to actually rearrange to a degree, we are certainly affected by industry factors. But we have more flexibility in modifying business models and we've operated that way over the years in insurance generally and in particularly in reinsurance. So Munich, Swiss, all the major reinsurance companies except for us, it's pretty well tied to a given type of business model. They don't really have as many options in terms of where capital gets deployed. They have to continue down the present path. And I think they'll do fine. But I don't think they will do as fine in the next 10 years as they have in the last 10 years.

And I don't think if we play the same game as we were playing in the last 10 years, we would do as well. But we do have considerably more flexibility in terms of how we conduct all of our insurance operations. But particularly in reinsurance, we have an extra string to our bow that the rest of the industry doesn't have.

The amount of capital that's come in to the reinsurance business, it is no fun, running a traditional reinsurance company and having money come in, particularly if you are in Europe and that money come in and look around you for investment choices and find out that great many of the things that you were buying a few years ago now have negative yields. That the whole idea of flow is it is supposed to the invested at a positive rate and a fairly substantial positive rate and that game has been over for a while and looks like it will be at least on a track, if not terrible for a considerable period in the future. Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

There is a lot of new capacity in reinsurance, and there is a lot of very heavy competition. A lot of people from finance have come over into reinsurance, and all the old competitors remain too. That's different from Precision Castparts where most of the customers will be totally crazy to hire some other supplier, because Precision Castparts is so much more reliable and so much better. Of course we like the place with more competitive advantage. We're learning.

B, to put in terms of economic one-on-one and then basically in reinsurance supply has gone up and demand has not gone up. And some of the supply is driven by investment managers who would like to establish something offshore where they don't have to pay taxes, and reinsurance is sort of the easiest what you might call beard, behind which to actually engage in money management in a friendly tax jurisdiction. And you can set up a reinsurance operation with very few people by taking large chunks of what brokers may offer. It's not the greatest reinsurance in the world, and a couple of the operations that have done that have proven that, that segment to be right.

But nevertheless, it is a very, very easy way to have a disguised investment operation in a friendly tax jurisdiction. But that becomes supply in the reinsurance field, and supply has gone up relative to demand and it looks to me like that will continue to be the case. And couple that with the poor returns on float. And it's not as good business as it was. Now we'll talk to an insurance man about it, Chris Gallon (1.05:19).

Q - Alexis Christoforous

Thank you. In terms of growth and profitability, GEICO really got looked by Progressive Direct over the last year. 2015 Progressive Direct's auto business grew deposit count by 9.1%, GEICO only 5.4%, and in terms of profitability the combined ratio at Progressive was a 95.1 and GEICO's was 98.0. Is this evidence that Progressive's investments in technology like Snapshot, investments at GEICO has spurned is it making a time - and making a difference in a time of difficult loss trends. Why is GEICO suddenly losing to Progressive Direct?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. Well, I was - that over the last - I forgot what year it was, we passed Progressive and what year it was we passed Allstate, but GEICO's growth rate in the first quarter was not as high as in the past couple of first quarters. But it was - it was quite satisfactory. Now the first quarter is by far the best quarter for growth. But last year both frequency, how often people had accidents and severity which is the cost per accident in other words, how much those accidents cost you. Both of those went up quite suddenly and substantially and Progressive's figures show that they were hit by that less than Allstate and GEICO and some others.

But I don't think you'll see necessary those same trends this year. The - it's an interesting thing last year, the first time in - I don't know how many years the number of deaths in auto accidents per 100 million miles went up. Now if you go back to the mid-1930s, there are almost 15 people killed per hundred million miles driven. It got down to just - just slightly over one - from 15 to one. You had almost as many - you had roughly as many people killed in auto accidents in mid-1930s, about 30,000, 32,000, 33,000 a year as we last year or the year before, when people drove almost 15 times as many miles. Cars have gotten far, far, far, far safer. And it's a good thing, because if we had the same rate of deaths from auto accidents, as we had in the 1930s relative to the miles driven, we would have over a half of million people die last year from auto accidents, and so the figure closer to 40,000.

But last year for the first time, there was more driving, and I think there was more distracted driving. So you really had this uptick in frequency and - and more important in severity. FICO has adjusted its rates as I mentioned - my own prediction would be that the underwriting margins at Fico will be better this year than last year, although you never know when the catastrophes are coming on at mid-March and April we've got lot of cat activity. I made a bet a long time ago on number one, on the GEICO model versus the Progressive model and as I say that were significantly ahead of us in volume a few years back and we passed them and we passed Allstate, and as I put in the annual report, I hope on my 100th birthday that the GEICO people announce to me that they've passed State Farm but I have to do my share on that too by getting to a 100. So, we'll see what happens on that particular one. Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well, I don't think it's a tragedy if some competitor got a little better ratio from one period. GEICO's quadrupled its market share since we bought all of it...

A - Warren Edward Buffett {BIO 1387055 <GO>}

Quintupled.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yes, quintupled, all right. I don't think we should worry about if like somebody else (1.10:10).

A - Warren Edward Buffett {BIO 1387055 <GO>}

I think it's far more sure that GEICO will pass State Farm someday than that I'll make to a 100, I'll put it that way. Okay, we'll go to the shareholders in Station 2.

Q - Alexis Christoforous

Greetings to all of you from the mid-west of Europe. I am Norman Rentrop (1.10:40) from Bonn, Germany, a shareholder since 1992. My question is about the future of salesmanship in our companies. Warren, you have always demonstrated a heart for direct selling. When we met you in the midst of a tornado warning in the barber shop, you immediately offered to write insurance for us.

A - Warren Edward Buffett {BIO 1387055 <GO>}

That's true. They were all huddled down in the barber shop. There wasn't going to be any tornado. So I thought if they give me a dollar, I can go upstairs and if anything happens (1.11:27) if we get $1 million or something of that sort.

Q - Alexis Christoforous

Now we see with a rise of Amazon.com and others, a shift from push marketing to pull marketing from millions of catalogs having been sent out in the past to now consumers searching on what they are looking for. What is your take on how this shift from push to pull marketing will affect our companies?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well, the development you referred to is huge. I mean really huge. And it isn't just Amazon. But Amazon is a huge part of it, and what they've accomplished in a fairly short period of time and continue to accomplish is remarkable. The number of satisfied customers they've developed and we don't make any decision involving even the manufacturing of goods, the retailing, whatever it is without thinking on and hard about what the world will look like in 5 years or 10 years or 20 years with that powerful trend, really hugely powerful trend that you just described.

So we're not – we don't look at that as something where we're going to try and meet them at their own game. They are better than we are at that. And so Charlie and I are not going to outbase those basis by a long short. But we're going to think about that. It does not worry us obviously with the Precision Cast. It doesn't worry us in terms of the overwhelming majority of our businesses. But it is a huge economic trend that 20 years ago it was not on anybody's radar screen and lately it's been on everybody's radar screen, and many of them, including us in the few areas, have not figured the way to either participate in it or to counter it.

GEICO's a good example of a company that in an industry that had to adjust to change, and some people made the change better than others. We were slow on the Internet. The phone had worked so well for us, this traditional advertising, and the phone had worked so well. But there is always a resistance to think about new possibilities. When we saw what was happening on the Internet, we jumped in with both feet with mobile and whatever, but there are capital – the nature of capitalism is, somebody is always trying to figure out – if you have got some good business they're always trying to figure out how to take it away from you and improve on it. And the effect I would say just of Amazon, but others that are playing the same game, the effect on industry, the full effect is far from having been seen. I mean it is a big, big force and it will – it already has disrupted plenty of people and it will disrupt more.

I think Berkshire – I think Berkshire is quite well situated. For one thing, one big advantage we have is we didn't ever see ourselves as starting out as one industry. I mean, we didn't go into – we went into department stores. But we didn't think of ourselves as department store guys or we didn't think of ourselves as steel guys or tire guys or anything else. So we just thought of ourselves as having capital to allocate.

If you start with a given industry focus and you spend your whole time working on a way to make a better tire or whatever it maybe, I think it's hard to have the flexibility of mind that you have if you just think you have a large – hopefully large and growing pile of capital, and trying to figure out what is the next best – best next move that you can make with that capital, and I think we do have a real advantage that way. But I think – I think it's all about -I think Amazon's got a real advantage too, and then this intense focus on having hundreds of millions of generally very happy customers getting – very, very happy customers getting very quick delivery of something that they – they want to get promptly and they want to shop the way they shop, and they own a bunch of shopping malls or something like that, I would be thinking probably hard about what they might look like 10 years or 20 years from now. Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

I would say that we failed so thoroughly in retailing when we were young that we pretty well avoided the worst troubles. I think that Berkshire has been helped by the Internet. The help of GEICO has been enormous, and it's contributed greatly to the huge increase in market share and our biggest retailers are so strong that they're – they'll be among the last people to have troubles from Amazon.

A - Warren Edward Buffett {BIO 1387055 <GO>}

I didn't get that dollar from you, Norman, actually that – after I gave you that wonderful advice, Andrew?

Q - Alexis Christoforous

Thank you, Warren. Great to see you today. Got a lot of questions on this particular topic and this question is a particularly pointed one. Warren, for the last several years at this meeting, you've been asked about the negative health effects of Coca-Cola products and you've done a masterful job of dodging the question by telling us how much coke you drink personally. Statistically you may be the exception. According to a peer review study by Tufts University, soda and sugary drinks may lead to a 184,000 deaths among adults every year. The study found that sugar sweetened beverages contributed to a 133,000 deaths from diabetes, 45,000 deaths from cardiovascular disease, 6,450 deaths from cancer.

Another shareholder wrote in about coke, noted that you declined to invest in the cigarette business on ethical grounds, despite one saying "it was a perfect business because it cost a penny to make sell it for a dollar, it's addictive, and there is fantastic brand loyalty." Again removing your own beverage consumption from the equation please explain directly why we Berkshire Hathaway shareholders should be proud to own Coke.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah, I think that people confuse the amount of calories consumed. I mean I happen to elect to consume about 700 calories a day from Coca-Cola. So I'm about one quarter Coca-Cola, roughly I'm done. Not sure which quarter and I'm not sure we want to pursue that question. But I think if you decide that sugar generally is something that the human race shouldn't have, I think the average person consumes something around 150 pounds of dry white sugar a year 125 pounds. I mean, what's in Coca-Cola largely or where the calories come from is sugar. I elect to get my 2,600 calories or 2,700 calories a day from things that make me feel though when I eat them. And that's been my sole test.

It wasn't the test that my mother necessarily thought it was greater, my grandfather, but there are over 1.9 billion 8-ounce servings of some Coca-Cola drink however, enormous range of products. I mean if you would recall Coke, Diet Coke, Coke Zero and that sort of thing, but they have literally thousands of products. 1.9 billion that's 693.500 million 8-ounce servings a year, except there is a leap year, that's almost a 108-ounce servings per capita for seven billion people in the world every year and that's been going on since 1886. And I would find quite spurious the fact that somebody says if you are eating 3,500 or so calories a day and you're consuming 2,700 or 2,800 and some of the 3,500 is Coca-Cola related, any particular obesity related illnesses on the Coca-Cola you drink.

You have the choice of consuming more than you use, I mean and I make a choice to get 700 calories in this and I like fudge a lot, peanut butter. And I'm a very, very, very happy guy and I don't know, I think and I'm serious about this, I think if you're happy every day, it's maybe hard to measure, but I think we're going to live longer as well. So there may be a compensating factor.

I really wish, I had a twin and that twin had eaten broccoli his entire life, and we both consume the same number of calories. I know I would have been happier and I think the odds are fairly good I would have lived longer. I think Coca-Cola is a marvelous product. I mean if you consume 3,500 to 4,000 calories a day and live a normal life in terms of your metabolism, something is going to go wrong with your body at some point. But if you keep – I think if you balance out the calories so that you don't become obese I am not seeing evidence that convinces me that I'll make it – it will be more likely I reach 100, if I certainly switch to water and broccoli.

Incidentally, a friend of mine, RJ Mellor (1.22:56), a remarkable man, born about a 100 miles from here west, eighth child, near Shelby, Nebraska, he said Shelby's population was 596 and it never changed because every time some girl had a baby, a guy had to leave the town. It was a very stable. But RJ went out to be President of Ford Motor Company from this farm near Shelby, and he had his 100th birthday on March 4 of this year. So I went out to see RJ for his birthday on March 4 and RJ told me that there were 10,000 men in the United States that would live to be 100 or greater and there were 45,000 women that would live 100 or greater.

So I came back and I checked that on the Internet, I went through the census figure and sure enough that is the ratio 10,000 men over 100 roughly and 45,000 women. So if you really want to improve your longevity prospects, I mean the guy in my position, you have a sex change. You're 4.5 times more likely to get to be 100. That sounds like one of those studies that people put out. It's just a matter of fact. I think I will have Charlie go first on that one. Charlie you have any comments.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well, I like the peanut butter. But I drink a lot of diet coke and, I think the people who ask questions like that one always make one ghastly error that really inexcusable. They measure the detriment without considering the advantage. That's really stupid. But that's like saying we should give up air travel through airlines because 100 people die a year in air crashes or something. That would be crazy. The benefit is worth the risk and if every person has to have about eight or ten glasses of water every day to stay alive, then it's pretty cheap and sensible and improves life to add a little extra flavor to your water and a little stimulation and little calories, if you want to eat that way. There are huge benefits to humanity and it's worth having some disadvantage.

We ought to have almost alive (1.25:27), sorry, I'm sounding like Donald Trump, but these people shouldn't be allowed to say the defects without citing the offsetting advantage. It's immature and stupid.

Okay, Gregg Warren (1:25:53).

Q - Alexis Christoforous

Warren, with both coal-fired and natural gas plants continuing to generate around two-thirds of nation's electricity and renewables accounting for less than 10%, there remains plenty of room for growth. At this point Berkshire Energy, which has invested heavily in the segment, is one of the nation's largest producers of both wind and solar power and yet still it only generates around one-third of its overall capacity from renewables. As you noted earlier, Mid-American recently committed another $3.6 billion to wind production, which should lift the amount of electricity it generates from wind to 85% by 2020.

You also have the company overall pledging to have around $30 billion renewables longer term. The recent renewal, both the wind and solar energy tax credits has made this kind of investment more economically viable and should clear the path for future investments. Eliminating coal-fired plants looks to be the main priority, but natural gas-fired plants are also fossil fuel driven and are exposed to the vagaries of energy prices. Is the end game here for Berkshire Energy to get a 100% of its generation capacity converted over renewables and one of risks maybe awards associated with that effort, after all the company operates in a highly regulated industry where rates are driven by an effort to keep customer costs low while still providing adequate returns for the utilities.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah, I think implicit in what you say is that we do - any decision we make, including the one that we just showed on the - during the movie to on any decision about new generation, changes in generation has to go through a what's usually called the Public Utility Commission. They may have different names in a few states. But the utility industry is overwhelmingly regulated at the state level and we cannot make changes that are not approved by the Public Utility Commission. We've had more problems for example in bringing in renewables in our Western utility PacifiCorp because it's in effect regulated by six states. I believe in six states and they don't necessarily agree on how the costs and benefits should be divided if we put in a bunch of renewables and we have to follow their instructions.

I was just being marvelous about encouraging, I mean at every level, I mean the consumer groups, the Governor, you name it. They have seen the benefits and I was literally true that we have one major competitor called Alliant and they have not either been able to - I don't know the reasons, but they've not pursued renewables the way we have.

So our rates are considerably lower than theirs. And if you look at their budget projections, although they're substantially higher rates than we have now, they won't need a rate increase within a year or so. And with our latest expansion, we have said that we will not need a rate increase till 2029 at the earliest; that's 13 years off.

So there've been great benefits if you have regulation that works with you on that. But it is a determination that is made at the state level. Now the federal government has encouraged in a major way the development of renewables by this production tax credit which currently amounts to about $0.023 per kilowatt hour. We would not have the renewable generation that we have if it hadn't been for the fact that that building of those projects is subsidized by the federal government because the benefits of reducing solar emissions or carbon emissions are worldwide and therefore it's being the proper that citizenry as a whole should participate in subsidizing the cost of reducing those emissions.

And that is encouraged, in fact, it's allowed; things like that have happened in Iowa as well. But the degree to which the renewables replace primarily coal, although there is plenty of emissions connected with natural gas to be the trace all the way through will depend on governmental policy. And I think - so far I think it's been quite sensible in encouraging, having the cost borne by society as a whole in terms of reduced tax revenues and having the benefits which is less CO2 under the atmosphere. We also broadly - they are not just limited to the people of Iowa when they built that. That's a benefit that accrues to the world. I think you'll see continued change, it will vary by - by jurisdiction and we would hope - we've got the capital, we've got lots of taxes, federal taxes paid in our consolidated returns, so we're in a particularly advantageous position to take advantage of massive investments that companies with limited tax appetites couldn't handle. But I think you see us be a very big player, but governmental policy is going to be the major driver.

Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yes, I think we're doing way more than our share of shifting to renewable energy, and we're charging way lower energy prices to our utility customers than other renewable. If the rest of the world were behaving the way we are, it would be a much better world. I will say this about the subject though and that is - I think the people who worry about climate change is the major trouble of earth, don't have my view. I think that we - I like all those shifting to renewables, but I have a different reason. I want to conserve the hydrocarbons. Because eventually I think we're going to use every drop, humanity, for chemical feedstocks, and so, I'm in their camp, but I got a different reason.

A - Warren Edward Buffett {BIO 1387055 <GO>}

One thing you find - might find kind of interesting, Nebraska has not done much with wind power and - well maybe three miles from - two miles from where we're sitting right across the river, people are buying their electricity cheaper in (91:02) right across the river than they are in Omaha. And yet Omaha, Nebraska is entirely a public power state, so there is no stockholders who have to have any earnings, the bonds are issued on a tax-exempt basis and yet electricity is considerably cheaper right across the river.

And the wind blowing doesn't just start at the Missouri river, I mean it comes across Nebraska and that wind could be captured. And so far it really hasn't and the real irony is that because our electricity is so much cheaper in Iowa, you have these massive server farms, people like Google, it become a tech-haven for these operations that just gobble up electricity and Iowa has gotten plant after plant after plant and job after job after job. And increased property tax I mean gotten more property tax revenues and that's being done – the Google's server is probably seven or eight miles from here and it's located in Iowa, because that we have cheap wind generated electricity and it's creating jobs, it's fascinating. But Nebraska has prided itself on public power that was originated back, I believe in the 1930s when George Norris was a very powerful senator here and it's been a source of pride, but lately it's been a source of cost too.

Okay. Shareholders section three.

Q - Adam Brett Bergman {BIO 1947327 <GO>}

Good morning, Mr. Buffett and Mr. Munger. My name is Adam Bergman; I'm with Sterling Capital in Virginia Beach.

In your 2008 shareholder letter, you said, derivatives are dangerous. They have made it almost impossible for investors to understand and analyze our largest commercial banks and investment banks. So, my question for you is, how do you analyze and value companies like Bank of America Merrill Lynch and other commercial banks that Berkshire has investments in relative to their significant derivative exposures? Thanks.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yes. Derivatives do complicate the problem very dramatically. Now they are moving away to being collateralized which helps, but there is no question that if you ask me to describe the derivative position of the BoA for example, I would know that they have done a conscious job and worked hard and properly evaluating, but the great danger in derivatives is that there is a discontinuity. If there is no discontinuity, you probably don't have much of a problem assuming that you get mark to market and collateralize and so. But if the system stops for a while – the system stopped after 9/11 for three days or four days, it stopped at the time of World War I, they closed the New York Stock Exchange for many months. They debated closing the stock exchange very seriously the day after October 19, 1987, and it was – there were a lot of people that wanted to close it, but on that Tuesday morning it looked like it was about to stop, but it continued.

But if you had a – if you have a major cyber nuclear, chemical, biological attack on the country which will certainly happen at some point, if you have a major discontinuity, then you'll have a lot f problems, a lot of problems, but you will also – when things reopen, you will find there can be enormous gaps in things that you thought were fully protected by collateral and that sort of netting arrangements and that type of things. So I regard very large derivative positions are dangerous. We inherited modest size position at Gen Re and in a benign market we lost about $400 million, just trying to unwind it with no pressure on us whatsoever, so I do think it continues to be a danger to the system.

A - Charles Thomas Munger {BIO 1406508 <GO>}

In other way, the accountants blessed that big derivative position has been worth a lot of money. They are only off what many hundreds of millions.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yes. Charlie found one position when – he's on the audit committee of Salomon, I think it was mismarked by $20 million, and I actually buy it, haven't since. I do know of one incredibly mismarked position doesn't affect any of our operations. But it almost staggers the mind to know the way that position has marked and you can only come to the conclusion that some trader, somehow got influenced whoever did market (96:56) probably just influenced someone or they didn't know, some of these things get so complicated, they are very hard to evaluate.

That's the kind that have the most profit in them usually, so they were quite enthusiastic about those when we were selling them. They can be extraordinary hard to mark. And like I say, I know one that's so much marketed that would blow your mind and the auditors, I don't think are necessary capable of holding that behavior. In fact, it is very interesting. There is really four big auditing firms and obviously their auditing companies were, there is a derivative position and their auditing company aid us on one side of the transaction in their auditing company. On the other side of the transaction in some cases, it's the same auditor, and I will guarantee you that there are plenty of times when they march on the – what they're attesting to are significantly different, which would be an interesting exercise to pursue in terms of checking those numbers out.

Derivatives are still dangerous in large quantities and we have – we would not do them on a collateralized basis, because if that was a discontinuity, I don't know exactly where we would end up and I'm never going to get us in a position where we could be – have money demanded of us and not be able to fulfill it with ease and with me sleeping well. So, we won't engage and that we've got some in runoff. So far we've made money and had the use of money for a decade or more and it's been very attractive for us, but that does not entice me at all into doing any derivative transactions that would involve collateral and collateral was not required.

It's still a potential, a time-bomb and the system anything where discontinuities and basically that means closing up, stopping trading markers from functioning, anything where discontinuities can exist, can be real poison in markets.

Kuwait, some years ago went to a very delayed system on settlement of stock purchases. So they didn't have to settle up for six months or thereabouts sand and it caused all kinds of problems because you've got an IOU from somebody for six months and if you got zillions of those, a lot of trouble can ensue.

So, I agree with your general – I'm not in the least trouble by our Bank of America investment nor are Wells Fargo, we added the Wells Fargo when – our Bank of America position right now is a preferred stock, but we're very likely to exercise the warrants on that. On the other hand, there are a great number of banks in the world. If you take the

50 largest banks in the world, we wouldn't even think about, probably 45 of them; wouldn't you say that Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well, we're on the awkward position where I think we'll probably make about $20 billion of derivatives and just those few contracts that you and I had years ago. All that said we're different from the banks. We would really prefer if those derivatives have been illegal for us to buy. We will be doing better for our country.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Sheryl (100:27)

Q - Alexis Christoforous

This question relates to something that Warren briefly said earlier today. The question comes from Lynn Palmer (100:39) who is just finishing her freshman year in a Houston, Texas high school. My question, she says, concerns the float generated by Berkshire's insurance companies. In Mr. Buffet's 2015 annual letter, he said that the large amount of float that Berkshire processes allows the company to significantly increase its investment income. But what happens when interest rates decline? If the U.S. were to implement negative interest rates in same way with the Eurozone and Japan have done, how would Berkshire be affected?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yes, well, some of our floats actually exists in Europe and where we have the problem of negative interest rates on very high grade short term and maybe in even medium term bonds and obviously anything that reduces the value of having money is going to affect Berkshire because we're always going to have a lot of money. We – because we have so much capital, and so many sources of earning power, we have the ability quite properly to use our flow in to a certain degree and ways that most insurance companies can't think about.

So, we can find things to do, but some actually – we've got $50 billion-odd of short-term government securities now and we're going to get another $8.3 billion in all likelihood early in June when our (102:30) so, we'll back over $60 billion again very soon. And so, we have got $60 billion out, that's out at – say a 0.25% (102:40) 0.25% and minus 0.25%, it's not that great, I mean it's almost as painful as $60 million out at a 0.25% to have it out in a negative rate.

Float is not worth as much to insurance companies now as it was 10 years ago or 15 years ago and that's true at Berkshire. I think it's worth considerably more to us than it is to the typical insurance company, because I think we have a broader range of options as to what to do with it. But there is no question about it that having a lot of money around now, this is not just a problem for insurance companies, it's a problem for retire, it is the problem for anybody that's stuck with fixed dollar investments and finds that their income now is a (103:32) in Europe, perhaps a negative rate and that was not something in their calculation at all 15 years ago.

We love the idea however of the increasing our float, I mean that money has been very useful to us over time. It's useful to us today even under present conditions, and it's like they will be very useful to us in the future, it's shown us a liability, but it's actually a huge asset.

Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

I've got nothing to add.

A - Warren Edward Buffett {BIO 1387055 <GO>}

He is now at full swing. Jonathan? (104:16). We can't hear you.

Q - Alexis Christoforous

Testing. The railroad industry seems right now to be suffering from exposure to some of the weakest parts of the economy with volume declines of varying magnitudes in coal, oil, sand and metals. Even intermodal usually a steady source of growth that has been relatively weak of late. How much of the weakness is cyclical, how much is secular. In last 15 months, the other Western railroads market capitalization is down by 35% as projections of future growth have come down. Is your estimate of BNSF's intrinsic value down by a material amount during the same period or is your view of the value of BNSF's irreplaceable network unaffected by these short-term wiggles?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well, I would - certainly a decline in coal, which is very important commodity, is about 20% of revenues; that's secular. Now, there is other factors that may cause the line of decline to jiggle around. We had a very mild winter and we went into the winter with utilities coming unusual amounts of coal and ironically part of the reason for that was that our service a year before than that and they've gotten role on coal. So, they compensated by bringing in more than they needed, just to catch up and because the weather was mild, electricity use was poor in the winter time. And so they continue at this point to have considerably more coal on hand than they would like.

So, they are not only trying to under order what they will be using, and that has a little effect. But the decline in coal for sure is secular and at 20% of revenues that's a significant factor. But - and it's true that the market generally got very enthused about railroad section year or two of those, so they sold awful lot and now that people are seeing that (106:36) down and earnings are down in some places, the equity valuations have come down.

We don't - we love the fact we own BNSF. We think we bought it at an attractive price. We'd love to be able to buy a second thing exactly right at that price, which in the second we'd even tell you little bit more probably, but we don't markup and down our wholly owned businesses, based on stock market valuations. Obviously stock market valuations are some factor in our thinking, but we are not marking our wholly owned businesses to market, because we're going to hold them forever and we regard to BNSF as a very good business to hold forever, but it will lose coal volume and they lose in other areas, but it will gain in other areas. It's a terrific and valuable asset, and it will run a lot of money this year, but it won't earn as much money as it earned last year.

Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

I got nothing to add.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay. Station four.

Q - Alexis Christoforous

Hi, Warren and Charlie. Great to see you. This is (107:57) Investments of Los Angeles. This annual meeting reminds me of the magical world of Hogwarts of Harry Potter. This arena is our Hogwarts. Warren, you are our headmaster and professor Dumbledore.

A - Warren Edward Buffett {BIO 1387055 <GO>}

I haven't read Harry Potter, but I'll take it as a complement.

Q - Alexis Christoforous

Charlie is our headmaster's sneak, direct and full of integrity. The magic of long-term concentrated value investing is real yet similar to Harry Potter the rest of the world doesn't believe we exist. Your literature has changed my life and your Secret Millionaires Club has changed my children's life; they go to class chatting about investing.

My question is for my children watching our home today and children in the audience; how should they look at stocks, when every day in the media, they see companies (109:13) go IPO they are dilutive and they see a lot of – very short-term spend, the cycle is getting shorter and shorter. How should they view stocks and what's your message for them? Finally, Cora (109:32) and I would love to thank you in person, shake your hand personally today.

I'll repeat what I said last year. Thank you for putting – setting the seeds for my generation to (109:45) and for my children's generation to sit on this chair with the Secret Millionaires Club. I truly walk amongst giants. Thank you.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Would you mind repeating the whole thing? The Secret Millionaires Club, I want to great credit to Andy Heyward on that. I think it has helped, I know has helped thousands of thousands of children and Andy – it was Andy's idea and it grows and strengthen and having young children were good lessons in terms of having money and making friendships and this generally behaving better citizens – it's a great objective and Andy makes it easy for them to do. So, I – on his behalf, I accept your comments.

You don't have to really worry about what's going on an IPOs or people making money, people win lotteries every day, but there is no reason to have that effect, you shouldn't be jealous of that, I mean, it looks great. They want to do mathematically unsound things and one of them occasionally gets lucky and they put the 1% on television and the million that contributed the winnings with a big slice taken out for the state, don't get on that, is nothing to worry about it, just all you have to do is to figure out what make sense and you don't – and you look at buying, when you buy a stock, you get yourself in the metal frame a mind that you're buying a business and if you don't look at a quote on after five years, that's fine, you don't get a quote on your farm every day or every week or every month, you don't get it on your apartment house if you own one, if you own a McDonald's franchise, you don't get a quote every day.

You want to look at your stocks as businesses and think about their performance as business, think about what you pay for them as you would think about buying a business and let the rest of the world go its own way, you don't want to get into a stupid game just because it's available and I'm going to say a little bit more about that close to the break, but with that, I'll turn it over to Charlie.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yes. Well, I think that your children are right to look for people they can trust in dealing with stocks and bonds. Unfortunately, more than half the time, they will fail in a conventional answer. So, they really have to – they'll have a hard problem. If you just listen to your elders, they'll lie to you and (112:34).

A - Warren Edward Buffett {BIO 1387055 <GO>}

They really have an easy problem-

A - Charles Thomas Munger {BIO 1406508 <GO>}

What?

A - Warren Edward Buffett {BIO 1387055 <GO>}

-in the sense of American business as a whole is going to do fine over time. So, the only way that they can-

A - Charles Thomas Munger {BIO 1406508 <GO>}

We're not the average client of a stock broker.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well, we'll get to that later. The stock broker will do fine.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yes, that's true.

A - Warren Edward Buffett {BIO 1387055 <GO>}

But they don't have to do that and we can talk – look, I'd rather address that just a little later, but just you don't want to worry – you don't want to be – a lot of problems that Charlie was saying are caused by envy. You don't want to get envious of somebody who's won the lottery or brought an IPO that went up, you have to figure out what makes sense and probably your own course.

Becky (113:22)?

Q - Alexis Christoforous

This question comes from a shareholder named Lisa Cantlay (113:28) in Singapore, and this has to do with NV Energy's issue with solar energy in Nevada. Can the German help this environmentally conscious shareholders understand why NV Energy has lobbied for new rules in Nevada that make it prohibitive for households to use solar energy? Is there is a good reason that we haven't yet heard about, and can the Chairman or Vice Chairman share their views on whether there is a need to implement an environmental social and governance policy on Berkshire investments going forward? I understand that Berkshire Hathaway typically lets the underlying operating companies and CEOs manage their own policies autonomously, but Berkshire's board implements better environment and protection policies going forward.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well. The public utility and the pricing policies everything of – in Nevada as well as other places but they're determined by a public utility commission. So there I believe three commissioners that decide what's proper. The situation in Nevada is that in terms of rooftop power was that of – for the last few years if you had a solar project on your roof, you could sell back excess power you generated to the grid at a price that was far, far, far above what we as a utility could buy it for elsewhere. So you could sell it back, we'll say at roughly $0.10 a kilowatt hour. And about 17,000 maybe a few more now, about 17,000 people had rooftop installations.

Now they got – there were federal credits involved, but those usually got sold to other people in terms of tax credits, so they were being subsidized by the federal government and that encouraged solar generation as it's encouraged us to do solar generation and wind generation as well. But the people who had these 17,000 rooftop installations were selling back to the grid at $0.10 roughly a kilowatt hour. Energy we could purchase or produced either by purchased elsewhere too per $0.035 or thereabouts. So 99% of our consumers were being asked to subsidize the 1% that has solar units by paying them a significantly – triple the market price basically of what we could otherwise buy electricity sold to the 99%.

So, and then it's just a question whether you wish to have the 99% subsidize the 1% and the Public Utility Commission in Nevada they had originally let this small amount of rooftop solar generation be allowed as an experiment with this roughly $0.10 rebate and they decided that they do not believe that the 99% should be subsidizing a 1%. There is no question that for solar to be competitive, just like wind, it needs subsidization, costs are not yet at a level where it becomes competitive with natural gas for example and who pays the subsidy just to be a real question if you want to encourage people to use renewables and in general federal government has done it through tax subsidies, which mean taxpayers generally throughout the county subsidize it and the Public Utility Commission in Nevada decided – after seeing this experiment they decided that it was not right for a million – well, over a million customers to be buying electricity at a price that's subsidized, these 17,000 people, and therefore increased the prices of electricity for the million.

And that question of who subsidizes renewables and how much is going to be a political question for a long time to come. And I personally think that if society is the one that's benefiting from the lack of reduction of greenhouse gases, that society should pick up the tab. And I don't think that somebody sitting in a house in some place in Nevada, we'll call it Las Vegas, but it could be other cities because we serve most of Nevada should be picking up the subsidy for their neighbor and the Public Utility Commission agrees with that.

I think we have Greg Abel who NV Energy as a subsidiary of an American – of Berkshire Hathaway Energy, Greg, was there anything you want to add? Can we get a spotlight down here-

A - Gregory Edward Abel {BIO 1416724 <GO>}

I think it's on now. So as usual Warren, you summarized it extremely well. When we think Nevada, it's exactly as you described. I would just add a few things, one as you touched on earlier, we absolutely support renewables. So, we start with the fundamental concept that we are for solar, but as you highlighted, we want to purchase renewable energy at the market rate, not at a heavily subsidized rate that 1% of the customers will benefit from and harm the other 99%. And it goes back to being as fundamental as this, if you take as – as you touched on a working family in Nevada who can't afford the rooftop unit and you ask them, do you want to subsidize your neighbor, that 1%? The answer is clearly, no.

At the same time, we're absolutely committed to Nevada utilizing renewable resources and absolutely proud of what our team is doing. By 2019, we'll have eliminated or retired 76% of our coal units and be replacing it with solar energy, so we are on a great path there. Thank you. And we'll just encourage our team and with the work of the Commission, and obviously led by the state will head down a great path. Thank you.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yes, the projectionist will put up slide seven. It will give you a view of what the situation is and this comes to all of our Berkshire Hathaway Energy operations and you can see in the 20-year period, we'll have a 57% reduction. You wouldn't want a 100% reduction tomorrow, believe me, the lights would be off all over the country, but it's moving at a fast pace, but you do – you want to be sure that you treat fairly the people involved in this because somebody pays the cost of electric generation. And I do think that if you're doing something that's to benefit the planet, and it's important to be done, but that you have the cost be assessed for that, not on a specific person who is I mean trouble perhaps meeting ends meet in their job, and obviously, if you got over a million customers in that, a lot of them are struggling, a lot of them are doing fine too. But they are not the ones in my view to subsidize the person who could afford to put a solar unit in.

Okay, Cliff (122:15)?

Q - Alexis Christoforous

Over the past year, we've learned – perhaps I've learned that Berkshire's result is somewhat influenced by oil markets than I previously appreciated. Revenues at the railway company and some of Berkshire's manufacturing businesses were negatively impacted and arguably low gas prices hurt (122:33) lost ratio, yet during this year, Berkshire invested in Phillips 66, Kinder Morgan and even PCP has revenues associated with the oil and gas industries. And I know Berkshire wouldn't make a bet on a commodity like oil, but is Berkshire making a statement about the long-term outlook for oil?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Making statement about what?

Q - Alexis Christoforous

Oil

A - Warren Edward Buffett {BIO 1387055 <GO>}

Price of oil?

Q - Alexis Christoforous

Yes.

A - Warren Edward Buffett {BIO 1387055 <GO>}

No. We haven't the faintest idea of what long term price of oil was, and there's always a better system available. You can buy oil as you know for a delivery year from now, or two years from now or three years from now. We actually did that once, Charlie, didn't we some years back?

A - Charles Thomas Munger {BIO 1406508 <GO>}

And we cashed it in too soon too.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yes. We made money. But we could have made a lot more money. But the – we don't think we can predict commodity prices. We don't hedge coco or sugar (123:28) we do some forward buying of (123:30) or something, but basically we are not two fellows who think we can predict the price of soy beans or corn or oil or anything else. So anything you have seen in our investment transactions some of the securities you mentioned there were bought by Todd or Ted, and one was bought by me, but neither they nor I bought those or if we sell them, sell them based on commodity price predictions, we don't know how to do it. And we're thinking about other things when we make those decisions.

Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

I'm even more ignorant than you are.

A - Warren Edward Buffett {BIO 1387055 <GO>}

That'd be hard to be. Okay. I think that's the first time I've heard him say that, it has a nice ring to it.

Okay, station five.

Q - Alexis Christoforous

Hi, Warren, hi, Charlie.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Hi.

Q - Alexis Christoforous

I'm Ken Martin (124:37), I'm an MBA student from the Tuck School at Dartmouth. My question is about college tuition and the problem of rising student debt balances. In the past, prominent philanthropists have founded institutions that are now prominent research universities in our country. Why is this not a bigger of part of today's philanthropic debate, the founding of new colleges? Would not new supply in higher education be at least part of the solution to this problem?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Charlie, do you want to tackle that one? You are more of an expert than I am.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yes. I think if you're expecting a lot of efficiency – financial efficiency in American higher education, you're howling at the wind.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well, I think he is also talking about just more philanthropy to deliver there, am I right? Probably give him the light back on there and-

Q - Alexis Christoforous

Yeah. That's right.

A - Charles Thomas Munger {BIO 1406508 <GO>}

What's the question again?

A - Warren Edward Buffett {BIO 1387055 <GO>}

The question about maybe – whether more philanthropy on it be devoted to that relatively because of the cost but-

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well, I do a lot more than Warren does in this field and I am frequently disappointed, but the monopoly has and bureaucracy have kind of branches like everywhere and the universities aren't exempted from it. But of course, they are the glory of civilization and people want to give more to it, but I'll move forward.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yes. You've got the option of very good state schools and we spend a lot of money on education in this country. If you just take – you take kindergarten through 12, it's interesting, people talk about entitlements in this country, they say, it's terrible, we have always entitlements for associates doing everything. We have entitlements for the young. We spend $600 billion a year educating 50 million kids in the public schools between kindergarten and 12 grade and to seek what that is in entitlement, nobody ever seems to bring that up, but it's a huge and I believe it obviously, what the people in their working ages generally speaking, I think have an – in a rich society have an obligation to both the young and the old. And based on the amount we spend, if we have problems with our school system, it's not because we're cheap, no. There are other problems that contribute to it in terms of the money we put out, we're right out there.

But I was the trustee of a college that saw the endowment go from $8 million to over a $1 billion, and I didn't see the tuition come down, and I didn't see the number of students go up.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Nothing went up, except the progressive salaries.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yes. From $8 million to $1 billion, I mean – and very, very decent people running the place. But when you read the figures on endowment of the big schools and someone remember that really gone up in the big numbers, the main objective of the people running the endowment is have the endowment grow larger and that will be every does, that is the way humans operate.

Do you have any more comments on that Charlie? You've seen a lot.

A - Charles Thomas Munger {BIO 1406508 <GO>}

I have made all the enemies, they can't afford at the moment.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay, that's never (128:39) in the past.

Andrew (128:43).

Q - Alexis Christoforous

Thank you, Warren. This is from a shareholder who asked to remain anonymous. If Donald Trump becomes the President of United States and recognizing your public criticism of him and your public support for Hillary Clinton, what specific risks regulatory, policy or otherwise do you foresee for Berkshire Hathaway's portfolio of businesses?

A - Charles Thomas Munger {BIO 1406508 <GO>}

That won't be the main problem.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well, government is a very big factor in our business and in all businesses. I mean there is the very broad policies that affect practically everybody and sometimes there can be some pretty specific policies. But I will predict that if Donald – either Donald Trump or Hillary Clinton becomes President or one of them is likely to be, very likely to be, I think Berkshire will continue to do fine.

Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

I'm afraid to get into this area.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yes, it – we've operated under all – I mean, we've operated under price controls. We've had 52% federal taxes applied to our earnings for many years, even – I mean they were higher at other times, but we've had regulations come along and in the end, business in this country has done extraordinarily well for a couple of 100 years and it has adapted to the society and the society has adapted to business. This is a remarkably attractive place in which to conduct a business.

Imagine in a world of practically zero interest rates, American business earning terrific returns on tangible equity. I mean those are the assets that were actually employed in the business. The numbers are staggering and people who have had their money in savings accounts or something that get destroyed, but owners of business, if you look at returns on tangible equity, just check them out sometime and they have not suffered even as people who own fixed interest – fixed income, instruments have suffered enormously. And farm prices are down, now farmer income has fallen off a lot in the last couple of years, but businesses managed to take care of itself and for good reason, because it contributes to and has been the engine of a market economy that's delivered output that is staggering by the imagination of anyone that might have existed 100 years ago.

In my lifetime, the GDP per capita in real terms of the United States has gone up six for one. Can you imagine in a society, where in one person's life time, overall they will have six times? The real output that they had, at the beginning, it's a – system works very well in terms of aggregate output, in terms of distribution of that output sometimes, it can fall very short in my view, but it will keep working, you don't have to worry about that here.

20 years from now, there will be far more uplift per capita in the United States in real terms than there is now, and 50 years, it'll be far more though and the quality will get better and no Presidential candidate or President is going to end that. They can shape it in ways that are good or bad, but they can't end it.

Now, Charlie, give something pessimistic here to balance-

A - Charles Thomas Munger {BIO 1406508 <GO>}

No, I want to say something optimistic, and I think that the GDP figures greatly understate the real advantage that our system has given to our citizens. It under weighs a lot of huge achievements because they don't translate right into money, in a certain way of the economist can easily amble, but the real achievements are over the last centuries say, are way higher than are indicated by the GDP figures, and the GDP figures are good. I don't think, this issue is necessarily going to be as quite as good as the past, but it doesn't have to be-

A - Warren Edward Buffett {BIO 1387055 <GO>}

There is no one you run into at least in my experiences that says with my same talents, I wish I'd lived 50 years ago instead born 50 years earlier, but a majority of the American public thinks that it is a bad time to be born today compared to when they were born, but we can show everyone they're wrong. It's the pace – the pace of innovation just think how differently you are living compared to 20 years ago in terms of what you do with your time. Now, lot of people may condemn or something of that sort, but you are making free choices that were not available to you 20 years ago and you are making them in a different direction. I'm still saying with the land line, but you people are way ahead of me.

Okay, great.

Q - Alexis Christoforous

Warren, late last year, we saw Canadian Pacific make a hostile bid for Norfolk Southern, a combination that would have linked Canada's second largest carrier with one of the two largest railroads in the Eastern U.S. This move led to a largely negative reaction from not only Norfolk Southern, but from Federal and State lawmakers, shippers and other railroad operators even though a formal evaluation process hadn't even begun with U.S. Surface Transportation Board. Canadian Pacific eventually backed down.

Looking back to 1999, when the Transportation Board blocked a proposed merger between BNSF and Canadian National, the attitude was that any additional mergers amongst railroads would have to be accretive to competition. What do you think they meant by this and if one believes that the hookup of one of the two major Western railroads with one of the two Eastern railroads would not alter the current landscape where most shippers had just two choices amongst the large railroads operating in the region and could actually generate efficiencies and cost savings that could be passed along to customers, how does a combination of someone like BNSF with Norfolk Southern and CSX not satisfy their goal?

A - Warren Edward Buffett {BIO 1387055 <GO>}

I think, now there is and Matt Rose, is he here? He can probably answer that, some of that better than I can certainly; he can answer all of it better than like I can.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yes, there is Matt. Yes.

A - Matthew K. Rose {BIO 1506801 <GO>}

Yes. So, the statements is actually right; back in 1999, we had a failed merger with Canadian National and new rules were put in place by our regulator, a little group called the SCB. And what they said was that the public litmus test for the next merger would have to be different. And at that point of time, we didn't really think that a large merger was possible. And so, when Canadian Pacific announced their merger of the Norfolk Southern, when we think about our four contingencies and those four are our customers, the labor groups, the communities in which we serve and shareholders, which our shareholders of course is BRK, we didn't see any interest in the final round of these mergers occurring outside of the shareholder community.

And so, our position was simply to say, if the rest of the shipping community believes that we ought to see this final round, that's fine, we'll participate, but we don't see it occurring right now. We do believe that when that final round occurs, there will be great efficiencies made for shippers and communities. But right now, we don't see the dynamics in place. So what are those dynamics? It will be as the country continues to grow in population from where we are today, 315 million to say 320 million, 330 million, 350 million, transportation becomes more scares and the railroads will need to do more, and that's really when we think the next round will occur.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay. Station six.

Q - Alexis Christoforous

Hi, my name is Michael Mariga (137:42), I'm from Brooklyn, New York, and I will be starting (137:45). In an interview with Bloomberg Markets, recently Jamie Dimon defended the Royal Bank's claim financial markets saying banks aren't markets, the market is a moral, your trade to the market, a bank is a relationship, for banks namely investment banks have struggled as regulators have favored market-based solutions and many of those relationships, investment banks have worked so hard for have proven to be less lucrative, especially compared to the growing fixed cost of supporting them. As it relates to our marketable securities portfolio, how do you feel about the investment banking component, particularly as well as moves into that space? Would you feel differently if the cost basis was higher; and Warren, Charlie, thank you so much for doing this every year.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Thank you. I didn't totally get that, but we feel the investment banking firms are being disadvantaged.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well, this is how do we feel about. Jamie says that you can make this much money, which is used to our relationships, and it's getting tougher and so forth, yes.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well, the public policy since 2008 and 2009 has been to very much toughen up capital requirements in a variety of ways for banks, but it is specifically designed to make large banks, very large banks, less profitable relative to smaller banks and you do that by increasing capital requirements. So you can – you can change the map of banking and the attractiveness of banking totally by capital requirements. Obviously, you said every bank had to be 100% equity; it would be a terrible business. You can possibly earn any money that was significant on capital. And if you let people operate with 1% capital ratios, they can make a lot of money and they will cause the system all kinds of trouble.

So since 2009, the rules have been tilted against the larger banks by primarily for capital requirements and that just means returns on equity can go down, but returns on equity were awfully high prior to that. So it hasn't turned it into a bad business, it's turned into a less attractive business than earlier. And that – some of the investment banks operate as bank holding companies, so they may have been affected by those capital requirements. I'm not sure getting 100% to your question. So I invite you to give me a follow-up, if you'd like on that.

Q - Alexis Christoforous

In the marketable securities portfolio, do you feel good about the going forward prospects of the investment bank – the investment banking companies, especially as Wells Fargo moves into that business?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well. Wells Fargo has an investment banking aspect towards, it primarily came in through Wachovia. And it's not in significant, but our ownership with Wells Fargo, which is very large, our largest single marketable security, not counting crap times, which is about the same size because in that situation we are under control position. But it's the largest non-controlled situation that we have at Wells Fargo. And that's by intent, I like it extremely well compared to other securities not because it has the most upside but I feel that weighted for upside-downside that it's-

A - Charles Thomas Munger {BIO 1406508 <GO>}

It's not the investment banking in terms of Wells Fargo, it's the general banking that-

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yes. We're not in – it isn't that big a deal and that's not what attracts us. We think Wells Fargo is a very well run bank, but we didn't make any decision to buy a single share based on the fact they we're going to be more in the investment banking business because of the Wachovia acquisition. They've got a lot of sources of income, they've got a huge base of very cheap money, but unfortunately they've got it out at very cheap rates on the other side now, but spreads will probably work in their advantage eventually, and we think it's a very well run bank.

Investment banking business, Charlie and I are probably a little affected by the experience we had in running one for a short period of time. It's not been something we invested in significantly, we obviously made a major investment in Goldman Sachs and we continue to hold shares that came out of the warrants that we received when we made the investment in 2008. Well, I think I can't recall us making a investment banking purchase, a marketable security involving an investment bank for a long time; can you Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

No, I think generally, we fear (143:14) more than we love it.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Carol (143:20)?

Q - Alexis Christoforous

In the conclusion of the book, 'Dear Chairman', which you recommended and this year's annual letter a new book you recommend, the author argues that "the wise work of great investors is inevitably reabsorbed into the industrial complex with little acknowledgement of their accomplishments". He then argues that Berkshire Hathaway will eventually be targeted by activists, investors, if it trades at too sharp a discount to intrinsic value. Do you agree with this assessment and have you considered installing corporate defenses that might prevent future generations of activists from trying to breakout Berkshire Hathaway?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yes. I used to worry more about that than I do now. Partly, size is one factor, I think the more important factor would be that Berkshire will always be in a position to repurchase very significant amount of stock and as long as is willing to buy that stock at some price and it should be close to intrinsic value, there should not be a large margin in terms of anybody that might come along and think there would be a lot of money to be made by breaking up. There would be money lost by breaking it up, in terms of if we lose, there would be certain advantages lost. MidAmerican Energy could not have done what it has done in renewals without Berkshire being the parent. I mean they have been split off, it would have been worth – the parts would have been worth less than the whole, and there are other – I can give you significant instances that up – in other cases.

So, I don't think there will be a spread that will be enticing to anyone and beyond that, I think the numbers that are involved would be staggering and I think we have a shareholder base that recognizes the advantages of both the Berkshire businesses and its culture. So I think it's very unlikely, but there have been periods in business history, where probably all stocks sold at dramatic discounts from what you might call intrinsic value. And it's interesting that very little activity occurred then.

In 1974 period, 1973 and 1974, there were company – really good companies, one of which was Cap Cities for example. Tom Murphy ran it, it was something at a huge discount to what it was worked, but people did not come along. And so to some extent when the discounts are huge, money is harder to get. It's not a huge worry with me. Actually and in my own case, because of the way my stock will get distributed to philanthropies after I die, there will be a – it's very likely that my stake for some years will be by far the largest shareholder of Berkshire in terms of votes, even with this distribution policy that it occurs. So I – it's not something I worry about now, I used to worry about it some, but it's not a factor now.

Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well. I think we have almost no worries at all on this subject and that most other people have a lot of fairly just a viable worry. And I think that helps us. So I look forward on this subject with optimism.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Do you want to explain how that helps us, Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well, if you are being attacked by people you regard as evil and destructive and so on and you want a strong ally, how many people would you pick in preference to Berkshire?

A - Warren Edward Buffett {BIO 1387055 <GO>}

My name is Warren Buffet and I approve of that message.

Jonathan (147:43)?

Q - Alexis Christoforous

Leasing has quietly become an important contributor to Berkshire's earnings with its several missing units logging about $1 billion and combined annual pre-tax income. Could you talk about Berkshire's competitive advantages in its various leasing business including containers, cranes, furniture, tank cars and rail cars? Are there other leasing business you would be interested in entering for instance airplanes or commercial auto fleet, same leasing companies in particular seem to sell for reasonable prices and are often available?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yes, well we've got a very good truck leasing business (148:21) we've got a good primarily tank car leasing business in tank car pro car. We expanded by $1 billion when we bought the JD fleet recently. Leasing generally isn't something - we have to bring something to the party; that's much more than just handing people trailer and taking a check every month. There is important service advantages brought to that, but pure leasing, leasing of new cars which is a huge business. The map is not that attractive, so banks have an advantage over us because their cost of funds is so low; now it's not quite as low it looks, but I think Wells Fargo, I think the last figure was down around 10 basis points and was somebody has maybe $1 trillion or so, and they're paying 10 basis points for it, I don't feel very competitive at Berkshire in that situation.

So pure money-type leasing is not an attractive business for us when we've got other people with the lower cost of funds. I mean they've got the edge. And we have got railcar leasing, involves a lot more than just a financial transaction. I mean we repair - we've got huge activity in the repair field and those cars require servicing and the same way in our trailer business, but you will not see us getting - aircrafts leasing doesn't interest me in the least, we've looked at that a lot of times at various aircraft leasing companies offer to us and that's a scary business.

And some people have done well in it by - in recent years by using short-term money to finance, longer-term assets, which have big residual risks and that just isn't for us. Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

I think you said it pretty well. We're well located now, but I don't agree with that huge opportunities.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay. Station seven.

Q - Alexis Christoforous

Good morning Warren and Charlie. I am Van Der Mercy (150:55) from the Philippines. Warren, my wife and I sent original paintings to your office two days ago and we hope you like them.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Thank you.

Q - Alexis Christoforous

Today Berkshire's size ensures that it faces competition from numerous businesses. If you had a silver bullet, which competitor would you take out and why? And sorry – and you can't say Donald Trump.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Which competitor and which businesses, you're asking about which-

A - Charles Thomas Munger {BIO 1406508 <GO>}

Which competitor would you kill if you could? I don't think we have to answer this one.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Charlie is a lawyer.

A - Charles Thomas Munger {BIO 1406508 <GO>}

But I thought about the question.

A - Warren Edward Buffett {BIO 1387055 <GO>}

We have lots of tough competitors and in many areas, we're a pretty tough competitor ourselves, and the real – what we want our managers to be doing is thinking every day about how to achieve a stronger competitive position, we call it widening the mold, but we want to turn our better products. We want to keep our cost out to a minimum, we want to be thinking about when our customers likely to be wanting from us a month, a year, 10 years from now, and generally if you take care of your customer, the customer takes care of you. But there are cases, where's there's some force coming along that really is you may not have the answer for them and then you get out of that business. We had that department store in Baltimore in 1966 and if we kept it, we would have gone out of business. So recognizing reality is also important. I mean, you do not want to try and fix something that's unfixable.

A - Charles Thomas Munger {BIO 1406508 <GO>}

And we're not targeting competitors for destruction, we're just trying to do the best we can everywhere.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Spoken like an antitrust lawyer.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Okay. We really hope to be the ones who the other guys want to use the silver bullet on. Becky (153:26)

Q - Alexis Christoforous

This question comes from Ram and Rajiv Tharek (153:32) from Sugar Land, Texas. He writes my wife and I have the vast majority of our net worth invested in Berkshire and in shares of the Sequoia Fund. Mr. Buffett, you have endorsed the Sequoia Fund on more than a few occasions. Recently, the Sequoia Fund has been in the news because of its large position and Valeant Pharmaceuticals. Mr. Munger has termed Valeant's business model highly immoral.

Mr. Buffett, do you agree with Mr. Munger's assessment? Have your views about Sequoia Fund changed? Also as you know, Sequoia is an admirer and large holder of Berkshire stock.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yes, in a sense, I'm the father of Sequoia Fund. And when I was closing up my partnership at the end of 1969, I was giving back a lot of money to partners. And these people have trusted me and they wanted to know what they should do with their money. And we helped out those who wanted to put in municipal bonds for a few months Bill, Scott (154:34) and I stayed around and helped those people come up with those, but most of them were equity-oriented type investors. And we said there were two people that we admired enormously in the investment business, not simply because they were terrific investors, but they were terrific people, and that would be the kind of people that you'd make trustee of your will. So those two, one of whom is in the room, Sandy Gottesman, our Director, and one was Sandy, and one was Bill Ruane. They were friends themselves. So Sandy took on a number of our clients or number of our partners and they became clients and very happy clients (155:19) some of them are still clients or their children or grandchildren are to this day.

Others went with those – a lot of them went with both of them actually. In fact I wouldn't be surprised but the majority who had a lot of money gave some to Sandy and gave some to Bill. But Bill, we had a lot of people whose total funds were really not of a size that made them economic individual clients. And so, Bill, who would not have otherwise set up a fund, Bill said, I will set up a fund and it actually had an office in Omaha. John Harding, he used to work for me, became the employee here and a number of our ex-partners, my ex-partners joined Sequoia Fund as a way to find an outstanding investment manager, like I say both for (159:03) and for integrity and could deploy small sums with them.

And Bill ran Sequoia until I think of roughly 2005, when he died and did a fantastic job and even now, if you take the record from inception to now, with the troubles they've had recently, I don't know the mutual funds in United States that has a better record. There probably is one, maybe or two, but it's far better than the S&P and you won't find any records that fill for 30 years or 40 years that are better than S&P. So, Bill did a great job for people, and Bill died in 2005 and the record continued to be good until a year or so ago. And at that time they – the management company or the manager, I should say, took an unusually large position in Valeant and despite the objection of some people who are on the board, not only maintained that position, but actually increased it after a fair amount of doubt had been expressed by the board about the advisability of doing that. The record like I say to-date still from when started is significantly better than average.

My understanding is the manager who made the decision on Valeant is no longer running the operation and then other people (157:58) for doing so and I have every reason to believe that they're – I know that they're very smart, decent people who are good, probably way better than average analyst in terms of loss rate, so, I think it was very unfortunate period when the manager got overtly entranced with the business model which if you – I watched the Senate hearings a couple of days ago when Senator Collins and Senator McCaskill interrogated three people from Valeant, and it was not a pretty picture that in my view the business model of Valeant was enormously flawed, it had been touted to us. We had several people who urged us strongly to buy Valeant, they wanted us to meet Pearson, and all that sort of thing, but it illustrated a principal that (159:06) I think said many, many years ago; he said if you're looking for a manager, find somebody that's intelligent, energetic and has integrity. And he said if they don't have the last, be sure they don't have the first two.

If you've got somebody lacks integrity, you want to be dumb and lazy and if you get an intelligent, energetic guy or women who is pursuing course of action which he put on the front page would be – make you very unhappy. Didn't get in a lot of trouble, it may take a while, but Charlie and I have seen and we're not remotely perfect at this, I don't mean that, but we've seen patterns.

We get pattern recognition, that's very important in evaluating humans and businesses and the pattern recognition isn't 100% and they know the patterns exactly repeat themselves, but there are certain things in business and securities markets that we have seen a over and over and that frequently come to a bad end, but frequently look extremely good in the short run. And one which I talked about last year, I'm not referring to Valeant in this regard is the chain-letter scheme; the disguised chain letter. You are going to see chain letters for the rest of your life, but not that – nobody calls them chain-letters, because that as a connotation that will scare you off, but a disguised kind chain-letters and many of the schemes in Wall Street that are designed to fool people, have that particular aspect to it.

And there were patterns at Valeant that I think certainly if you go and watch those Senate hearings, I think you'll decide that there are patterns that really should have been picked that up on and it's been very painful to the people of Sequoia. And I personally think that the people who are running Sequoia now are able people. And I'll get into in a second the difficulty of managing money, but first I'll give Charlie a chance to comment on this.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well, I totally agree with you that Sequoia as reconstituted, it's a reputable investment fund and the manger has reconstituted his reputable investment advisor. And I've got quite a few friends and clients that use Ruane Cunniff, and I have advised them to stay with the places reconstituted. I believe you've done the same thing. Haven't you?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Right.

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A - Charles Thomas Munger {BIO 1406508 <GO>}

So, we trust. We think the whole thing is fixed. The Valeant, of course, is the sewer, and those who created it, deserve all the appropriate that they got.

A - Warren Edward Buffett {BIO 1387055 <GO>}

In a few minutes, we'll break, but I think it almost ties in with this last question. If we could put slide three up, I promised - some years ago, I made a wager and I promised to report before the lunch the wager was coming out, and I have been doing that regularly. But it probably seems appropriate since it's developed this far to point out a rather obvious lesson, which was what I hope to drive home to some degree by offering to make the wager originally. Incidentally, when I offered to make the wager, namely, somebody can pick out five hedge funds and I would take the unmanaged S&P index (163:18) Vanguard Fund and I would bet that over a 10-year period that the unmanaged index would beat these five funds that were all being managed presumably, they can pick any five funds that were managed by people who are charging incredible sums that they will because of their supposed expertise. And fortunately, there is an organization called or at least you go to - if you go the Internet, if you put in longbets.org, it's a terribly interesting website.

You can have a lot of fun with it, because people take the opposite side of various propositions that have a long tail to them and make bets as to the outcome and then they both get their - each side gives their reasons. And you can go to that website and you can find bets about whether what population will be doing 15 years from now or all kinds of things, and our bet became quite famous on that. They - and a fellow I like, who I didn't know before this, Ted Seides bet that he could pick out five hedge funds. These were funds of funds. In other words, there was a one hedge fund at the top and then that manager picked out who he thought were the best managers underneath and then bought into these other funds in turn. So that the five funds of funds represent maybe 100 or 200 hedge funds underneath.

Now, bear in mind that the hedge fund, it's not making the bet, was picking out funds, where the manager on top was getting paid perhaps a 0.5% a year plus a cut of the profits, primarily picking out who he thought were best managers underneath, who in turn were getting paid maybe 1.5% to 2%, plus a cut of the funds on profits. But certainly the guy at the top was incentivized to try and pick out great funds, and at the next level those people were presumably incentivized too. So, the result is after eight years, and several hundred hedge fund managers being involved is that now the totally unmanaged fund by Vanguard with very, very, very minimal cost is now 40 some points ahead of the group of hedge funds.

Now that may sound like a terrible result for the hedge funds, but it's not a terrible result for the hedge fund managers. These managers - A, you've got this top level manager that's charging probably 0.5%, I don't know that for sure, and down below you've got managers that are probably charging 1.5% to 2%. So if you have a couple of percentage points sliced off every year that is a lot of money. We have two managers at Berkshire that each manage $9 billion for us. They both ran hedge funds before.

If they had a two and twenty arrangement with Berkshire, which is not uncommon in the hedge fund world, they would be getting a $180 million each merely for breathing annually, that - I mean that - it's a compensation scheme that is unbelievable to me, and that's one reason I made this bet. But what I'd like you to do is for a moment imagine that in this room, we have the entire - you people own all of America, all the stocks in America are owned by this group. You are the Berkshire 18,000 or whatever it is, that has somehow managed to accumulate all the wealth in the country.

And let's assume we just divide it down the middle, and on this side we put half the people, half of all the investment capital in the world and that capital is what a certain presidential candidate might call low energy. In fact they have no energy at all. They buy half of everything that exists in the investment world, 50% everyone on this side. And so now half of it is owned by these no energy people. They don't look at stock prices, they don't turn on business channels, they don't read the Wall Street journal, they don't do anything. They just - they're a slovenly group that just sits for year after year after year owning half of the country, half of the America's business.

Now what's their result going to be? Their result is going to be exactly average as how American business does, because they don't have all of it. They have no expenses, no nothing. Now, what's been happen with the other half, the other half or what we call the hyperactives and the hyperactives, their gross result is also going to be half, right? They can't - the whole has to be the sum of the parts sharing this group by definition can't change from its half of the (168:53) investment results. This half is going to have the same gross results. They're going to have the same results as the no-energy people. And they're also going to have terrific expenses, because they're all going to be moving around hiring hedge funds, hiring consultants, paying lots of commissions and everything and that have as a group has to do worse than this have. The people who don't do anything have to do better than the people that are trying to do better, and that's simple.

And I hoped through making this bet to actually create a little example of that, but that also was open to anybody. And I would make incidentally the same offer now except being around 10 years (169:40) more problematic as we go through life. But it seems so elementary, but I will guarantee you that no endowment fund, no public pension fund, no extremely rich person wants to sit in that part of the auditorium. They just can't believe that because I have billions of dollars to invest that they can't go out and hire somebody, who will do better than average. I hear from them all the time.

So, this group over here supposedly sophisticated people, generally richer people hire consultants and no consultant in the world is going to tell you just buy an S&P index fund and sit for the next 50 years. You don't get to be a consultant in that way, and you certainly don't get an annual fee that way. So, the consultants got every motivation in the world to tell you this year I think we should concentrate more on international stocks. This year - this manager is particularly good on the short site, and so they come in and they talk for hours and you pay them a large fee and they always suggests something other than just sitting on your year end and participating in the American business without cost.

And then those consultants after they get their fees, they in turn recommend to you other people who charge fees, which as you can see over a period of time, cumulatively eat up capital like crazy. So, I would suggest that - but I'm not sure, I didn't feel sure, because I can't tell for sure about any 10 year period, but certainly saw very probable (171:26). And it just demonstrates so dramatically. I've talked to huge pension funds, and I've taken them through the math; and when I leave, they go out and hire a bunch of consultants and pay them al lot of money. Just unbelievable and the consultants always change their recommendations a little bit from year-to-year, they can't change them 100% because (171:54) they knew what they were doing the year before. So they tweak them from year-to-year and they come in and they have lots of charts and PowerPoint presentations, and they recommend people who in turn are going to charge them a lot of money and they say, well, you can only get the best talent by paying 2 in 20 or something of sort.

And the flow of money from the hyperactive to what I call the helpers is dramatic, while this group over here sits here absolutely gets the record of American industry. So I hope you realize that, for the population as a whole, American business has done wonderfully and the net result of hiring professional management is a huge minus. And at the book store, we have a little book called Where Are the Customers' Yachts written by Fred Schwed. I read it when I was about 10 years old, then updated it to - well, that didn't update it, but new additions have been put up few times.

But the basic lessons are there. The lesson is told in that book from 1940, it's so obvious, and yet all the commercial push is behind telling you that you're bound to think about doing something today that's different than you did yesterday. You don't have to do that. You just have to sit back and let American industry do its job for you.

Charlie, do you have anything to add to my sermon?

A - Charles Thomas Munger {BIO 1406508 <GO>}

We are targeting to a bunch of people who have solved their problem by buying Berkshire Hathaway. That worked even better. And there have been a few of these managers, the managers who have actually succeed. There are few of the universities who are really good, but it's a tiny group of people. It's like looking for a needle in a haystack.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. And when I was given the job of naming two in 1969, I knew two. I knew a couple of others. Charlie wasn't interested in managing more money than my friend Morris was. He did not scale up well, although he had a fabulous record over 45 years or thereabout. But was all I could come up with at that time. And fortunately, I did that for a couple. And the people who went basically have one (2:54:12) that had been well served that they stayed for the whole period.

But the people had been far, far, far more money made by people in Wall Street through salesmanship of their release than through investment abilities. There are a few people out there that are going to have an outstanding investment record, but there are a very few of them. And the people you pay to identify them don't know how to identify them, and they do know how to sell you.

And that's my message. We'll come back at 1 o'clock. Thanks.

[Break] (2:54:55-2:56:08)

A - Alexis Christoforous

And there you have it, Warren Buffett and Charlie Munger taking questions about Berkshire Hathaway, everything from investments in Coca-Cola, railroads, energy, derivates, even cyber attacks, Harry Potter also got a shout-out.

Welcome back to Yahoo!'s exclusive live stream of the Berkshire Hathaway Annual Meeting. I'm Alexis Christoforous at the CenturyLink Center in Omaha, Nebraska, joined by Yahoo! Finance Editor-in-Chief Andy Serwer. In just a second, we'll play you a highlight of the presentation.

But Andy, curious just to get your takeaway from this morning's Q&A. Lots of topics were discussed for sure.

A - Andrew Serwer

Lot of stuff. And just to give you a little bit of a flavor, what it was like in the hall, the CenturyLink arena itself, completely packed, 17,000 seats. I talked to someone who said I've been to Oscars, I've been to the Emmy's, there's always a few seats in the back. Not here. People quite, you can hear a pin drop almost, hanging on every word. And I thought there are a number of interesting topics, Alexis.

One thing for instance insurance, which has been a core part of the business. And Buffett's saying not so sanguine about it anymore, low rates, the returns aren't what they used to be, and a lot of new players coming into the business, that was kind of interesting.

Also reaffirming his confidence in Wells Fargo. And a broader point there, if you're a CEO or work for a company and Buffett checks you off during this Annual Meeting, that's a good thing. You're breathing a sigh relief and you know you get the high sign from the Oracle of Omaha, and that's great stuff.

A - Alexis Christoforous

It certainly is. I don't if you can hear this music behind me, but it's Jay Z's New York playing, but they actually changed the lyrics and it's let's hear it for Berkshire. So, talk about having your finger on the pulse and being part of pop culture, that's what Warren Buffett does.

I want to bring you the first highlight, in case you missed it, Carol Loomis's (2:58:04) first question to the panel. Take a listen.

Good morning. I'll make my very short little speech about the fact that the journalists and the analysts who have given Charlie and Warren no hand on what they're going to ask. So they will be learning for the first time with us, going to be awesome.

This question comes from Eli Moises (2:58:53). In your 1987 letter to shareholders, you commented on the kind of companies Berkshire like to buy. Those that required only small amounts of capital, you said "because so little capital is required to run these businesses, they can grow while concurrently making almost all of their earnings available for deployment and new opportunities." Today, the company has changed its strategy. It now invests in companies that need tons of capital expenditures, are over-regulated and earn lower returns on equity capital. Why did this happen?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. Well, it's one of the problems of prosperity. The ideal business is one that takes no capital, but yet grows. And there are a few businesses like that and we own some. But we are not able - we'd love to find one that we could for $10 billion or $20 billion or $30 billion that was not capital-intensive. And we may, but it's harder. And that does hurt us in terms of compounding earnings growth, because obviously we have a business that grows and gives you a lot of money every year and doesn't take it - it isn't required in its growth.

You get a double-barrel effect from the earnings growth that occurs internally without the use of capital and then you get the capital that produces to go and buy other businesses. And See's Candy was a good example of that, I'd use that. Back when the newspaper business was good, our Buffalo newspaper, for example, was a good example of that. The Buffalo Newspaper was making at one time $40 million a year and had no capital requirements. So we could take that whole $40 million and go into go buy something else with it.

But increasing capital acts as an anchor on returns in many ways, and one of the ways is that it drives us into - just in terms of availability, it drives us into businesses that are much more capital-intensive. You just saw a slide, for example, on Berkshire Hathaway Energy, where we just announced - just in the last couple of weeks, we announced a $3.6 billion investment coming up in wind generation. And we've pledged overall to have $30 billion in renewables. Anything that Berkshire Hathaway Energy does, anything that BNSF does, takes lots of money. We get decent returns on capital, but we don't get the extraordinary returns on capital that we've been able to get in some of the businesses where we required - are not capital-intensive.

As I mentioned in the Annual Report, we have a few businesses that actually aren't 100% a year on true invested capital and clearly that's a different sort of operation. And something like Berkshire Hathaway Energy, which may earn 11% or 12% on capital, and that's a very decent return, but it's a different sort of animal than the business of very low capital intensity.

Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well, when our circumstances changed, we changed our minds. Yeah. Surely...

A - Warren Edward Buffett {BIO 1387055 <GO>}

And reluctantly.

A - Charles Thomas Munger {BIO 1406508 <GO>}

In the early days, quite a few times, we bought a business that was soon producing 100% per annum on rebate work (3:02:37) and didn't require much of the investment. We've been able to continue doing that. We would have loved to do it. But when we couldn't, we went to Plan B and Plan B is working pretty well. And in many ways, I've gotten – so I'd sort of prefer it. How about you, Warren?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. That's true. When somebody's forced on you, might as well prefer it. But I mean, we knew that was going to happen and the question is does it leave you from what looked as a sensational result to a satisfactory result, and we're quite happy with the satisfactory result. The alternative would be to go back to working with very tiny sums of money and that really hasn't gotten a lot of serious discussion between Charlie and me.

MANAGEMENT DISCUSSION SECTION

Alexis Christoforous

So Andy, lots of great points made there. They talk about renewable energy and railroad, these capital-intensive businesses they are now in. But is it really partly because Berkshire Hathaway has just gotten so big, they need to start making investments like these?

Andrew Serwer

Yeah. That's absolutely the case. And as I had mentioned earlier, the financial services businesses where you don't need a lot of capital, they're not so attractive right now. Interestingly, of course, the least capital-intensive business on the planet is software, tech companies like Microsoft, Bill Gates' company, Warren Buffett's friend, Berkshire never invested in any software at all.

Alexis Christoforous

Yeah. This doesn't seem to be his thing.

Andrew Serwer

Not at all.

Alexis Christoforous

He always says invest in what you know. Maybe that's just not his thing. All right, Andy, thanks a lot. We'll check back in with you in a little bit. I want to bring in Nicole Sinclair now. And Nicole, you listened to the meeting as well to the Q&A session. What was your take on the capital expenditure talk?

Nicole Sinclair {BIO 20166308 <GO>}

Well, first of all, from a big picture perspective, it's always amazing to be at that kind of event. There was so much laughter filling the arena, a lot of energy. But really while he did address some company-specific issues like the capital investments at BNSF railroad for example, Wells Fargo, some other specific business issues, he really answered a lot of broader picture questions and that was really important, from presidential candidates to sugar, the broad economy, even drug pricing towards the end of that session. So, really touching on a lot of topics there. As the business has shifted, he has a broader view.

I think the big takeaway - the broad takeaway is, things are tough right now, but long-term he's very optimistic and he's really positive on the long-term future of America. And he's really been that way all along.

Alexis Christoforous

Now, you had a special guest in the exhibition hall with you recently. We want to go back to Andy really quickly though. Andy, you have got - we've got lots of special guests lying around here today and, Andy, you've got a special guest with you. Who have you got for us?

Andrew Serwer

I do. I'm here with Ron Olson, who is a real Berkshire insider. He's been a Director of Berkshire Hathaway since 1997. He is a partner at Munger, Tolles & Olson, the Los Angeles law firm. That's Charlie Munger's law firm or your law firm with Charlie.

Ronald L. Olson {BIO 521861 <GO>}

You got it.

Andrew Serwer

Exactly.

Ronald L. Olson {BIO 521861 <GO>}

Charlie was a founder of our law firm, but he doesn't practice with us now or for years prior.

Andrew Serwer

Right. So let me ask you about this morning, Ron. What do you think was sort of the most interesting takeaway?

Ronald L. Olson {BIO 521861 <GO>}

Well, I think, there were a lot of interesting things. I thought the way in which Warren defended Mid-America against the charges of environmentalists that we Mid-America have frustrated the movement to solar by taking a position against the subsidizing of the solar homeowners in Nevada, I thought it was - like everything else, Warren is such a great teacher. And getting people to recognize that subsidizing 17,000 solar homeowners through the utility fees charged to the other 99% of the utility customers in Nevada was fundamentally wrong. And if you want to encourage the movement to renewables, it's a suicidal burden and it ought to be carried by society and not by one group of customers on behalf of a small percentage of the other. So, to me, that was - I thought the way he handled that was interesting and, as always, done in a way that you learn something.

Andrew Serwer

Terrific. Let me ask you about Berkshire Hathaway board meetings. What are they like? What goes on behind closed doors? Is it really a democracy or it is Warren sort of dictate the terms?

Ronald L. Olson {BIO 521861 <GO>}

It's not nearly as intriguing as all of you on the outside think it is. First of all, it's fun, because anything you do with Warren Buffett is fun. Second of all, we do have important agenda that Warren does not dominate. The single most important is always having a successor in mind if tomorrow he goes out and gets hit by a bus.

As you heard this morning, he plans to live through at least 100 years in order to see GEICO overtake State Farm and market share by the time he is 100 years old, which he fully expects them to do. But that is an agenda that is our agenda. On top of that, he reports to us on any of the major businesses that are having any challenges. We're talking about - he wants us to understand the bad things more than he wants us to understand the good things, and that's the focus of the meetings. And yes, he has unusual, I would put it in terms of respect for CEO, but he's earned it, deserved it, and the shareholders benefit from it and that directors recognize that we've done pretty well following Warren's lead.

Andrew Serwer

All right, Ron Olsen, Berkshire Hathaway Director, Partner at Munger, Tolles & Olson. Thanks very much for coming on.

Ronald L. Olson {BIO 521861 <GO>}

Thank you, Andy. Good.

Andrew Serwer

Thanks, Alexis.

Ronald L. Olson {BIO 521861 <GO>}

Have a good time, everybody.

Alexis Christoforous

All right. Thanks very much to Andy and to Ron. And there is a lot more to come, thousands have packed at CenturyLink Center, plus Kathy Ireland is among the celebrities that swapped to Omaha to be part of this. We'll be speaking with her live. You're watching Yahoo Finance's exclusive live stream of the Berkshire Hathaway Annual Meeting. Remember, you can also watch this live stream on the Yahoo Finance app. We'll be right back.

[Break] (3:09:49-3:10:32)

Q&A

Q - Alexis Christoforous

If Donald Trump becomes the President of the United States, and recognizing your public criticism of him and your public support for Hillary Clinton, what specific risks, regulatory, policy or otherwise, do you foresee for Berkshire Hathaway's portfolio of businesses?

A - Warren Edward Buffett {BIO 1387055 <GO>}

That won't be the main problem.

A - Alexis Christoforous

Classic, Warren Buffett. All right. Welcome back to the Berkshire Hathaway Annual Meeting. Warren Buffett was also asked about his investment in Coca-Cola. Let's take a look at what he had to say just a short bit ago.

Hey, Warren. Great to see you today. Got a lot of questions on this particular topic, and this question is a particularly pointed one. Warren, for the last several years at this meeting, you've been asked about the negative health effects of Coca-Cola products, and you've done a masterful job dodging the question by telling us how much Coke you drink personally.

Statistically, you may be the exception. According to a peer-reviewed study by Tufts University, soda and sugary drinks may lead to 184,000 deaths among adults every year. The study found that sugar, sweet, and beverages contributed to 133,000 deaths from diabetes, 45,000 deaths from cardiovascular disease, 6,450 deaths from cancer.

Another shareholder wrote in about Coke noted that you declined to invest in the cigarette business on ethical grounds despite one saying "it was a perfect business because it caused $0.01 to make, sell it for $1, it's addictive and there is fantastic brand loyalty." Again, removing your own beverage consumption from the equation, please explain directly why we Berkshire Hathaway shareholders should be proud to own coke?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. I think that people confuse the amount of calories consumed. I mean, I have no elect to consume about 700 calories a day from Coca-Cola. So I'm about one quarter Coca-Cola roughly and I'm done. Not sure which quarter and I'm not sure we want to pursue the question.

But I think if you decide that sugar generally is something that the human race shouldn't have, I think the average person consumes something around 150 pounds of dry white sugar a year - 125 pounds. I mean, what's in Coca Cola largely are more of the calorie come from the sugar. I elect to get my 2,600 calories or 2,700 calories a day from things that make me feel that when I eat them. And that's been my sole test. That wasn't the test that my mother necessarily thought was greater, my grandfather.

But there are over 1.9 billion eight-ounce servings of some Coca-Cola drink - now they have a enormous range of products. I mean, if you would recall, Coke, Diet Coke, Coke Zero and that sort of thing. But they have literally thousands of products. 1.9 billion, that was 693.500 billion eight-ounce servings a year, except if it's a leap year. That's almost 108-ounce servings per capita for 7 billion people in the world every year. And that's been going on since 1886.

And I would find quite spurious the fact that somebody says if you're eating 3,500 or so calories a day and you're consuming 2,700 calories or 2,800 calories, and some of the 3,500 calories is called recall to delay it (3:14:45) any particular obesity-related illnesses on the Coca Cola you drink. You have the choice of consuming more than you use I mean. And I make a choice. The 700 calories in this, I like fudge a lot, peanut brittle. And I am a very, very, very happy guy. And I don't know - I think, and I'm serious about, as I think if you were happy every day, maybe hard to measure, but I think you're going to live longer as well. So, that may be a compensating factor.

I really wish I'd had a twin, and that twin had eaten broccoli his entire life, and we both consumed the same number of calories, I know I would have been happier. And I think the odds are certainly that I would have lived longer. I think Coca-Cola is a marvelous product. I mean, if you consume 3,500 calories or 4,000 calories a day and live a normal life in terms of your metabolism, something is going to go wrong with your body at some point. But if you keep - I think if you balance out the calorie so that you don't think I'm obese, I have not seen evidence that convinces me that I'll make it - it'll be more like reaching 100 years if I someday switched to water and broccoli.

MANAGEMENT DISCUSSION SECTION

Alexis Christoforous

All right. Nicole Sinclair joining me now. And he's certainly not making any apologies for his addiction to junk food, right? What's your reaction to that whole Coke bit?

Nicole Sinclair {BIO 20166308 <GO>}

Right. I mean, he is so funny. 25% Coke Warren Buffet is and he really has a lot of fun with it. Really he says he is happy and he lives long. He jokes around. Of course, if he had a twin that'd eat only broccoli, he thinks he would outlive that twin. Remember, 60% of his equity portfolio are these long-term conviction ideas, IBM, Kraft Heinz, Wells Fargo, American Express, IBM. Other than Kraft Heinz, he's owned all of these for a very long time, and they've done very well. So he is stuck behind Coke. He drinks a lot of it and he is looking pretty good today. So, that was a fun answer.

Alexis Christoforous

Absolutely. He's living a great long life. I know you had a special guest recently. You sat down with somebody from Burlington Northern Santa Fe.

Nicole Sinclair {BIO 20166308 <GO>}

Yes. I spoke with the CEO of BNSF. And Alexis, when Warren Buffet announced the acquisition of BNSF in 2009, he said that it was an all-in investment in the future of America. He talked to me a little bit more about that.

Matthew K. Rose {BIO 1506801 <GO>}

So we still have a lot of headwinds specifically as commodity super cycle is really coming to close, strong dollars, a headwind, certainly the coal business is a headwind. The rest of the economy on the consumer's side actually feels pretty good. So we'll rely on our old standards, a lot of growth in domestic intermodal and ag should be pretty good for us. So, that's a great part about us having a very balanced portfolio.

Nicole Sinclair {BIO 20166308 <GO>}

What is the biggest issue for coal? Is it the slowdown in China? Is it alternatives in the U.S.? What do you focus on?

Matthew K. Rose {BIO 1506801 <GO>}

It's really low natural gas prices.

Nicole Sinclair {BIO 20166308 <GO>}

Yeah.

Matthew K. Rose {BIO 1506801 <GO>}

And we've seen low natural gas prices in my period of stewardship of this company go from $13 to now $1.75, and that is really what is hurting coal today. What will hurt coal tomorrow though is the Clean Power Act that is matriculating through the EPA and the court system.

Nicole Sinclair {BIO 20166308 <GO>}

And what is BNSF doing to cope with some of these changes?

Matthew K. Rose {BIO 1506801 <GO>}

Well, certainly, we will look at our cost base. We will - we have ways to take costs out of the business. Some of them impact employs, some of them don't. We'll look at our capital allocation process. But at the end of the day, what we really want to do is to find new growth opportunities to replace that lost business that we had.

Nicole Sinclair {BIO 20166308 <GO>}

In last year's shareholder letter, Warren Buffet talked a lot about the investment in BNSF.

Matthew K. Rose {BIO 1506801 <GO>}

Yes.

Nicole Sinclair {BIO 20166308 <GO>}

How important is that for the future of the business and what can we expect in the year ahead?

Matthew K. Rose {BIO 1506801 <GO>}

Yeah. So, capital is really the lifeblood of any railroad - really of any network business like this. And so it's really important. We've got a great company in terms of the level of quality of our physical plant right now. We had the all-time safest year in our railroad from an employee entry standpoint, 1 million train mile derailment standpoint. And that's really important for our employees as well as our communities. And a lot of that is due to the very, very strong infrastructure or the strong capital that we've been able to put in.

Nicole Sinclair {BIO 20166308 <GO>}

Do you think more needs to be done from a national standpoint investing in infrastructure here?

Matthew K. Rose {BIO 1506801 <GO>}

Sure. So you hear that all the time and, of course, the problem is nobody wants to pay for it. The railroads have the great alternative of providing private capital and that's what we do, the nearly $25 billion a year that the railroads collectively put in is about 99.5% all private capital. And that's really great for this country. We're taking ton-miles off the highway. We're able to reduce the carbon footprint of our overall supply chain. What we really need to do next is to invest more money into the highway, what we call the interconnectors that feed into the railroad networks as well.

Nicole Sinclair {BIO 20166308 <GO>}

Of course, the transportation factor is seen as the leading indicator for the economy. So BNSF's pulse is key. They were plagued by low commodity prices in 2015. That's something that Warren Buffett talked a little bit about today. But Berkshire is investing in the long-term for the business. That remains very important, and BNSF, an important investment. He said today he would buy another one if he could even at a higher price. So he stands behind it a mid-some near-term turbulence.

Alexis Christoforous

All right. Thanks a lot for bringing us that interview, Nicole. I just want to get Andy's reaction real quick on the floor in the exhibition hall. What are your thoughts on BNSF and the challenges that they face? Nicole had mentioned the commodities prices.

Andrew Serwer

Well, it really does touch on a lot of the problems that Buffett faces in his portfolio right now. I mean, if you think about it, first of all, I was a little surprised when he bought the railroad, as he calls it, several years ago. It did benefit from the economic recovery coming out of the great recession, but now we're in a slow growth economic, number one.

Number two, it's a very capital-intensive business that's been a subject of discussion this morning. And then number three, the stuff that it carries, coal, oil, these are problematic. The oil situation, of course, dangerous to carry. Coal, what happens when the coal business, as it declines, possibly even because of regulatory issues, how will that hurt the rail business? So this is something that Matt Rose is certainly well aware of has to deal with and Buffett knows as well, but these are headwinds as he himself characterized them.

Alexis Christoforous

All right. Thanks a lot, Andy. We appreciate your insights. And this weekend, Omaha has been transformed into Midwest Hollywood. There's no doubt Warren Buffett is a celebrity in his own right, but the likes of Paul McCartney have been here, as has the cast of Breaking Bad. And the man behind Breaking Bad, Creator and Executive Producer, Vince Gilligan, is here with us now and thank you so much for coming by.

Unverified Participant

Thank you for having me.

Alexis Christoforous

How many years have you been coming here?

Unverified Participant

This is year four. This is the fourth meeting I've attended.

Alexis Christoforous

Okay. What are you - I got to ask, I mean, what's this big time Hollywood producer doing here?

Unverified Participant

I love all. And I love Warren Buffett. I love his daughter Susie, and his grandson Mike, and now it's just - they were so warm and inviting to us four years ago when we started coming, when we did the Breaking Bad video for the virtual meeting. And they kept inviting us back. And we just started - we're having such a good time, why shouldn't we. And so we've made it an annual event now. My boss at Sony Television, Steve Mosko, arranges for us to come and I come with my wife, Holly, and my producer, Melissa Bernstein for Breaking Bad and all these folks. So we have such a good time here.

Alexis Christoforous

All right. So we should explain to the folks if they don't know that there was a movie - the meeting starts every year with a movie...

Unverified Participant

Yes.

Alexis Christoforous

...produced by Buffett. And one year, he wanted the cast of Breaking Bad to come in and do something with him.

Unverified Participant

Yes.

Alexis Christoforous

Because he is a huge fan, and you know he doesn't tweet a lot. He's just got about 8 or 10 tweets. Yahoo's got a couple of them, and Breaking Bad had one of them.

Unverified Participant

Yes.

Alexis Christoforous

How did you find out he was such a big fan and what did you think about it?

Unverified Participant

Well, it's really interesting. I got to give credit to a guy named, Michael Kives who is Warren's agent. And he's a great guy who I think turned Warren on to Breaking Bad, and once he did, Warren became, as you say, a huge fan.

Alexis Christoforous

Wait, check it out. Did you see that we had a picture up there of Buffett dressed as mother?

Unverified Participant

Yes.

Alexis Christoforous

White from the show. That is a really pretty good likeness, I have to say.

Unverified Participant

I don't know which ones scare you.

Alexis Christoforous

Exactly. So you found out about him liking the show. And what was your initial reaction? I mean, that's pretty cool.

Unverified Participant

I was blown away. In 2013, when we did the movie, and I want to give a shout-out to Michelle MacLaren, who is one of our - our greatest director on Breaking Bad. She directed the movie that year. When I found out that Warren was interested and using Breaking Bad as a backdrop for the movie, I was blown away. I mean this guy's an amazing guy. And to hear that he was a fan of the series was just astounding and just unbelievably flattering.

Alexis Christoforous

And so now a friendship between the two of you and your family and his family has really formed.

Unverified Participant

I mean, yeah. It's just amazing to me that we keep getting invited back every year. I figure one of these years the other shoe is going to drop and we're going to - but until then, God bless him for having us back. We love being here.

Alexis Christoforous

You're enjoying it. What do you think makes him purely American, an American icon?

Unverified Participant

He's a self-made man. And he worked hard to get what he got, and yet he's very humble about it. The business he created - that he and Charlie created, the good that they've done for the shareholders, it's just really - it's truly a sort of an American story. And yet he's very humble about it and he's just - I don't know much about the stock market. And oddly enough, I haven't really tried to glean any stock mileage for him.

But what I like - why I like spending time, the little time I get to spend with him once a year is I love how much he loves life and how much he loves his work and loves what he does. And to me, that's the best thing that Warren Buffett can teach folks is just how to love what they do, find what that niche in their lives, find out what they're good out, and then enjoy it and live life to the fullest and enjoy it while you have it. That's what I've learned from him.

Alexis Christoforous

Yeah. That sort of life is definitely infectious, right?

Unverified Participant

Absolutely.

Alexis Christoforous

Now, I know he's also a fan of the prequel Better Call Saul. Would you put him in your show?

Unverified Participant

In a minute. He came to visit our set last season, and he - if you watched the show, one of our characters played by wonderful Michael McKean has this electromagnetic allergy and he's always wearing this space blanket, the shiny Mylar blanket. So we had - Warren was very nice to pose in this blanket that one of our characters wears. It's fun having him.

Alexis Christoforous

Well, thank you so much for stopping by. We appreciate. Enjoy the rest of the weekend here.

Unverified Participant

Well, you too. Thank you so much.

Alexis Christoforous

All right. Vince Gilligan, thanks a lot. And while we're discussing celebrities, Kathy Ireland was a superstar model before becoming a superstar business woman. She has Warren Buffett to thank for a lot of that, and she will be here next. Don't go anywhere.

[Break] (3:26:44-3:27:23)

And welcome back to Yahoo! Finance's exclusive live stream of the Berkshire Hathaway Annual Meeting. Nicole, I was a little bit jealous of one of the assignments you had when you first arrived in Omaha. Who did you visit?

Nicole Sinclair {BIO 20166308 <GO>}

Yeah. I had a pretty cool assignment. I visited Borsheims Jewelry. And actually this is one of the institutions here, it's one of the most profitable divisions of Berkshire Hathaway, and we went for a tour as they got ready for the throngs here this weekend.

On Thursday afternoon, I happened to be sporting $10 million of jewels.

Alexis Christoforous

Whoo-hoo.

Nicole Sinclair {BIO 20166308 <GO>}

I couldn't even say that. Including a 50-carat yellow diamond ring. But get this, Berkshire shareholders are getting a 30% off this weekend, so that $10 million of ring would cost a shareholder only $7 million. Take a look.

[Video Presentation] (3:28:10-3:30:09)

And for one more fun fact, Alexis, last year at the Berkshire Hathaway Meeting, there were 27,000 guests. And so the income for (3:30:17) the patrons, the store went through 25,000 meatballs, 2,000 pounds of chicken and 9,000 squares of quiche. So, a lot of diamonds and a lot of foods over at Borsheims over the weekend.

Alexis Christoforous

That's the kind of recipe I like. What did it feel like to have $10 million on your ring finger?

Nicole Sinclair {BIO 20166308 <GO>}

It felt like a liability.

Alexis Christoforous

I like that. All right. All right. I think I can get used to it though.

Nicole Sinclair {BIO 20166308 <GO>}

Yeah.

Alexis Christoforous

All right. Thanks a lot, Nicole. And Chinese investors have a huge presence we know here at the meeting. And Andy Serwer is with some of them. Right now, what have you got, Andy?

Andrew Serwer

Alexis, we just heard to call saying that Borsheims has three Chinese translators, and you're right, there are a lot of Chinese investors in Berkshire Hathaway, interest very high. Where are you guys from?

Unverified Participant

We are from Shanghai, China.

Andrew Serwer

Okay. And you guys are Berkshire Hathaway shareholders?

Unverified Participant

Yes.

Andrew Serwer

How long have you been shareholders?

Unverified Participant

Since last year. Yeah. We will be long holder of this company's share.

Andrew Serwer

And why do you think investors in China are so happy about Warren Buffett? What do they like about him?

Unverified Participant

I guess it's because his character, integrity, his honesty, and the way he's doing investment.

Andrew Serwer

And he is very popular in China, right?

Unverified Participant

Yeah.

Very popular. Everybody loves him and admire him.

Andrew Serwer

There you have it, Alexis. And apparently, there's thousands of Chinese investors here in Omaha, which is probably the largest group from outside the United States. Of course, it's the largest population group outside the United States. But the interest is very high, and that's why we're streaming this meeting in Mandarin. Of course, it's the middle of the night right now in China, but I hope that a lot of people in your country are watching a live stream back home as well. Do you think they will be tuning in?

Unverified Participant

Yes.

Yes. Most people.

We have friends actually in line right now actually. Yeah.

They're in line. They're still watching the game - or watching the show.

Andrew Serwer

So they're staying up at night you think watching?

Unverified Participant

Yes. They love it, because a lot of the humor and Q&A and presentation looks great.

[Foreign Language] (3:32:37)

Lot of people are watching it. Just like a NBA game.

[Foreign Language] (3:32:47) investment community, finance and fund manager and the industry leader. Yeah.

Andrew Serwer

Right. Well, there you have it, Alexis. The Oracle of Omaha is popular not only in United States, but also in China. Back to you.

Alexis Christoforous

All right. Awesome, Andy. Thanks so much. Warren Buffett is the world's most famous investor. We'll talk with another one of America's best-known investors when we come back.

[Break] (3:33:15-3:33:46)

One of Berkshire Hathaway's companies, the Nebraska Furniture Mart, gave a big break to a woman who went from being one of America's top super models to one of America's top business women. She is to my left, and I'm talking of course about Kathy Ireland. For 23 years, she has grown her business to the point, right now, brings in $2 billion in annual sales.

Business powerhouse, Kathy Ireland, here in Omaha. So good to have you with us.

Kathy Ireland {BIO 1642528 <GO>}

Thank you. So exciting to be here.

Alexis Christoforous

And how many years have you been coming?

Kathy Ireland {BIO 1642528 <GO>}

This is my fourth year to this shareholders' meeting.

Alexis Christoforous

Okay. But I know your relationship with Warren goes back further than that?

Kathy Ireland {BIO 1642528 <GO>}

It goes back further. Met Mr. Buffet through Irv Blumkin and the Blumkin family of the Nebraska Furniture Mart, our very first retail partner with Kathy Ireland Home. As you said, I'm so grateful to them to give us that start in this industry.

Alexis Christoforous

And you also, in your previous life as a super model, you graced the cover of the Sports Illustrated swimsuit edition three times, not an easy feat. You started your apparel line at Kmart years ago. You've now expanded to furniture, to intimate apparel. What's next for your line?

Kathy Ireland {BIO 1642528 <GO>}

Our line is growing. It includes everything from diamonds by kathy ireland in association with Paul Raps of New York and their patent pending design.

Alexis Christoforous

Let's see. Let's see.

Kathy Ireland {BIO 1642528 <GO>}

Thank you.

Alexis Christoforous

Beautiful sparkle. No doubt. Understated but gorgeous. I'm blinded.

Kathy Ireland {BIO 1642528 <GO>}

Thank you.

Alexis Christoforous

Okay.

Kathy Ireland {BIO 1642528 <GO>}

kathy ireland Destinations, it's our weddings and resorts, our home furnishings collection. We're grateful that our customers have been so loyal, and it's exciting. It's an adventure. And Mr. Buffet, what an education this is, Mr. Munger, Mr. Buffett, what they have built with Berkshire Hathaway, it's miraculous. It is the heart of American business handled with the most extraordinary ethics and integrity.

Alexis Christoforous

And I know you were part of the newspaper toss this morning, right...

Kathy Ireland {BIO 1642528 <GO>}

Yes.

Alexis Christoforous

...in front of Clayton Homes. That's sort of become a tradition for you.

Kathy Ireland {BIO 1642528 <GO>}

Well, Mr. Buffett and I both had paper out to his children, and so we've kind of got this competition going.

Alexis Christoforous

How did you do this morning?

Kathy Ireland {BIO 1642528 <GO>}

Well, I'm happy to say, I beat Bill Gates.

Alexis Christoforous

Oh, wow.

Kathy Ireland {BIO 1642528 <GO>}

I know.

Alexis Christoforous

That bragging, right?

Kathy Ireland {BIO 1642528 <GO>}

Well, a little bit. But nobody beats Mr. Buffett.

Alexis Christoforous

No.

Kathy Ireland {BIO 1642528 <GO>}

He is formidable. I practice, but he is extraordinary. So he beat me.

Alexis Christoforous

Oh, okay. All right. We'll give him that. Now you say your products are designed for busy moms. You are a busy mom yourself. What some advice you can give to women working moms in the business world?

Kathy Ireland {BIO 1642528 <GO>}

All moms work whether you get paid or not. Nothing is harder than raising children. My advice is figure out your values, you priorities, put boundaries in place, because they will be challenged. Work with good people. There's great advice that we're receiving here today that is applicable to all of us in all situations.

Something that Mr. Buffett touched on today, he was asked by a reporter from the New York Times, hey, is it ethical that you're working with Coca-Cola. And he said, look, I'm probably one-quarter Coca Cola...

Alexis Christoforous

That's a great quote.

Kathy Ireland {BIO 1642528 <GO>}

We've got to enjoy life and it makes me happy when I'm enjoying good things, use moderation, use common sense basically.

Another thing I thought that was interesting, education is a passion. And a college student asked about free tuition and Mr. Buffett said, we often don't think about kindergarten through 12th grade as being entitlements, but to the tune of - oh my goodness, billions of dollars, I think it's $600 billion, throwing more money at it doesn't necessarily give us a better product. There are improvements that desperately need to be accomplished, but it's not necessarily through more money. And I do agree with that.

Alexis Christoforous

And you've been in business now with Mr. Buffett for quite a few years. What's the piece of advice or sort of something that you remind yourself about that he's told you that you've learned from him?

Kathy Ireland {BIO 1642528 <GO>}

Well, one of the things I love about Mr. Buffett, we can all learn from him. In his books, in his interviews, he makes it assessable to everyone so much. One thing he says is, you find out who is swimming naked when the tide goes out. He is very - he is genuine. And in life and in business, it's all about people. When you see Mr. Buffett and Mr. Munger taking every question that comes their way, you see their friendship, their trust that they've built over the years, again with the Blumkin family.

It's – life is too short to work with people who you don't really respect. And for me, I want to work with people I also enjoy.

Alexis Christoforous

And that certainly resonates with this crowd, 40,000 strong. Before we let you go, what's next for you, what are you working on inside or outside of your own business?

Kathy Ireland {BIO 1642528 <GO>}

Inside our business, in addition to some of the other categories, I have kathy ireland intimates, handbags, merchant processing with Ireland PAYE. Just some wonderful areas of education, children, entertainment and production. So I work with a wonderful team. Most of us have been together 27 years, but we're just getting started.

Alexis Christoforous

So, a lot of work.

Kathy Ireland {BIO 1642528 <GO>}

And I'm inspired by this today, because this really reminds me that we've got so much ahead.

Alexis Christoforous

I think we all are. Now that it's live stream, a lot people can get that inspiration, because it's open to so many more.

Kathy Ireland {BIO 1642528 <GO>}

Absolutely. I love that this is going – that people around the world are getting this information. Thank you for doing this.

Alexis Christoforous

Us too. Thanks a lot, Kathy Ireland, for stopping by.

Kathy Ireland {BIO 1642528 <GO>}

Thank you.

Alexis Christoforous

Continued success.

Kathy Ireland {BIO 1642528 <GO>}

Well, you too.

Alexis Christoforous

Thank you.

Kathy Ireland {BIO 1642528 <GO>}

Thank you so much.

Alexis Christoforous

Thanks. And I'm going to toss it over to my colleague, Andy Serwer, down on the floor of the exhibition hall. Andy?

Andrew Serwer

Thanks, Alexis. I'm here with a very special guest who just dropped by, Andrew Ross Sorkin of The New York Times, who asked questions at the Annual Meeting. Andrew, I have to ask you, what's it like, how do you prepare?

Andrew Ross Sorkin {BIO 6340618 <GO>}

So we got – I think I probably got about 1,300 questions this year and I go through them and I try to find themes, and then I try to pick out the best ones. And sometimes I actually e-mail back and forth with different people, just try to see if we can crack a question, make it sometimes a little better or merge two questions together.

And now increasingly and by the way, you can do this today if you're watching on Yahoo!, send me an e-mail during this thing, because I've gotten some good questions which I may ask this afternoon, arsorkin@nytimes.com. I'll be up there on my little computer and I can try to answer the question if you send the goodie in.

Andrew Serwer

All right. He is working, Andrew Ross Sorkin of The New York Times. Thanks very much. We're going to take a break. Stay tuned. Come right back.

[Break] (3:40:33-3:40:57)

All right. Welcome back, everyone. I'm here with legendary investor Mario Gabelli. Mario, great to see you.

Mario J. Gabelli {BIO 1405329 <GO>}

Andy, always a privilege.

Andrew Serwer

So, talk about this morning, what was a big takeaway for you?

Mario J. Gabelli {BIO 1405329 <GO>}

Well, I think Warren underscored again that he's gotten to be a size with a $330 billion market cap company, 1.5 million shares at $220,000 a share, that he has to buy more operating earnings. And he's underscored that notion by singularly pointing out the Precision Castparts deal, which was a $37 billion deal that closed in January.

He then talked about the cash-rich spinoff of what he did with his P&G stock to get Duracell. So we expect a lot more. That was very fundamental. And the second thing, he said, which is very fundamental also, is that in an election year like this year, whoever is President, we will do well and the company will do well, because America has a model that has been very sustainable over the last 100 years. We've had good presidents, bad presidents, and we need certain things to go the right way, less regulation and more efficient tax structure.

Andrew Serwer

Betraying his political leanings perhaps, he suggested might be more difficult with Donald Trump, but he didn't get into that?

Mario J. Gabelli {BIO 1405329 <GO>}

No, he didn't talk about that with regards to the impact on Berkshire Hathaway. He may have talked about it with regards to other elements of the market.

Andrew Serwer

Right. So, longstanding shareholder in Berkshire Hathaway?

Mario J. Gabelli {BIO 1405329 <GO>}

Yeah, we started a mutual fund – we started hedge funds, and then we started a mutual fund in the Gabelli asset 30 years ago and we bought Berkshire Hathaway. And the stock was around $3,000 at that time, and we still have it at that tax basis. And we started a closed-end fund and we own that. But unlike others that he talked about, we don't like concentrated biz, no matter how good a company is. So we will keep it to only 3% or 4% of a holding.

Andrew Serwer

So let me ask you a question, Mario, the stock is what $220,000 a share at this point. Can you buy it? Will you be a buyer?

Mario J. Gabelli {BIO 1405329 <GO>}

Well, we own it and right now when you have 40,000 people and you have people all around the world focusing on Berkshire, you don't want to buy it tomorrow. But you do want to own it and you hope that the results will settle down two weeks or three weeks from now at $200,000, $220,000. That is fair. If you don't own it, that's a good entry point, you should put some away. And over the next 10 years, I think you'll make about 10% a year, which is a pretty decent return.

Andrew Serwer

So, in other words, you buy when it dips maybe...

Mario J. Gabelli {BIO 1405329 <GO>}

No, no, not because it's dipping, because – for the last 15 years that have been coming in, for the 40 years, whenever Warren has an annual meeting, the stock has a little buoyancy. So you want to get away from the short-term dynamics. Secondly, he reported his results and the commentators will say some uninspiring things about the quarter. And so, one has to be practical, but you want to own it for the next 10 years.

Andrew Serwer

So what about the B shares? I know a lot of friends of mine say, well, I could never afford $220,000. I can by a B share. Why are you shaking your head like that on the B share?

Mario J. Gabelli {BIO 1405329 <GO>}

It doesn't matter. You walk into a pizza store, Andy, and you order a large pizza, and the guy says, you want four slices or eight slices, what are you going to tell him? You can't eat eight slices, so therefore give me four slices? It's the same investment business, okay? We have to be professionals about this. $220,000 if you – you hock your wife, you hock your house, you hock your husband, and sell your ring and buy it.

Andrew Serwer

All right. Are you concerned about some of the things that Buffett expressed some concern about, which is investing more in high capital-intensive businesses?

Mario J. Gabelli {BIO 1405329 <GO>}

I've been doing research for 50 years. The ideal world was Tom Murphy's Cap Cities which had derived to the math in the consumer sector, they would do cash flow, there was inflation index, and CapEx was 5% up. So you never want to buy a business that's committed to putting capital back into the textile industry.

Like Warren said, I learned that lesson a long time ago. So there's nothing new with regards to how he allocates capital. If you have $1 billion of EBITDA and you have to put $1 billion of CapEx to maintain it, you ain't making any money. So he is very good at cash sensitivity private market value what we call, he calls it intrinsic, I call it intrinsic, but we call it private market value. He understands the nature of allocation of capital and cash flow, and he is very disciplined, and that is because he controls the company.

Andrew Serwer

So what is it about this weekend, Mario? I mean, what do you get out of it? What does everyone get out of this, why do they come?

Mario J. Gabelli {BIO 1405329 <GO>}

Well, first of all, we as a firm yesterday had five companies that did a fantastic job of presenting their stories. So we would listen to companies like Lindsay, Valmont, which are in the water irrigation business. Union Pacific came in and addressed us in terms of an update on that business. We had two or three, TD Ameritrade and other companies. So we do research.

And the second thing we do is also talk to our friends who are potential clients, existing clients and then we listen to the Berkshire Hathaway story and we challenge ourselves with regards to the idea. So it's kind of a basic one-on-one. It's like going, and as we described it about 50 years to 20 years ago, Capitalists' Woodstock.

Andrew Serwer

That's right. So are you concerned - I mean, everyone's concerned. You mentioned owning the stock for 10 years. What about the classic succession issue here?

Mario J. Gabelli {BIO 1405329 <GO>}

None.

Andrew Serwer

What do you mean by that?

Mario J. Gabelli {BIO 1405329 <GO>}

Basically, I think the business is three large components. You've got the insurance business with a float. Ajit has done a great job and he's built up a good team. You've got the industrial companies that can be managed by several individuals. You've got the portfolio that is being groomed by Ted and Todd, and so not a problem.

Andrew Serwer

Do you have contact with the company? I mean Buffett famously doesn't really communicate with institutional shareholders or shareholders generally, except through ordinary communications. Does he speak out?

Mario J. Gabelli {BIO 1405329 <GO>}

I disagree with you completely.

Andrew Serwer

Okay.

Mario J. Gabelli {BIO 1405329 <GO>}

What do you think this meeting is about? He communicates very effectively here and through his Annual Report. It's one of the best annual reports that you will read. Jamie Dimon the guy at M&T Bank, you read their annual reports and you've got a good understanding of it. You read Berkshire Hathaway, if you don't want to read it, you're not going to understand it. So I disagree with you completely on that.

Andrew Serwer

But there's no analyst meetings, there's no analysts that he has to come to, he doesn't go to Wall Street.

Mario J. Gabelli {BIO 1405329 <GO>}

Well, he is the great educator. Students come from all around the world to listen to him. Secondly, if you want to understand what he does, all you have to do is go to Columbia Business School and get Graham Dodd, Marie, and Greenwald's books and you'll understand everything.

Andrew Serwer

All right. You plan on coming here next year?

Mario J. Gabelli {BIO 1405329 <GO>}

We've been here for 15 years. We hosted dinner on Friday night on behalf of Columbia Graduate School of Business. They had 500 people. We can't have any more capacity. We will continue to do this as long as Warren is allowing us to do it.

Andrew Serwer

All right. Mario Gabelli, thanks very much for your time and great to see you.

Mario J. Gabelli {BIO 1405329 <GO>}

Great interview. Thank you and thank you for your interest in our firm and everything we do for our shareholders.

Andrew Serwer

All right. Alexis, back to you. Thanks, Mario.

Mario J. Gabelli {BIO 1405329 <GO>}

You bet.

Alexis Christoforous

All right. Thanks a lot, Andy and Mario Gabelli. And we've been following your tweets and what you're saying on social media. I known, Nicole, you've been tracking all of this. So what are people saying about this historic event?

Nicole Sinclair {BIO 20166308 <GO>}

Well, it all started out with Warren Buffett's tweet yesterday.

Alexis Christoforous

That's right.

Nicole Sinclair {BIO 20166308 <GO>}

His eighth tweet. He has over 1 million followers. Encouraging everyone to let him...

Alexis Christoforous

That's not bad. You've got over 1 million followers and you've only tweeted eight times.

Nicole Sinclair {BIO 20166308 <GO>}

Right. That's a good...

Alexis Christoforous

Pretty good ratio.

Nicole Sinclair {BIO 20166308 <GO>}

...follower ratio. But, again, encouraging everyone to let him into your living room or chair, mobile phone, wherever you may be.

Alexis Christoforous

Yeah.

Nicole Sinclair {BIO 20166308 <GO>}

So, that really kicked off the weekend. But of course people were really quick to jump on comments about sugar, that's always a hot topic.

Alexis Christoforous

Yeah.

Nicole Sinclair {BIO 20166308 <GO>}

Of course, he talks a lot about that with relation to the Coca-Cola question. Everyone loved his quips. In the very beginning, he introduced himself and Charlie Munger, of course, a couple of years older than me. He introduced Charlie as the younger one. He had some advice for daughters out there. He said if you're choosing between two rich guys, choose the one who is older. So, that got a lot of attention.

Alexis Christoforous

I like it.

Nicole Sinclair {BIO 20166308 <GO>}

And of course, those funny comments from Warren Buffett get a lot of attention.

Alexis Christoforous

Charlie Munger, 92 years old he is, right?

Nicole Sinclair {BIO 20166308 <GO>}

Yeah.

Alexis Christoforous

So, Buffett is 85 years old?

Nicole Sinclair {BIO 20166308 <GO>}

Right. So, both getting up there, but both young at heart. And of course, I mean the range of topics, some of them more serious issues, interest rates, the economy in general, GEICO and some of the plagues that have been hurting the insurance industry, derivatives, Wells Fargo, a lot of these topics that he addressed, Valiant at the very end in drug pricing, had been getting a lot of attention on Twitter. But as with many meetings, he really touches on such a wide span of issues, and it's really his fun kind of life-oriented comments that really get the most attention on Twitter.

Alexis Christoforous

I bet. Yeah. I was listening earlier too, and somebody asked him, a shareholder asked, if you could take out any competitor like right now, no questions asked, just take him out, who would it be? And Munger jumped in and said, I don't think we need to answer that...

Nicole Sinclair {BIO 20166308 <GO>}

Right.

Alexis Christoforous

...to which Warren Buffet said, well, he's an attorney, but I'll listen to him. There's moments like that that are just so genuinely Warren Buffet, Charlie Munger.

Nicole Sinclair {BIO 20166308 <GO>}

Yeah. They have so much fun up there. And I think we have a full screen of some of the different words and phrases...

Alexis Christoforous

Oh, great.

Nicole Sinclair {BIO 20166308 <GO>}

That were thrown around. Of course, Warren Buffet there, I mean, he is the focus, he is the life of Berkshire Hathaway, but we see a range from PAYE to investors, to rates, the global economy, Trump of course mentioned there. He said Berkshire Hathaway would do well with or without Trump as President, not too worried there. Insurance of course, the shift to more capital-intensive businesses. So, a wide range.

I mean, remember, Berkshire Hathaway is such a huge conglomerate, $360 billion. When he bought it, it was a struggling textile company. He first invested it in 1962. So he really has done so much, built it up from frankly nothing.

Alexis Christoforous

And he's still such a big part of the day in and day out at the company as well. And some may think, well, maybe he's just a figure head at 85-years-old. Not true. He's still very much involved in all of these businesses.

Nicole Sinclair {BIO 20166308 <GO>}

Absolutely. But at the same time, it's very de-centralized. When you talk to any of the CEOs, he allows them, he trusts them to run their own businesses. He's the investor, he sees the long-term opportunities, but he's not micro-managing. That's very important.

Benjamin Moore, whose CEO I spoke with yesterday, had said that he learned so much but he's given such autonomy. Of course, Warren Buffet promised in that case to remain loyal to the distributor model. He has stayed true to that. But beyond that, he really trusts the people that he hires, he checks in with them, he offers advice, and that's really the value that he adds.

Alexis Christoforous

Yesterday, I had a chance to speak with one of the subsidiaries of Berkshire Hathaway, the CEO of Dairy Queen, John Gainor and he said the same thing. He said it's great to be able to call him up and just he is very accessible and asking for advice. Let's take a look at that interview.

I know you had a couple of very special fans stop by earlier today, namely Mr. Warren Buffet with his buddy Bill Gates. What were they up to?

John P. Gainor {BIO 14024545 <GO>}

Well, Warren and Bill were taking a little tour of the exhibit hall. And Warren always loves to come to Dairy Queen and, in fact, he always comes by and he will get a vanilla orange bar occasionally here, or get a Dilly bar.

Alexis Christoforous

And I hear that Mr. Bill Gates paid for Mr. Buffet this morning.

John P. Gainor {BIO 14024545 <GO>}

I understand that, because in fact our team I think they're going to take those $2 bills, take them back to our corporate headquarters, probably put them in a frame.

Alexis Christoforous

Absolutely. They deserve that. Now, Dairy Queen has been a subsidiary of Berkshire Hathaway since 1998. You've been CEO since 2008. So I'd imagine you've had some chats or some interaction with Mr. Buffet. Any words of wisdom he's shared with you, or impressions that you can share with us?

John P. Gainor {BIO 14024545 <GO>}

Yeah. I mean, the beauty of being owned by Berkshire is Warren really believes that each of the managers need to be able to run their companies, and that's really how it works. And Warren is always available. So, if you have a question or an enquiry, you can get a hold of Warren, he makes himself readily available. Most importantly though, we've been fortunate we had Warren and Bill Gates and Charlie Munger over in China a few years ago and they actually opened a Dairy Queen for us. So you can imagine the press that we received from an event like that.

Alexis Christoforous

So the footprint of Dairy Queen has really grown. You're now in the Chinese market, been there for quite a while now. What about other international markets?

John P. Gainor {BIO 14024545 <GO>}

Great question. Dairy Queen today is in 30 countries. U.S. and Canada are our largest markets, but we have over 700 stores in China and this past year we opened in Poland, we opened in Vietnam, and most recently we opened in Jordan. So you will see continued expansion of Dairy Queen on an international basis.

Alexis Christoforous

No, we know Dairy Queen is based in Minneapolis. Minneapolis is going to see its minimum wage rise. It had one of the lowest minimum wages for quite some time. It's going jump up to $9.50. How is that going to impact your business and the businesses of franchisees?

John P. Gainor {BIO 14024545 <GO>}

Well, it's an issue that we're all dealing with, but as companies not only in the fast food industry, but in other industries. So the thing that we need to remember is many people started Dairy Queen, teenagers, and it's their very first job. So we really believe that people need to be paid a fair wage, but it will be a matter of how quickly that minimum wage actually does increase.

Alexis Christoforous

We know that Mr. Buffett has actually said publicly, he's not a big fan of the minimum wage of raising it, and he's more of a fan of the earned income tax credit.

John P. Gainor {BIO 14024545 <GO>}

Yeah. I've heard Warren say that as well. And I think it is an issue that our franchisees are looking at. But, in our business, it's not only labor. Food cost, occupancy cost are also - they play a major role in a Dairy Queen store.

Alexis Christoforous

So, that hasn't impact summer hiring for your company?

John P. Gainor {BIO 14024545 <GO>}

It really hasn't. Summer hiring, we have a lot of people that love to get started at Dairy Queen. In fact, at the meeting over the next couple of days, every year, I have people come up to me and bring pictures and say, my very first job was at Dairy Queen.

Alexis Christoforous

That's really special. Now we know you have moved beyond soft-serve ice cream, you're now doing actual grill food, right, you've got the grill there. How is that going?

John P. Gainor {BIO 14024545 <GO>}

Actually, quite well. Our concept Grill & Chill is a full quick-service restaurant. We have great sandwiches, hamburgers, chicken strip baskets. This year, we rolled our DQ Bakes! platform. So we have specialty sandwiches, hot snack melts, hot desserts. But most importantly, this week, we rolled the Royal Blizzard.

Alexis Christoforous

What is the Royal Blizzard??

John P. Gainor {BIO 14024545 <GO>}

Well, we took the great iconic Blizzard brand and we created a vortex in it. So, for example, the Royal Blizzard - the Royal OREO Blizzard will have cold fudge in the middle. The New York Cheesecake will have our great strawberry topping in the middle. So we're taking the Blizzard to a whole new level.

Alexis Christoforous

All right. We know that Warren Buffett is in the house. We are just seconds away from him taking the stage again with Charlie Munger for the Q&A portion to resume.

Andy, he didn't talk at all about succession in the first part of the Q&A session. You think he might talk about it this time?

John P. Gainor {BIO 14024545 <GO>}

Variably, he's going to be asked about it. And he usually gives a few clues to buffetologists. They're always gleaning a few more things every year. But I think he is going to play his cards pretty close to his vest. It's interesting to me, when you hear - just going back to that Dairy Queen interview though, Alexis - okay, I guess we've got a hop here, okay.

Alexis Christoforous

Oh, yeah, he's walking over to the stage right now. These 40,000 people have reassembled in CenturyLink Center to hear him, and he is entering the stage. Let's listen to him.

Q&A

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay. If you'll take your seats. We'll get underway. And next up is Cliff (3:57:52).

Q - Alexis Christoforous

Thank you. Berkshire has an online portal for commercial insurance business. I believe it's CoverYourBusiness.com. Is there an opportunity in commercial lines to go direct akin to what we've seen GEICO do in personal auto insurance?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. Well, the answer to that is we'll find out. We have actually two online arrangements. I'm not sure whether they're both up yet. One is called - I believe it's called BIG. I think we got that domain name BIG. And that would be run by the Applied Underwriters, which is a subsidiary of ours to provide workers comp. And the other is run by Ajit. And then actually, we do some commercial auto through GEICO as well. So we will learn soon. I guess my message about inherited, well, this is getting delivered here. Kids probably want to put themselves up for adoption now.

So we have been a little bit, and we will be experimenting more with various insurance lines. When you look at what has happened, just take Amazon, you have to - we want to try a lot of things. And it amazed me how fast the inquires on personal auto migrated from home to the Internet. And I would have thought that the younger people would do it but the people like myself would be very slow to do it. But the adaptation by the American public of Internet response has really been pretty incredible and shows no sign of slowing down.

So the answer is, we'll try various things and we'll make some mistakes and my guess is that 10 years and 20 years and 30 years from, it'll be a lot different. Station eight (4:00:23).

Q - Alexis Christoforous

Hi. My name is Matt Claiborne (4:00:29) from Columbus, Ohio. And thank you for putting this on for all of us. My question is, you've said before, the year will be divided into parts for your succession, one of which is the responsibility of maintaining culture by having Howard as Non-Executive Chairman.

What is the plan for how Berkshire will maintain its culture, when Howard no longer fills the role and what should shareholders watch for to make sure that the culture is being properly maintained decades from now when I'm your age?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. Well, that's the question we've obviously given a lot of thought to. And although I hope that Howard is made Chairman just for the reason that if a mistake is made in selecting a successor, it's easier to correct it if you have a non-Executive Chairman. But that's a very, very – I mean, that's a 1 in a 100 or 1 maybe in 500 probability. But there's no sense ignoring it totally. It's not a key factor.

The main – by far the main factor in keeping Berkshire's culture is that you have a board and you'll have successor board members, you have managers and you'll have successor managers. And you have shareholders that clearly recognize the special nature of the culture, that have embraced the culture when they sold their businesses to us. They wanted to join that culture. It thrusts out people that really aren't in tune with it, and there are a very few of them. And that embraces those who enjoy and appreciate it. And I think, to some extent, we don't have a lot of competition on it. So it becomes very identifiable.

And it works – so I think the chances of us going off the rails in terms of culture are really very, very, very slight regardless of whether there's a non-Executive Chairman or not. But that's just a small added prediction. So, it's – I think that the main problem that Berkshire will have will be size. And I've always thought that when I was managing, whenever I started managing money, size is the enemy of performance to a significant to degree. But I do think that the culture of Berkshire adds significantly to the value of the individual components viewed individually. And I don't see any evidence that there'd be any board member, any managers or anything that could in any way really move away from what we have now for many, many decades.

Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

I am even more optimistic than you are.

A - Warren Edward Buffett {BIO 1387055 <GO>}

I've never noticed it.

A - Charles Thomas Munger {BIO 1406508 <GO>}

I really think the culture has been a little surprise to everybody, how well it lasts and how well they do. (4:03:51) in the first place. It's going to work very well.

A - Warren Edward Buffett {BIO 1387055 <GO>}

We've got so many good ingredients in place, just in terms of the businesses and the people already here at the companies.

A - Charles Thomas Munger {BIO 1406508 <GO>}

That's what I'm saying.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah.

A - Charles Thomas Munger {BIO 1406508 <GO>}

There's just so much power in place.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Another thing that's interesting is how little twirl what we get in it too. So the number of managers that have been needed, and we've had to replace them last 10 years, were very few they without a retirement age. And I tend to bring that up with every meaning of reinforce the idea. But without a retirement age and with people working because they love their jobs and they like the money as well, but their primary motive is that they really like accomplishing what they do in their jobs. And that means that we get long tenure out of our managers. So the turnover is just low. The directors are not here for the money. And so we have great tenure among the directors and I would argue that's a huge plus. It's going to go on a very long time.

Andrew? (4:05:04)

Q - Alexis Christoforous

Thank you, Warren. The following question comes from Aritz Galdos (4:05:10) and several other shareholders asked similar questions that are part of this as well. It's a bit of a multi-part question. About two dozen men and women worked with you, Warren, at our corporate office. I see from last year the quality of the picture has been improved in the Annual Report, so congratulations on that.

However, looking at it, there is something that comes to anyone's attention and is the lack of diversity among the staff. A 2015 analysis by Calvin Investments found that Coca-Cola was one of the best companies for workplace diversity, while Berkshire Hathaway was one of the worst. You've explicitly stated that you do not consider diversity when hiring for leadership roles and board members. Does that need to change? Are we missing any investment opportunities as a result? And do you consider diversity, however defined, with company leadership and staff when analyzing the value of the company that you may want to purchase?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well, it's a multiple part question. The answer to the last one is no. What was the one before it?

Q - Alexis Christoforous

You've explicitly stated you do not consider diversity when hiring for leadership roles in board members. Does that need to change and are we missing any investment opportunities as a result?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. We will select board members, and we lay it out and we've done so for years. And I think we've been much more explicit than most companies. We are looking for people who are business-savvy, shareholder-oriented and have a special interest in Berkshire, and we found people like that.

And as a result, I think we've got the best board that we could have. They're clearly not in it for the money. I get called by consulting firms who've been told to get candidates for directors for other companies. And by the questions they ask, it's clear they've got something other than the three questions we ask in terms of directors in mind.

They really want somebody whose name will reflect credit on the institution, which means a big name. And one organization recently, the one that did the blood samples with small pricks, that they got some very big names on their board. And Theranos, I think is that the way you pronounce it, Charlie? Theranos.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yeah.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. And I mean, the names are great, but we're not interested in people that want to be on the board because they want to make $200,000 or $300,000 a year for 10% of their time. And we're not interested in the ones for whom it's a prestige item and who want to go and check boxes or that sort of thing.

So I think we've got – we will continue to apply that test, business-savvy, shareholder-oriented, and with a strong personal interest in Berkshire. And every share of Berkshire that our shareholders own, they bought just like everybody else in this room. They haven't got them an option or – I've been on the board but they've given me stock. I get it for breathing basically, half a dozen places that are – maybe three or four that I was on the board of.

We want our shareholders to walk in the shoes and our directors to walk in the shoes of the shareholders. We want them to care a lot about the business and we want to be smart enough, so that they know enough about business that they know what they should get involved in and what they shouldn't get involved in.

The people in the office, I'm hoping that when we take the Christmas picture again this year, they're exactly the same 25,000 that were last year, even though we might have added 30,000 employees elsewhere, and maybe $10 billion of sales or something like that. It's a remarkable group of people and they – and we just take those meeting virtually every one of the 25,000, our CFO, my assistant, whoever, they've been doing job-after-job connected with making this meeting a success and a pleasant outing for our shareholders in a way. It's a cooperative effort.

The idea that you will have some department called annual meeting department and you'd have a person in charge of it and he would have an assistant then they would go to various conferences about holding annual meetings, and then they hire consultants that come in and help them on the need, we just don't operate that way. It's a place where everybody helps each other.

Part of what makes my – well, my job is extraordinarily easy, but the people around me really make it easy. And part of the reason it's easy is because we don't have any committees. Maybe we have some committee I don't know about. But I've never been invited to any committees, I'll put it that way, at Berkshire. And we may have a PowerPoint someplace, I haven't seen it and I would not use it anyway, we just don't do – we don't have make-work activities. And we might go to a baseball game together or something like that. But seeing the other guy of operation and I like ours better, I'll put it that way.

Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well, years ago, I did some work for the Roman Catholic Archbishop of Los Angeles and my senior partner pompously said, you don't need to hire us to do this. There's some plenty of good catholic financial writers. And the Archbishop looked at him like he was an idiot and said, Mr. Peeler, he says last year I had some very serious surgery and I did not look around for the leading catholic surgeon. That's the way I feel about (4:11:43)

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay. Great.

Q - Alexis Christoforous

Warren...

A - Warren Edward Buffett {BIO 1387055 <GO>}

Great.

Q - Alexis Christoforous

While Berkshire has authorized a share purchase program, originally ended up buying back shares at prices no higher than 10% premium to the firm's most recent book value per share. Figure that was subsequently or increased repurchased shares at prices not higher than 20% premium to book value. There has been relatively little share repurchase activity during the last four-and-a-half years. Even as the shares dipped down below the 1.2 times book value threshold during both January and February of this year, if you base it on a buyback price calculated on Berkshire's book value per share at the end of 2015, number that had not yet been published when the stock did dip that low.

Given your belief that Berkshire's intrinsic value continues to exceed its book value, with the difference continuing to widen over time, are we at a point where it makes sense to consider buying back stock at a higher breakpoint than Berkshire currently has in place? And would you ever consider stepping in and buying back shares if they did dip down below 1.2 times book value per share, even if that prior year's figure had not yet been released?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. You mentioned that it's all below 1.2 times, but I don't think that's correct. I keep a pretty close eye on that, and it's come fairly close to 1.2 times, but I can almost guarantee that it has not hit 1.2 times, or we would have done it. And I'd be happy to send you figures on any day that you might feel that it did hit the 1.2 times. Clearly, in my view, Charlie's as well as the board's, the stock was significantly more than 1.2 times, but it should be significantly more or we wouldn't have it at that level.

On the other hand, we did move it up from 1.1 times to 1.2 times because we had acquired more businesses over time that were the differential between our current value and the intrinsic value, really had widened from when we said the 1.1 times. I have mixed emotions on the whole thing in that, from strictly a financial standpoint and from the standpoint of the continuing shareholders, I'd love the idea of buying at 1.2 times, which means I probably would love the idea of buying a little higher than 1.2 times.

On the other hand, I don't take – and it's the surest way of making money per share there is. I mean if you can buy dollar bills for anything less than the dollar, there's no more certain way of making money. On the other hand, I don't particularly like, enjoy the actual act of buying out people who are my partners at a price that is well below what I think the stock is where.

So we will buy stocks almost certainly. We don't make it a 100% pledge, because there'd be a lot of ramifications to that. But the odds are extremely high that we would buy a lot of stock at 1.2 times or less, but we would do it in a manner where we were not throbbing the stock at any given level. And if that happens, it will be very good for the stockholders to continue. It is kind of an interesting situation though, because if it's true that we will, and are eager even from a financial standpoint to buy it at that price, it's really like having the savings account, where if you take your money out as a dividend or as an interest statement on the savings account, you get $1. But if you leave it and you're almost guaranteed that we'll pay you $1.20. I mean, why would anybody want to take money out of the savings account if they can cash it in what they left at a 120%.

So, let's say, it acts as a backstop for ensuring that a no-dividend policy results in greater returns than it would be a – we paid out $1 and people got $1, if they leave the $1 in, they're going to get at least $1.20, it might be at least. It's not a total guarantee, but it's a pretty strong probability. So would we increase that number? Perhaps, if we run out of ideas, and I don't mean day-by-day, but if it really becomes apparent that we can't use capital effectively within the company in the quantities which is being generated, then at some point the threshold might be moved up a little because it could still be attractive to buy.

And you don't want to keep accumulating so much money that burns a hole in your pocket and said actually that a full wallet's little like a full bladder, that you may get an urge very quickly to pee it away, and we don't want that to happen. But so far that hasn't happen, and we will look at - in every instance where we have $100 billion or $120 billion or something like that around, we might have to increase the price. Any time you can buy a stock in for less than its worth, it's advantageous to the continuing shareholders. But it should be via demonstrable margin. Intrinsic value can't be that finely calculated that you can figure it out to four decimal places or anything of the sort. Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

While you have noticed it elsewhere in the Corporate America, these buyback plans to get a life of their own and it's gotten quite common to buy back stock at very high prices that really don't do the shareholders any good at all. I don't know why people are exactly are doing, but I think it gets to be fashionable.

A - Warren Edward Buffett {BIO 1387055 <GO>}

It's fashionable. And they got sold on it by advisors.

A - Charles Thomas Munger {BIO 1406508 <GO>}

And that's true too.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. Can you imagine, somebody going out and saying, we're going to buy a business and we don't care about the prices. We're going to spend $5 billion this year buying a business. We don't care about what the prices. But that's what company is doing. They don't attach some kind of a metric to what they're doing on their buyback. Just say, we're going to buyback $5 billion of stock. Maybe they don't want to publicize the metric, but certainly again they should say, we're going to go buy back $5 billion of stock, if it's advantages to buyback. But they don't - they say, we're going to buy the XYZ company. They say we'll buy it at this price, but we won't buy at a 120% of that price. But I have very rarely seen - Jamie Dimon is very explicit about saying, he's going to buy back the stock when he's buying it below, what he considers intrinsic value to me. But I have seen hundreds of buyback notices and I've sat on boards of directors, one after another where they've got a buybacks and basically - they said they're doing it to prevent dilution or something like that. It's nothing to do with preventing dilution. Dilution by itself is a negative and buying back your stock at too higher prices is another negative. So, it has to be related to valuation. And as I say, you will not find a lot of press leases about buybacks that say a word about valuation.

A - Charles Thomas Munger {BIO 1406508 <GO>}

We have that we're always behaving a lot like that some way I call the Episcopal Prayer. We prayerfully thank the lord that we're not like these other religions who are inferior. And I'm afraid there's probably too much of that in Berkshire, but we can't help it.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay. Station nine.

Q - Alexis Christoforous

Good afternoon, Mr. Buffett.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Hi.

Q - Alexis Christoforous

My name is Sean Montgomery (04:20:19) from Fort Worth, Texas. The Nebraska Furniture Mart's been open for about a year in Dallas.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Right.

Q - Alexis Christoforous

I was just curious how sales have been, how are they compared to your other stores, and what you think they'll be in the future? Thank you.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. It's our largest store in volume, but we had a problem there that we had in Kansas City and we probably have every time we open the store and that we generate so much initial volume that we had a delivery problem, like I say it was worse in Kansas City. That was the first one we opened. So, we really had to take our foot off the gas pedal because the last thing in the world we want do to be quite honest is make first impressions with delivery problem – accompanied by deliver problems. So, it's our largest store in volume. The deliveries have gotten far better. They actually are meeting our company standards that we have in Omaha, but that wasn't the case for some months. And it's hard to go open a – we opened up the largest home furnishing store in the United States and we did it in an area where we naturally thought we trained the drivers as well as we could and everything, but delivery was 100 plus units out there in the new operation, taking in corporate and people getting lost and routing being bad and all kinds of thing. There was plenty of work to be done and it's been done.

So, I expect that store, which already is the largest store we have, but I think it will be $1 billion annual store before very long. We're getting ready to step on the gas. It's a terrific, terrific area. We have 20 plus auto dealerships there. They're located in the Dallas-Fort Worth area. We probably have three or four of them in the area where our Furniture Mart is. They can't build fast enough down there. Toyota is moving there. It already is a great store, but it's going to be something even far beyond that. We've opened up about – I think about four food places so far. We've got four or five more in the works. And they're doing terrific volumes. I'm starting to sound like Donald Trump there, tremendous, terrific and fantastic. I've never seen anything like it. But just wait till next year, I'll come back. I'll really be in shape. It's doing well. We couldn't have picked a better area. We have over 400 acres that we're very fortunate in grappling a whole bunch of land and we're bringing prices and variety like nobody has seen and now we've just got to delivery like nobody has ever seen.

Okay, Carol (4:23:37).

A - Alexis Christoforous

This question comes from (04:23:41) of New York. Mr. Buffett, you have expressed concern about cyber, biological, nuclear and chemical attacks, but preventing catastrophe is not getting enough attention.

For example, a bill passed the House unanimously to harden the electric grid against the high-altitude nuclear explosion, not too many bills passed unanimously these days, but then the bill got modeled up in the Senate. Have you considered funding? Wouldn't it be a good idea for you to consider funding? Are lobbying and educational campaign to promote the public good in this area and counteract industry lobbyists who are often more interested in short-term profits?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. Well, in my view, there's no problem remotely like the problem of what I call CNBC; cyber, nuclear, chemical and biological attacks, that either by rogue organizations, even possibly individuals, rogue states, I mean, to think about – you can think about a lot of things and it will happen. I think we've been both lucky and, frankly, the people have done a very good job in government because government is the real protection on this, and not having anything since 1945. We came very, very close during the Cuban Missile Crisis and I don't know what the odds were, but I do think that if there had been – I can think of many people whether they've been in places either Kennedy or Khrushchev, we would've had a very different results, and it's the ultimate problem.

As I put in the annual report, it's the only real threat to Berkshire's economic – external threat to Berkshire's economic wellbeing over time. And then I just hope when it'll happen – I hope when that happens that it's minimized, but the desire of psychotics and megalomaniacs and religious fanatics and whatever, they do harm on others is a lot more when you 7 billion people on earth than when you had 3 billion or so, which is the case when I was born, but less than 3 billion. And unfortunately, there are means of doing it. If you were a psychotic back far enough, you threw a stone at the guy in the next cave and it would sort of limit relationship with damaged to psychosis, but the – and that went along, sort of bows and arrows and spears and cannons and various things. And in 1945, we unleashed something like the world had never seen and that is a pop gun compared to what can be done now. So there are plenty of people that would like cause us huge damage and I came to that view when I was in my 20s and in terms of my philanthropic efforts I decided that that was one of two issues that I thought should be the main issue and I got involved with all kinds of things like concern.

A - Charles Thomas Munger {BIO 1406508 <GO>}

You supported the Pugwash Conference year-after-year directly all by yourself.

A - Warren Edward Buffett {BIO 1387055 <GO>}

(04:27:28) the concerned scientist and I given some money to the Nuclear Threat Initiative, which is going to create sort of a federal reserve system, a bank to uranium that will take away some of the excuse for countries to develop their own highly enriched Uranium. So, that - but it's overwhelmingly a governmental problem you're dealing. And it should be, and I think it actually has been the top priority for president after president, something that they can go out and talk about every day, and they don't want to scare the hell out of everybody and they also don't want to skip people's answers of what they're doing. But being in insurance business, you don't have to be even in the insurance business, you can - you know that someday somebody will pull off something on a very, very, very big scale. That will be harmful. Maybe it'll - the United States is probably the most likely place it happens, but it can happen in a lot of other places. And that's the one huge disadvantage to innovation, I mean the people.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Warren, I think he also asked why don't we - Berkshire spend a lot more time telling the government what it should be doing and thinking.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well, I've tried telling people. Nobody disagrees with you on it. They just - it seems sort of hopeless to you. I mean they don't know what to do beyond what they're doing. They've done a lot of things. I mean, it's not all gets publicized, but - and I think Kennedy or Khrushchev, I mean, Khrushchev shouldn't have been sending it over into Cuba, but at least he had enough sense when the new Kennedy in that business to turn the ships around. But it's - you can't count on there being Kennedy's or Khrushchev's all the time in charge of things. And the mistakes that are made - I see the mistakes that are made in business, sort of human behavior, where people act so contrary to their own long range and self interest that humans are - they've got of frailties. You can argue that if Hitler hadn't been so anti-Semitic that we could have kept a lot of aside us that might have gotten into the atomic bomb before (04:30:03) but he drove out the best of his scientific minds and...

A - Charles Thomas Munger {BIO 1406508 <GO>}

Imagine a guy stupid enough to think it'll improve science to kick out all the juice.

A - Warren Edward Buffett {BIO 1387055 <GO>}

You know that the hero of the 20th century may have been Leo Szilard. I mean Leo Szilard is the guys that got Einstein to co-sign a letter to Rosenthal and say, one side or the other is going to get this and we better get it first basically. (04:30:34) You can go to Internet and look up the letter, but we've both been good and we've been lucky. But if you remember Paulson 9/11, people started to getting a few envelopes with anthrax and they went to like the National Enquirer and Tom Brokaw and Tom Daschle, I can't remember – I mean, who knows what – when you've got a mind, it's going to send anthrax to people, how that decision making is made is just totally beyond comprehension and that person did not end up doing a lot of damage, but the capability for damage is absolutely incredible. I don't know how Berkshire does anything about – I don't know how to do it, someone probably would. if I knew how to do reduce the probabilities of the CNBC type mass attack, if I knew I would have used the probability by 5% all my money would go to that. There's no question about that, maybe 1%.

A - Charles Thomas Munger {BIO 1406508 <GO>}

But hasn't it been true, we have been very good in getting the government to follow any of our advice.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah, but this seems important.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yeah.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. Nobody argues with you about it, they just sort of throw off their hands and some people work for a while on it, and just get discouraged and quit. I was involved – I forget the exact name of it, but their idea – there was a bunch of nuclear scientist, it was long ago, but their idea was to affect elections in small states that they're being, but government was the main instrument and you would have imagined the impact. And just one after another people took it up and got discouraged. I don't think it's because we've had the wrong leaders, I think our leaders have been good on this.

And I think that any candidate – well, I do not worry about the fact that either Clinton or Trump would regard that as the paramount problem of their presidency. But I just don't know, the offence can be ahead of the defense. And that's you can win the game 99.99% of the time, but eventually anything that has any probability of happening will happen. I wish I could give you a better answer. Charlie, if you have any?

A - Charles Thomas Munger {BIO 1406508 <GO>}

I have no hope of giving you better answer.

A - Warren Edward Buffett {BIO 1387055 <GO>}

That's what they all say. I mean. Yeah. Jonathan.

A - Jonathan Lawrence Brandt {BIO 17988091 <GO>}

The Lubrizol lubricant additives business is one of your sixth largest non-insurance units, but there has been relevantly little disclosure about its performance since it was acquired nearly five years ago. Can you please update us on how the core business has done and how the competitive landscape and end markets have evolved since it was acquired? I know the core business is not a growth business, but has the increase in miles driven helped their top line at all? Could you also talk about the performance of one or two of their more important bolt-on acquisitions, whether it'd be Chemtool, the pipeline flow improver company, Warwick, Wethersfield that were Lipotec?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. The additive business, there's four companies in it basically and it's no growth but very good business and we're the leader. So it has performed almost exactly as you would anticipate since purchase. And other specialty companies have, some of which have might have rolled possibly, but they're small. So, Lubrizol overall on an operational basis has been very much as we anticipated or you would have anticipated if you've looked at the prospectus at the time we bought it. They made one large acquisition, which was a big mistake, and that was in the oil field, especially chemical area, and was made just about the time that – or even a little after that oil took a nosedive. So we've had some decent acquisitions there, but the biggest acquisition should not have been made. It is – we still got the fundamental earning power of the additives business and everything. And that has not disappointed us in anyway. It's a very well-worn operation that way, but it's not a growth operation. Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Nothing to add.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay. Station 10.

Q - Alexis Christoforous

Hello. Hello, Mr. Buffett and Mr. Munger. Thank you so much for your insights, teaching and being great remodels. My name is (04:35:41) based in New York City. A question for both of you is related to psychological biases. Through Berkshire Hathaway's operations, you've got a very good read on macroeconomic factors, yet Berkshire does not make investment decisions based upon macroeconomic factors. How do you do control the effects of information such as knowing macroeconomic factors or the anchoring effect of knowing stock prices because after a while it's hard not to (04:36:13) before? And how does that influence your rational decision making whether you should ignore it or whether you should try to use it in a positive way?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Charlie and I certainly, we read a lot. So we – Enbridge is an economic matters and political matters for that matter. And so we know a lot or we're familiar a lot I should say with almost all the macroeconomic factors. That does not mean we know where they're going to lead, we don't know where zero interest rate's going to lead, but we do know what's going on if we don't know what is likely to...

A - Charles Thomas Munger {BIO 1406508 <GO>}

Warren, there's a confusion here. That says microeconomic factors. We pay lot of attention to those.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Oh, yeah.

A - Charles Thomas Munger {BIO 1406508 <GO>}

If you talk about of macro, we don't know any, but weren't (04:37:04) anybody else.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. He summed it up. In terms of the businesses we buy and when we buy stocks, we look at it as buying businesses. So they're very similar decisions. We try to know all or manageably can know of the microeconomic factors. I like looking at the details of a business whether we buy it or not. I mean I just find it interesting to study the species and that's the way you do study. So, I don't think there's any lack of interest in those factors or denying the importance of them. So, am I getting at this question or not, Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

There hardly could be anything more important than the microeconomic. So that is business, business and microeconomic are sort of the same term.

Q - Alexis Christoforous

I guess -

A - Charles Thomas Munger {BIO 1406508 <GO>}

Microeconomic is what we do and macroeconomics is what we put up with.

Q - Alexis Christoforous

The anchoring effect, I mean, how do you deal with that as well?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well, we're not anchored, but we're ignoring.

Q - Alexis Christoforous

Oh, I see.

A - Warren Edward Buffett {BIO 1387055 <GO>}

But we – Charlie and I are the kind that literally find it interesting in every business. We like to look at micro factors. If we buy – when we buy a See's Candy in 1972 that may have been 140 shops or something, we'll look at the numbers on each one of them and we'll watch them over time and we'll see how furniture shops behave in its second year. We really like understanding businesses. It's just - it's interesting to us. And some of the information is very useful and some of it may look like it's not helpful, but who knows when some little facts stored in the back here in mind pops up and really does make a difference.

So, we're fortunate and that we're doing what we love doing it. I mean, we love doing this like I'd be like watching baseball games and which I like to do too. But they just a very act, every pitch is interesting and every moment and whether the guys - a double seals interesting or whatever it maybe. And so, that's what our activity is we devote it doing and we talk about that sort of thing.

A - Charles Thomas Munger {BIO 1406508 <GO>}

We try and avoid the worst anchoring effect, which is always your previous conclusion. We really try and destroy our previous ideas.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Charlie says that if you disagree with somebody, you want to be able to state their case better than they can.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Absolutely.

A - Warren Edward Buffett {BIO 1387055 <GO>}

And at that point, you've earned the right to disagree with them.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Otherwise, you just keep quiet. It'll do wonders for our politics, if everybody followed my system.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay, Becky.

A - Rebecca K. Amick {BIO 19687477 <GO>}

Warren, just a quick request, would you please stop using CNBC as an acronym for mass destruction?

A - Warren Edward Buffett {BIO 1387055 <GO>}

What if I use NBCC then, I've got a problem with Steve.

A - Rebecca K. Amick {BIO 19687477 <GO>}

This question comes from Matt Bandy (04:40:36), in Dallas, Texas. He is asking about Seritage Growth Properties. He says in December 2015, you filed a personal 13G, evidencing a roughly 8% ownership position in the real estate investment trust Seritage Growth Properties, which to my knowledge is not parallel as a Berkshire investment. Alternatively, in September 2015, Warren filed a personal 13G evidencing ownership in Phillips 66, which is parallel as a Berkshire investment. My question is how do you decide when making a personal investment for your own account versus an investment for Berkshire? I understand market cap and ownership sizing are the likely factors, but does it still not behoove them invest for the shareholders benefit in the company like Seritage that might have significant upside, and where are you putting your personal money to work?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Right. I do not own a share or never have owned the share of Phillips 66, so I'm sure where that person - what he's referring to. And maybe that there's some way when the form is filled out that because I'm CEO of Berkshire that, on some lines it imputes ownership to me or something, but the answer is I never owned the share of Phillips. And Seritage is real estate investment trust that had a total market value of under $2 billion when I bought it. And my situation is that, I have about 1% of my net worth outside of Berkshire and 99% in it and I can't be doing things that Berkshire does. So, Seritage with a $2 billion market cap is not really something that is of Berkshire size, plus we've never owned the real estate investment trust to my knowledge or my memory in Berkshire at all. I mean, it's just not a - so I could buy that and not have any worry about a conflict with Berkshire. As a practical matter, my best ideas are - I hope they're my best ideas, are off limits for me because they go to Berkshire if they're sizeable enough that'll have a significance to Berkshire. We will not be making investments from us that's something very odd.

We will not be making investments in companies with a total market cap of a couple of billion, well, with our present size. But - so, every now and then, I see something that's sub size for Berkshire that I'll allow put my - that numbers on my net worth and the rest of this stuff is off limits. Basically, unless Berkshire's all done buying something or is - I mean, I own some wells that I borrowed long, long time ago and Berkshire was not interested in. I mean we bought enough or something at the time or maybe we didn't have money for investment, but I try to stay away from anything that could conflict with Berkshire. And if I've been buying Phillips, when Berkshire was buying Phillips or prior or subsequently, there could be a case where it'd be okay when we might have hit some limit, but the answer is I didn't buy any and have never owned any. Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well, part of being in the position like that, you really don't want conflict of interest, even the appearance of. And it's been 50 years or 60 years when that we embarrassed Berkshire by some of (04:44:22). Both of us have preferably nothing of significance in the total picture outside of Berkshire. And I've got some CostCo stock, I'm director of CostCo. Berkshire has got some CostCo stock.

There are two or three little overlaps like that, but basically Berkshire's shareholders have more to worry about the some conflict, but Warren and I are going to give it. We're not going to do it.

A - Warren Edward Buffett {BIO 1387055 <GO>}

It may sound a little crazy and it's only because I got afforded to say this, but I would much rather make money for Berkshire than for myself. I mean, it does not make any difference to me anyway. I've got all the money I could possibly need and way more. And I'm balanced my personality, everything is more wound up in how Berkshire does than I am myself because I'm going to give it all away. So I know my end result is zero and I don't want Berkshire's end result to be zero. So I'm on Berkshire side. Cliff?

Q - Clifford Gallant {BIO 1854853 <GO>}

One of the great financial characteristics of Berkshire today is its awesome cash flow. While its simple earnings, less CapEx formula yields and annual free cash flow calculation I figured of around $10 billion to $12 million, in reality it seems to be much higher, closer to $20 billion. And I think maybe part due to changes in the deferred tax assets year-to-year. What is the outlook for free cash flow and can investors continue to expect similar dynamics going forward?

A - Warren Edward Buffett {BIO 1387055 <GO>}

There's a lot of deferred tax that's attributable to unrealized appreciation and securities. And don't have the figure, but let's just assume that's $60 billion of unrealized appreciation and securities, well, then there would be $21 billion of deferred tax. That isn't really cash that's available. It's just an absence of cash that's going to be paid out until we sell the securities. Some arises through bonus depreciation, the rail road will have depreciation for tax purposes, that's a fair amount higher than for work purposes.

But overall, I think primarily the cash flow of Berkshire as a practical matter relating to our net income plus our increase in float, assuming we have an increase. And over the years, float has added $80 billion plus to make available for investment beyond what our earnings have allowed for. And that's the huge element. We're going to spend more than our depreciation in our businesses, primarily being number one because of the – we'll have the railroad in Berkshire Hathaway Energy, our two entities that'll spend quite a bit more than depreciation and a likelihood for a long, long, long, long time. And the other business is, unless we get into inflationary conditions, it won't be a huge swing one way or the other.

So, our earnings, the $17 billion – not counting capital gains, but our earnings, which were, whatever they were, around $17 billion, plus our change in float is the net new available cash, but, of course, we can always sell securities and create additional cash. We can borrow money and create additional cash. But it's not a very complicated economic equation at Berkshire. People didn't – for a long time, they didn't appreciate the value of a float. We kept explaining it to them and I think they probably do now.

The big thing, the goal, what Charlie and I think about, we want to add every year something to the normalized earning power per share of the company and we think we can do it because we should be able to do it. We have retained earnings to work with every year to get that job done. Sometimes it doesn't look like we've accomplished much, and we haven't accomplished much, and other years something big happens. And we don't know ahead of time which year is going to be which. Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well, there are very few companies that have ever been similarly advantaged in the whole history of Berkshire Hathaway. We've lived in torrents of money and we were constantly deploying it in dispersed assets and we were raising up as went along. That's a pretty good system. We're not going to change it.

A - Warren Edward Buffett {BIO 1387055 <GO>}

It's a lot for a lot of mistakes. I mean that's the interesting thing. American business has been good enough that you don't have to be - you don't have to really be smart to get a decent result.

A - Charles Thomas Munger {BIO 1406508 <GO>}

And if you can bring a little bit of intellect, then you should get a pretty good result. What you got to do is be aversive to the standard stupidities. If you just keep those out, you don't have to be smart. Thank god. Yeah. Thank god, right.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay. Section 11.

Q - Alexis Christoforous

Hey, Warren and Charlie, thank you so much for your generosity and sharing your life's accumulation of knowledge and financial capital to the progress of humanity. Thank you for that. And Berkshire managers, thank you for building important companies and stewarding our financial features. Thank you, guys. This is Bruce Wayne from Micro Jig (04:50:18) traveling west from Orlando, Florida. Last year, you kind of shared with me the importance of getting the best reputation you can and behaving well. This year, I'd like to ask and preface with Bill Gates Road (04:50:32). Warren's gift is being able to think ahead of the crowd. It requires more than taking his aphorisms to the heart to accomplish that, although Warren is full of aphorisms well worth taking to heart and he also added that I've never met anyone who thought in business in such a clear way.

Warren, what elusive, yet obvious to you, truth has allowed you to think ahead of the crowd and build a clear mental framework to produce a historically significant institution powerhouse brand? And Charlie, same to you what obvious truth presents itself so clearly to you, but many would currently disagree with you upon?

A - Warren Edward Buffett {BIO 1387055 <GO>}

I think I got the question. And I owe a great deal to Ben Graham in terms of learning about investing and I learned - I owe a great deal to Charlie in terms of learning a lot about business. And then, I've also been around - I mean I've spent a lifetime looking at businesses and why some work and why some don't work.

As Yogi Berra said, you can see a lot just by observing. And that's pretty much what Charlie and I've been doing for a long time. And you do - I mentioned pattern recognition earlier and I would say it's important to recognize what you can't do. So, we may have tried the department store business and a few things, but we've generally tried to only swing the things in the strike zone and our particular strike zone. And it really hasn't been much more complicated than that. You do not need - you don't need the IQ in the investment business that you need in certain activities in life. But you do have to have emotional control. I mean, we see very smart people do very stupid things and it's fascinating how humans do that. Just take the people that get very rich and then leverage themselves up in some way that they lose everything, I mean they're risking something that's important to them for something that isn't important to them, where you can say you could figure that one out in first grade but people do it time after time. And then, you see that constantly self-destructive behavior one sort or another. I think we've probably - and it doesn't take a genius to do it, but I think we've sort of avoided the self-destructive behavior. Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well, there's just a few simple tricks that work well. And particularly we've got a temperament that has a combination of patience and opportunism in it. And I think that's largely inherent, but I always suppose it can be learned to some extent. I think there's another factor that accounts for the fact that Berkshire has done so well as it has, is that we're really trying to behave well. And I had a great grandfather, but when he died the preacher gave a talk and he said, none envied this man's success so fairly one and wisely used. That's a very simple idea, but it's exactly what Berkshire is trying to do. There are a lot of people who make a lot of money and everybody hates them and they don't admire the way they earn the money. And I'm not particularly admiral of making money running gambling casinos and we don't own any, and we've turned down businesses including a big tobacco business. So, I don't think Berkshire would work as well if we were just terribly shrewd, but didn't have a little bit of what the preacher said about my grandfather am (04:54:49). We wanted to have people think of us as having won fairly and used wisely. It works.

A - Warren Edward Buffett {BIO 1387055 <GO>}

And we were very, very lucky to be born when we were and where we were. And I mean, we - you could have dropped us at some other place in time or some other part of the world and things would have turned out.

A - Charles Thomas Munger {BIO 1406508 <GO>}

And think of how lucky you were to have your uncle Fred. Warren had an uncle who was one of the finest men I ever knew. I used to work for him too. A lot of people have terrible relatives.

A - Warren Edward Buffett {BIO 1387055 <GO>}

That's kind of another important point. Just yesterday, we had a meeting of all my cousins and a whole bunch that we just get together at annual meeting time. There are probably 40 of us or 50 of us there, but – and they were pulling out some old pictures. And I have four aunts, they're all in these pictures and every one of them – I mean, you were so lucky to have one like that and I had four. I mean they just were – in every way, they reinforced a lot of things that needed some reinforcement in my case.

A - Charles Thomas Munger {BIO 1406508 <GO>}

I wish you'd had a couple more. We'd be doing even better.

A - Warren Edward Buffett {BIO 1387055 <GO>}

But you mentioned my uncle Fred, but my aunt Katie worked in the store too, my aunt Alice worked in the store, and they just – you just couldn't have been around better people. I think Charlie would agree with that.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yeah. Well, we were very lucky.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. My grandfather was a little tough, however. Tell them what my grandfather used to do when he paid you on Saturday, Charlie.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well, that was very interesting. Warren's a democrat, but he came from different antecedents. I worked for his grandfather, Ernest, and he was earnest. And when they passed social security, which he disapproved of because he thought it reduce self-reliance and he paid me $2 for 10 hours work. There was no minimum wage in those days on Saturday and it was a hard 10 hours. At the end of the 10 hours, I came in and he made me give him two pennies, which was my contribution to the social security and he gave me two $1 dollar bills and a long lecture about the evils of democrats and the welfare state and the lack of self-reliance, and he went on and on and on, so I had the right – Ernest said this too (04:57:24) I had Ernest Buffett telling me what to do.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay, enough family history.

A - Charles Thomas Munger {BIO 1406508 <GO>}

I haven't overstated that, have I Warren?

A - Warren Edward Buffett {BIO 1387055 <GO>}

You haven't overstated it at all.

A - Charles Thomas Munger {BIO 1406508 <GO>}

No. You can't believe it people – and he thought he was doing his duty by the world to do that.

A - Warren Edward Buffett {BIO 1387055 <GO>}

But we were lucky then. The people we were around when we were young, we were very lucky.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yeah.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Andrew.

A - Andrew Serwer

Warren and Charlie, you're famous for making a deal over a day or two with nothing more than a handshake. Your pride yourselves on the small overhead of doing the diligence mostly yourself, other successful acquisitive companies use teams of internal people, outside bankers, consultants and lawyers to do due diligence, often over many months to assess deals. Speed maybe a competitive advantage. You've done some amazing deals, but does your diligence process also put us at greater risk. And if you're ever gone, how would you recommend Berkshire change, how we approach deal making?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. I get that question fairly often, sometime often from layers. In fact, our own – we talked to Munger Tolles, our law firm, and that was one of the questions I got why we didn't do more due diligence, which we would have pay them by the hour for. It's interesting. We've made plenty of mistakes in acquisitions, plenty, and we've made mistakes in not making acquisition. But the mistakes are always about making an improper assessment of the economic conditions in the future of the industry or the company. They're not a bad lease, they're not a specific labor contract, they're not a questionable patent, they're not the things that are on the checklist for every acquisition by every major corporation in America, but those are not the things that count. What counts is whether you're wrong about whether you've really got a fix on the basic economics and how the industry is likely to develop or whether Amazon's likely to kill them in a few years or that sort of thing. And we have not found due diligence list that gets to act what we think are the real risk when we buy a business. Unlike I say, we've made – we certainly made at least a half a dozen mistakes and probably a lot of more these getting the mistakes of omission, but none of those would have been cured by a lot more due diligence. They might have been cured by us being a little smarter. It isn't – it just isn't the things that are on the checklist that really count assessing whether a manager who I'm going to hand the $1 billion to for his business and he is going to hand me a stock certificate, assessing whether he's going to behave differently in the future in running that business than it has in the past when he owned it. That's incredibly important, but there's no checklist in the world that's going to answer that.

So if we thought there were items of due diligence, indecently there are a few that get cover for me. They want to make sure that they don't have twice as many shares out as you're buying. But if we thought there were things that we were missing that were of importance in assessing the future economic prospects of the business, we would by all means drilled down our nose, but the question if - when we bought See's, the company had 150 releases. When we buy Precision Castparts, they have a 70 plants, there's going to be pollution problems at some place. And those aren't - that is not what determines whether a $32 billion acquisition is going to be look good five years from now or 10 years from now, and we try to focus on those things. And I do think it probably facilitates things with at least certain people that are method of operation does cut down. You're going to dis-squabbles on small things. I've seen deals fall apart because people start arguing about some unimportant points and their egos get involved and they draw lines in the sand and all of that. I think we gain a lot. When we make a deal, it usually gets done. Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well, you just have to think about business quality, usually counts on something more than whether you crossed the TENs on all leases (05:02:29) or something. And the human quality of the management we're going to stay are very important. And how are you going to check that, it's by due diligence. And I think I don't know anybody who's had a generally better record than Berkshire in judging business quality and the human quality of the people. We're going to lead the business after it's required and I don't know whether it'll improve at all by using some different method. So, I think the answer is that for us at least, we're doing it the way we should.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Negotiations that drag out have a tendency. They're more likely to blow up for some reason. I mean people, they can get abstinent about very small points and it's silly to be abstinent, but people gets silly sometime. So, I like to keep things moving, I like to show a certain amount of trust in the other person because usually trust comes back to you, but the truth is there's some bad apples out there and spot a NIM (05:03:38) is not going to come from looking at documents. It's - you've really have to size up whether that person who's getting a lot of cash from you is going - how they're going to behave in the future because we're counting on them. And that assessment is - this is important as anything involved. We know all the figures and everything going in and we know what will pay. And so we don't want things to get gummed up in negotiations. And I'm perfectly willing to lose small points here and then if I have the deal on the right terms, I don't believe in making a - and Tom Murphy taught me this. I mean, you just don't try and win every point. It's a terrible mistake. You make a decent deal and if you find something have been deliberate in some way. That's okay. If you think it's bad phase and it gives you an indication of the character of the person you're dealing with, then you got another problem and you're lucky you find it that out early. Charlie, anymore?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Many people, in this room, who are happily married, carefully checked their spouse's birth certificates and so on, my guess is that our message are not so uncommon as they appear.

A - Warren Edward Buffett {BIO 1387055 <GO>}

I'll think about that. Okay, Greg.

A - Gregory Edward Abel {BIO 1416724 <GO>}

Warren, the announcement earlier this month that Ajit Jain will be taking over responsibility for all of Berkshire's reinsurance efforts once Tad Montross retires from General Re has raised some questions about not only the change in leadership structure, but succession planning. Given the state of the reinsurance market, it makes sense to have Ajit overseeing both businesses, especially if the pricing environment is expected to be difficult for another 10 years, and there are duplicative efforts that can be streamlined. Given this move and the change in responsibilities we've seen in several Berkshire subsidiaries the last few years, I was just wondering if you could give us some color on how succession planning is handled at a subsidiary level and any insight you can give us into what led you to finally decide to have Ajit oversee both of Berkshire's reinsurance arms and whether or not it will change the amount of work he'll be doing on the specialty side of the business would be greatly appreciated.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well, Tad Montross after 39 years have done an absolutely sensational job for Berkshire. Originally, Gen Re was a problem child for a while, as you know, and some brought on by itself and some external. But the – and Tad is – I mean he's sensational, and I tried several times maybe successfully in terms of month, but not in terms of years to get him to stay at longer. And you say it makes sense to have the reinsurance operation under Ajit. Ajit's ability to handle more and more in insurance, he oversees a company called Guard, which most of you have never heard of, and we bought it a few years ago. And it's doing terrifically. It's based in Wilkes-Barre, Pennsylvania. But It's doing a great job, with small business policies, primarily workers' comp around the country and it's flourished. It's being put under Ajit. He started the specialty operation a couple of years ago and under Peter that is going gangbusters.

And I have found – and this is interesting, but it's true. I have found with really able people, they can handle so much. Well, just take Carrie solve with it, put this meeting together. If you have some preconceived notion that an annual meeting that's going to have 40 000 people and therefore our needs to spend millions of dollars with all kinds of organizational planning and meetings and meeting and meeting ever, but really able people – my assistant, Debbie Bosanek, she can do anything. There's just no limit what talented people can accomplish.

And if I had something else in insurance tomorrow that needed doing, I would probably call Ajit on that too. So, it has no – in terms of my succession that is something we'll have a board meeting on Monday, but we'll talk about it as we always do at every meeting and our thoughts are as one on that. And everybody knows why it makes the most sense. But five-years from now something different could make sense. That's one reason for not announcing any names. I mean, who knows what happens in terms of the time when it happens, or what happens with the person involved and maybe their situation changes. There are no tea leaves to read in the fact that Ajit is supervising Gen Re from this point forward. Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well, there's an obverse side to that. Not only can the able people usually do a lot more, but the unable by and large you can't fix. I think you're forced to use our system if you have your wits about you.

A - Warren Edward Buffett {BIO 1387055 <GO>}

And we don't feel the need to follow any kind of organizational common view as to you do this and you have only so many only so many people can report to you or any of that sort of thing. At Berkshire, every decision that comes up we just try to figure out the most logical thing to do at that time, but we don't have some grand design in mind of like an Army organizational chart or something to the sort, and we never will.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Warren and I once reached the decision we wouldn't pay more than X dollars for something and the man who was subordinate to both of us who was working on it said, you guys are out of your minds. This is really stupid. This is a quality operation. You ought to pay up for it. And we just looked at one another and did it his way. We don't pay any attention to titles.

A - Warren Edward Buffett {BIO 1387055 <GO>}

He was right too.

A - Charles Thomas Munger {BIO 1406508 <GO>}

He was right. Yeah, of course.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay. I'm sorry, go ahead.

A - Charles Thomas Munger {BIO 1406508 <GO>}

If a charwoman gave us a good idea and we'd accept it cheerfully.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Actually, one time the woman that does clean my office came in and I think she'd been kind of wondering what I did. I'd see her frequently, her name was Ruby (05:11:06). And finally, one day she decided to really get to the heart of the matter and she said, Mr. Buffett, do you ever get any good horses? Apparently, she thought I was really making my money was at the track.

Okay, station one.

Q - Alexis Christoforous

Hello, Mr. Buffet, Mr. Munger. Neeraj Patel (05:11:26) Herald Massachusetts. Thank you for taking my question. With Berkshire Hathaway being so well managed, why doesn't it have a highest credit fund rating?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Let me take that one, okay. The rating agencies are wrong and set in their ways.

A - Warren Edward Buffett {BIO 1387055 <GO>}

And we don't fit their model very well.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yeah, yeah.

A - Warren Edward Buffett {BIO 1387055 <GO>}

I mean, we don't look like anything exactly, they see otherwise.

A - Charles Thomas Munger {BIO 1406508 <GO>}

But that's the answer.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah.

And I'll say this though. What I do when they come in the door I always say, let's talk quadruple A. I believe in starting the negotiation from that angle. I never get any place.

Okay, Carol (5:12:27).

A - Alexis Christoforous

Questions continue to come in about the financing and working relationship that Berkshire formed with 3G a couple of years ago and this is one of those questions. While 3G has been very successful in cutting costs and increasing margins at Kraft Heinz, the company has seen volumes and revenues decline. As a long-term investor, how do you judge when a management is cutting muscle as well as fat? Can a business increase revenues, while cutting costs? And I forgot to say, this came from Rick Smith (05:13:07) at New York City.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well, the answer is yes that sometimes you can cut costs that are a mistake to cut and sometimes you can keep costs that are a mistake to keep. Tom Murphy had the best approach. I mean, he never hired a person he didn't need, and therefore they never had layoffs. And you might say that at headquarters at Berkshire, we followed a similar approach. We just don't take on anybody. Now, I think it is totally crazy when companies are in – if you're in a cyclical business, you may have to cut a workforce because there aren't as many carloads of freight moving or something like that, so you cut back on crane crews and all that. But the idea that you give up your staff or whatever it maybe an economist or something like that because business has slowed down, if you don't need them now then you didn't need them in the first place.

People that are there just because somebody started a department and they hired more people and so on, I would argue that since we've forgotten to insult this group so far, I would suggest that happens in Investor Relations departments perhaps, or something of sort. You get a department going and they are always going to want to expand.

The ideal method is not to do it in the first place, but there are all kinds of American companies that are loaded with people that aren't really doing anything or are doing the wrong thing, and if you cut that out, it should not really have any significant effect on volume. On the other hand, if you cut out the wrong things, it can have a big effect. I mean it can be done in a dumb or a smart way. My impression with everything I've seen, and I've seen a fair amount so far, is that 3G, in terms of the cost cuts that they've made, have been extremely intelligent about it and have not done things that will cut volume.

It is true that in the package goods industry, volume trends for everybody, whether there are fat or lean in their operation, volume trends are not good. And the test will be over time, three years or five years, are the operations which have had their costs cut, do they do poor in terms of volume than the ones that in my judgment look very fat. So far I see no evidence of that whatsoever. I do think at Kraft Heinz, for example, we've got certain lines that will decline in volume. I think we've got certain lines that will increase, but I think overall the packaged goods industry is not going to go any place, in terms of physical volume, and it may decline just a bit.

I've never seen anybody run anything more sensibly than 3G has and in terms of taking over operations where costs were unnecessarily high and getting those costs under control in a hurry. And the volume question, we'll look at as we go along. But believe me, I look at those figures every month, and I look at everybody else's figures every month. And I try to – I'm always looking for any signs of underperformance because of any decisions made and I've seen none. Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yeah. And sometimes when you reduce volume, it's very intelligent because you're losing money on the volume you're discarding. It's quite common for a business not only to have more employees than it needs, but it sometimes has two or three customers that could be better off without. So it's hard to judge from outside whether things are good or bad just because volume is going up or down a little. Generally speaking, I think the leanly staffed companies do better at everything than the ones that are overstaffed. I think overstaffing is like getting to weigh 400 pounds when you're a normal person. It's not a plus.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah, sloppy thinking in one area probably indicates there may well be sloppy thinking elsewhere. I have been a director of 19 public corporations. And I've seen some very sloppy operations and I've seen a few really outstanding business operators. And there's a huge difference. If you have a wonderful business, you can get away with being sloppy. We could be wasting $1 billion a year at Berkshire, $640 million after tax, that's be four percent of earnings, and maybe you wouldn't notice it, but...

A - Charles Thomas Munger {BIO 1406508 <GO>}

I would.

A - Warren Edward Buffett {BIO 1387055 <GO>}

... it grows. And Charlie would notice. But it's the really prosperous companies that some - well, the classic case I think were the tobacco companies many years ago. I mean they went off into this thing and that thing and it was practically play money because that was so easy to make and it didn't require a good management and they took advantage of that. You can read about some of that in Barbarians at the Gate. Okay, Jonathan.

A - Jonathan Lawrence Brandt {BIO 17988091 <GO>}

Berkshire paid $4.1 billion for Van Tuyl's auto retailing business and consolidated its earnings for nearly 10 months last year. Given prevailing acquisition multiples in the industry and margins and the record level of retail auto sales, it seems that the acquisition should have contributed more to Berkshire's bottom line in 2015 than it seem to, although it's hard to tell for sure since its results were lumped in with those of the German motorcycle apparel acquisition, which was only owned for a part of the year also.

I understand that the tax deductable intangibles reduced the effect of purchase price of Van Tuyl, but I still wonder whether there were any one-time charges or whether profits from insurance and finance operations could have been reported somewhere other than in the retail segment.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah.

A - Jonathan Lawrence Brandt {BIO 17988091 <GO>}

I imagine Berkshire's earning a better return on the acquisition than it's so far apparent, but I wonder if you could explain the difference between the likely economics of the deal and what I infer from the annual report figures.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. Well, you're right about it. It is better than it looks. For one thing, we got $1 billion of securities, roughly, with the 4.1(n) and those securities we're basically carrying at a quarter of a percent, but that $1 billion is available to us and that came with the deal. There are some very significant acquisition accounting charges that will continue for a couple of years and that I'm happy to have taken that way. The economics of Van Tuyl, I would say, have worked out almost exactly. If you had me a year ago layout a projection, I don't do it, but if I had, it would look very much like things have turned out. And Jeff Rachor, who runs that operation, is really fits the Berkshire mould. I mean we've got a first class CEO there. But take $1 billion off the purchase prices for openers and then there are some amortization charges of items that are allowable that make you correctly see a fairly low figure against what it appears the acquisition price was. So far, it's exactly on schedule and the schedule was perfectly satisfactory.

Okay. Station two.

We haven't – incidentally, we haven't had much luck so far in acquiring other auto dealerships based on the same metrics that we bought Van Tuyl and I think to a small degree that's because people think we've paid more for Van Tuyl than we did. They're not seeing certain factors. And so if they think we paid X, and therefore they're entitled to X, and we didn't pay X, so we haven't made – we've bought very little so far. I hope that changes in the future, but we're not going to change our metrics in terms of how we value auto dealerships.

Okay. Station two?

Q - Alexis Christoforous

Good afternoon, Mr. Buffet and Mr. Munger. I'm John Gorrie (05:22:19) from Iowa, City Iowa. With interest rates go from zero to negative in a country, how does that change the way that you value company or stock? Do you choose a high valuation because the discount rate is low, or on the other hand, do you choose a low valuation because the cash flow is likely to be poor?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well, going from – which we haven't done in this country yet, but going from zero to minus a half is really no different than going from 4% to 3.5%. I mean, it has a different feel to it obviously, if you have to pay a half a point to somebody. If you have your yield or your base rate reduced by half a point, it's of some significance, but it isn't dramatic. What's dramatic is interest rates being where they are, generally. I mean whether it's zero plus a quarter or minus a quarter, or plus a half or minus a half, we're dealing with a situation that's essentially very close to zero interest rates and we have been for a long time, and longer than I would have anticipated. The nature of it is that you'll pay more for a business when interest rates are zero than if they were like 15% when Volker was around and you can take that up and down the line.

I mean we don't get too exact about it because it isn't that exact to science, but very cheap money makes me pay a little more for businesses than when money was at what we previously thought was normal rates, and very tight money would cause me to pay somewhat less. I mean we had a rule for 2,600 years that Aesop lived around 600BC, but he didn't happen to know what was BC, but he can't know everything. And it was that a bird in the hand is worth two in the bush, but a bird in the hand now is worth about nine-tenths of a bird in the bush in Europe. It depends on how far out of the bush it is, but it keeps getting a little less as you go along. These are very unusual times that way. And if you ask me whether I paid a little more for Precision Castparts because interest rates were around zero than if they had been six percent, the answer is yes. I try not to pay too much more, but it has an effect. And if interest rates continue at this rate for a long time, if people ever really start thinking something close to this is normal, that will have an enormous effect on asset values. It already has had some effect. Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yeah, but I don't think anybody really knows much about negative interest rates. We've never had them before and we never had periods of stasis, except for the Great Depression. We didn't have things like happened in Japan, a great modern nation playing all unmonetary tricks, Keynesian tricks, stimulus tricks, and mired in stasis for 25 years. And none of the great economists who studied this stuff and taught it to our children understands it either, so we just do the best we can.

A - Warren Edward Buffett {BIO 1387055 <GO>}

And they still don't understand it.

A - Charles Thomas Munger {BIO 1406508 <GO>}

No, and our advantage is that we know we don't understand it.

A - Warren Edward Buffett {BIO 1387055 <GO>}

It's interesting though. I mean, it makes for an interesting movie. And it does modestly affect what we pay for businesses whether - I don't think anybody expect it to last this long. Do you Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Virtually, I don't think so. If you're not confused, you haven't thought about it correctly.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. I thought about it correctly then. Becky?

Q - Rebecca K. Amick {BIO 19687477 <GO>}

Warren, in the past, you've talked about GEICO working with IBMs Watson.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah.

Q - Alexis Christoforous

And this shareholder, Giama Bermudas (326:35) writes in and wants to know, would IBM be able to offer insurance industry competitors of GEICO the solutions developed with GEICO help and expands. I would think that there would be confidentiality provisions to protect GEICO because and as much as GEICO educate IBM is to insurance issues. GEICO could be a jeopardy if competitors gaining or equaling its advantage if the purchase solutions jointly developed by GEICO and IBM.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. I would say the answer to that is that both parties have thought about that matter and very intensively and extensively, and neither would be in a position to talk about it. I don't like to not answer any questions, but there's something that doesn't pay the answer (05:27:14). Am I right, Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yes, of course, you're right.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay. I like that. Chris.

Q - Clifford Gallant {BIO 1854853 <GO>}

You long expressed the importance of taking your long-term view when investing. Over the decades, your substantial returns in American Express seem to support your point. And you've talked in the past about the ability of American Express to reinvent itself over time, but today it seems to be a company that doesn't have alternative businesses and its brand doesn't seem to have the same cache as it once did. Shouldn't a prudent investor, shouldn't Berkshire periodically reassess its reasons for owning an investment?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well, we reassess our reasons for owning all investments on almost a continuous basis, and both Charlie and I do that, and we're usually in a general range of agreement, but sometimes we are a fair distance apart, perhaps. There's no question that payments are an area of intense interest to a lot of very smart people who've got a lot of resources and ...

A - Charles Thomas Munger {BIO 1406508 <GO>}

And rapid change.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah, and rapid change and it will change. And I personally feel okay about American Express and I'm happy to own it. I think - but their position has been under attack for a decade, more intensively later - lately and it will continue to be under attack. I mean it's too big a business and it's too interesting a business and it could be too attractive a business for people to ignore it, and it plays to the talents of some very smart people. I mean it's a natural that great many organizations that are really quite able think about it and it's big.

A - Charles Thomas Munger {BIO 1406508 <GO>}

So a lot of great businesses aren't quite so great as they used to be. The packaged goods business for the Procter & Gamble's and so forth of the world, the General Mills, they're all weaker than they used to be at their peak.

A - Warren Edward Buffett {BIO 1387055 <GO>}

And the auto companies.

A - Charles Thomas Munger {BIO 1406508 <GO>}

And auto companies, oh, my god. When I think of the power of General Motors when I was young and what happened to them, they wiped out all the shareholders. I would no more have predicted that. When I was young, General Motors loomed over the economy like a colossus. It looked totally invincible. Torrents of cash and torrents of everything.

A - Warren Edward Buffett {BIO 1387055 <GO>}

I think they looked to hold on market share.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yeah, because they – yeah, they were afraid there'd be too monopolistic. And so the world changes and we can't change – make our portfolio change every time if something is a little less advantaged than it used to be.

A - Warren Edward Buffett {BIO 1387055 <GO>}

But you have to be -

A - Charles Thomas Munger {BIO 1406508 <GO>}

Alert.

A - Warren Edward Buffett {BIO 1387055 <GO>}

You have to be thinking all the time in order...

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yeah.

A - Warren Edward Buffett {BIO 1387055 <GO>}

... as to whether there's been something that have really changes the game in a big way. And that's not only true for American Express. That's true for other things we own, including things we own 100% of that. And we'll be wrong sometimes. We'll be right sometimes, we'll be wrong sometimes, but we'll be right sometimes too. And – but it's not that we're not cognizant of threats, but assessing the probabilities of those threats being a minor problem or a major problem or a life threatening problem is a tough game, but that's what makes our job interesting.

A - Charles Thomas Munger {BIO 1406508 <GO>}

I think anybody in payments, probably who is an established long-time player with an old method has more danger than used to exist. It's just – there's no fluidity in it.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay. Station three.

Q - Alexis Christoforous

Hi, Mr. Buffet. Hi, Mr. Munger. I am from Flagstaff, Arizona. My name is Mick Kelly (05:31:14). My family runs cattle ranch business down in Arizona. And that's kind of what my question pertains here. I'm curious on your thoughts as it relates to the expanding global population and investing in cattle, and if you think it's wise? Thank you.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Charlie.

A - Charles Thomas Munger {BIO 1406508 <GO>}

I think it's one of the worst business I can imagine for somebody like us.

A - Warren Edward Buffett {BIO 1387055 <GO>}

There's nothing personnel about this.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yeah, not only is it a bad business, but we have no aptitude for it.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Some people have done well in there, Charlie.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yeah, well, they have one good year every 20 years or something.

Q - Alexis Christoforous

I know you guys like to steak.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Very much.

A - Charles Thomas Munger {BIO 1406508 <GO>}

But not owning cattle.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. Actually, I know a few people that have done reasonably well in cattle, but they usually own banks on their side or something. But I wish you the best at it.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yes.

A - Warren Edward Buffett {BIO 1387055 <GO>}

and I'm in Kiewit Plaza if you want to send anything along.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Somebody has to occupy the top niches in the economy. We need you.

Q - Alexis Christoforous

Yeah. Thank you.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Thank you.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yeah.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Andrew?

A - Andrew Serwer

Warren and Charlie, well, the first part's for Charlie, second part's for Warren. Charlie, you clearly understand the power of incentives. How do apply this at Berkshire when designing compensation formula, without naming names or dollars amounts, please illustrate for us with examples of a couple of examples of how Berkshire's operating managers get paid for performance in different industries? The second part is for Warren, which is you once said you'd write about how we should compensate the next Berkshire's CEO, can you describe exactly how we should do it now?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Warren worry about the next CEO, but the – when it comes asses – our incentives systems are different and what they're trying to adapt to is the reality of each situation. And the basic rule on incentives is you get what you reward for. So, if you have a dumb incentive system, you'd get dumb outcomes. And one of our really interesting incentive systems is at GEICO and I'll let Warren explain it to you because we don't have a normal profits type incentive for the people at GEICO. Warren, tell them because it's really interesting.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. Well, at GEICO we have two variables and they apply to well over 20 000 people, I think you have to be there a year. Beyond that point, everybody's been there a year or more, and I could be wrong on the exact period, is subject and knows, understands that these two variables will determine bonus compensation. As you go up the ladder, it has a multiplier effect. It's still the same two variables, but it gets to be larger and larger in terms of bonus compensation as a percentage of your base, but it's always significant. It's always significant. And those two variables are very simple.

I care about growing the business and I care about growing it with profitable business. So we have a grid which consists of growth and policies in force on one axis. Not gross in dollars because that's reflected by average premiums, which are outside their control, but growth in policies in force. And then on the other grid, we have the profitability of seasoned business. It costs a lot of money to put business on the books. I mean, we spend a lot of money on advertising and all of that. So, the first year any business we put on the books is going to reduce profits significantly. And I don't want people to be worried about the profit that might be impaired by growing the business fast. So profitable seasoned business, growth of policies in force. Very simple. We've used it since 1995. We've put a tiny little tweak or two in for new businesses or something, it's overwhelmingly a simple system. Everybody understands it. In February or so, it's a big day when the two variables are announced and people figure out how they come out on it. And it totally aligns the goals of the organization in terms of compensation with the goals of the owner. And that's a simple one.

The interesting thing about -

A - Charles Thomas Munger {BIO 1406508 <GO>}

It's simple, but other people might reward something like just profits. And so, the people don't take on new business that they should take it on because it hurts profit. So you've got to think these things through and, of course, Warren's good at that, and so is Tony Nicely.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. And just thinking about it, I mean, somebody comes and says, well, you'll rewarded profits. I don't want to reward profits. That alone would be the dumbest thing you could do to them. You just quit advertising and start shrinking the business a little. And like I say, people there know that the very top person is getting paid based on those same two variables, so they don't think that the guys at the top have got a cushy deal compared to them and all of that. It's just a very logical system. The interesting thing is, and I'll get to your second question in a minute, but the interesting thing is that if we brought in a compensation consultant, they would start coming up with plans that would be designed for all of Berkshire and get us all pulling together -

A - Charles Thomas Munger {BIO 1406508 <GO>}

And maybe an undertaking power. God knows where they get the plan.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. The idea of having sort of a coordinated arrangement for incentive compensation across 70 or 80 businesses or whatever is just totally nuts. And yet, I would almost guarantee you that if we brought in somebody, they would be thinking in terms of some master plans or sub-plans and all this kind of thing, and explain it with all kinds of objectives. We try to figure out what makes sense in each business we're in. There are some businesses where the top person is enormously important. There are some businesses where the business itself dominates the result. We try to design plans that makes sense.

In certain cases, I asked one fellow that came to work for us, or that was selling me his business, the day I met him he came to the office and he had a business that he wanted to sell, but he also wanted to keep running it. And I made a deal with him on it and then I said, tell me what the compensation plan should be. And he said, believes that I thought you told me that. I said, no, I don't want a guy working for me that has a plan that he thinks doesn't make sense or that he's unhappy with it or it's chewing at him or he's complaining to his wife about it, or whatever it may be. You tell me what makes sense. And he told me what made sense and it made sense and we've been using it ever since. Never changed a word. We have so many different kinds of businesses. Some of them are very tough businesses. Some of them are very easy businesses. Some of them are capital-intensive and some of them don't take capital.

I mean, you can just go up and down the line and to think that you'll have a simple formula that can be sort of stamped out for the whole place and then with some overall stuff for corporate results on top of it, but you'd be wasting a lot of money and you'd be misdirecting incentives. So we think it through one at a time and it seems to work out pretty well. In terms of the person that succeeds me, it's true, I have sent a memo - in fact, I've sent two memos to the board with some thoughts on that. Maybe I'll send a third one, but I don't think it would be wise to disclose exactly what's in those letters. But it's the same principle as I've just gotten through describing.

A - Charles Thomas Munger {BIO 1406508 <GO>}

And he wanted more bad examples. A lot of the bad examples of incentives come from banking and investment banking. And if you reward somebody with some share of the profits and the profits are being reported using accounting practices that cause profits to exist on paper that aren't really happening in terms of underlying economics, then people are doing the wrong thing and it's endangering the bank and hurting the country and everything else. And that was a major part of the cause of the Great Financial Crisis is that the banks were reporting a lot of the income they weren't making and the investment banks were, too.

The accounting allowed for a long time a lender to use as his bad debt provision his previous historical loss rate. So an idiot could make a lot of money by just making way, gain of your (05:41:05) loans on a high interest and accruing a lot of interest and saying, I'm not going to lose any more money on these because I didn't lose money on different loans in the past. That was insane for the accountants to allow that and literally insane. It's not too strong a word. And yet, nobody is ashamed of it. I've never heard of an accountant that's ashamed of it.

A - Warren Edward Buffett {BIO 1387055 <GO>}

And the another thing that's possible is when you get the very greedy chief executive, and who wants an enormous pay-off for himself and to justify it designs a pyramid so that a whole bunch of other people down the line get overpaid or get paid in relation to something they have no control over, just so it doesn't look like he's all by himself, in terms of that fantastic pay-off he's arranged for himself. There's a lot of misbehavior. You saw it in pricing of stock options. I think people that - I literally would hear conversations in a boardroom where they hoped they were issuing the options at a terribly low price. Well, if you get people interested in having options issued at a terribly low price, they may even occasionally do something that might cause that. And it's certainly - what could be dumber than a company looking for a way to issue shares at the lowest price? But compensation isn't as complicated as the world would like to make it, but that's - if you were a consultant, you'd want to make people think it's very complicated and that only you can solve this terrible problem for them.

A - Charles Thomas Munger {BIO 1406508 <GO>}

We want it simple and right and we don't wanted to reward what we don't want. Those of you with children, just imagine how your household would work if you constantly rewarded every child for bad behavior. The house would be ungovernable in short order.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay, Gregg.

Q - Greggory Warren {BIO 15185326 <GO>}

During the past several years, Burlington Northern had spend more than just about every bearable (05:43:13) on capital expenditures. While the company reduced its CapEx budget from $5.7 billion during 2015 to $4.3 billion this year, it still represents around 20% of annual revenue, which we believe is at least the bare minimum for most railroads to continue to invest indefinitely.

Other than maintenance CapEx, which is likely to account for around 60% of that total, what do you believe are the most likely additional investment opportunities for BNSF realizing that the secular decline in coal, which has accelerated of late, and the complicated nature of crude oil shipments where BNSF has already invested heavily the past few years, are likely to push it more towards other parts of the business.

A - Warren Edward Buffett {BIO 1387055 <GO>}

As I mentioned in the annual report, in the case of all railroads, merely spending a depreciation expense will not keep them in the same place. So, depreciation is an inadequate measure of the actual steady-state capital expenditure needs of a railroad, even in these fairly noninflationary ways. And that's an important consideration in buying the business. We knew that going in and it's been reinforced since. We spent a lot of money in 2015, because we had a lot of problems to correct and that was when we spent the $5.7 billion. I would say that the true maintenance CapEx, if you're looking at $4.3 billion, is higher than 60% of that number when you really evaluate, keeping the railroad in competitive shape to do just the same volume as it would be doing the year before. So, there is an additional expense at BNSF that is not reflected in the figures.

There we also have a lot of intangible expenses at some other businesses that aren't real expenses. I mean, overall, I think that Berkshire's figures actually are on the conservative side in relation to real economic earnings, but that's not true at any railroad. We've also had something called positive train control, which amounts to a lot of money for the industry. I think, we may be a little further along the most of them and thank (5:45:43) for that, but that's $200 million or $300 million a year and maybe whether it'd be close to $2 billion or something like that on an aggregate. So, it is a very capital-intensive business. We run – at the BNSF, we run far more grossed in revenue ton-miles than any other railroad in North America and that has obviously – some is a factor on capital expenditures. But I would say that it's very likely that we will spend more than depreciation – unfortunately, quite a bit more than depreciation to stay in the same place for a long, long time as well other railroads.

And that is a – that's a negative then in the picture. We will always be looking for ways to use capital expenditure money to develop additional business and we get that opportunity regularly, it's just a question of the size of it. And we did a lot of that in the Bakken and we reckon – we got benefits from it. We're not getting benefits as much as we thought we would at this point when the price of oil has fallen off. But that was a very sensible capital expenditure and I hope we'll get the opportunity to do more. What's happening in coal with the decline? I mean that doesn't really have anything to do with our overall capital expenditure budget, except we won't be spending a whole lot of money to expand in that arena. Does that answer your question okay?

Q - Greggory Warren {BIO 15185326 <GO>}

Well, I was just thinking maybe with intermodal as well, if that's the longer-term opportunity to invest more heavily there.

A - Warren Edward Buffett {BIO 1387055 <GO>}

We're always open to it. But we would want – you have to see a fair amount of revenue coming from – we had a proposition very recently, which we're working on for many, many years, in terms of making the port on which (5:47:57) considerably more efficient and we spent a lot of money on that and spent a lot of time. And we would spend a lot more money – a whole lot more money if it's been approved. And recently, the court came out with a decision that was negative on it and whether that kills the chance to do that or we look someplace else, we'll have to look at the situation.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Our competitors there pretend to be environmentalists. It's a common practice now.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. In any event, we we wouldn't do it (5:48:34).

Q - Greggory Warren {BIO 15185326 <GO>}

Yeah.

A - Warren Edward Buffett {BIO 1387055 <GO>}

We thought we have something, made a lot of sense for both, the area and for transportation system of the country. But...

A - Charles Thomas Munger {BIO 1406508 <GO>}

We were trying do the right thing and so far we've lost.

A - Warren Edward Buffett {BIO 1387055 <GO>}

But we're still willing to spend a lot of money.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yeah.

A - Warren Edward Buffett {BIO 1387055 <GO>}

If we can find things that make the railroad more efficient or make it larger, I mean either way. Okay. Section four.

Q - Alexis Christoforous

Good afternoon, Mr. Buffett and Mr. Munger. My name is Marcus Douglas (5:49:07). I'm an investment advisor from Houston, Texas. Where I'm from there are a lot of people losing their jobs, mostly due to the sharp decline of crude oil prices. My question pertains to the overall state of the union more so than my dear city. Keeping in mind that crude oil is primarily brought and sold in American dollars, do either of you believe the major fluctuations in the supply of crude oil influence the future monetary policy decisions? Sorry.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well, that's yours, Charlie.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well, my answer would be not much.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. It's an important industry, obviously, and the decline in the price of oil has had a lot of effects; very good for the consumer, millions and - well, hundreds and millions of consumers. And very bad for certain of the businesses, like the one we bought in Lubrizol, and some others to a degree. Net, it should be good for the United States overall that oil prices - for oil, we're a net oil importer. I mean, just like it's good for United States to have low prices for bananas, we're banana importer, and that anything we net buy is a plus when prices fall. But then oil is big enough and extends into so many areas that it also hurts play (5:50:48), when the price of oil falls and it particularly hurts capital values. So, the value – the consumer gets the benefit, he or she calls goes to the public station every two weeks or three weeks or something like that and it comes in relatively small increments.

The capital value contraction, which is huge if you project out lower-price oil for a while, hits immediately. I mean in oilfield that was worth X, maybe worth half-X or third of X or no X, overnight. And so, there are certain big factors in terms of our chemical operations, people just stop ordering. So, you have this big impact on capital values immediately and you have the benefits move in over time. But net, the United States is better off and Saudi Arabia is worse off when prices of oil are lower. Oil is a big part of the economy. But our economy has continued to make progress overall during the oil price decline. But obviously, different regions suffer disproportionally, just was like they boomed is (5:52:13), they got a real boom in – during a period when it at $100 and when fracking came in big time (5:52:22). Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

No, I think that that will do for this subject.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay. Carol (5:52:28)?

Q - Alexis Christoforous

Thank you.

Yeah. The question is from Larry Leibowitz (5:52:35) of Boston. The year-end balance sheet for manufacturing service and retailing operation shows total current assets of $28.6 billion, of which cash and equivalents are $6.8 billion. Meanwhile total current liabilities are $12.7 billion, implying net working capital of $15.9 billion. It has become increasingly common for companies like Apple and Dell to finance their business via their suppliers, in some cases, with negative working capital. Why is it necessary for these Berkshire businesses to have so much working capital, particularly so much cash? More generally, how do you think about efficiently managing the working capital of a business segment so large sprawling and decentralize to this one?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. Well, we have excess cash everyplace at Berkshire. So, we don't – at present, it really doesn't make any difference whether we have it at certain subsidiaries or other subsidiary. So, we do not – we have access cash. As I pointed out in the past, we'll never go below $20 billion of cash and we'll actually stay comfortably above it. But allowing for the preferred, it's going to (5:53:51) will be again over $60 billion of consolidated cash. We don't really worry much about what pocket it's in. It's not making anything anyway at these levels. Now, if rates move higher, we've actually got the mechanics in process to do sweep accounts and that sort of thing, which - so, I would pay no attention to the particular cash that's being held in that category there.

The cash in Berkshire Hathaway Energy, the cash in the railroad, we have independent levels that we don't guarantee their debt and they run with ample cash and we would not look at sweeping that down to a minimum. But if you're talking about 40 or 50 of our miscellaneous subsidiaries, we will go to a sweep account when rates get where it really makes any difference to do it. But right now, when you're getting zero, it really makes not (5:54:59) much difference where you get zero. So, I think the fellow has overanalyzed it a little bit, but I understand why he did it.

A - Charles Thomas Munger {BIO 1406508 <GO>}

One of his ideas is why don't we imitate some of these other people and pay our suppliers a lot more slowly, so we have more working capital.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well, that's a big thing in business now and last year - Walmart, for example, went to almost all of their suppliers, as I understand, and certainly the companies that we supply and they basically had a list of half a dozen things that they wanted present suppliers to agree with you, and one of those things was more extended terms. And each of our companies made their own decisions, but my guess is they got more extended terms from most of their suppliers, maybe a very high percentage of their suppliers and they've gone from - I don't remember the exact request whether they went from 30 days to 60 days or whatever it was, but the they got a meaningful extension. So, you will - in a couple of years or a year, takes time to implement, you'll see higher payables relative to sales at Walmart than you saw a year or two years ago.

And they are under a lot of pressure, competing with Amazon and others. And that's one of the ways they expressed it. And I've seen it done other places and it's conceivable that one of our subsidiaries might deem it wise to do it, but I don't think they will. I mean I think that the pressure for cash at Berkshire is not that high and I think that the pressure for the desire for great relations with suppliers is - would probably overcome in most of our managers' minds in a desire to start extending terms.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yeah. I think it's hard to do that verbally (5:57:09), when you're rich and your supplier isn't and think that your suppliers don't love you. And so, I think there's something to be said for, leaning over backward to have a win-win relationship with both suppliers and customers always.

A - Warren Edward Buffett {BIO 1387055 <GO>}

It's never been pushed at Berkshire. You can argue we've got a pretty good thing going in floor anyway. So...

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yeah. And we don't need it. Let somebody else set the record on that one.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay. Jonny?

Q - Jonathan Lawrence Brandt {BIO 17988091 <GO>}

Most American corporations separate out supposedly one-time restructuring costs whereas Berkshire doesn't. Berkshire's reported operating earnings are, therefore, in my opinion, of higher quality. Have you ever calculated how much higher operating earnings, on average, would be if Berkshire separated out plant closing costs, product line, exits, severance pay and similar items? Is it a material number or does Berkshire not incur much in the way of these types of costs typically because most of your acquisitions are standalone?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Let me take that one. That's a question like asking why don't you kill your mother to get the insurance money. We don't do it. We're not interested in manipulating those numbers simply. We haven't had a restructuring charge ever and I don't think we're about to start.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. I would say this too, Jonny, that we don't do that. The numbers would not be huge. There could be a year, I suppose, when they might be, for some reason. But they are more conservatively stated than most companies and I think they're of higher quality. But I'd point it out also that I think that our depreciation expense at the railroad, which is standard and which all the other railroad use, is inadequate as a measure of true operating earnings. But that's...

A - Charles Thomas Munger {BIO 1406508 <GO>}

And you're talking about we like to advertise our defects.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Not all of them. There is no question that we – I think we will have more amortization of certain intangibles, which reduce earnings and reported earnings, but which in reality are not expenses. We'll have more of that than some companies. And I pointed that out, I never want to report one of these things where I have the whole adjusted earnings set on say (5:59:48) this is what you're supposed to pay attention to, because everyone of those I've seen virtually results in some inflation of figures and things are good enough at Berkshire. We don't need to inflate the figures. Okay. Station five.

Q - Alexis Christoforous

This is Martin (6:00:07) calling from Germany. I'm a fixed-income manager. We launched, with Henry Labor (6:00:14), a fund and...

A - Warren Edward Buffett {BIO 1387055 <GO>}

You've got my sympathy.

Q - Alexis Christoforous

Yeah. Yeah. The volume is about $600 million, $650 million. We're 4.1% ahead this year. Obviously, my question is about fixed income. If I look at in your annual report, it's about the volume of $25 billion and if I had, let's say, the CDS, you were selling the CDS and it's about a volume of $7 billion or $8 billion. So, my concrete question is, the premium on your CDS is about 31 basis points at the end of the year. So, mark-to-market, it's probably at the high teens or at 20%s. So, would you consider to unwind this position? Are you allowed to do it? In the annual report, you say no. But probably you can make exactly the contrary trade on it that means your buying protects you. Is that a philosophy which you stand behind? Could you do that from any (6:01:18) point of view, when the premium extremely low, which is at the case that the spreads are, as I see it, between 15 basis points and 20 basis points? Can you...

A - Warren Edward Buffett {BIO 1387055 <GO>}

That sounds right.

A - Charles Thomas Munger {BIO 1406508 <GO>}

There was a time for you

A - Warren Edward Buffett {BIO 1387055 <GO>}

I think he was referring to, we have one position left over from six years or seven years ago or thereabout that involves us selling protection on zero coupon municipal bonds with a nominal value – maturity value, which is – since they're zero coupons, is far off and not present value at all. I think $7.7 billion or something like that. And we're just sitting with that position, because we like the position. And gentleman mentions that our CDS is – that's an insurance premium against our debt that people buy. A, there's a fair amount of activity in it from time to time. And I think that's partially caused by the fact that we neither collateralize that municipal contract that he refers to, but we don't collateralize, with minor exceptions, the equity puts that are still out there. So, the counterparties have to buy – I believe this is the case. I think the counterparties have to buy protection on Berkshire's credit through CDSs. Now, the people like that buy it from, their credit probably isn't as good as Berkshire. So, I mean I think they're – but it's probably an internal rule at some of these firms that are on the other side of the contract.

And so – but that really doesn't make any difference to us. Back in 2008 and 2009, our CDS prices went up to a crazy level. And I even commented here at the annual meeting that I would love to be selling to myself, which if ever I was (6:03:22) allowed to. But what goes on in the CDS market really isn't of any particular interest to us. And it's too bad for the other guys, they didn't get collateral from us and we wouldn't have given it them. And so, they have to buy these things that, like I say, from our standpoint, they're wasting their money. But they probably have internal rules that make them. I think I've addressed your question. But Charlie, do you think I've addressed his question?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Well, truth of the matter is that we don't pay much attention to trying to get an extra 2 basis points by being gamy on our short-term things in that credit default position is a weird historical accident and we don't pay a much attention to it either. It will go away in due course.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. All of our contracts are just going to expire. We're not - now, we do a few operational contracts in our Energy company. I mentioned a couple of places where they - for their own reasons and sometimes because the utility commissions want them to, they do certain things, but it's peanuts. And the positions that I instituted six years or seven years ago are basically all (6:04:35) in a runoff position and the first big runoffs will be in 2018 in a couple of years.

A - Charles Thomas Munger {BIO 1406508 <GO>}

We're basically not in that - we don't fool around with our own credit default swaps.

A - Warren Edward Buffett {BIO 1387055 <GO>}

No, never. No. But I would have liked to have sold one in (6:04:47) 2008, they actually got a - people were paying...

A - Charles Thomas Munger {BIO 1406508 <GO>}

I know it was crazy.

A - Warren Edward Buffett {BIO 1387055 <GO>}

500 basis - about 5% in terms of betting that Berkshire would go broke, which was totally crazy. But I couldn't take advantage of it. I wanted to, though. Becky.

Q - Becky Quick {BIO 16400962 <GO>}

This question comes from Tom Hensley (6:05:09), a long time shareholder from Houston, Texas, who says, over the years, you've been effusive in your praise of Ajit Jain and his contributions to Berkshire. In the 2009 Chairman's letter, you wrote, if Charlie, Ajit and I are ever sinking in a boat and you could only say one of us, swim to Ajit. My question is, what if we don't get to Ajit in time, please comment on the impact on National Indemnity in Berkshire and whether or not there's another Ajit in the house?

A - Warren Edward Buffett {BIO 1387055 <GO>}

There's not another Ajit in the house. I didn't hear the part immediately before it, when you were - but there is not another Ajit in the house.

Q - Becky Quick {BIO 16400962 <GO>}

The impact on National Indemnity - I guess, the impact on the insurance companies as a result...

A - Warren Edward Buffett {BIO 1387055 <GO>}

If we lost him?

Q - Becky Quick {BIO 16400962 <GO>}

Yeah.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. It would be very significant and that would be true of some other managers at some other subsidiaries. But it's quite dramatic with Ajit's operation, because literally there were a few years when we had like 25 or so - or 30 people where that operation - it was an unusual period at the end, but where it's earning potential under Ajit was fantastic, that probably won't happen to that degree again. Wish it would, but he's done a tremendous amount for Berkshire. But I can start with Tony, he's done a lot - there have been a lot of managers that have created billions and billions of dollars of value for Berkshire, I mean. And maybe you can get into the tens of billions, it's having a fantastic manager that has a large business - potential business available to them and who makes the most of it. It's huge over time and you don't see it necessarily in a week or a month or anything of the sort. But when you're building capital value, I mean think of the value of (6:07:16) was on, I mean it wouldn't have happened without him, and you're looking at huge values. And I could name other situations. The value of Tom Murphy and Dan Burke was that average (6:07:30) between zero and what they ended up with. I mean they built that thing from a bankrupt UHF station in Albany. It wasn't that they were - they didn't invent television or anything of the sort. They just managed it so well. So, really outstanding mangers. They're invaluable and we want to align - and Charlie and I can't do it ourselves, but we want to align ourselves with them and then have them feel about Berkshire the way we feel about it. And if we do that, we have an enormous asset and we do have in Ajit and a number of the other managers. Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yes. And Ajit has a longer shelf life than we do. He'd be particularly missed.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well, let's not give up here, Charlie. I reject such defeatism. Cliff?

Q - Clifford Gallant {BIO 1854853 <GO>}

Thank you. Low to negative interest rates is something that's been discussed a few times today and you've mentioned there's implications for a return on flow. I was wondering how should shareholders value the 25% of the flow that's been created by retrocessional reinsurance, where the business is booked at an underwriting loss and at times it has adversely developed?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. Cliff brings up some of our business in the insurance business. We take where (6:09:00) these are the probability of some underwriting loss in order to get to use the money for a very long period of time and it would look, under today's interest rates, like we can't do much with that. There's two answers to that. We don't think it will - with a duration of the kind of contracts we have, we don't expect these rates, but we could be wrong. But the second one also is that we do think that occasionally we will get chances, even in periods of low interest rates, to do things that are - will produce quite a bit very reasonable returns. And so, we are not measuring it against Double-A corporates or anything of the sort. We're measuring it in the potential utility to us with our really pretty unusual flexibility in respect to the deployment of funds and this long period when we'll have an opportunity perhaps still come up with one or two things that - where we can deploy money at a rate that may be quite a bit higher than other people, assume now that money can be deployed. Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yeah. We're willing to pay a little money now to have just a certainty of having a lot of money available in case something really attractive comes up in a bit difficult time.

A - Warren Edward Buffett {BIO 1387055 <GO>}

It's an option cost.

A - Charles Thomas Munger {BIO 1406508 <GO>}

It's an option cost, right.

A - Warren Edward Buffett {BIO 1387055 <GO>}

And that option came in handy in 2008 and 2009, for example.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yeah, they've heard (6:10:48).

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay. Station six.

Q - Mindy Jensen

Hi, Charlie and Warren. My name is Mindy Jensen and I'm from Longmont, Colorado. I work for the largest real estate investing social network online called BiggerPockets.com. We're seeing investors starting to get concerned that the real estate market is a bit frothy, similar to the run-up of the 2005, 2006 and 2007 that led to the crash in 2008. Warren, in 2012, you told Becky Quick that if you had a way to easily them, you'd buy 100,000 houses and rent them out. How do you feel about the real estate market today?

A - Warren Edward Buffett {BIO 1387055 <GO>}

It's not as attractive as it was in 2012. We're not particularly better at particularly real estate markets than we are at stock markets or interest rate markets. But there's certainly - and it's driven, to some extent, by these low interest rates, but there is certainly properties that are being sold at very, very low cap rates that strike me as having more potential for loss than gain. But again, if you can borrow money for very, very little and you think you're getting into some very safe asset, 100 basis points or 150 basis points higher, there is a great temptation to do it. I think it's a mistake to do that, but I could be wrong.

I don't see a nationwide bubble in residential real estate now at all. I think in a place like Omaha or in most of the country, you are not paying bubble prices for residential real estate. But it's quite different than it was in 2012. And I don't think that next time around the problem is going to be a real estate bubble. I think that it certainly was the cause in a very large part of what happened in 2008 and 2009. But I don't think it would be the replica of that. Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Nothing to add.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay. Andrew?

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

Warren, Todd and Ted now have been at Berkshire for several years. What have been their biggest hits and failures, specifically? And what have they learned from Charlie and Warren and what are the biggest differences between you and them?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well, I'll answer the last part, the easiest. I'm trying to think of very big deals that we can do something in investments or in business, preferably, just in operating businesses. I mean they still are – their primary job is working on – each has a $9 billion portfolio and one of them has, I don't know, perhaps, seven or eight positions and the other one has maybe 13 or 14. But they have a very similar approach to investing. They both have been enormously helpful in doing several things, including important things, for which they don't get paid a dime and which they're just as happy working on as working on the things as they're when they're working on things they do pay off for them financially. They've got – they're perfect cultural fits for Berkshire. They're smart at what they do and they're a big addition to Berkshire. Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Again I've nothing to add.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Did I cover the whole thing, Andrew, or was there one part I missed there? Did I...?

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

Biggest hits and failures, I think I specifically wanted to know in terms of investments and trying to understand the way you think, perhaps – I think the question was more focused –

I think my implication was the way they think and the way you think. Are there differences?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Yeah, they're – I would I'd say they have a bigger universe to work with, because they can look at ideas in which they can put $500 million and I'm trying to think of ways to put nut (6:15:27) sums in the billions. And they probably – well, they certainly have a more extensive knowledge of certain industries and activities in business that have developed in the last 10 years or 15 years. They'd be smarter on that than I am. But their approach to investing, I mean they're looking for businesses that they understand and that are going to – and through the stocks of those businesses that they can buy at a sensible price that they think will be earning significantly more money five years or 10 years from now. So, it's very similar to what I'm thinking about, except I probably add another zero to it.

A - Charles Thomas Munger {BIO 1406508 <GO>}

And we don't want to talk about specific hits and failures.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay. Gregg? Yeah, we will never get into disclosing – I mean, we file reports every 90 days that show what Berkshire does in marketable securities. But we don't identify – I may identify whether it's mine or theirs. But we don't get into indentifying what they do individually.

Q - Greggory Warren {BIO 15185326 <GO>}

Looking at Berkshire's finance and financial products segment, there was a fairly significant increase in the amount of cash carried on the group's books last year. After holding steady between $2 billion and $2.5 billion during 2012 through 2014, the amount of cash held at the segments spiked up to $5.4 billion at the end of the third quarter of last year and $7.1 billion at the end of 2015. This incidentally coincided with your acquisition of GE's railcar leasing unit as well as the acquisition of several railcar repair and maintenance facilities. Sales and profitability were fairly solid last year, but don't really seem to account for the magnitude of the change in cash. And investments, debt and other liabilities do not look to have changed significantly enough to count for the difference, perhaps accounting for about $1 billion of the increase. Just wondering where the additional $3.5 billion in cash came from and whether or not, the elevated level of cash at the end of last year is excess to the business or a new required level of cash for the operations?

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well, I can't tell you where it came from. You think I would, $3.5 billion. But I can tell you why we were funneling money into the parent company and in the finance company. That money was basically dedicated to making the $22 billion portion of the Precision Castparts purchased that was accounted for cash we borrowed. We actually borrowed $12 billion, but $10 billion was what was – of the borrowing was there. And we pushed money from various sources, depending on who owned what and sort of thing, we pushed money into those two entities and eventually into the parent company to take care of the $22 billion that was coming due turned out to be at the end of January, when the Precision Castparts closed. There is really no significance to it other than that. Okay, station seven.

Q - Alexis Christoforous

Good afternoon, Mr. Buffett and Mr. Munger. My name is Jeffrey Ustip (6:18:51) from Cranford, New Jersey. I just have a simple question for you. How would you explain IBM's moat?

A - Warren Edward Buffett {BIO 1387055 <GO>}

I'm not sure that's a simple question.

A - Charles Thomas Munger {BIO 1406508 <GO>}

No. I do not either.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well, it has certain strengths and certain weaknesses and I don't think we want to get into giving an investment analysis of any of the portfolio companies that we own. I think I'd probably better leave it there. Charlie?

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yeah. It's obviously coping with a considerable change in the computing world. And it's attempting some that's big and interesting. And God knows whether it's going to work modestly or very well. I don't think Warren knows either now.

A - Warren Edward Buffett {BIO 1387055 <GO>}

No. We'll find out whether the strength are strengths.

A - Charles Thomas Munger {BIO 1406508 <GO>}

Yeah. But it's a field that a lot of intelligent people are trying to get big in.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Okay. We're going to go to section eight and then we will adjourn for 15 minutes prior to the formal meeting of the company.

Q - Cristian Campos {BIO 18849205 <GO>}

Hello, everybody.

A - Warren Edward Buffett {BIO 1387055 <GO>}

State your name.

Q - Cristian Campos {BIO 18849205 <GO>}

Hello, everybody. Good afternoon. My name is Cristian Campos. I'm from New York City. I'm a Senior Accounting Major at Baruch College part of the City University of New York. And Mr. Buffett, in your annual shareholder letters and during interviews, and even today, your sense of humor always shines through. Where does your senses of humor come from, please tell us? Thank you.

A - Warren Edward Buffett {BIO 1387055 <GO>}

That is just the way I see the world. It's very interesting and, in times, very humorous place that – actually I think Charlie has a better sense of humor than I have. So, I'll let him answer where he got his.

A - Charles Thomas Munger {BIO 1406508 <GO>}

I think if you see the world accurately, it's bound to be humorous because it's ridiculous.

A - Warren Edward Buffett {BIO 1387055 <GO>}

Well, I think that's a good note to close on. We will reconvene in 15 minutes for the formal part of the meeting. We have one proxy item to act on. And so, I hope that those of you who aren't (6:21:47) student learning more about actually the insurance aspects of climate change will stick around and we'll have a discussion on that. And I'll see you at 3:45. Thank you.

[Music] (6:22:03 - 6:22:45)

MANAGEMENT DISCUSSION SECTION

Alexis Christoforous

And there you have it, Berkshire Hathaway Chairman and CEO, Warren Buffett; along with Vice Chairman, Charlie Munger, ending the question-and-answer period of the Berkshire Hathaway Annual Meeting. In just a moment, the formal shareholder session begins. Welcome back to Yahoo Finance exclusive live stream of the Berkshire Hathaway Annual Meeting coming to you live from the CenturyLink Center in Omaha, Nebraska. I'm Alexis Christoforous joined once again by Yahoo Finance Editor-in-Chief, Andy Serwer. And what a day, what an incredible couple of days here in Omaha, Andy, what was the highlight of this meeting today for you?

Andrew Serwer

Well, I don't think there were any red-hot zingers Alexis and it's sort of the totality of all of it. I mean, there were a lot of topics that he got to that Buffett and Munger addressed. And I think that the way I'll look at it is, they had to sort of speak to a lot of things that people had serious questions about; everything from global warming to sugar, to interest rates, succession. And they're able to sort of handle all those really kind of tough questions, quite frankly. And weave in their wisdom and levity. And basically, they're sort of charming their shareholders. But that's a little understating it, because I think that they were giving substitutive answers, very sophisticated answers. But I think it was kind of low risk, low return meeting overall.

Alexis Christoforous

That's a good way to describe it. Yeah. And towards the end there, we heard that somebody asked about IBM and he stuck with his policy of not really talking about individual investments, individual subsidiaries of Berkshire. So, I guess we couldn't have expected much more out of that.

Andrew Serwer

Yeah. I think that's right. And with IBM, in particular, I mean, they said, both Munger and Buffett said, the jury is out. They've got this big bet. And we don't know whether it's going to work modestly or very well.

Alexis Christoforous

Right.

Andrew Serwer

I mean, that's optimistic. Similar things about American Express and other big investment that it's very attractive, it's a very attractive business. Even if it was less attractive, it would still be a good business to invest in.

Alexis Christoforous

Yeah. And...

Andrew Serwer

It was very couched to nuanced.

Alexis Christoforous

It is and they're always ready, though, to say, hey, look, we may fail. We failed before, we may fail again. The question of succession came up. We knew it would have to at some point. And again, sort of not a lot of clarity there. And he brings up a valid point. He said, listen, if we put a name out there now and this person wouldn't need to take over for the next few years, their situation could change. So, why put a name out there if everything is still so fluid?

Andrew Serwer

That's right. And with succession, though, Alexis, he did talk up Ajit Jain, who is his right-hand man at the insurance business. And interestingly, Ajit Jain is a lot like Buffett in that he is super smart, whip-smart, but also perceived to be a really decent guy and someone people really like to work with and work for. And I know Buffett really like to work with Jain, and you know how important that is. Buffett always say, he only likes to work with people that he likes to work with.

Alexis Christoforous

That's probably a pretty good policy in life, right?

Andrew Serwer

Yeah.

Alexis Christoforous

People talked about how they do their due diligence and sometimes they've come under a little criticism, both Munger and Buffett about, do they do enough due diligence. And I really liked his answer, because he said, at the end of day, it's about this human being I'm going to be giving a lot of money to, and there has to be a level of trust there and how do you do due diligence on a person, I mean there are some of the obvious ways. But you have to have a little bit of faith, maybe a history with that person and a relationship there that you believe in?

Andrew Serwer

I mean, he'll do two things, Alexis, to your point. He'll have a conversion with this person to get a feel for them and then he'll take a look at this paper, their numbers and he can just sort of tell very, very quickly, better than most mere mortals.

Alexis Christoforous

Right.

Andrew Serwer

Both of those things, both of those things; your character...

Alexis Christoforous

Right.

Andrew Serwer

...and your balance sheet and your income statement, and just make a very quick decision.

Alexis Christoforous

That's what separates him from like the rest of everybody else, right?

Andrew Serwer

Almost all the rest of us.

Alexis Christoforous

All right. Let's bring in the Nicole Sinclair now, who is down on the exhibition floor. And Nicole, so much of this session was devoted to buybacks. Let me get your initial reaction to the question-and-answer session.

Nicole Sinclair {BIO 20166308 <GO>}

Well, Warren Buffett has been outspoken in saying when his stock reaches 1.2 times book value, he will buy back stock. And he was asked if there's some flexibility in that, would he buy back at higher levels. And he answered that he probably wouldn't, but he value the idea of if you have cash on hand, use it; if you think your stock is undervalued, put that cash to work, buy back shares. He doesn't see anything wrong with that. Of course, buybacks have been a controversial topic throughout this recovery, many investors and analysts saying that buybacks have artificially inflated earnings - earnings per share. Buffett really defending the role of buybacks from evaluation perspective, but really sticking to his 1.2 times metric, when he's going to buy back stock. At these levels, though, Berkshire, in his mind, very cheap by historical standards.

Alexis Christoforous

Also talked a little bit about capital-intensive investments and it's not something that Berkshire Hathaway traditionally has done. But with Precision Castparts and with Burlington Northern Santa Fe, he's now - and the renewable energy space, he's now entered all those kinds of acquisitions, what did he have to say about that?

Nicole Sinclair {BIO 20166308 <GO>}

Yeah. He got a lot of questions about BNSF, about Precision Castparts, particularly because BNSF has had to have a lot of investment to boost its business. He thinks, of course, this is shift away from the core insurance business, which is still a very important part of Berkshire. He highlighted the value of businesses that don't require a lot of investment, but also said, you know what, there is only so much upside you can have there. We have these other opportunities. He remains very positive long term for the future for BNSF, for Precision Castparts. He is very bullish on aerospace cycle, of course. And remember, keep in mind, Berkshire, 10 and one-quarter of their business, if you include that Kraft Heinz stake (6:28:43), would be listed as Fortune 500 companies if they were independent. So, he is really talking about huge portions of our economy that he's really bullish on. He is bullish on the future of America. He is bullish on the future of industry and the industrial sector and that really came through into the accession (6:28:59).

Alexis Christoforous

All right. We should just let folks know you're in front of a house, it's actually indoors, you're not in suburbia. You're in front what's called the Clayton Model Home, it's one of the subsidiaries of Berkshire Hathaway and that's why there's a price on it as well, because shareholders get a discount on that house. So, if they buy this weekend, it's $10,000 off the regular price. It's one of the benefits, I guess, of being a shareholder and attending the meeting. All right. I want to take a look now, both Andy and Nicole, at one of the questions that was asked during the question-and-answer session. Take a listen.

Warren Edward Buffett {BIO 1387055 <GO>}

Because if it's true that we will and are eager even, from a financial standpoint, to buy it at that price, it's really like having a savings account, where if you take your money out as a dividend or as an interest payment on the savings account, you get $1. But if you leave it, then you're almost guaranteed that we'll pay you $1.20. I mean, why would anybody want to take money out of the savings account if they can cash it in what they left at 120%.

So, it acts as a backstop for ensuring that a no-dividend policy results in greater returns than it would be if we paid out $1 and people got $1. If they leave $1 in, they're going to get at least $1.20, it might be at least - it's not a total guarantee, but it's a pretty strong probability. So, would we increase that number? Perhaps, if we run out of ideas, and I don't mean day-by-day, but if it really becomes apparent that we can't use capital effectively within the company, in the quantities with which it's being generated, then at some point the threshold might be moved up a little, because it could still be attractive to buy. And you don't want to keep accumulating so much money that burns a hole in your pocket. And it's been said actually that a full wallet's a little like a full bladder that you may urge very quickly to pee it away and we don't want that to happen.

Alexis Christoforous

Speaking...

Andrew Serwer

All righty.

Alexis Christoforous

...the everyman speak. That's why we love Warren Buffett.

Andrew Serwer

Right.

Alexis Christoforous

Because he's able to give us analogies like that and again speaking to the issue of buybacks and that he's ready to buyback if he feel he needs to.

Andrew Serwer

Yeah. And he is also talking about cash and a propensity to spend it, Alexis. And these are some sort of all chestnuts for Buffett. He loves cash. He loves businesses that throw off cash. He's always buying them, always looking to acquire more. He gets a ton of cash in these businesses. But he is very disciplined about not just spending it. On the other hand, when he see something, he will just pounce. I mean, he will make an investment right away with all that cash, but he doesn't let it burn a hole in his pocket.

Alexis Christoforous

And he also said that when he and Munger begin negotiations with a company, more times than not it ends with them buying that company, or the deal happens.

Andrew Serwer

Right.

Alexis Christoforous

More than often the deal happens as opposed to falling apart. Nicole, I don't know if you were able to hear what we were just talking about and that sound bite from the session. But just wanted to get your quick thoughts on his analogy there about a full wallet is like a full bladder, you want to...

Andrew Serwer

What?

Alexis Christoforous

...pee that right away...

Nicole Sinclair {BIO 20166308 <GO>}

Yeah, I am in...

Alexis Christoforous

I'm quoting Mr. Buffett.

Nicole Sinclair {BIO 20166308 <GO>}

...total agreement. He takes very complex issues, financial issues and makes them very understandable for everyday investors, for everyday people. And that's one of the reasons he's so beloved. And his stocks are real companies, of real products that you can eat, feel, touch, live in, like this house behind me. So, his analogy there just really on point.

And really to add on to that, that 1.2 times bottom there for the stock really providing a floor from a valuation perspective is something that many investors have pointed to as one of the attractive elements for the stock. I spoke with Whitney Tilson before this meeting. He is a very well-known investor, very bullish on Berkshire. And he really believes that's one of the reasons that Berkshire is such a buy here. The upside versus the downside is really attractive and he's really interested in it right here. And if you take a look here at some of the topics really being talked about on Twitter, on social media, we were monitoring all your tweets real time, succession was a lot of interest we see here, the future, everyone's wondering what's next for Berkshire. And really from a valuation perspective, again, many analysts, many investors saying that the stock already discounting Buffett's age, already factoring in the bench that he's really developed over the years, the way that he is really have the culture permeate throughout all of the different businesses. And so, that's really important as we think about the stock going forward.

Alexis Christoforous

All right, Andy, you wanted to add something?

Andrew Serwer

Yeah. I mean, it's interesting, Nicole, that you said that, because there's a lot of reasons why the stock could be higher. I mean, first of all, you have to get over the fact that it's $220,000 a share.

Alexis Christoforous

Right. Class A shares. Yeah.

Andrew Serwer

That's not a valuation, that's just the actual price, of course. But it could be a lot higher, for a couple of reasons. What if Buffett was 45 years old? I mean, imagine. That's number one. Now, they were complaining Buffett and Munger, or actually was a question, responding to a question about the fact that the company is not really Triple-A, which is kind of surprising.

Alexis Christoforous

That's right, right.

Andrew Serwer

And that's because it's kind of complicated. It's a category of one, right. There is no other company like Berkshire Hathaway. It's a holding company with insurance operations that has big investments. What? I mean, that's like nothing. So, in other words...

Alexis Christoforous

You categorize it, yeah.

Andrew Serwer

...if it was less complicated, if the CEO was younger, if it had a Triple-A rating, would it be $500,000 a share? Who knows? If Buffett lives for a long time, it probably will get to be $500,000 a share. I mean, it could. I don't really know. When we make predictions like that, they invariably don't come true. But...

Alexis Christoforous

You just said it.

Andrew Serwer

Well, well, it's funny, because I remember. I'm old enough to remember when it was $8,000 and $3,000 a share.

Alexis Christoforous

You should have gotten in.

Andrew Serwer

I know. And it seemed outrageous. And you're like, my goodness, this thing could never go higher. Thousands of dollars, a stock trading for thousands of dollars, this is impossible, it could never go higher. And now, it's a six-figure stock.

Alexis Christoforous

I know.

Andrew Serwer

Right.

Alexis Christoforous

It is hard to believe. But with Warren Buffett at the helm, maybe not so hard to believe.

Andrew Serwer

Yeah, I guess that's it.

Alexis Christoforous

All right. I want to send it back down to Nicole, because she's got a special guest, I understand. Who's with you, Nicole?

Nicole Sinclair {BIO 20166308 <GO>}

Yeah. A lot of the shareholders slowly coming out from the stadium as the main event is wrapping up. And I'm here with John (6:35:43), he is from Pittsburgh, Pennsylvania. You've been a shareholder for many years I hear. When did you first buy Berkshire stock?

Unverified Participant

Approximately 1995.

Nicole Sinclair {BIO 20166308 <GO>}

And how many years have you been coming here to the shareholder meetings?

Unverified Participant

This will be my sixth meeting.

Nicole Sinclair {BIO 20166308 <GO>}

Got it. So, 1995, pretty good return there. What's your favorite thing about this event? What do you learn from Warren and what did you learn from today?

Unverified Participant

Well, they have so much wisdom in investing and finance and the way they portray their meeting seem to be very open and their – when I have their annual report, they seem to have everything in it that you want to know about the companies. And when you read about it, it's just very consistent in what it's produced for the shareholder.

Nicole Sinclair {BIO 20166308 <GO>}

It was a very animated stadium, a lot of laughter, a lot fun. Were you here early in the morning? And what was the environment like among all the shareholders? Did you meet new people?

Unverified Participant

We always meet new people and what to me is interesting to meet people from other countries and their involvement and how strongly they believe in Berkshire Hathaway and their performance and what they've passed and what they feel it's going to do in the future.

Nicole Sinclair {BIO 20166308 <GO>}

All right. Back to you, Alexis.

Alexis Christoforous

With Warren Buffett and Charlie Munger, once again

Charles Thomas Munger {BIO 1406508 <GO>}

How old is Hansen do you know?

Warren Edward Buffett {BIO 1387055 <GO>}

Yeah, I think he's - my feeling is around 60 (6:37:17).

Charles Thomas Munger {BIO 1406508 <GO>}

Yeah, I think he's been around the long time.

Warren Edward Buffett {BIO 1387055 <GO>}

He is a professor at Columbia. (6:37:23).

Charles Thomas Munger {BIO 1406508 <GO>}

He's fixated Berkshire Hathaway's...

Warren Edward Buffett {BIO 1387055 <GO>}

(6:37:33).

Charles Thomas Munger {BIO 1406508 <GO>}

...losing too much money on insurance. (6:37:36).

Warren Edward Buffett {BIO 1387055 <GO>}

Well, why - I think - what do you think (6:37:41)?

Charles Thomas Munger {BIO 1406508 <GO>}

Because we don't understand global warming.

Warren Edward Buffett {BIO 1387055 <GO>}

We'll find out. Somewhere in here. Here we are. Okay, if everybody will please settle down. We'll proceed with the meeting. Meeting will now come to order. I'm Warren Buffett, Chairman of the Board of Directors of the company. I welcome you to this 2016 Annual Meeting of Shareholders. This morning I introduced the Berkshire Hathaway's directors that are present. Also, with us today are partners in firm, Deloitte & Touche, our auditors. They are available to respond to appropriate questions you might have, concerning their firms audited the accounts at Berkshire. Sharon Heck is Secretary of Berkshire Hathaway and she will make a written record of the proceedings. Becky Amick has been appointed an Inspector of Elections at this meeting. She will certify to the count of votes cast in the election for directors and the motion they voted to want (6:38:47) at meeting. The name proxy holders for this meeting are Walter Scott and Marc Hamburg. Does the Secretary have a report of the number of Berkshire shares outstanding – turned off the lights on me – entitled to vote and represent at the meeting.

Sharon L. Heck {BIO 19687453 <GO>}

Yes, I do. As indicated in the proxy statement that accompanied the notice of this meeting that was sent to all shareholders of record on March 2, 2016, the record date for this meeting, there were 807,242 shares of Class A Berkshire Hathaway common stock outstanding with each share entitled to one vote on motions considered at the meeting and 1,254,393,030 shares of Class B Berkshire Hathaway common stock outstanding with each share entitled to one-ten (6:39:46), 10,000 of one vote on motions considered at the meeting. Of that number, 575,608 Class A shares and 772,724,950 Class B shares are represented at this meeting by proxies returned through Thursday evening April 28.

Warren Edward Buffett {BIO 1387055 <GO>}

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

Walter Scott {BIO 1388841 <GO>}

I move that we have (6:40:28) minutes of the last meeting of shareholders, we dispensed with and the minutes be approved.

Warren Edward Buffett {BIO 1387055 <GO>}

Do I hear a second?

Ronald L. Olson {BIO 521861 <GO>}

I second the motion.

Warren Edward Buffett {BIO 1387055 <GO>}

The motion has been moved and seconded. We will vote on the motion-by-voice vote. All who's in favor, say aye? Oppose? The motion is carrying.

The next item of business is to elect directors, if a shareholder is present who did not send in a proxy or wishes to withdraw a proxy previously sent in, you may vote in person on the election of directors and other matters to be considered at this meeting. Please identify yourself to one of the meeting officials in the aisle, so that you can receive a ballot.

I recognize Mr. Walter Scott took place some motion before the meeting with respect to election of directors.

Walter Scott {BIO 1388841 <GO>}

I move the Warren Buffett, Charles Munger, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, Thomas Murphy, Ron Olson, Walter Scott and Meryl Witmer be elected as directors.

Warren Edward Buffett {BIO 1387055 <GO>}

There a second?

Ronald L. Olson {BIO 521861 <GO>}

I second the motion.

Warren Edward Buffett {BIO 1387055 <GO>}

It has been moved and seconded that Warren Buffett, Charles Munger, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, Thomas Murphy, Ron Olson, Walter Scott and Meryl Witmer be elected as directors. Are there any other nominations or any discussions?

The nominations are ready to be acted upon. If there are any shareholders voting in person, they should now mark their ballot on the election of directors and deliver their ballot to one of the meeting officials in the aisles.

Ms. Amick, when you're ready, you may give your report.

Rebecca K. Amick {BIO 19687477 <GO>}

My report is ready. The ballot of the proxy holders in response to proxies that were received through last Thursday evening cast not less than 643,789 votes for each nominee. That number far exceeds the 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.

Warren Edward Buffett {BIO 1387055 <GO>}

Thank you, Ms. Amick. Warren Buffett, Charles Munger, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, Thomas Murphy, Ron Olson, Walter Scott and Meryl Witmer have been elected as directors.

The next item of business is a motion put forth by the Nebraska Peace Foundation. Motion is set forth in the proxy statement and will the projectionist please put up number nine. Here we are. The motion requests that our insurance business issue a report describing a response to the risk posed by climate change, including specific initiatives and goals relating to each risk issue identified. Directors have recommended that the shareholders vote against the proposal.

I will now recognize and I think he'll be up – (6:43:42) I will now recognize Dr. James Hansen to present the motion, but I believe maybe the gentleman from the Nebraska Peace Foundation may be introducing and then he may introduce Dr. Hansen.

To allow all interested shareholders to present their views, I ask the initial speaker to limit his remarks to five minutes and then those – the microphone in Zone 1 is available for those wishing to speak for or against the motion subsequently. Zone 1 is the only microphone station in operation.

For the benefit of those present, I ask that each speaker for or against the motion limit themselves, with the exception of the initial speaker, to two minutes and confine your remarks solely to the motion. And the motion should be left up on the – I see, is (6:44:34) that up there or not?

Unverified Participant

Yeah.

Warren Edward Buffett {BIO 1387055 <GO>}

Okay. The motion should be left up there. In a sense incidentally I – it ask us to present a report about the risk to the insurance division by climate change and I did address this subject in the annual report, that would be a report and it was a report that was concurred by Ajit Jain, who is number-one expert on insurance risk. So, that does represent the view of our insurance division and myself as the Chief Risk Officer, but the subject now is open and we welcome the initial speaker's comment. And if you're just going to introduce Dr. Hansen, I can see who's up there. Then I presume he will have the five minutes and then subsequent speakers will have two minutes. So, go to it. You're on.

Mark Vasina

Thank you. My name is Mark Vasina. I'm the Treasurer of the Nebraska Peace Foundation, the owner of one-eighth share of Berkshire Hathaway. We are the sponsor of the shareholder resolution, which Mr. Buffett has described. In so doing, making the recommendation to develop a risk analysis and report on it, we're following the lead of the Bank of England, which last September published a comprehensive report on climate change risks facing the insurance industry and recommended that its regulated companies conduct reviews of the risks and make this available. The Bank of England regulates the UK insurance industry, which is the third largest global insurance market.

I'll turn the rest of my time over to world renowned climate scientist, Dr. James Hansen.

James Hansen {BIO 2273951 <GO>}

Thank you for this opportunity. I want to make a suggestion that I hope you will ponder. Some aspects of climate have become clear. Humans are changing the atmosphere and we can measure how this is changing earth's energy balance. More energy is coming in than going out. So, the ocean is warming, ice sheets are melting and sea level is beginning to rise. We are now close to a point of handing young people a situation that will be out of control with ice sheet disintegration and multi-meter sea level rise during the lifetime of today's young people, which would mean loss of coastal cities and economic devastation.

Sea-level rise would be irreversible on any timescale of interest to humanity. The other irreversible effect of rapid climate change would be extinction of a substantial fraction of the species on earth. The bottom-line is that we cannot burn all fossil fuels and the economic Law of Gravity is that as long as fossil fuels appear to be the cheapest energy, we will keep burning them.

So, my request, given the respect and the trust the public has in you, is that you reflect upon the possibility of a public statement in favor of a revenue-neutral gradually-rising carbon fee. A carbon fee is needed to make the price of fossil fuels honest, to include the cost to humanity of their air pollution, water pollution and climate change. A rising carbon fee is needed to spur effective investments by the private sector in clean energies and the energy efficiency.

Most important, it will steadily phase down fossil fuel use. So, I'm not asking you to endorse the carbon fee on the spot, but I hope that you will reflect upon it and perhaps provide a clear statement in your next report. It could be your greatest legacy. It could affect everything, even the course of our future climate. Thanks.

Warren Edward Buffett {BIO 1387055 <GO>}

Thank you, Dr. Hansen. I might say that we – although we may differ on some specifics, and I don't know – I'm no expert on this subject, whatsoever. I don't think you and I have any difference in the fact that it's important that climate change, since it's something where there is a point of no return, if we are on the course that you think is certain and I think is probable, that it's a terrible important subject, but the emotion that was put forth was relating to the insurance aspects of it. And we have discussed - believe me, we have thought and discussed insurance aspects. And I've, in fact, given a report in the - which was asked for by this, within the annual report.

So, it is really not - the issue before the shareholders is not how I feel about whether the climate change is real or whether a carbon tax is appropriate, it's whether it poses a risk to our insurance business. And I recognize the Bank of England read that report. But we respectfully disagree with them in terms of - not in terms of the importance of climate change, but in terms of the risk to our insurance business. We don't - we are not forced - we don't write policies for a long period of time. We're not forced to write a policy on anything. So, we are - our judgment has made as propositions are presented to us, usually as to whether, for one year, we are willing to accept the given risk for a given price. And that, obviously, climate is enormously (6:51:02) important in our activities, hurricanes being the most important, probably, although we also get involved in earthquakes, but that is what the proposal is about. And we've given a response to that and it does not mean that we differ on the importance of climate change to the human race.

So, with that, I'd be delighted to hear from the various seconders.

James Jones {BIO 20692064 <GO>}

Hello. My name is Jim Jones. I'm the Executive Director of the Katie School of Insurance at Illinois State University. I would like to express my concerns, based on three hidden risks associated with the climate change. The first relates to stranded assets of insurers investing in fossil fuels. The second is a more insidious risk related to climate change. This risk is associated with the long-term liabilities associated with a property, life and health lines of business. And I realize that a number of intelligent people and experts don't see a long-term liability. But they're missing one important part is that primary insurers are not able to withdraw or re-price books of - entire books of business.

Following hurricanes Katrina, Rita and Wilma, new hurricane models were developed in Florida and they attempted to get the recommended rate approvals for that. They were not allowed to. And so, many insurers began to withdraw from that market. 10 years later that, about 40% of the underperforming business is still on the books of those insurers. And this could play out in the several other states that are exposed to climate risk.

For a reinsurer, the value of reinsurance with their customers is a long-term business. The reason why this is so important is because, according to my count, 156 of your reinsurance customers have filed climate change disclosures. And these customers are looking for long-term interest being protected by their reinsurer. And if not, there is potential for a relationship to fault (6:53:46) risk that could occur, if they perceive your reinsurance as just being one-year contracts that can be re-priced or withdrawn, and you enter into that world of the expanding market competition of alternative reinsurance, which just last year was $72 billion; and earlier this quarter, we set a record of $2.2 billion in cat bonds.

Warren Edward Buffett {BIO 1387055 <GO>}

Thank you. I would point out that we have not been asked ever, to my knowledge, to write long-term contracts. Our primary insurers know that we look at one year at a time. And we will not write business that we think has a major negative probability, and they don't expect us to. It's way less a relational business than in the past. It's much more a transactional business. But we will not write – if we lose the customer, because they want us to do something stupid, we lose the customer. And there is not a – in our business, I'm not speaking for other reinsurers, but in our business, and I believe with most other reinsurers, they are not going to do something that they think is terribly disadvantageous to them. Just to maintain a relationship, that's not really a relationship and via subsidy (6:55:26).

So, that does not strike me, frankly, as a factor at all of negative consequence at Berkshire. But we – in terms of what happened after Katrina, rates went up and actually the hurricane experience in Florida has been better than any period since before 1850 that we have any records on. That's been a surprise to us incidentally. But we have not written business of – catastrophe business in Florida during that period, because we didn't think the rates were adequate. They were adequate, we just were wrong about it.

So the – and incidentally, that is not – the fact that we walked away from cat business in Florida that we thought was mispriced does not hurt us in the business. It's really a – it's a much more of a transactional business in the – there may have been a time when relationships were very big in reinsurance. But with so many entrants in it, it is very much a transactional business and no one expects you to do something that's very stupid. And if what they do that, it's the wrong kind of a relationship. I'm glad to hear the next speaker.

Jane Kleeb

Hello, Mr. Buffett. My name is Jane Kleeb. I run a group called BOLD Nebraska, which was part of an unlikely alliance who beat Keystone XL to protect the (6:57:07) state as well as property rights. And I met you several years ago at Senator Nelson's home, and I had pulled you aside and asked how could we get healthcare reform passed. And you told me two things; you said the polling numbers matter and that we have to keep on applying public pressure. And we feel the same way about climate change and climate action. The most recent Yale study said that even 47% of conservatives believe in the climate change and want to start seeing corporate and government action.

And your response to this resolution struck me, because one of the sentences said that if you live in a low-lying area, you should probably move. Well, we work with native brothers and sisters, who live in coastal communities and one of those tribes is now the first United States climate refugees. They didn't have the option to move, they were forced to move. And so, we're turning to you and we're turning to ourselves to continue to apply public pressure and hope that both you and Charlie stands with us. And maybe it's not this year and maybe it's not the year after, but we would really look forward to you doing full climate risk analysis as well as divesting from all the fossil fuels that you own. And lastly, it takes both small and mighty as well as big and powerful to solve this problem of climate change. So, you blocking small solar in Nevada is the wrong road to go down. Thank you.

Warren Edward Buffett {BIO 1387055 <GO>}

Okay. I think you'll have a reasonable time to move. But I will say if you're making a 50-year investment in low-lying property, it's probably a mistake. I actually said you may – as a homeowner in a low-lying area, you may wish to consider moving. And I would say that if you expect to be there for 10 years or so, I don't think I would consider moving. But if I thought I was making a 100-year investment, I don't know I would make it. I think, I guess to the question, we have a shareholder proposal that says what are the risks to the insurance division from climate change? We're not denying climate change is incredibly important subject. We're not denying its existence, but it will not hurt our insurance business and it's immaterial compared to other things that couldn't affect our insurance business. And that is the issue before the meeting. But I'd be glad to hear from the next speaker.

Unverified Participant

Good afternoon, Mr. Buffett. My name is K Karn (6:59:50). I've been a shareholder for more than a decade, basically my investing life. Today, someone said that you think ahead of the crowd. With regards to this resolution, you're saying that the Berkshire insurance business will just raise rates the next time the policy is renewed and that makes sense. But you agree that climate change poses a major problem for our planet. I would say that climate change posses a major problem for the stability of our global financial markets if the political action continues at its current pace with regards to this issue. I personally agree with Dr. Hansen that a carbon fee is the solution to address this issue. I'm wondering if you can tell us what you think the solution to address this issue is and whether you think the Berkshire businesses more broadly than just insurance will be impacted by this issue in the next decade or two.

Warren Edward Buffett {BIO 1387055 <GO>}

Yeah. I would – I don't know if it would affect in the next decade or two, but I won't argue with you at all that it's likely not certain that unless various techniques are designed for reducing a wealth (7:01:13) for sequestration, different things of that sort, that plenty of people will be working on, or unless the emissions – greenhouse gas emissions are reduced significantly that it's a terribly important problem for civilization. And they've been other – I mean, there's certainly going to be some very smart people working on ways to change the balance in some way, either through less being released in the atmosphere or by various techniques that might diminish the impact. But no one here will deny that it's important. I don't think it will impact in the serious way, the climate – or insurance, for that matter, in the next decade or two.

But as I pointed out in the report, if you're dealing with something where there's a point of – you pass a point of no return, the time to do something isn't to really (7:02:21) get 10 minutes away from the point of no return, so that there are policies, which we've subscribed to very strongly in terms of renewables and that sort of thing. But I think there's also possibilities within the scientific communities that there will be solutions that are beyond my limited knowledge of physics that can conjure up myself. But there are a whole lot of people out there that are a lot smarter. And I think that a basic problem on the reduction on the – if those things don't come to pass is the fact that it's a planetary problem and it requires corporation by very important countries. And I think President Obama has done a good – made a good start in working with leaders of other countries. But it can't be solved by the United States alone, as you know better than I. But be glad to hear from the next speaker.

Unverified Participant

Hello. My name is Nancy Meyer (7:03:24), and I've been a shareholder for 15 years with my husband. We have great faith in Berkshire Hathaway, that's why we invested. So, I'm just here to say that as a shareholder, I'd like to ask my fellow shareholders to consider the economic cause of climate change and urge Berkshire Hathaway to adopt this resolution to show leadership in the insurance industry. Thank you.

Warren Edward Buffett {BIO 1387055 <GO>}

Thank you. I appreciate the fact you being our shareholder, but I do think – for reasons I've laid out, I don't really think that the – I think the resolution is, in the sense, inapplicable to our insurance business. I mean, insurance – global climate is not a risk to our insurance business. It may be a risk to the planet over time, but that's a different thing. I mean, you can – we can adopt all kinds of resolutions about saying that obviously nuclear proliferation is a threat to the planet and you can say well then it's a threat to the Berkshire. But in terms of being Berkshire specific, you can read the resolution. And like I say, our answer, with Ajit Jain, probably the smartest person I know in insurance, and I have 99% of my net worth in Berkshire that's all destined to go to philanthropic institutions and I'm not eager to see that disappear. And I do regard myself as the Chief Risk Officer of Berkshire. And I worry about things that can hurt Berkshire and I do not see it in our insurance division in relation to climate change. But thank you.

Richard Miller {BIO 1984613 <GO>}

Good afternoon, Mr. Buffett. I am Richard Miller in the Creighton Theology Department here in Omaha, and I study and teach climate change and its social effects. I just wanted to make you aware that Berkshire is operating within a larger economy and that the most-important climate analysis, economic analysis from Nicholas Stern indicates that on our current path, by the end of this century, 30% loss in global GDP is possible. The other issue is when we talk about doing something about climate change, doing something means to avoid major sea-level rise, we need to reduce emissions globally, starting today, 7% per year. The only time we've ever reduced emissions over a 10-year period in a growing economy was in the 1990s in England and we reduced them 1% per year. So, we're talking about a completely different thing than President Obama's gradual move and we need to do something. No, we need to massive transformation immediately. And with your large global holdings, you are a world significant figure on this, not just about this particular shareholder resolution.

Thank you for your time.

Warren Edward Buffett {BIO 1387055 <GO>}

Thank you. That complete the speakers?

Richard Miller {BIO 1984613 <GO>}

Say that again.

Warren Edward Buffett {BIO 1387055 <GO>}

Are you the final speaker?

Richard Miller {BIO 1984613 <GO>}

Sorry. Yeah.

Unverified Participant

Yes. I think those are all the speakers.

Warren Edward Buffett {BIO 1387055 <GO>}

Okay. Well, thank you. Charlie, do have anything want to say?

Charles Thomas Munger {BIO 1406508 <GO>}

Well, yes. We're in Omaha, which is considerably above sea level and we have no big economic interest in this subject in our insurance companies. We don't write much of that catastrophic insurance we used to write many years ago. So, we're asked as a corporation to take a public stance on very complicated issues. We've got crime in the cities, we've got a hundred – we've got a thousand complicated issues that are very material to our civilization. And if we spend our time on the meeting taking public stance on all of them, I think it'd be quite counterproductive. And I don't like the fact that the people who constantly present this issue never discuss any solution, except reducing consumption of fossil fuels. So, there are geo-engineering possibilities that nobody is going to talk about and I think that's asinine. So, put me down is not welcoming.

Warren Edward Buffett {BIO 1387055 <GO>}

We don't want to have a political rally. The motion is now ready to be acted upon. There are any shareholders voting in person, they should now mark their ballots on the motion and deliver their ballot to one of the meeting officials in the aisles. Ms. Amick, when you're ready, you may give your report.

Rebecca K. Amick {BIO 19687477 <GO>}

My report is ready. The ballot of the proxy holders in response to proxies that were received through last Thursday evening cast 69,114 votes for the motion and 531,724 votes against the motion. As the number of votes against the motion exceeds a majority of the number of votes of all Class A and Class B shares properly cast on the matter as well as all votes 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.

Warren Edward Buffett {BIO 1387055 <GO>}

Thanks you, Ms. Amick. The proposal fails. Does anyone have any questions for our audit firm before we're adjourn? If not, I recognize Mr. Scott to place the motion before the meeting.

Walter Scott {BIO 1388841 <GO>}

I move this meeting be adjourned.

Warren Edward Buffett {BIO 1387055 <GO>}

Mr. Olson?

Ronald L. Olson {BIO 521861 <GO>}

And I second it.

Warren Edward Buffett {BIO 1387055 <GO>}

Motion adjourn has been made and seconded. We will vote by voice. Is there any discussion? If not, all in favor say aye? All oppose, say no. Meeting's adjourned. Thank you.

Alexis Christoforous

That concludes the live stream of the Berkshire Hathaway 2016 annual meeting. Thank you for watching. A replay of the entire event will begin shortly if you missed any of the stream.