

Annual General Meeting

Company Participants

- Andy Serwer, Editor-in-Chief
- Charles Thomas Munger, Vice Chairman
- Freeda Cathcart, Reinsurance Specialist
- Gregory Edward Abel, Director
- James M. Weber, Chairman & Chief Executive Officer
- Jeffrey Towson, Private Equity Investor
- Jennifer Rogers, Anchor
- Jennifer Tselentis, Assistant Controller
- John Peter Ricketts, Governor of Nebraska
- John Washington Rogers, Chairman, CEO, CIO & Lead Portfolio Manager
- Julia La Roche, Reporter
- Kathy Ireland, Chief Executive Officer & Chief Designer
- Myles Udland, Writer
- Rebecca K. Amick, Director-Internal Auditing
- Ronald Blumkin, Chairman
- Ronald L. Olson, Director
- Shane Grady, Disaster Response Coordinator
- Stella Li, President
- Unverified Participant
- Walter Scott, Independent Director
- Warren Edward Buffett, Chairman & Chief Executive Officer
- Whitney Richard Tilson, Founder and Managing Partner

Other Participants

- Adam Brett Bergman, Analyst
- Adam Mead, Founder
- Andrew Ross Sorkin, Columnist
- Becky Quick, Co-anchor-Squawk Box
- Carol Loomis, Senior Editor-at-Large
- Gary Kent Ransom, Analyst
- Greggory Warren, Analyst
- Guy Selmar Spier, Chief Executive Officer
- Jonathan Lawrence Brandt, Analyst
- Stephie Yu, Reginal Head of US Business & Partner
- Wally Obermeyer, Co-Chairman & President

MANAGEMENT DISCUSSION SECTION

Andy Serwer {BIO 15136542 <GO>}

Hello and welcome to Yahoo Finance's coverage of Berkshire Hathaway's Annual Meeting Live from the CenturyLink Center in Omaha, Nebraska. I'm Andy Serwer here with my co-host, Jen Rogers. We're also joined by Myles Udland who will be heading into the meeting shortly.

Jennifer Rogers {BIO 2325313 <GO>}

We are just about 30 minutes away from Warren Buffett and Charlie Munger taking the stage. Investors and Buffett fans were lined up early here, and we mean early.

Andy Serwer {BIO 15136542 <GO>}

Wow.

Jennifer Rogers {BIO 2325313 <GO>}

This is what it looked like, though, just around 6:00 this morning. That's about an hour before the doors even opened. And then, here's the moment. The doors opened and those people make the mad dash to get the best seats.

Andy Serwer {BIO 15136542 <GO>}

The running of the shareholders, Jen. Around 7:00 AM, Warren Buffet and a gaggle of press took in the sights here in the Convention Center full of booths from Berkshire associated businesses like Dairy Queen, Brooks Running, and Coca-Cola.

Jennifer Rogers {BIO 2325313 <GO>}

So, Berkshire released its earnings last night, and Myles has been digging into the results. Buffett himself tipped his hat a little bit about some of the big news, revealing that he's taken a larger stake in Apple. What else did we learn?

Myles Udland {BIO 20165611 <GO>}

Yeah. We also have a very interesting quarter, so a little bit of a quirk here. The net loss attributable to Berkshire shareholders, \$1.1 billion, but the operating profit, which strips out the loss, which is really attributable to that securities portfolio. Wells Fargo is down a lot. Coke shares were down almost 6%. It was \$5.3 billion. So Buffett himself was bracing for this rule. He had told shareholders in previous quarters, this is going to make our earnings essentially incomprehensible on a year-to-year or quarter-to-quarter basis.

He said that these adjustments, which are now required to report each quarter, are generally meaningless. This is the language that he used in the 10-Q with respect to how

you figure out Berkshire's overall value. So, I think we'll talk about that a little bit in the meeting just to sort of let shareholders know exactly what's going on. Here's why we're reporting a loss. And also going forward, I think the quarterly report might be even less sort of incisive for Berkshire shareholders.

Andy Serwer {BIO 15136542 <GO>}

Berkshire Hathaway is big, but not as big as the U.S. government and the tax code.

Jennifer Rogers {BIO 2325313 <GO>}

Yeah. No joke. It looked incomprehensible to everybody but you.

Myles Udland {BIO 20165611 <GO>}

Everybody but him, I suppose.

Andy Serwer {BIO 15136542 <GO>}

Right. That's true.

Jennifer Rogers {BIO 2325313 <GO>}

We also have Yahoo Finance's Julia La Roche. She's on the floor here in the Convention Center. Julia already got to walk around the floor today with Warren. What did you guys talk about?

Julia La Roche

That's right, Jen. I did get a question into the Oracle of Omaha as he made his way around to the different booths. And the question is, when are you going to make that move, make that acquisition with that \$100 billion cash pile that you have? What has to happen? And he said that he's waiting for that phone call. So I asked him, what do you want to hear on that phone call? And he said he just wants to hear about a good business. Now I also asked him about the moat. What is the moat for Berkshire Hathaway? And he says it's the culture. It's the management style. And as you know, he has a very hands-off management style. So if you're looking to be acquired, give Warren Buffett a call, that's what he wants.

Andy Serwer {BIO 15136542 <GO>}

People always talking about what companies will Berkshire buy? Amazon, giant private companies, Coke Brothers, it's all out there.

Jennifer Rogers {BIO 2325313 <GO>}

There are a lot of names and there will definitely be a lot of questions about that given all the cash that he is sitting with right now.

Andy Serwer {BIO 15136542 <GO>}

Absolutely.

Jennifer Rogers {BIO 2325313 <GO>}

All right. So, moving on right now, we've got investors making their way in to the arena. Capacity right now for that crowd inside, expected to be 17,500. As we said, the line started before dawn here in Omaha and we were there. Correction. We sent Myles. Myles Ueland was there, meeting those very first investors in line. Take a look.

Myles Ueland {BIO 20165611 <GO>}

All right. We are here with the first people in line. Sort of there's a few bullpens, but these guys are here. Mike and Mike, they're from Long Island. They were here at about 3 o'clock this morning. Guys, good to talk to you.

Unverified Participant

I appreciate it. Thank you.

Myles Ueland {BIO 20165611 <GO>}

All right. So Mike (00:03:46) you are 20 years old. This is your fifth meeting. Tell me a little bit about why you got here first? Why you come to these meetings and what you hope to get out of them?

Unverified Participant

Really, it's just all about the investment knowledge of Buffett. I mean, it's worth its weight in gold every minute you could listen to it, and it's almost - he's a shining idol on a hill in terms of capitalism and what this country represents. And I think it's just a great event overall.

Myles Ueland {BIO 20165611 <GO>}

And (00:04:12) how long have you been a shareholder?

Unverified Participant

I've been a shareholder since 2009. Fortunately enough I've bought it in January 2009 and haven't looked back ever since.

Myles Udland {BIO 20165611 <GO>}

All right. Great. And have you guys usually gotten here first? This is the first time you've come in super early?

Unverified Participant

We normally come here around the same time every year and normally get a spot right up front.

Myles Udland {BIO 20165611 <GO>}

So, what time you were here today?

Unverified Participant

We're here at 3:00 AM.

Myles Udland {BIO 20165611 <GO>}

And what have you been doing over the last three hours? It's about 6:11 AM right now.

Unverified Participant

Walking around, keeping loose, (00:04:38), reading the letter a little bit. It's been a lot of fun, meeting a lot of great people.

Myles Udland {BIO 20165611 <GO>}

All right. And Mike (00:04:45), there is one kind of thing that you hope to, maybe in part to other fathers out there, other sons that are thinking about coming or haven't come, what would you say to them?

Unverified Participant

I would say it's a great experience. You definitely should do it. It's basically Woodstock for capitalists, and it's great collegiality of the meeting, unique great people online and so on and just the investment wisdom. It's memories that will last the lifetime.

Myles Udland {BIO 20165611 <GO>}

All right. Great. Thanks, guys so much. And enjoy the meeting today.

Unverified Participant

We'll do.

Jennifer Rogers {BIO 2325313 <GO>}

I love that young Mike (00:05:12) keeping loose. You know what they say about this meeting. It's a marathon. It's not a sprint. So, you really got to be flexible.

Andy Serwer {BIO 15136542 <GO>}

The whole weekend.

Jennifer Rogers {BIO 2325313 <GO>}

The whole weekend. Warren Buffett has said that he thinks attendance here at the Berkshire Hathaway Annual Meeting could break the record – could break the record of 42,000 that was set a few years back. What's the trend with attendance been?

Andy Serwer {BIO 15136542 <GO>}

Well, three years ago when they set that record that was the 50th Anniversary, Jen, of Berkshire Hathaway. So, you'd expect a lot of people to come. Attendance was up the following year 2016. That was the first year. We live-streamed.

Jennifer Rogers {BIO 2325313 <GO>}

Was it at fault?

Andy Serwer {BIO 15136542 <GO>}

And some people did blame us. I said maybe people are staying home and watching us, but actually attendance has built 2016, 2017, and now to 2018. And Warren Buffett himself said that he thinks that our live stream has actually increased attendance because of the attention that we're bringing to it.

Jennifer Rogers {BIO 2325313 <GO>}

I have to say of all the years that I have been here, the line seemed incredibly long this morning and multiple entrances had lines that were wrapping around.

(00:06:11)

Myles Udland {BIO 20165611 <GO>}

No. So the front of the arena is on 10th Street. That's a North South Street. And I was hearing that, for the first time ever, that line actually went all the way to the South and then turned East around the corner. So, that would be the longest line to kind of get in that main entrance. And then, also walking around the convention hall yesterday, I mean, it was absolutely mobbed. The number of stands were just – there were lines to get into the exhibit.

Andy Serwer {BIO 15136542 <GO>}

Right. Like you were saying...

(00:06:31)

Myles Udland {BIO 20165611 <GO>}

Fruit of the Loom is my favorite. Fruit of the Loom, the line that had to be 100 people long. And it went back two full booths, it went past the shoes, went all the way to the NetJets which itself had a long line because people want to go in, look at the private jets. See's Candy as we know, always a mob scene. Brooks Running is always one of the most crowded booths. And it took 20 minutes to do one lap of the floor yesterday.

Jennifer Rogers {BIO 2325313 <GO>}

And just to be clear, this was the line to get into Fruit of the Loom. Not even to buy anything. It was like a hot club. People are like lining up.

Myles Udland {BIO 20165611 <GO>}

Yeah. Well, I got to say, I've got some great deal in there. That's all I'll say.

Andy Serwer {BIO 15136542 <GO>}

So, it's interesting too. So, how does the math work? There's 40,000 people here, but only 17,500 can fit into the arena. The overflow is over here, shopping still in the convention center. Then there are other rooms here and across the street, The Hilton, where people can view this, here watching in Yahoo Finance. And so, there's another 20,000 people spread about.

Jennifer Rogers {BIO 2325313 <GO>}

So, where do all these people come from? I mean, I have met people from all over the world. We wanted to find out a way that we could see this information in one place. Julia La Roche now has moved to just below our stage with more and where everyone comes from. Julia?

Julia La Roche

That's right. Some people describe this as the Woodstock of capitalism. Others describe it as a pilgrimage, a journey that you make once in a lifetime, sometimes many times in a lifetime. And so, we have folks coming from all over the world and we want you to come tell us where you're coming from, but we have a lot of folks coming in from Europe.

I see Rome. I see Spain. We have France, Germany, Norway. And we have, again, a ton of people across the United States coming into Omaha. We have South America. We have

Venezuela here, Colombia and then in the Caribbean. I also see Bermuda on our map. And as you know we have a lot of folks coming in from China. We had a big China event hosted by Yahoo Finance. So this is a global event here in Omaha, Nebraska.

Jennifer Rogers {BIO 2325313 <GO>}

All right. Thank you so much, Julia. I've met a bunch of people from China, of course.

Andy Serwer {BIO 15136542 <GO>}

Yeah.

Jennifer Rogers {BIO 2325313 <GO>}

The door that I walked in through, the very first people were from China and got here at midnight. What about you guys? Where's the furthest you've had somebody from or most interesting?

Andy Serwer {BIO 15136542 <GO>}

Well, that's kind of the other side of the globe. I mean...

Myles Udland {BIO 20165611 <GO>}

Yeah. I don't think I'm going to get further than China, and I've also met a number of people from there.

Andy Serwer {BIO 15136542 <GO>}

There's a thousands of people from China. I mean, it's not just 20 or 30 people.

Myles Udland {BIO 20165611 <GO>}

Yeah.

Andy Serwer {BIO 15136542 <GO>}

It's thousands of people from China. I mean, there are people from India. There are people from Southeast Asia. There are people from South America. That can be a long trip as well, of course. So, it really is a global phenomenon.

Myles Udland {BIO 20165611 <GO>}

Yeah. And then a couple of guys at the hotel this morning, they were in from Ireland when we were walking around in line. We saw a lot of people actually from the U.S. everywhere, Florida, Seattle, Philadelphia, New Jersey, some of us this from Chicago. So, exotic points, Long Island. We had Mike and Mike (00:09:04) from Long Island...

Andy Serwer {BIO 15136542 <GO>}

Mike and Mike (00:09:04) from Long Island.

Jennifer Rogers {BIO 2325313 <GO>}

Mike and Mike (00:09:05)

Myles Udland {BIO 20165611 <GO>}

(00:09:06) Long Island. That's the way it should be.

Andy Serwer {BIO 15136542 <GO>}

Exactly. That's so funny.

Jennifer Rogers {BIO 2325313 <GO>}

Is it that how would always is?

Myles Udland {BIO 20165611 <GO>}

It feels like that way, right?

Jennifer Rogers {BIO 2325313 <GO>}

You'd go so far and then you find somebody from just around the corner.

Andy Serwer {BIO 15136542 <GO>}

There it is.

Jennifer Rogers {BIO 2325313 <GO>}

So, you guys, we have so much more coming. We are just about 20 minutes away from our exclusive live stream of the Berkshire Hathaway annual meeting. We're all waiting for Warren Buffett and Charlie Munger to take the stage. Andy, though, already got a chance to sit down with Warren Buffett.

Andy Serwer {BIO 15136542 <GO>}

I did. And it's a great interview. I'd like to think lot of ground we covered.

Jennifer Rogers {BIO 2325313 <GO>}

We think it's a great interview.

Andy Serwer {BIO 15136542 <GO>}

Oh, good.

Jennifer Rogers {BIO 2325313 <GO>}

It's kind of a tradition that you guys get to sit down now.

Andy Serwer {BIO 15136542 <GO>}

Yeah. And there's just a wide range of conversation. I mean, Warren Buffett is the kind of person that you literally can talk to him about anything under the sun, and he has just an insightful take on it. And I think that's the main reason for the draw here is that people just - and they ask him questions about your kids, and life, and jobs, and working, and investing of course.

Jennifer Rogers {BIO 2325313 <GO>}

So you had about 30 minutes with him that you guys sat down and talked? You covered really a wide range of topics with him, everything from the Trump tax cuts, to China, and even the Me Too movement, we're going to take a listen.

Q&A

Q - Andy Serwer {BIO 15136542 <GO>}

You've praised the President's Tax Cut, calling it a win that the American economy's back, I guess.

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

No. I have said that it is a win, a tax bill that was targeted in a big way to help corporation. So, it helps Berkshire's million shareholders. This is what I would have done if I was going to have a tax cut, but - so as an individual, I do not agree with the philosophy that led to it. But as a steward at Berkshire Hathaway, I have to tell you that it does our shareholders' a lot of good.

Q - Andy Serwer {BIO 15136542 <GO>}

I see. Because I was going to ask you, I mean there must be a cost to this. There's...

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

There's always a cost.

Q - Andy Serwer {BIO 15136542 <GO>}

Right. I mean, and it sort of suggest that savings from the government then, all that money was maybe misspent by the government. I mean, is there a cost that downside to

the tax cut?

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

Well, there's always - I mean...

Q - Andy Serwer {BIO 15136542 <GO>}

A trade off.

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

If you take taxes to zero forever, then cut - you wouldn't be issuing a lot of bonds. But there's - you can't ever do just one thing in economics. You probably can't in physics either. There's a butterfly effect. But in economics, you always have to say, and then what, and if you give a large break to one group, it's not free. If I were going to cut the revenues of the United States, I would have helped different group of people. But as I say, it is very helpful to Berkshire. It's not that we were non-competitive before, but our shareholders are better off.

Q - Andy Serwer {BIO 15136542 <GO>}

Don Harding (00:11:47), one of our readers - viewers asked, so have you increased salaries and benefits for Berkshire employees like some other companies have done in the wake of the announcement about tax cut?

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

Yeah. Some of our portfolio companies have done that. But we're not paying dividends, we're not repurchasing shares, we're investing, and we'll use the money for investment.

Q - Andy Serwer {BIO 15136542 <GO>}

I wonder, Warren, what you think of President Trump's tweets particularly about the stock market. And one of our readers asked, Yuanyi Chin (00:12:16), from San Mateo, how Warren Buffet would rate President Trump?

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

I'm not going to rate the president. But I would say that communication is enormously important for a president. Going back to Roosevelt in the 1930s, every family in the country will sort of hover around the radio. I mean, if you had the big networks, you were talking to everybody. And now it's much more diffused, and obviously President Trump feels that he does not like it filtered through the traditional (00:12:49), so he's going to do it directly.

I believe communication is enormously important for a CEO, and I like to talk to our shareholders directly. If I were frustrated with my ability to talk to Mike (00:13:01), the people I'm responsible for, I would try to figure out how to do it directly. Obviously, I think the president feels that way.

Q - Andy Serwer {BIO 15136542 <GO>}

So, can we talk a little bit about healthcare initiative? Have you told a story about how that came about? Did Jamie (00:13:14) call you up on a conference call with Jeff (00:13:16)? How did it happen?

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

I think probably I can't answer with 100% precision, but my impression is that it came about because there's a quite young works for us, Todd Combs also on JPMorgan's board. And Todd and I have talked a lot about healthcare, and I think Todd developed some ideas about how something like this might work. And I think he's the one that actually talked to Jamie.

Q - Andy Serwer {BIO 15136542 <GO>}

And is this really just for these three companies or is it going to be a model for the rest of the health care system? What's the point?

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

I hope if we can figure out a way to have better care at lower cost and stem the constant rise as a percentage of GDP, I hope every company in the United States steals the idea of Robert.

Q - Andy Serwer {BIO 15136542 <GO>}

And just I also want to touch on cryptocurrencies, I know that you've had some negative feelings about them. But now Wall Street institutions seem to be dipping their toes in, and I wonder, A, if you've changed your mind at all and, B, one of the biggest mysteries in America, what did you tell Katy Perry about cryptocurrencies?

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

Well, (00:14:26).

Q - Andy Serwer {BIO 15136542 <GO>}

I guess so. It's said that you guys talked about cryptocurrencies, but none of us know what you guys said, it's just between you two.

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

Yeah. We did. We did.

Q - Andy Serwer {BIO 15136542 <GO>}

Okay.

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

But I will answer your question about it. But there's two kinds of items that people buy and think they're investing. One really is investing and the other isn't. If you buy something, a farm, an apartment house, or invest in a business and look to the asset itself to determine whether you've done something, what the farm produces, what the business earns and so on, you don't really care when the stock market is open. You can do that on a private basis, in fact, you do it on a private basis if you buy a farm or apartment house generally. And it's a perfectly satisfactory investment.

You look at the investment itself to deliver the return view. Now, if you buy something like Bitcoin or some cryptocurrency, you don't really - you don't have anything to produce anything, and you're just hoping the next guy pays more. And the next - and you only feel you'll find the next guy to pay more, if he thinks he's going to find somebody that's going to pay more.

Now, if you ban trading in farms, you could still buy farms and have a perfectly decent investment. If you ban trading in apartment houses or even in equities, if you ban trading in Berkshire Hathaway for the next five years, our investors would do fine over time.

But if you ban trading in (00:15:48) or if you ban trading in some bitcoin, which nobody knows exactly what it is, people would say, well, why in the world would I buy it? And you aren't investing when you do that. You're speculating. There's nothing wrong with if you want to gamble. Somebody else will come along and pay you more money tomorrow. That's one kind of game. That is not investing.

Q - Andy Serwer {BIO 15136542 <GO>}

Interesting. I want to ask you some questions for the Chinese audience. First of all, can you say ni hao to them?

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

Ni hao.

Q - Andy Serwer {BIO 15136542 <GO>}

All right. How much do you think the Chinese economy and markets will ultimately become like the United States? How much convergence do you think there will be?

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

I really don't know the answer to that. What I do know is they have found the secret sauce for themselves just like we found the secret sauce a couple of centuries ago. And so, they have had an economy in the last 60 years or thereabout. They have unleashed the potential of their citizen rate and where for really centuries they did not progress that much economically for overwhelming portion of the population. What they've done in the last 50 or 60 years is a total economic miracle. I never would have thought it could have happened. But the truth is they're smarter as we are, they work as hard as we are and they can have a growth in the economy from a lower base that will exceed ours

percentage-wise for a long time. And, I mean, they're destined for a fine economic future just like we are.

Q - Andy Serwer {BIO 15136542 <GO>}

Shifting gears. Warren, I want to ask you about women in the workplace and the #MeToo movement. What role can men play to advance women in their careers in business and in the economy?

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

Well, I had and have two sisters. They're absolutely as smart as I am and better personalities and you'd like them better. They were born around my time in 1930 and they were told to marry early and marry well. That was the unseen message. I mean nobody ever said it that way, but yeah.

So, I have seen half of the United States' talent, basically, put off to the side. And it's one of the things makes me optimistic about America because when I look at what we accomplished using half our talent for a couple of centuries, and now, I think of doubling the talent that effectively employed or at least has a chance to be, it makes me very optimistic about this country. And good managers are scarce. Talent is always rare, and you better use every bit of it that you find. And certainly, the way I've felt personally all my life.

I

Q - Andy Serwer {BIO 15136542 <GO>}

Skip from Baltimore. Wanted to just know , if you collect Social Security?

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

I collect it. And my wife who is now eligible and she's supposed to be collecting, but she hasn't got her check yet. But we'll see what she should be getting there pretty soon.

Q - Andy Serwer {BIO 15136542 <GO>}

Taysia (00:18:38) from Columbus, Ohio asked, plenty of time left, Warren, but got to ask you what do you want to be remembered for?

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

As a teacher. Yeah. That would be very flattering if I would feel that that was on my tombstone because I benefited from terrifically from teachers. Not all teachers who were employed as teacher, but teachings of all kinds, but the people spending their time to pass along what they have learned...

Q - Andy Serwer {BIO 15136542 <GO>}

So, a teacher, not a great investor?

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

Yeah. Well, I don't do anything at investing, but - that's complicated. I've just been at it a long time. I mean, just look at them. I just put that \$114, and the S&P had \$400,000.

Q - Andy Serwer {BIO 15136542 <GO>}

Well, I think there's a little more to it than that. Scott (00:19:27) from Papillion, Nebraska says how do you tell the difference between reasonable and unreasonable fear? So when there is a stocks down, maybe it should be down or stocks down maybe it shouldn't be down?

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

Well, you just keep looking at the facts. I mean, you're looking at a business that's the important thing. You don't look at a stock chart. I looked at stock charts for years. I used to have a lot of fun doing that. I was kind of groping around for all of philosophy. You look at the business. I mean how you decide - if you own a half interest with some buddy of yours in a McDonald's store, how do you decide whether it's a successful investment? Well, if the stone is two feet out, and there's no business today, do you say, well, I made a terrible deal. No. You look at how it's performing as a business over time, how it's doing versus the competition.

Q - Andy Serwer {BIO 15136542 <GO>}

All right. Warren Buffett, thank you very much for all of your time. Great talking to you.

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

Okay. Thanks for having me.

A - Jennifer Rogers {BIO 2325313 <GO>}

It's amazing how long you can talk to him and still have more questions. There's more to come today.

A - Myles Udland {BIO 20165611 <GO>}

Yeah. Exactly and that's because he has this wisdom that people really seem to gravitate towards. And I'll tell you there is a lot more to that interview. We're going to put the whole thing up after this weekend. You can watch that. But one of the most popular parts because we did a piece on it was how you could have made essentially \$400,000 in the stock market. And he tells a story of investing \$114 in the market in 1942 when he was an 11-year-old kid. And if you just left it there and let it compound not even put any more money in, it would be worth \$400,000, was that 76 years later. Now, you may not want to wait that long but say you just wait 50 years and also say you're putting money in every month. It's just amazing how many people don't do that. And it should.

A - Jennifer Rogers {BIO 2325313 <GO>}

I'd wait. What stood out to you?

A - Unverified Participant

Well, I mean, of course, he mentioned Bitcoin, and I'm sure he will get questions on that today. Probably not from the analysts or the journalists, but likely from shareholders may know he takes a majority of those questions especially in the afternoon from shareholders. And I thought it was very interesting especially in light of this morning's results from Berkshire Hathaway where it seemed disappointing because of this accounting change. But the point is the operating profits are good. There's a real underlying business if you're buying Berkshire Hathaway. What you think of the business is your own decision.

But with Bitcoin, I mean, he made the point pretty simply. You're hoping someone else pays more, and Dan Roberts had broken out that post earlier. A lot of people had read that. I'm sure that a lot of people didn't like his response to that, but it's been a pretty common refrain. I mean, he hasn't said a lot of positive things about Bitcoin in the past, but I thought that was a very measured and simple way to lay it out that you think this thing is worth this price and hoping that someone will buy it at a higher price, but there's no underlying business or cash flow impacting the value of Bitcoin.

A - Jennifer Rogers {BIO 2325313 <GO>}

He's a very optimistic guy, but on Bitcoin not so much. Even this morning telling CNBC it's rat poison square.

A - Unverified Participant

See that's more inflammatory I think than just the usual.

A - Jennifer Rogers {BIO 2325313 <GO>}

Than the usual.

A - Andy Serwer {BIO 15136542 <GO>}

It's a good quote. And it also speaks his whole point. One of the most important metrics for him is book value and you know what the book value of Bitcoin is?

A - Jennifer Rogers {BIO 2325313 <GO>}

Yeah. No.

A - Andy Serwer {BIO 15136542 <GO>}

Zip-a-Dee-Doo-Dah, right? I mean...

A - Myles Udland {BIO 20165611 <GO>}

No book.

A - Andy Serwer {BIO 15136542 <GO>}

...come on.

A - Jennifer Rogers {BIO 2325313 <GO>}

No. No book. We are less than 15 minutes away from the Berkshire Hathaway annual meeting. We will get you to it as soon as it begins. Warren and Charlie will take their lunch break, after that and don't click away when they go away because we'll be back here right here with the halftime show. We've got a packed A-list list of investors. We've got investor and author and Buffett watcher Whitney Tilson, also Berkshire Hathaway Director, Ron Olson.

A - Andy Serwer {BIO 15136542 <GO>}

And coming up a little later we've got entrepreneur actress and model Kathy Ireland, a fixture here at the Berkshire Hathaway annual meeting, as well as actress and producer Glenn Close.

A - Jennifer Rogers {BIO 2325313 <GO>}

Action packed. But right now Julia La Roche has another guest from the floor. Julia?

A - Julia La Roche

That's right, Jen. I'm here at Duracell. You might have seen this exhibit. It's one of the bigger exhibits. I'm now with Duracell's, Shane Grady. Shane, thank you so much for joining us and tell us what this exhibit is.

A - Shane Grady

Definitely. Yeah. This is the Duracell PowerForward program which is actually a disaster response program where we come in within 24 hours as our goal of any major disaster that causes a large power outage. We come and help people from a power standpoint.

A - Julia La Roche

All right. Can you show us more of the truck back here?

A - Shane Grady

Yeah. Definitely in this truck – and all of our trucks carries 3,000 pounds of batteries or more. Here we have AA, AAA, Cs, Ds, 9 volts, we also carry hearing aid batteries. These batteries, of course, are for flashlights and radios, but it really goes well beyond that into home health aides like daily dialysis machines, ventilators, kids' toys and anything that you can keep everyone sane and calm and try to give them a normal life.

A - Julia La Roche

And since 2011, you've made 48 deployments. Tell us about some of the recent deployments that you made last year. We saw a lot of hurricanes last year. What did you experience?

A - Shane Grady

We definitely did. We spent two weeks in our Hurricane Harvey with two of our trucks. Four then immediately went over to Hurricane Irma into Florida with four trucks, and then Irma - I'm sorry - and then Maria over in Puerto Rico was 40 days, which is quite a long deployment for us. And those people are going through so much.

A - Julia La Roche

Yeah. Can you talk to us a bit more about the work that you all have done in Puerto Rico? We kept on hearing about the loss of power there. What did you experience during your time in Puerto Rico?

A - Shane Grady

Those people are going through so much. The entire island, think that 3.4 million people without power for so long. They were so grateful of our attendance and our efforts in coming in to help out. It was huge. So, we flew over two trucks, ended up giving out 100 tons of batteries.

A - Julia La Roche

And why did you all recognize that there was a need to do this?

A - Shane Grady

Well, during a disaster there are so many people who give water, so many people donate food and a lot of people give clothing. But during that whole span, the power was still out. And it seemed like Duracell will step up, we were already making short-term reliable power and let's just come in and help out with the product we're already making.

A - Julia La Roche

Well, great work. Jen, back to you all.

A - Jennifer Rogers {BIO 2325313 <GO>}

Oh, okay.

A - Andy Serwer {BIO 15136542 <GO>}

All right. So it's interesting, the Duracell thing because...

A - Jennifer Rogers {BIO 2325313 <GO>}

Yeah.

A - Andy Serwer {BIO 15136542 <GO>}

...in China, Jen, you discovered that his likeness - Warren Buffett's likeness is on Duracell battery packages and it's used to sell them, of course.

A - Jennifer Rogers {BIO 2325313 <GO>}

Yeah. I mean, he is a huge celebrity in China. We've seen him on Coke cans, before but I had no idea that he was actually used to sell batteries as well. And they don't even need his name.

A - Andy Serwer {BIO 15136542 <GO>}

Right. It's just his image.

A - Jennifer Rogers {BIO 2325313 <GO>}

You can just show a picture.

A - Andy Serwer {BIO 15136542 <GO>}

And Charlie Munger too, apparently, he's on buses all over probably advertising BYD there. The electric car company they've invested in and another guest told us that Buffett's likeness, it's not just Beijing and Shanghai, you can go to the far reaches of Western China and you'll see his picture. So, in a way, his celebrity is even greater in China than it is here in the United States because his likeness is not used here in the United States which, I think, is an interesting point.

A - Jennifer Rogers {BIO 2325313 <GO>}

And it's pretty big here as well.

A - Andy Serwer {BIO 15136542 <GO>}

Yes.

A - Jennifer Rogers {BIO 2325313 <GO>}

Maybe even bigger there. One person we're keeping very busy today is Julia La Roche, running around with another guest from the floor. Julia?

Q - Julia La Roche

All right. BYG is the world's largest manufacturer of electric vehicles and it's also Warren Buffett's biggest China investment. We're joined by Stella Li, the President of the BYD Motors. Stella, thank you so much for joining us.

A - Stella Li {BIO 17010473 <GO>}

Yeah. Thank you. Nice meeting you here.

Q - Julia La Roche

And what has it been like having Berkshire and Buffett as the biggest investor?

A - Stella Li {BIO 17010473 <GO>}

I think it's amazing. They love BYD. They love BYD management and they then also gave us a very strong support, always tell us we need to look in for long-term success. Don't look for the short-term. So, each time our business is up, down, but they always stand out and say, we support you. Continue doing whatever you are doing. Yeah. Don't look for the short-term play. So, I think, it's a really big honor to gather them as an investor and especially as the greatest supporter to us.

Q - Julia La Roche

Now, you've been heading up the expansion efforts in North America. How is that going and where are you seeing opportunities?

A - Stella Li {BIO 17010473 <GO>}

Yeah. I think that we're doing very well. We, first in 2013, we bought a facility. Then in 2014, we started with 30 employee. And then now, after four years, we have more than 900 people. And then we just two months ago signed an agreement with the SMART Union, become really well connected with the local community.

So that's only the first baby step for our expansion here. So, I think we will continue really pushing forward, changing the bus industry to set up target really help the industry to be 100% zero emission in next 5 to 10 years. And then the same time we introduced our electric trucks here including refuse trucks and also (00:27:53) to use at port and also electric forklift.

So we continue to broaden the whole range of the fleet to U.S. to really pushing the industry and to really try to working harder for our mission of changing the world to give the whole community a better, cleaner environment.

Q - Julia La Roche

Well, we know BYD is very well known in China and you do have the buses as you mentioned that's what you're best known for and you've been expanding in California. Where else in the U.S. can we find some of the BYD electric vehicle buses?

A - Stella Li {BIO 17010473 <GO>}

Yeah. I want to remind you already continuous three years BYD is the world's largest consumer EV car company in the world. Just the difference our majority is in China. And so far, the market is - the biggest market is in China. So, we still want to focus on Chinese market to increase the sales volume. And then maybe working some target to someday to achieve 1 million electric cars. And then our expansion is like a very selectively in some country not go to every other country. We didn't have a plan to come to U.S. yet.

Q - Julia La Roche

And how about the passenger car? I'm curious about the opportunity in the U.S. because again you are known for the buses. Are you going to be bringing electric vehicle passenger cars especially when we start seeing Ford getting rid of some of those cars in their fleet and focusing more on SUVs and trucks? Is this an opportunity for you all?

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A - Stella Li {BIO 17010473 <GO>}

Yes. Maybe someday. And also this time like in April just two weeks ago like there's the Beijing Auto Show. BYD first time unveiling our concept car for EV. It's to attract a lot of attention. I think it's very best, very sexy stylish design. So this was the contribution came from like a chief designer, like a Wolfgang Egger results. So he continued brought to like a global talent, designer, joined BYD, and we will continue to introduce very attractive like a EV from the design and to the market. Plus BYD first time introduced what we call the D-Link, this kind of technology.

So you're sitting in the car, then our - like a instrument center, is more like it is a big, large phone, iPhone, you can even rotate in this path to like a play, any old app you have. So our cars become more intelligent now. So we're talking about a lot of Internet company invest for a passenger car, with a stylish design, with all the high tech. But BYD is also leading the curve as an auto manufacturer. We'll make it very sexy, stylish design, plus, make our cars more intelligent, and will feature old, like a smart function you have in the phone into the car. So that's also attract a lot of attention.

Q - Julia La Roche

Right. Stella Li, President of BYD Motors. Thank you so much. And back to you, guys.

A - Jennifer Rogers {BIO 2325313 <GO>}

Thanks so much, Julia. So we're getting close.

A - Andy Serwer {BIO 15136542 <GO>}

Yeah.

A - Jennifer Rogers {BIO 2325313 <GO>}

...getting close, just about 5 minutes until the meeting really gets underway. And for those of you unfamiliar with how things work here at the meeting, right now, investors are in the arena and they are being treated to a short film that the company puts together every year that is full of celebrity cameos and a lot of funny moments.

A - Andy Serwer {BIO 15136542 <GO>}

Yeah. We can't show you the whole thing, but we do have just a little bit to give you some flavor. And this is really the first time any part of annual meeting video has been allowed to be seen outside the arena. And the reason why is because a lot of celebrities and Hollywood movie stars are in this and they don't want to - they're doing it just for a private screening, essentially. They don't want to get out on the Internet.

So, let me explain what's going on here. Warren Buffett really wanted everyone here watching the stream to see this. It's Charlie Munger attempting to open up a box of See's peanut brittle and he's getting more and more anxious and frustrated because, Lord knows, he want to get to that peanut brittle. And what's going to happen - and the reason why it's important for you to see this is because what's going to happen is when Charlie

and Warren walk out onto the stage or the arena, Warren's going to give him some peanut brittle and probably the whole arena will erupt in applause. So, it's sort of an inside joke and we're setting it up for you so you understand what the inside joke is here, if you follow that.

A - Jennifer Rogers {BIO 2325313 <GO>}

Yeah. You all get to be part of this with us. It is hard to open these.

A - Andy Serwer {BIO 15136542 <GO>}

You need a knife to open a box of See's peanut brittle, full stop. And Lord knows I've opened up a lot of those boxes.

A - Myles Udland {BIO 20165611 <GO>}

And hopefully we'll have a few when we get back to New York next week.

A - Andy Serwer {BIO 15136542 <GO>}

Yeah. Well, it's right over there.

A - Myles Udland {BIO 20165611 <GO>}

Right over there. Yes.

A - Jennifer Rogers {BIO 2325313 <GO>}

A lot of See's candy.

A - Andy Serwer {BIO 15136542 <GO>}

I don't know who's responsible.

A - Myles Udland {BIO 20165611 <GO>}

I still owe you a birthday present from yesterday.

A - Andy Serwer {BIO 15136542 <GO>}

I'll take a box of peanut brittle, right? You got him a present and I didn't.

A - Jennifer Rogers {BIO 2325313 <GO>}

I did. I got him a little golf diary from Florsheim.

A - Andy Serwer {BIO 15136542 <GO>}

I owe him some peanut brittle.

A - Jennifer Rogers {BIO 2325313 <GO>}

So, now you're in on the joke, so when they come out, that's what we are going to be expecting a little reveal of. There is a lot of eating at this event, if you don't know.

A - Andy Serwer {BIO 15136542 <GO>}

They eat that peanut brittle on stage the whole time.

A - Jennifer Rogers {BIO 2325313 <GO>}

They eat the peanut brittle, they're drinking soda, it's not the healthiest diet ever. So, after - when they come out, they get questions. And the first question is a big deal, right?

A - Andy Serwer {BIO 15136542 <GO>}

Yes. It's always asked by Carol Loomis, who is a very senior journalist from Fortune magazine. I worked with her for decades, an old friend of Warren Buffett. She edits the shareholder letter and she gets the honor of asking the first question. And the interesting thing is Carol takes it upon herself to ask the most salient, difficult, hard, tough question. She really works it and thinks about it. So, I want to ask you guys - Myles, what do you think Carol Loomis - and she won't tell us what it is - what do you think Carol Loomis' first question is going to be?

A - Myles Udland {BIO 20165611 <GO>}

So, I think what she'll do is, I think she will dredge up an old quote from Warren Buffett about Apple, why he didn't like the company, why he would never buy it. I think she'll recite it to him, and then ask, well, Warren, what happened? You now own over 200 million shares of the company. You own 5% of the world's largest company. It's the biggest stockholding in Berkshire Hathaway's portfolio. And she'll say, what the hell?

A - Andy Serwer {BIO 15136542 <GO>}

Are you a hypocrite?

A - Myles Udland {BIO 20165611 <GO>}

Right?

A - Andy Serwer {BIO 15136542 <GO>}

Right.

A - Jennifer Rogers {BIO 2325313 <GO>}

All right. I like the Apple idea.

A - Andy Serwer {BIO 15136542 <GO>}

Now, what do you think?

A - Jennifer Rogers {BIO 2325313 <GO>}

It's definitely top of mind. I don't know. I feel like she's going to be a little bit less like what happened yesterday. I feel like GE, which a lot of people were talking about in the line as well. So many people think that GE has been just beaten down, like look at the stock price, and Warren could be the savior to come in here for it. I think that could be an interesting way to go.

A - Andy Serwer {BIO 15136542 <GO>}

All right. My pick is Wells Fargo, and how much longer can you own this dead horse or this company that's just been besieged by regulators, shareholders, and he stood by the company and withstood a lot of criticism already. And I think that that is going to be Carol Loomis' first question.

A - Jennifer Rogers {BIO 2325313 <GO>}

Good one

A - Myles Udland {BIO 20165611 <GO>}

And you know what? If you go back, I think the most formative moment in Berkshire's history, certainly in Warren Buffett's public history, was his episode with Solomon Brothers back in the early 1990s. And I think what happened to Wells Fargo is more direct to consumers. People understand why that was bad much more than what happened to (00:35:03).

A - Jennifer Rogers {BIO 2325313 <GO>}

Much more consumer facing.

A - Andy Serwer {BIO 15136542 <GO>}

And it's so interesting when you say that, Myles, because he said I'm never doing that again, right? And here you kind of are. I mean, in a way, it's inevitable. If you take big steps, stocks like that, that you're going to at some point have a problem.

A - Jennifer Rogers {BIO 2325313 <GO>}

We have less than a minute to go. The movie is ending up there. Andy, this is a reflection of America in some point here.

A - Andy Serwer {BIO 15136542 <GO>}

It really is. I mean if you look around at all these companies it is an amazing cross section industrial, consumer, things that you wear, things that you eat, transportation. It is a slice of America. It's a cross section that reflects our economy, but it's Warren Buffett's take on the best of America.

Now you may not agree with it. You may say Coca-Cola that's sugar water but it's a treat. It's iconic. It sells really well. And so he doesn't buy companies that don't perform well. Well, he tries not to in any event. And so it's really interesting to consider this whole convention center here. Warren Buffett's take on the best of America

A - Jennifer Rogers {BIO 2325313 <GO>}

And also the people actually. It's a really interesting diverse group. Almost like – it's a cross section of the world. We had Julia La Roche at the map there and it's a lot of different people as well. It's not a cookie-cutter set.

A - Andy Serwer {BIO 15136542 <GO>}

I mean, I see bankers walking next to farmers, walking next to ranchers, walking next to people from China, old people, young people. I'm seeing more and more kids. You mentioned that, Jen, that people are bringing their children, not typically young children but teenagers, who maybe are sort of interested in Apple and investing and they kind of see that and have heard about this event and it's kind of fun.

A - Jennifer Rogers {BIO 2325313 <GO>}

And that goes to Warren Buffett not as an investor but as a teacher. And the whole wisdom of what we love to get from the letters and frankly with the Q&A here today really revealing his thoughts on not just money but so much more. You really are in for a real treat if you sit around and listen to this.

A - Andy Serwer {BIO 15136542 <GO>}

And Warren Buffett has said that if he can be remembered for anything it would be as a teacher, and he loves bringing groups of students to Omaha and talking a little bit but mostly answering questions and hearing what's on their minds. That's a very important part of what's going on.

A - Jennifer Rogers {BIO 2325313 <GO>}

Right now, we are looking at pictures from inside the arena but that was just a dark shot there. We have the Berkshire Hathaway name up. That means that we are getting very close to Charlie Munger, Edward Buffett.

A - Andy Serwer {BIO 15136542 <GO>}

He's like a rocket launcher.

(00:37:39)

Well, they take their time. I mean, Charlie Munger, you're not going to hurry, Charlie, out there. Charlie will go out there and take his sweet time and he's going to be ready when he's ready. And, of course, they've got to get the peanut brittle and the cherry cokes out there.

A - Jennifer Rogers {BIO 2325313 <GO>}

Well, we know how long that takes to open. There they are. We're going to turn it over to the annual meeting, Warren Buffet and Charlie Munger.

A - Andy Serwer {BIO 15136542 <GO>}

See you back soon.

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

Good morning. I'm Warren. He's Charlie. Charlie does most things better than I do, but that one was a little tough. Charlie, maybe you can chew on it on a while.

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

Okay.

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

At the formal meeting that will begin at 3:45, we will elect 14 directors. Charlie and I are two of them, and I would like to introduce the other 12. I'll do it in alphabetical order.

If they will stand as I announce their name. Withhold your applause. May be hard to do, but give it your best. And when we get all through, then you can let loose, but - we'll do this alphabetically. Beginning with Greg Abel, if you'll stand and stay standing, Howard Buffett, Steve Burke, Sue Decker, Bill Gates, Sandy Gottesman, Charlotte Guzman, Ajit Jain, Tom Murphy, Ron Olson, Walter Scott, and Meryl Witmer.

Let's see. This morning, we posted both our earnings and our 10-Q. And if we can put up slide one, you can take a look at what was reported. And as I warned you in the annual report, a new accounting rule was introduced at the beginning of this year. And it provides that our equity securities, whether we sell them or not, are mark-to-market every day.

So, we can have a gain or loss of a couple billion dollars in our equity securities portfolio, and that day, according to the accounting principles now in effect, which are a change, will be recorded as making a couple billion dollars that day or losing a couple billion. And I told you that would produce some very unusual effects from quarter-to-quarter. And it further explains why I like to release our earnings early Saturday morning and as well as the 10-Q to give people a chance to read through the explanation. Because if you just were handed this with a TV monitor, you know, at 3:30 in the afternoon or whatever it might be, you would report the net earnings figure, understandably very quickly. And it really is not representative of what's going on in the business at all.

So, I'll - if you look at the figure of operating earnings, which is what we look at, we actually earned a record amount for any quarter we've ever had. And that includes, no realized gains or losses on securities, or on the few remaining derivatives we have. You might leave that slide up there just a little longer. Maybe it's up.

The insurance underwriting, GEICO had a quite a good-sized turnaround in profitability and a good gain, although not as big a gain as last year, which was a record in terms of policies in force, and really, throughout most of our businesses. And the details are in the 10-Q, which is up on our website now. And as you can see, the railroad was up significantly, and most of our businesses tended to be up. Now we were aided in that, in a

material way, by the reduction in the federal income tax rate from 35% to 21%. Our businesses were up significantly on a pre-tax basis, but the gain was further enhanced by the change in the income tax rate.

So that pretty well sums up the first quarter. We'll probably get some – may well get some questions on it when we get into the question-and-answer section.

The questions we'll be getting, we've got the press over here, and we have the analysts on my left, and of course, we have our partners out in front of me. And we will rotate among you. And the questions we get, as we go through the next six hours or so, will understandably relate to a lot of current events.

We may get asked, and we don't know the questions, but we may get asked, you know, about Fed policy, or whether we're seeing any inflation, or whether business is speeding up or down, or the threats we may face competitively in our businesses as we go along. And anything goes on the questions, except we won't tell you what we're buying or selling. But it really can be a question sometimes of confusing the forest with the trees.

And I would like to just spend just a couple of minutes giving you a little perspective on how you might think about investments, as opposed to the tendency to focus on what's happening today, or even this minute, as you go through. And to help me in doing that, I'd like to go back through a little personal history and we will start, I have here up here in New York Times of March 12th, 1942. I'm a little behind on my reading. And if you go back to that time, it was about, what? Just about three months, since we got involved in a war which we were losing at that point.

The newspaper headlines were filled with bad news from the Pacific. And I've taken just a couple of the headlines from the days preceding March 11th, which I'll explain was kind of a momentous day for me. And so you can see these headlines. We've got slide two up there, I believe. And we were in trouble, big trouble, in the Pacific. It was only going to be a couple months later that the Philippines fell, but we were getting bad news. We might go to slide three for March 9th. Hope you can read the headlines, anyway. The price of the paper's three cents, incidentally.

And let's see, we've got March 10th up there, as slide, I want to get – whether it's advanced technology of slides, I want to make sure I'm showing you the same thing that I'm seeing in front of me. So anyway, on March 10th, when again, the news was bad, full clearing path to Australia. And it was like it, the stock market had been reflecting this. And I'd been watching a stock called Cities Service preferred stock, which had sold at \$84 the previous year. It had sold at \$55 the year early in January, two months earlier and now it was down to \$40 on March 10th. So that night, despite these headlines, I said to my dad, I said, I think I'd like to pull the trigger, and I'd like you to buy me three shares of Cities Service preferred the next day.

And that was all I had. I mean, that was my capital accumulated over the previous five years or thereabouts. And so my dad, the next morning, bought three shares. Well, let's take a look at what happened the next day. Let's go to the next slide, please. And it was

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not a good day. The stock market, the Dow Jones Industrials, broke 100 on the downside. Now they were down 2.28% as you see, but that was the equivalent of about a 500-point drop now. So I'm in school wondering what is going on, of course.

Incidentally, you'll see on the left side of the chart, the New York Times put the Dow Jones Industrial Average below all the averages they calculated. They had their own averages, which have since disappeared, but the Dow Jones has continued.

So the next day, we can go to the next slide and you will see what happened. The stock that was at \$39, my dad bought my stock right away in the morning as I'd asked him to, my three shares. And so I paid the high for the day.

That \$38.25 was my tick, which was the high for the day. And by the end of the day, it was down to \$37, which was really kind of characteristic of my timing in stocks that was going to appear in future years. But it was on the - what was then called the New York Curb Exchange then became the American Stock Exchange. But things, even though the war until the Battle of Midway looked very bad, and if you'll turn to the next slide, please, you'll see that the stock did rather well. You can see where I bought at \$38.25 and then the stock went on actually to eventually be called by the City Service Company for over \$200 a share. But this is not a happy story, because if you go to the next page, you will see that I - well, as they always say, it seemed like a good idea at the time. So, I made \$5 on it. It was, again, typical of the behavior. But when you watch you go to \$127, it looked pretty good to get that profit.

Well, what's the point of all this? Well, we can leave behind the City Service story and I would like you to again imagine yourself back on March 11th of 1942. And as I say things were looking bad in the European theater as well as what was going on in the Pacific, but everybody in this country knew America was going to win the war. I mean it was we've gotten blindsided but we were going to win the war. And we knew that the American system had been working well since 1776.

So, if you'll turn to the next slide, I'd like you to imagine that at that time you had invested \$10,000. And you put that money in an index fund, we didn't have index funds then, but you in effect bought the S&P 500. Now, I would like you to think a while and do not change the slide here for a minute. I'd like you to think about how much that \$10,000 would now be worth. If you just had one basic premise, just like in buying a farm, you buy it all throughout your lifetime and you look to the output of the farm to determine whether you've made a wise investment. You look to the output of the apartment house to decide whether you made a wise investment if you buy an small apartment house the whole of your life. And let's say instead you decided to put the \$10,000 in and hold a piece of American business and never look at another stock quote, never listen to another person give you advice or anything of that sort. I want you to think how much money you might have now.

And now that you've got a number in your head, let's go to the next slide and we'll get the answer. You'd have \$51 million and you wouldn't have had to do anything. You wouldn't have to understand the accounting; you wouldn't have to look at your quotations every

day like I did that first day, I'd already lost \$3.75 by the time I came home from school. All you had to do was figure that America was going to do well over time that we would overcome the current difficulties. And that if America did well, American business would do well. You didn't have to pick out winning stocks. You didn't have to pick out a winning time or anything of the sort. You basically just have to make one investment decision in your life and that wasn't the only time to do it. I mean I could go back and pick other times that would work out even greater gains.

But as you listen to the questions and answers we give today, just remember that the overriding question is, how is American business going to do over your investing lifetime. I would like to make one other comment because it's a little bit interesting. Let's say you've taken that \$10,000 and you'd listen to the prophets of doom and gloom around you and you'll get that constantly throughout your life. And instead you use the \$10,000 to buy gold. Now, for your \$10,000 you would have been able to buy about 300 ounces of gold. And while the businesses were reinvesting in more plants and new inventions came along, you would get down every year and you look in your safe deposit box and you'd have your 300 ounces of gold. And you could look at it and you could fondle it and you could - I mean whatever you wanted to do with it, but it didn't produce anything. It was never going to produce anything.

And what would you have today. You would have 300 ounces of gold just like you had in March of 1942. And it would be worth approximately \$400,000. So if you decided to go with a nonproductive asset, gold instead of a productive asset, which actually was earning more money and reinvesting and paying dividends and maybe purchasing stock whatever it might be, you would now have over 100 times the value of what you would have had with a nonproductive asset. In other words for every dollar you have made in American business, you'd have less than \$0.01 by a gain by buying in the store value which people tell you to run to every time you get scared by the headlines or something. So it's just remarkable to me that we have operated in this country with the greatest tailwind at our back. That you can imagine it's an Investor Day. I mean you can't really fail at it unless you buy the wrong stock or just get excited at the wrong time. But if you're on the cross-section of America and you put at your money and consistently over the years, there's no comparison against owning something that's going to produce nothing.

And frankly there's no comparison with trying to jump in and out of stocks and pay investment advisor. If you'd followed my advice incidentally or this retrospective advice, which is always so easy to give, if you follow that of course, there's one problem buddy, your friendly stockbroker would have starved to death. I mean you could have gone to the funeral to atone for their fate. But the truth is you would have been better off doing this than a very, very, very high percentage of investment professionals have done or people have done that are active that it's very hard to move around successfully and be really what can be done with a very relaxed philosophy, and you do not have to be - you do not have to know as much about accounting or stock market terminology or whatever else it may be or what the Fed is going to do next time and whether it's going to raise rates 3 times or 4 times or 2 times. And none of that counts at all really in a lifetime of investing. What counts is having a philosophy that you have that you stick with. Do you understand what you're in and then you forget about doing things that you don't know how to do.

So, with all those happy words, we will move on and start the questioning and we'll start with Carol.

Q - Carol Loomis {BIO 7137249 <GO>}

Good morning. In choosing a first question to ask each year, I look for a question that is definitely Berkshire-related and is timely. And this question seemed to fill the bill. The question came from William Anderson (58:13) of Salem, Oregon. And he said, Mr. Buffett, you have previously said that there are two parts to your job, overseeing the managers and capital allocation. Mr. Abel and Mr. Jain now oversee the managers, which leaves you with capital allocation. However, you share capital allocation with Ted Weschler and Todd Combs. Question, does all that mean you are semi-retired? Or if not, please explain?

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

I've been semi-retired for decades. The answer is that I was probably - well, it's hard to break down the percentage of the time that I was involved in but now - the jobs that are now done by Ajit and Greg, and in the case of investing, the sub part of the job that is done by Ted and Todd. Ted and Todd each manage \$12 billion or \$13 billion. So in total, that's 25 billion. And we have in equities \$170-some billion, probably now, and \$20 billion in longer-term bonds, and another \$100 billion in cash and short-term. So they're managing \$20 billion, \$25 billion and doing a very good job. And I still have the responsibility, basically, for the other \$300 billion. So I think Charlie will tell you, in fact, I'd like him to comment, nothing's really changed that much. Clearly, we've got two people in, Ajit and Greg that are smarter, more energetic, just bring more to the job every day. But they don't bring too much, because the culture is that our managers are running their business. But there's a lot - there's a good bit to oversee. So they do a superb job.

And Ted and Todd not only do a great job with the \$12 billion or \$13 billion each, they started with a couple billion each, not that it's all been the growth of the \$2 billion. But they also have done a number of things for Berkshire that they do it cheerfully, but more important, very skillfully. So there's just - there's one thing after another that I will have them looking into or working on. And sometimes I steal their ideas and - but I think, actually, semi-retired is probably - catches me at my most active point. I think if - your questioner's got a good point. Okay, Charlie?

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

Well, I've watched Warren for a long time, and he sits around reading most of the time and thinking. And every once in a while he talks on the phone or talks to somebody. I can't see any great difference. A lot of people - part of the Berkshire secret is that when there's nothing to do, Warren is very good at doing nothing.

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

I'm still looking forward to being a mattress tester. Okay, Jonathan Brandt.

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

Hi Warren. Hi Charlie. Given the growth in airplane build rates, it seems surprising that Precision Castparts isn't doing better on the top or bottom line. I understand the issue with a bumpy transition from old to new programs, but I've also heard from industry sources that Precision's market position is not as strong as it used to be amid intensifying competition and some technological disruption. What does Precision need to do to solidify and strengthen its preeminent position with its aerospace customers so that it can deliver the growth you expected when Berkshire acquired it?

FINAL

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

Yeah...

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

More generally, two years after the acquisition, what is your outlook for that business?

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

Give me the last part again. The outlook.

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

More generally, two years after the acquisition, what is your updated outlook for that business longer term?

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

Longer term, I think - and in the reasonably shorter term - it's a very good business. I mean, you were - you mentioned aircraft, but we get into other industries. But certainly aircraft's the most important. You have manufacturers that are very dependent on both the quality of the parts and the promptness of delivery. You do not want to have an aircraft worth \$75 million or \$100 million or maybe \$200 million and be waiting for a part or something of the sort. So it's - reliability is, both in terms of quality and delivery times and all of that sort of thing, is enormously important. And we get contracts that extend out many years. And sometimes we - I mean, we will get them well before the plane even starts in production. So there's very long lead times and we have found in the last year - found it earlier, but I know of some specific cases in the last year where other suppliers have failed in their deliveries and then the manufacturers come to us and say, we would like you to help us out. And we say, well, we'd be glad to help you out, but we'd like about a five-year contract, if we're going to do it because we're just not going to make up for these other guys' shortfalls periodically. But that sort of thing has a very long lead time.

The business is a very good business. One thing you will see their earnings charged with is about \$400 million - little over \$400 million a year of intangible - nondeductible in that case, amortization of goodwill, which is not an economic cost in my view. We have a significant amount of that through Berkshire, but by far, the largest amount is related to the Precision acquisition. So whatever you see, you can add about \$400 million that in my view is not an economic expense, but the accountants would argue otherwise. But it's our money, so we'll take my view. Mark Donegan, who runs that operation, is incredible, and he has been not only - he's a fabulous manager. I wouldn't have bought it without him in

charge. He also has been very helpful to us in other areas, and he loves to do it. So you can't beat him, both as a manager in his own operation, but with his devotion to really doing everything that will help Berkshire. It's a very good acquisition with very long tails to the products that are being developed. Charlie?

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

Well, yeah, I think we'd buy another one just like it tomorrow if we had the chance.

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

Yeah, that's the answer. Man of few words, but he gets the point. Okay, now we will go to the shareholder in Station 1. I believe that's probably up here to my right.

Q - Andy Serwer {BIO 15136542 <GO>}

Hello. This is Chao (01:06:26) from Wuxi, China, (01:06:30). I've been (01:06:32) for 12 years. So wish you and Charlie good health, so we could see you both around the meeting for 12 more years.

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

Thank you.

Q - Andy Serwer {BIO 15136542 <GO>}

Quick question. We know both you and China delegations – U.S. and China delegations are in China for intense discussion, also called a Trade War. Let's go one step beyond the Trade War. Do you think there's a win-win situation for both countries or the world is just too small for both to win and we have to revisit your 1942 chart again? Thank you.

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

Thank you. I'd like to just mention one thing. In August, I'm going to be 88, and that will be the eighth month of the year, and it's a year that ends with an eight. And as you and I both know, eight is a very lucky number in China. So if you find anything over there for me, this is the time we should be acquiring something all those eights.

Q - Andy Serwer {BIO 15136542 <GO>}

Will do. Will do.

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

The United States and China are going to be the two superpowers of the world, economically and in other ways, for a long, long, long time. We have a lot of common interests, and like any two big economic entities, there are times when there'll be tensions. But it is a win-win situation when the world trades, basically. And China and the U.S. are the two big factors in that, but there's plenty of other citizens of the world that are involved in how this comes out. And there is no question – and the nice thing about in this country I think is that both Democrats and Republicans basically, on balance, believe in

the benefits of free trade. And we will have disagreements with each other. We'll have disagreements with other countries on trade. But it's just too big and too obvious that the benefits are huge, and the world's dependent on it in a major way for its progress, that two intelligent countries will do something extremely foolish.

We both may do things that are mildly foolish from time to time, and there is some give and take, obviously, involved. But U.S. exports in 1970 and U.S. imports in 1970 were both about 5% of GDP. I mean, we were, selling 5% of our GDP and buying a 5% of our GDP, basically. Now people think we don't export a lot of things. Our exports are 11-and-a-fraction-percent of GDP. They've more than doubled as a share of this rising GDP. But the imports are about 14.5%, so there's a gap of 3% or thereabouts. And I would not like that gap to get too wide. But when you think about it, it's really not the worst thing in the world to have somebody send you a lot of goods that you want and hand them little pieces of paper. I mean, because the balancing item is, if you have a surplus or deficit in your trade, you're going to have a surplus in investment. And so the world is getting more claim checks on the United States, and to some extent they buy our government securities, they can buy businesses. And over time, you don't want the gap to get to be too wide because the amount of claim checks you are giving out to the rest of the world could get a little unpleasant under some circumstances.

But we've done remarkably well with trade. China's done remarkably well with trade. The countries of the world have done remarkably well with trade. So it is a win-win situation. And the only problem gets to be when one side or the other may want to win a little bit too much, and then you have a certain amount of tension. But we will not sacrifice - the world, I mean - we will not sacrifice world prosperity based on differences that arise in trade. Charlie?

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

Yeah, well I think that both countries have been advancing. And of course China is advancing faster economically, because it started from a lower base and they've had a little more virtue than practically anybody else in the world in having a high savings rate. And of course, a country that was mired in poverty for a long, long time, and that assimilates the advanced technology of the world, and has a big savings rate, is going to advance faster than some very mature company like Britain or the United States. And that's what's happened. But I think we're getting along fine, and I'm very optimistic that both nations will be smart enough to realize that the last thing they should do is have any ill will for the other.

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

Okay, Becky Quick.

Q - Becky Quick {BIO 16400962 <GO>}

This question comes from Kirk Thompson. He says, Warren, in this year's annual letter to shareholders, you referenced both cheap debt and a willingness by other companies to leverage themselves as competitive examples as to why it's hard to get more acquisition deals done. It seems like the trust and prestige of doing a deal with Warren Buffett and

Charlie Munger allow Berkshire to get a hometown discount and beat out other firms that might pay a little more to a prospective seller. Have you given thought to having other Berkshire managers have more public exposure, so future generations of successful business owners continue to bring deal opportunities to Berkshire like they have in prior decades?

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

Yeah, that sort of reminds me of - who was it? Tony O'Reilly remarked one time about the responsibility of a CEO that the very first job of the CEO was to search through his organization and find that person who had the initiative and the brains, the determination, all of the qualities to be his logical successor, and then fire the guy. There's no question. I think the reputation of Berkshire as being a very good home for companies, particularly private companies, but a good home for companies, I don't think that reputation is dependent on me or Charlie. It may take a little - there'll be a little testing period for whoever takes over, in that respect. But basically we've got the money to do the deals. We'll have the money to do the deals subsequently. People can see how our subsidiaries operate in the future. And the truth is that, I think some of the other executives are getting better known. But there will be a - I'll tell you this. If things get bad enough, you don't have to worry, they'll be calling us no matter what. So I do not worry about the so-called deal flow, which is a term I hate. But I don't think there's - I think that's dependent on Berkshire and not dependent on me.

And, as I've mentioned, my phone isn't ringing off the hook with good deals, so apparently this big winning personality or something is not delivering for you. So it may be the next person will be even more - get even more calls. Berkshire, the reputation belongs to Berkshire now. And we are, for somebody that cares about a business that they and their parents and maybe their grandparents lovingly built over decades, if they care about where that business ends up being after, for one reason or another, they don't want to keep it or can't keep it in the family, we absolutely are the first call. And we will continue to be the first call, whether Charlie or I answer the phone or somebody else does. Charlie?

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

Well, a lot of the subsidiaries have for a long time already been making all kinds of acquisitions with people they know and we don't. So it's already happening. And, in fact, it's happening more there than it is at headquarters...

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

Don't tell them, Charlie.

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

You're getting your wish. And it is weird that about 99% of the public companies that change hands, in terms of control, change hands in a sort of auction presided over by an investment banker. And the people that buy are usually just leverage it to the gills, and when it starts doing a little better, they re-leverage it. And that money is coming out of the charitable endowments and pension plans who are making these highly-leveraged

investments in all these companies changing hands at very high prices. Sooner or later, this is not going to work perfectly.

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

Yeah.

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

And it's going to have an unpleasant episode. And I think we'll be around and in good shape at that time.

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

There was one fellow who came to me many years ago. And he had a wonderful business and he had been worried because he had seen a friend of his dying. And the problems that arose later when the managers, to some extent, tried to take advantage of the widow. And it became a disaster. So he said he thought about it a lot the previous year. And he decided he didn't want to sell the business to a competitor, who would be a logical buyer, because they would fire all of his people. And the CFO that would remain and all up and down the line they'd all be the acquirer's people. He didn't want to do that to his people. And then he thought - and he didn't want to sell it to a private equity firm, because he thought they'd leverage it up. He never liked to leverage that much, and then they'd just resell it later on to somebody, so it would be totally out of control of what he wanted to do. And he wanted to keep running it himself. So he said, Warren, he said, it isn't that you're such a great guy, he says, it's you're the only one left. So Berkshire will continue to be the only one left in many cases. Gary Ransom?

Q - Gary Kent Ransom {BIO 3446828 <GO>}

Good morning. Warren, in your annual letter, you wrote about a potential for a \$400 billion natural catastrophe event, something out in the tail of the loss distribution. I can think of another risk that could have a similar order of magnitude, and that would be cyber risk. I'm sure all your managers have taken steps against that potential, but out in the tail of the cyber risk distribution, it could hit a lot of industries, a lot of your companies. So how do you think about and prepare for the big one in cyber?

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

Yeah. Well, I include, incidentally, in my - that part I wrote in the Annual Report where I said that roughly - nobody knows the answer on this. I mean, I could stick down 2%, and somebody else much smarter in insurance would stick down a different figure. But I think it's about a 2% risk of what I call a \$400 billion super cap of all time. But cyber is in that equation. I mean, that's not just earthquakes and that sort of thing. And frankly, I don't think we or anybody else, really knows what they're doing when writing cyber. I mean, we - it is just very, very, very early in the game. And we don't know what the interpretations of the policies, necessarily, will be. We don't know the degree to which they'll be what - there'll be correlated incidents, which we don't really think are correlated now or haven't had the imagination to come up with. We know that every year when I go and hear these people from the CIA or wherever it may be, they tell me that the offense is ahead of the defense, and will continue that way. And I can dream of a lot of cyber incidents, which I'm

not going to spell out here, because people that have twisted minds may be - they've probably got more - way more - ideas than I've got, but I don't believe in feeding them any.

But it's a business where we don't - we have a pretty good idea of the probabilities of a quake in California, or the probabilities of a three or a four hurricane hitting Florida, or whatever it may be. We don't know what we're doing in cyber, and we try to keep - we don't want to be a pioneer on this. We do some business in that arena in Berkshire Hathaway Specialty. But if you're doing something for competitive reasons, which I'm okay with, but when I'm doing something where I - that people tell me is a competitive necessity, we are going to try not to have - we don't want to be number one or number two or a number three in exposures on it. And I don't - and I am sure we are not in cyber. But I think anybody that tells you now that they think they know in some actuarial way, either what general experience is likely to be in the future, or what the worst case would be I think is (01:22:46) themselves. And that's one of the reasons that I say that a \$400 billion event has a - I think has roughly a 2% probability per year of happening.

Cyber is uncharted territory and it's going to get worse, not better. And then the question is whether, if we have a whole bunch of \$25 billion commercial limits out there, whether there's some aggregation that we didn't foresee or that the courts interpret those policies differently, then they are generally going to give the benefit of the doubt to the insured. So you're right in pointing that out as a very material risk, which didn't exist 10 or 15 years ago and will be much more intense as the years go along. And all I can tell you, Gary, is that, that's part of my \$400 billion and my 2%. But if you've got a different guess, it's just likely that yours is right than mine on that. Charlie?

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

Yeah, well, something that's very much like cyber risk is, you've got computers programmed to do your security trading and your computer goes a little wild from some error. And that's already happened at least once where somebody just was fine one morning and by the afternoon they were broke because some computer went crazy. We don't have any computers we allot - we allow to go big automatically trading securities. I think, generally, Berkshire is less likely than most other places to be careless in some really stupid way.

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

I do think if there's a mega cap from cyber, and let's say it hits \$400 billion, I do not think we'll have more than a 3%...

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

No, no, we'll get our share.

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

But it will destroy - like what will destroy a lot of companies - we will actually, if we had a \$12 billion loss, I would think, except for the new accounting rule, but I believe from what I call operating earnings, we would probably still have a reasonable profit that year.

I mean, we are in a different position than any insurance company I know of in the world, in our ability to handle the really super, super-cap. Okay, shareholder from Station 2.

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

I point out that the main shareholder to my right here has almost all his net worth in one security. That's likely to be more carefully managed than some public place with people just passing through.

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

Yeah, you don't want a guy that's 64 and who is going to retire at 65. And a lot of decisions you really don't want him or her to be making. Station 2?

Q - Wally Obermeyer {BIO 16964184 <GO>}

Wally Obermeyer, Obermeyer Wood Investment Counsel, Aspen, Colorado. Warren and Charlie, you two have demonstrated great talent in private sector capital allocation and shown the world the power of excellence in this area. Do you think there is a similar opportunity for outstanding capital allocation in the public sector at both the state and federal levels? And if so, what approach and/or changes would you suggest for society to achieve these benefits?

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

That's too tough. Why don't we go on to a new question?

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

I'm afraid I have nothing to add. I don't mean to be unfair to somebody asking a question, but it is unfortunately an entirely different game. And the electorate - the motivations are different, the terms, the reward system is different. I mean, everything is different. And if we knew how to solve that, we can't add anything to what you had in your view. I'm sorry on that. Okay, Andrew?

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

Hi Warren. This question comes from Paul Spieker (01:27:18) of Chicago, Illinois. I believe he may be here today. He writes, one of your more famous and perhaps most insightful quotes goes as follows: Should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks. In light of the unauthorized accounting scandal at Wells Fargo, of its admission that it charged customers for duplicate auto insurance, of its admissions that it wrongly fined mortgage holders in relations to missing deadlines caused by delays that were its own fault, of its admission that it charged some customers improper fees to lock in mortgage interest rates, of the sanction placed upon it by the Federal Reserve prohibiting it from growing its balance sheet, and of the more than recent \$1 billion penalty leveled by federal regulators for the aforementioned misbehavior. If Wells Fargo Company is a chronically leaking boat, at what magnitude of leakage would Berkshire consider changing vessels?

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

Yeah, well, Wells Fargo is a company that proved the efficacy of incentives, and it's just that they had the wrong incentives. And that was bad. But then they committed a much greater error, and I don't know exactly how or who did it or when, but ignoring the fact that they had a faulty incentive system, which was incenting people to do things that were kind of crazy, like opening nonexistent accounts, et cetera. And that is a cardinal sin at Berkshire, we know people are doing something wrong, right as we sit here, at Berkshire. You can't have 377,000 employees and expect that everyone is behaving like Ben Franklin or something out there. I don't know whether there are 10 things being done wrong as we speak, or 20, or 50. The important thing is we don't want to incent any of that if we can avoid it, and if we find that - when we find it's going on, we have to do something about it. And that is absolutely the key to it.

And Wells Fargo didn't do it, but Salomon didn't do it. And the truth is we've made a couple of our greatest investments where people have made similar errors. We bought our American Express stock. That was the best investment I ever made in my partnership years. We bought our American Express stock in 1964 because somebody was incented to do the wrong thing in something called the American Express Field Warehousing Company. We bought - a very substantial amount of GEICO we bought, but became a half of GEICO for \$40 million because somebody was incented to meet Wall Street estimates of earnings and growth. And they didn't focus on having the proper reserves. And that caused a lot of pain at American Express in 1964. It caused a lot of pain at GEICO in 1976. It caused a layoff of a significant portion of the workforce, all kinds of things. But they cleaned it up. They cleaned it up, and look where American Express has moved since that time. Look at where GEICO has moved since that time.

So the fact that you are going to have problems at some very large institutions is not unique. In fact, almost every bank has - all the big banks have had troubles of one sort or another. And I see no reason why Wells Fargo as a company, from both an investment standpoint and a moral standpoint going forward, is in any way inferior to the other big banks with which it competes of it, they made a big mistake. It cost - I mean, we still got - I mean we have a large, unrealized gain in it, but that doesn't have anything to do with our decision-making. But I like it as an investment. I like Tim Sloan as a manager, and he is correcting mistakes made by other people. I tried to correct mistakes at Salomon, and I had terrific help from Deryck Maughan as well as a number of the people at Munger, Tolles. And I mean that is going to happen. You try to minimize it.

Charlie says that, an ounce of prevention isn't worth a pound of cure, it's worth about a ton of cure. And we ought to jump on everything. He's pushed me all my life to make sure that I attack unpleasant problems that surface. And that's sometimes not easy to do when everything else is going fine. And at Wells, they clearly - and I don't know exactly what - but they did what people at every organization have sometimes done, but it got accentuated to an extreme point. But I see no reason to think that Wells Fargo, going forward, is other than a very, very large, well-run bank that had an episode in its history it wished it didn't have. But GEICO came out stronger, American Express came out stronger. But the question is what you do when you find the problems, Charlie?

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

Well, I agree with that. I think Wells Fargo is going to be better going forward than it would have been if these leaks had never been discovered.

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

Or happened.

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

Yeah. So I think it's - it - but I think Harvey Weinstein has done a lot for improving behavior, too. It was clearly an error, and they're acutely aware of it and acutely embarrassed, and they don't want to have it happen again. If I had to say which bank is more likely to behave the best in the future, it might be Wells Fargo, of all of them.

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

This New York Times that I have here from March 12th, 1942, if you go toward the back of it, in the classified section, you have one big section that says, help wanted male, and another one that says, help wanted female. Was the New York Times doing the right thing in those days? I think the New York Times is a terrific paper. But people make mistakes. And the idea of classifying between - taking ads and saying, well, we'll take them and divide them up between men and women, what jobs we think are appropriate or that the advertiser thinks is appropriate. We do a lot of dumb things in this world. And GEICO, as I say, in the early 1970s, they just ignored - and you can do it in the setting of proper reserves, which mean they charged the wrong price to new customers because they thought their losses were less than they were.

And I'm sure some of that may have been a desire to please Wall Street or just because they didn't want to face how things were going, but it came out incredibly stronger. And now it's got 13% of the households in the United States insured. And it came out with an attention to reserves and that sort of thing but that was heightened by the difficulties that they'd found themselves in where they almost went bankrupt.

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

It was a lot more stupid than Wells Fargo. It was really stupid what they did way back, right?

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

Yeah. They had the world by the tail, and then they quit looking at the reserve development. And American Express was just picking up a few dollars by having the Field Warehousing Company in 1963. And they were worried whether it was going to sink the company. And when some guy named Tino De Angelis in, I think it was Bayonne, New Jersey - in fact, I went to the Annual Meeting in 1964 of American Express after the scandal developed, and somebody asked if the auditor would step forward. And the auditor from one of the big firms, which I won't mention, came up to the microphone, and somebody said, how much did we pay you last year? The auditor gave his answer, and then the questioner said, well, how much extra would you have charged us to go over to

Bayonne, which was 10 miles away, and check whether there's any oil in the tanks? So, here was something a tiny little operation, some guy was calling him from a bar in Bayonne and telling him this phony stuff was going on, and they didn't want to hear it. They shut their ears to it. And then what emerged was one great company after this kind of, what they thought was a near-death experience.

So we're going to make mistakes. I will guarantee you that we will get some unpleasant news at Berkshire. I don't know what it'll be - the most important thing is we do something about it. And there have been times when I procrastinated, and Charlie has been the one that jabs me into action. And so he's performed a lot of services you don't know about.

Okay. Gregg, Gregg Warren.

Q - Greggory Warren {BIO 15185326 <GO>}

Good morning, Warren. I have a little bit of a follow-up on Becky's question. At the 2014 Annual Meeting, as well as this morning, you noted that the power of Berkshire brand and its reputation, as well as the strength of Berkshire's balance sheet, would allow the company's next managers to replicate many of the advantages that have come with your being the face of the organization, one of which has been an ability to extract high rents from firms in exchange for a capital infusion and the Buffett seal of approval during times of financial distress.

I buy the argument about the strength of the balance sheet and believe that deals will continue to be done with sellers still lining up to become part of the Berkshire family, especially if the company's next managers are allowed to keep a ton of cash on hand. But I'm not entirely convinced that they'll be able to garner the same 8%, 9%, 10% coupons, as well as other add-ons, that you've been able to extract from firms like Goldman Sachs and Bank of America in times of distress. I'd expect those rents to be at least a few percentage points lower once you're no longer running the show. That is, until those managers build up a reputation to warrant higher returns. Am I right to think about it that way?

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

I'm not sure. When we, in - you mentioned Goldman Sachs, and we also did with General Electric, in September or early October of 2008. We probably could have actually extracted better terms. I think it might have been counterproductive in the end, but I was - we would have done better, incidentally, financially, if we'd really waited till the panic developed further, because I didn't know how far it would develop, but we could have made a lot better purchases three or four or five months later than we did at that time.

And we also did not want to do something that looked to be so high as to and make the transaction disadvantageous to Goldman or to GE. They were going to take the terms we offered, but we actually didn't push it to the limit, because there really wasn't anybody else around. And we're working on something right now that probably won't happen. It's not huge. But actually, in this case, both Todd and Ted have brought deals to me. One of them brought something to me. And he was thinking - and the same terms that I got and

was thinking about. And he's the one that returned the call that he had received about a transaction. And I do not think the party on the other side is going to care about the fact that they had him on the phone rather than in the end of the line. There may - there could be just a little bit of certain times in history. But we will continue to have our standards of what we think money is worth at any given time. And Ted and Todd think this is well above that, as I do. And there will be times very occasionally when our phone will ring a lot. And I don't think they'll hang up because I don't answer. They need the money. Charlie?

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

Well, the times he's referring to, a lot of them were like worse than 50 years. So, that's a really rare kind of an occurrence. And we didn't make all that many deals. So, I think he's right. It will be harder for us to make some more deals in the future.

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

Yeah. The problem is the sums involved now more than the problem of deciding what the proper term should be. And sometimes, we can get what we think is appropriate. Sometimes we - most of the time today, we can't. But you may see a transaction or two that not in terms of buying business, but in terms of securities that strike you as perfectly decent wage to invest Berkshire's money and they may well come through Todd or Ted, instead of directly to me. I like to think I'll be missed a little bit, but I - you won't notice it. Okay. Station three.

Q - Andy Serwer {BIO 15136542 <GO>}

I'm John Licher (01:42:33) from Boulder, Colorado. Mr. Buffett, are you still involved in pricing decisions at See's Candies and The Buffalo News? And what other Berkshire subsidiaries do you take more than a hands-off approach?

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

Yeah. You're correct that at one time, I - and for some quite a while, both Charlie and I took part in the pricing decisions at See's Candy (sic) [See's Candies] (01:43:12). And certainly, for some years, [indiscernible] (01:43:19) the question, the survival of The Buffalo News was really in question. I definitely took part in those decisions. In both cases, we had good managers, but we still wanted to - we thought those decisions were important. But it's been a long, long time, very long time since we've participated in anything like that.

And I can't tell you what the per pound price is for See's Candy (sic) [See's Candies] (01:43:56), which is because people, and you're invited to join this group, send me free candy from time-to-time, and I can't - really, I can't tell you the prices at The Buffalo News. I mean, all I know is it's very, very, very hard to move up prices on advertising generally. So, now, we - the only thing, as Ajit and I talk frequently, and if there's some very big risk, and somebody wants a \$5 billion cover on a chemical plant, some way, excess loss of over \$3 billion [indiscernible] (01:44:38) we have a certain amount of fund with him deciding on the price in his head, and I decide in my head and then we compare notes.

That's the kind of risk that you really can't look up in a book and see actuarially what is fairly the parameters are fairly likely to be. I enjoy thinking through the pricing of that, and I

particularly enjoy comparing it with Ajit. So, these are just the oddball situations. But we do that sort of thing, and we've done it for three decades. And it's part of the - it's part of the fun of my job. The candy prices that - if you've got to complain about those, you have to go to Charlie.

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

Well, the answer is Warren is still doing it and talking to Ajit and - but that's because Ajit likes it that way. We are a very peculiar place where the - Warren's contact with the various people elsewhere in the organization largely depends on what they want, not what he wants.

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

The CEO of one of our ...

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

It's very unusual, isn't it? It's worked beautifully.

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

The CEO of one of our most successful subsidiaries, I may have talked to him as I saw him here to say hello. I probably talked to him three times in the last 10 years. And he does remarkably well. He might have done even better, if I hadn't talked to him those three times.

And on the other hand, Ajit, I talk very, very frequently. And he's got the kind of business - hey, I know more about the insurance business, I know about the (01:46:45) business. And it's interesting and we are evaluating things that you don't look up in a book. I mean that actuarial talent is not what's important in the things that Ajit talks to me about. It's probably important throughout our insurance operation, but in these particular cases, we're making judgments and his judgment is better than mine, but I just like to hear about them. They are interesting propositions. Okay. Carol?

Q - Carol Loomis {BIO 7137249 <GO>}

This question comes from a Berkshire shareholder named Jack Ciesielski. He's a well-known accounting expert, who for many years has written the Accounting Observer. Mr. Buffett, in this year's shareholders' letter, you have harsh words for the new accounting rule that requires companies to use market value accounting for their investment holdings. For analytical purposes, you said, Berkshire's bottom line will be useless. I'd like to argue with you about that.

Shouldn't a company's earnings report say everything that happened to and within a company during an accounting period? Shouldn't the income statement be like an objectively written newspaper informing shareholders of what happened under the management for that period, showing what management did to increase shareholder value and how outside forces may have affected the firm? If securities increased in value, surely the company and the shareholders are better off. And surely they're worse off, if

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securities decreased in value. Those changes are most certainly real. In my opinion, ignoring changes in the way that some companies ignore restructuring costs is censoring the shareholders' newspaper. So, my question is how would you answer what I say?

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

Well, my answer to the question asked - what my answer would be to what he said. I would ask Jack if we've got \$170 billion of partly-owned companies, which we intend to own for decades, and which we expect to become worth more money over time, and where we reflect the market value in our balance sheet, does it make sense to every quarter mark goes up and down through the income account, when at the same time, we own businesses that have become worth far more money in most cases, and become - since we bought - you name the company - take GEICO, an extreme case. We bought half the company for \$50 million roughly. Do we want to be marking that up every quarter to the value, and having it run through the income account? That becomes an appraisal process. There's nothing wrong with doing that in terms of the valuation. But in terms of value, and you can call it gain and net asset value, or loss and net asset value. That's what a closed-end investment fund or an open investment fund would do.

But to run that through an income account, if I looked at our 60 or 70 businesses or whatever number there might be, and every quarter we mark those to market, we would have, obviously, a great many in certain cases where, over time, we'd have them at 10 times what we paid. But how quarter-by-quarter we should mark those up and run it through the income account where 99% of investors probably look at net income as being meaningful in terms of what has been produced from operations, during the year, I think would be - well, I can say, it would be enormously deceptive.

I mean, in the first quarter of this year, you saw the figures earlier, where we had the best op, what I would call operating earnings, in our history. And our securities were down \$6 billion or whatever it was. To keep running that through the income account every day, you would say that we might have made on Friday, we probably made \$2.5 billion as well. If you have investors and commentators and analysts and everybody else working off those net income numbers and trying to project earnings for quarters and earnings for future years to the penny, I think you're doing a great disservice by running those through the income account.

I think it's fine to have marketable securities on the balance sheet. The information available as to their market value, but we have businesses there. If we were - we never would do it - but if we were to sell half, we'll say, of the BNSF railroad, we would receive more than we carry - we could turn it into a marketable security, and it would look like we made a ton of money overnight. Or if we were to appraise it every three months and write it up and down, A, it could lead to all kinds of manipulation; but, B, it would just lead to the average to any investor being totally confused.

I don't want to receive that in that manner and, therefore, I don't want to send it out in that manner. Charlie?

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

Well, to me, it's obvious that the change in valuation should be noted and that is and always has been goes right into the net worth figures. So, the questioner doesn't understand his own profession. I'm not supposed to talk that way, but it slips out once in a while.

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

Sometimes, he even gives it a push.

Okay. Jonathan?

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

McLane's core operating margins have dropped about 50% from where they've generally been since acquisition. Could you elaborate on the competitive pressures in the grocery and convenience store distribution business that have caused the deterioration in profits? And do you expect the margin structure of that business to eventually get back to where it was or is this the new normal?

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

Well, I don't know the answer to the second part about the future, but there's no question that the margins have been squeezed. They were very, very narrow. As you know, they were about \$0.01 on the \$1 pre-tax and they have been squeezed from that. Payment terms get squeezed. And in some cases, we have fairly long-term contracts on that. So, we go on for five years at one. And then, it's a very, very tight margin business. And the situation is even worse than you portray because within McLane, we have a liquor distribution business in a few states. And that business has actually increased its earnings moderately and we've added to that business.

So, within McLane's figures, there's about \$70 million or so pre-tax from the liquor part that have nothing to do with the massive part you're talking about in terms of food distribution. So, it's even - the decline is even greater in what you're referring to than you've noticed in. That's just become very much more competitive. Then, we have to decide. If you look at our competitors, they're not making much money either. And that's capitalism. I think there comes a point where the customer says, I'll only pay X and you have to walk away. And there's a great temptation when you're employing, particularly employing thousands of people and you build distribution facilities and all of that sort of they can take care of them to meet, what you'd like to term, as irrational competition. But that that is capitalism and you're right.

We took - the earnings went up quite a bit from the time we bought it. And we're still earning more than that. And we've earned a lot of money over time. But as I say, a fair amount of that is actually coming from liquor distribution activities in about four states that we purchased very well run. And we will do our best to get the margins up. But I would not - I could not tell you or give you a really - your guess is almost as good as mine or better than mine maybe as to what margins will be in that distribution business five years.

Now, it's a very essential service. We do \$40-something-billion, and we move more of the product of all kinds of companies, that names are known to you, than anybody else. But when you get Kraft Heinz, for that matter, or Philip Morris or, whomever it may be, on one side of the deal, when you've got WalMart and some other 7-Eleven on the other side of the deal, sometimes they don't leave you very much room in between. Charlie?

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

I think you've described it very well.

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

Okay. Station four.

Q - Andy Serwer {BIO 15136542 <GO>}

Good morning, Charlie and Warren. I know it seems a little bit out of order, but I'm a huge fan of yours, Charlie, mostly for your 25 Cognitive Biases. From Seattle, Washington, I run a one-person digital marketing firm that specializes in Facebook ads and e-mail marketing. I use these a lot. Your breakdown of Coca-Cola was really, really solid. And I use that as a reference, when looking to how to understand the mechanics of my clients' products and how to promote them. So, I'm fairly certain that your Cognitive Biases work for Internet-related companies.

Now that, you're partnering with Amazon on health care, I'm curious, have you started to understand how to apply these biases to Internet-related companies? Or is there another set of tools you used to decide if you understand the business? Because you guys talk a lot about not investing in businesses that you don't understand.

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

Well, health care is - we don't plan to start health care companies or necessarily, insurers or anything. We simply have three organizations with leaders that I admire and trust. And we - mutually goes around all three, and we hope to do something which Charlie correctly would probably say is almost impossible to change in some way a system which is - who's taking 5% of GDP in 1960, and now taking close to 18%. And we have a hugely noncompetitive medical cost in American business relating to any country in the world.

The countries that - there were some countries that were around our 5%, when we were at 5%, but we managed to get to 18% without them going beyond 11% or so. Literally, in 1960, we were spending \$170 per capita on medical costs in the United States, and now we're spending over \$10,000. And every dollar only has 100 cents. So, there is a cost problem. It is a tapeworm in terms of American business and its competitiveness.

We don't - we have fewer doctors per capita, we have fewer hospital beds per capita, fewer nurses per capita than some of the other countries that are well below us, and you've got a system that is delivering \$3.3 trillion. That's almost as much as the federal government raises. It's delivering \$3.3 trillion or some number like that to millions and

millions and millions of people who are involved in the system, and every dollar has a constituency just like politics.

And whether we can find the Chief Executive which we're working on now, and which I would expect we would be able to announce before too long, but that's a key part of it, and whether that person will have the imagination and support of people that will enable us to make any kinds of significant improvements in the system, which everybody agrees that sort of out of control on costs, but they all think it's the other guy's fault, generally. We'll find out. It won't be easy, but it is not a - the motivations are not primarily profit-making. They're - we want to deliver - we want our employees to get better medical service at a lower cost. We're not going to - we certainly not going to come up with something where we think the service that they receive is inferior to what they're getting now. But we do think that there may be ways to make a real significant changes that could have an effect, then we know that the businesses will unbelievable.

And if we fail, we've at least tried. But the idea is not that I will be able to contribute anything at some breakthrough moment by reading a few medical journals or something, changing something that is embedded with the medical system, but the idea is maybe the three organizations which employ over a million people and which, after we announced, we had a flood of calls from people who want to join in, but there isn't anything to join into now, but they will, if we have come up with any ideas that are useful. Whether we can bring the resources, bring the person and the CEO is terribly important. And then, bring the person, support that person and somehow figure out a better way for people to continue to receive better medical care in the United States, without that, 18% going to 20% or 22% in the lifetime of our children or something of sort. There are only 100 cents in the dollar. And we will see what happens.

But if you were Ajit, actuarially figuring, it would not - you would not bet on us, but I think there is some chance we will do something. There is a chance that nobody can quantify that we could do something significant. And we are positioned better than most people to try. And we've certainly got the right partners. So, we will give it a shot, and see what happens. Charlie?

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

There is some precedent for success in this public service activity. If you go back many decades. John D. Rockefeller I, using his own money, made an enormous improvement in American medical care, perfectly enormous, like there's never been any similar improvement done by any one man since that (02:03:52). So, Warren having imitated Rockefeller in one way, he's just trying another and maybe it'll work.

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

Rockefeller, incidentally, lived a very long time. So, I actually am trying to imitate him in three ways. We'll see what happens, but we are - we're making a lot of progress. And I think we'll probably have a CEO within a couple of months but if we don't have one, we're not going to pick somebody just because we want to beat any deadline or anything like that. We've got these wonderful partners. We don't have a partnership agreement among us. Somebody started drawing up one in the legal department and the CEO just put a

stop to it. They do have places that have a lot of resources. And while we all have our share of bureaucracy, we can cut through it if we've got something that we really think makes sense.

And we will get the support. We get a lot of resistance too, but we will get the support of a lot of American business, if we come up with something that makes sense. But if it was easy, it would have already been done. There's no question about that.

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

It's not easy.

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

No. But it should be tried. Okay. Becky?

Q - Becky Quick {BIO 16400962 <GO>}

This question comes from David Rolfe, who is with Wedgewood Partners and has been - the company has been shareholders in Berkshire since 1989. The stock is currently the largest holding in their stocks, 18 stocks. He asks this question. Over the past two years, you have listed the individual fund to fund's performance from Protégé Partners. When will you start showing the annual performance on \$25 billion that Ted and Todd manage? Can you state if either Ted or Todd is beating the S&P 500 Index over the last five years?

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

Yeah. Both, A, we'll probably never report their individual performance. But you can be sure that I have an enormous interest in, as does Charlie, in how much we think they contribute to Berkshire, and they have - they've been terrific. They know we have the intellect and the record. But they are exceptional human beings and they - Todd has done a tremendous amount of work, for example, on the medical project. And Ted has - I've given him several things and he's done them better than I can do them.

So, the record since inception and I'm measuring it - Ted came later than Todd, a year or so later. But the record since inception is almost identical. Both for the two managers, from their different (02:06:49) and matching the S&P. And they've received some incentive compensation, which they only get if they beat the S&P. And as I said, they're just slightly ahead. That really hasn't - it's been better than I've done. So naturally, I can't criticize it. They were two very, very, very good choices.

Charlie?

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

You did report it in a previous year. You just didn't do it this year. And - but now you have your report.

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

I would – the problem that all of us have is size, it's actually – it's harder to run even \$12 billion or \$13 billion, frankly, than it is to run \$1 billion. And if you're running \$1 million or something of that sort, it's a whole different game. You'd agree with that, wouldn't you, Charlie?

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

Of course.

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

Okay.

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

Just like any good lawyer, you never ask him a question, unless you think you know the answer they're going to give.

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

Okay. Gary?

Q - Gary Kent Ransom {BIO 3446828 <GO>}

My question is on GEICO. Last year, you promised growth and delivered. But along the way, the combined ratio was moving up and it was the first time it was over 100% in about 15 years, granted some of that was catastrophes. But even excluding catastrophes, there was something going on in the loss trends that caused you to slow down that growth, at least (02:08:37) to the latter part of the year. And I wondered if you could tell us what was going on? And I did look this morning too, so it looked like the first quarter settled down a little bit, but I still like to know about the fourth quarter?

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

Yeah, sure. The only thing I differ with the question, when you say it caused us to slowdown. We didn't want to slow down the growth. I mean, you're looking at a guy here that has never wanted to slow down the growth at GEICO. The growth did slow down, but it wasn't because we wanted to. Our prices that led to the underwriting loss, the action would have been slightly in the blank without the catastrophes. But we haven't have paid our light bills, we might have been in the black too. I mean, there's except for stuff doesn't mean much in insurance, as far as I'm concerned.

If you look at the first quarter, our margins were around 7%, which is actually a little more than we aim for. And that we see the unaudited – I mean the preliminary figures for April and they're similar. So, the underwriting gain is or margins are perfectly satisfactory now. And we'd love to get all the growth we can and we will gain market share this year, and we gain market share.

When Tony took over the place, it was in 1993. It was two and a very small fraction percent and that'll be 13% of the households in the country now. We will keep gaining share. We

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will keep writing profitably most of the time. And every now and then, our rates will be in that slightly modestly inaccurate - inadequate, I should say, and/or will have maybe some big losses on hurricanes or something that sort or we'll have a Sandy in New York.

Look, GEICO was a jewel, and it's really - we got some other, we feel, awfully close to similarly about, but it's an incredible company. That has a culture of all of its own. It's saving its customers probably \$4 billion or \$5 billion a year against we'd say with other - against what they would otherwise be paying based on the average in auto insurance. And it will be profitable on underwriting a very high percentage as the year. It contributed another \$2 billion to float last year. It is a terrific company. And like I say, the first four months are dramatically better.

Now, there's some seasonal in auto insurance. So, the first quarter is usually the best of the four quarters, but it's not a dramatic seasonal. I think when you read the 10-Q, and you can take my word for April, I think GEICO was on a good profit track as well as a good growth track. And the more it grows, the better I like it. Charlie?

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

Well, I think you've said perfectly. It was never very bad, and it's better now.

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

Okay. Station five.

Q - Andy Serwer {BIO 15136542 <GO>}

Good morning, Warren Buffett and Charlie Munger. My name is Ethan Raposo (02:12:37), I'm from Omaha, Nebraska. My question is how would Donald Trump's tariffs affect the manufacturing business of Berkshire Hathaway?

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

Well, today, steel costs - so, we've seen this - we've seen steel costs increase somewhat. But as I said earlier, I don't think the United States or China - there'll be some jockeying back and forth, and there'll be something that leaves some people unhappy and - but I don't think either country will dig themselves into something that precipitates, and continues any kind of real trade war in this country. We've had that in the past a few times, and I think we've learned a general lesson on it. But there will be some things about our trade policies that irritate others and there'll be some from others that irritate us, and there'll probably be some back and forth. But in the end, I don't think we'll come up with a terrible answer on it.

Charlie, I'll let you...

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

Well, steel has - it reached - the conditions in steel are almost unbelievably adverse to the American steel industry. Even Donald Trump can be right on some of this stuff.

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

The thing about trade, I've always said that the President, whether it's President – any President needs to be an educator-in-chief, which Roosevelt was in the Depression. That's why he had those fireside chats, and it was very important that he communicated to the people what needed to be done and what was happening around them. And trade is particularly difficult, because the benefits of trade are basically not visible. You don't know what you would be paying for the clothes you're wearing today, if we'd had a rule they all had to be manufactured in the United States or it'd be paying for your television set or whatever, maybe. No one thinks about benefits day-by-day as they walk around buying things and carrying on their own business.

The negatives, and there are negatives, are very apparent and very painful. And if you're laid off, like happened in our shoe business in Maine, and you know you have been a very, very, very good worker. You are proud of what you did, and maybe your parents did it before you. And all of a sudden you find out that American shoes, shoes manufactured in America, are not competitive with shoes made outside the United States. You can talk all you want about Adam Smith and David Ricardo or something and explain the benefits of free trade and comparative advantage and all that sort of thing. And that doesn't make any difference. And if you are 55 or 60 years old to talk about retraining or something like that, so what? So I – it is tough in politics where you have a hidden benefit and a very, very visible cost to a certain percentage of your constituency, and you need to do two things under those circumstances.

If you have that situation, you know what's good for the country. So, you have to be very good at explaining how it does really hurt in a real way somebody that works in the textile mill like we had in New Bedford where he only spoke Portuguese, half of our workers only spoke Portuguese, and suddenly they had no job and they've been doing their job well for years. You've got to do two things. You have to understand that that's the price individuals pay for what's good for what – for the collective good. And secondly, you got to take care of the people that are – that – where retraining is a joke, because of their age or whatever it may be. And you've got to take care of the people that become the road kill in something that is collectively good for us as a country.

And that takes society acting through its representatives to develop the policies that will get us the right collective result and not kill too many people economically in the process. And we've done that in various arenas over the years. The people in their productive years do help take care of the people that are too old and too young. And every time a baby is born in the United States, we take on an obligation of educating them for 12 years. It will cost \$150,000 now.

We have a system that has a bond between the people in their productive years and the ones in the young and old, and it gets better over time far from perfect now. But again, it has gotten better over time and I believe that trade properly explained and with policies that take good care of the people who are road kill is good for our country and can be explained. But I think it's been a tough sell to a guy that made shoes in Dexter, Maine or worked on a loom in New Bedford, Mass or works with the steel mill in Youngstown, Ohio.

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Andrew?

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

Okay, Warren. This question comes from a Berkshire shareholder. Says they've been a shareholder for 10 years. I should say this may be one of the most pointed questions I've ever received for you.

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

But you elected to give it, though.

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

But I did. The shareholder rights, I have watched the movie every year at this meeting. When you testify in front of Congress on behalf of Salomon, it's the symbol of what it means to have a moral compass. Investors are increasingly looking to invest in companies that are socially and morally responsible. So, I was disturbed when you were asked on CNBC about the role that business could play in sensible policies around sales of guns. You said you didn't think business should have a role at all, and you wouldn't impose your values on others. I was even more surprised when you said you'd be okay with Berkshire owning shares in gun manufacturers. At this meeting years ago, you said you wouldn't buy tobacco company because of the social issues. The idea that Berkshire would associate with any company as long as it isn't illegal seems at odds with everything I think you stand for. Please tell us you misspoke.

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

Well, let's explore that a little. Should it be just my view or should it be the view of the owners of the company? So, if I decide to pull the owners of the company on a variety of political issues and one of them being whether Berkshire Hathaway should support the NRA, I don't - if a majority of the shareholders voted to do it or the majority of the Board of Directors voted to do it, I would accept that. I don't think that my political views - I don't think I put them in a blind trust at all when I take the job. In the elections of 2016, I raised a lot of money. In my case, I raised it for Hillary.

And I spoke out in various ways that were quite frank. But I don't think that I speak - when I do that, I don't think I'm speaking for Berkshire. I'm speaking as a private citizen. And I don't think I have any business speaking for Berkshire. We've never, at the parent company level, we've never made a political contribution. I may go out - and I don't go to our suppliers. I don't do anything of that sort where I raise money either for the school I went to or for a political candidate I want or anything else.

And I don't think that we should have a question on the GEICO policyholder forum. Are you an NRA member? And if you are you just aren't good enough for us or something that. I think I do not believe in imposing my political opinions on the activities of our businesses. And if you get to what companies are pure and which ones aren't pure, I think it's very difficult to make that call. I think with that response, I'm almost afraid to call on Charlie, but go ahead, Charlie.

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

Well, obviously, you do draw a limit Warren.

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

Yeah. But...

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

...in all kinds of things...

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

Yeah.

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

...which are beneath us even though they're legal. But we don't necessarily draw it perfectly because we've got some sort of supreme knowledge. We just do the best we can. And certainly, we're not going to ban all guns surrounded by wild turkeys in Omaha.

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

Okay. Gregg?

Q - Greggory Warren {BIO 15185326 <GO>}

Warren, this question is also based on something you said more recently. So, I can't guarantee it's going to be any easier. You recently noted that the preferred share repurchases over dividends as a means for returning capital to shareholders. Should Berkshire's cash balances continue to rise and hit the \$150 billion threshold, you noted it's been difficult to defend the shareholders at last year's annual meeting. While I understand the rationale for not establishing a regular dividend, a onetime special dividend could be a useful option for returning a larger chunk of Berkshire's excess capital to shareholders without the implied promise to keep paying a regular dividend forever.

The drawback with the special dividend though is that it would lead to an immediate decline in book value and book value per share, whereas a larger share repurchase effort, while depressing book value, would reduce purchase share count, limiting the impact on book value per share.

If we do happen to get a few years out and Berkshire does hit that \$150 billion threshold, because valuations continue to be too high, both for acquisitions and for the repurchase of company stock, would you consider a one-time special dividend as a means of returning capital to shareholders?

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

Well, if we thought we couldn't use capital effectively, we would try to figure out the most effective way of returning capital to shareholders. And you could - I would have probably -

I think it would be unlikely we do that via a special dividend. I think it would be more likely we do it via repurchase if the repurchase didn't result in us paying a price above intrinsic value per share.

We're never going to do anything that we think is harmful to continuing shareholders. So, we think the stock is intrinsically worth X, and we would have to pay some multiple - some modest multiple, even above that, to repurchase shares. We wouldn't do it because we'll be hurting continuing shareholders to the benefit of the people who are getting out.

But we will try and do whatever makes the most sense, but not with the idea that we have to do something every day, because we simply can't find something that - we had a vote, as you know, a few years back on whether people wanted the dividend. And the B shares - so I'm not talking my shares or Charlie's earning, the B shares voted 47 to 1 against it. So, I think through self-selection of who become shareholders, I don't think shareholder's world - or countrywide on all stocks would go for this having to want it all. But we could sell selection in terms of who joins us. And I think they expect us to do whatever we think makes the sense for all shareholders. And obviously, if we really thought we never could use the money effectively in the business, we should get it out one way or another. And you've got a bunch of directors who own significant - very significant amounts of stock themselves.

And you can expect them to think like owners. That's the reason they're on the board and expect the management to think like owners, and owners will return money to all of the owners, if they think it makes more sense than continuing to look for things to do. But we invested in the first quarter maybe - I have to look it up on the - well, certainly through April, probably close to \$15 billion or something like that net or something. And we won't always be in a world of very low interest rates nor high (02:27:07) or high private market prices.

So, we will do on what makes the most sense, but I can't see us ever making a special, or it's very unlikely we will just pay out a big special event. I think that if we put that the world of the shareholders and Charlie and I did not vote, I think we would get a big negative vote and I'll be willing to - I'll be willing to make a bet on that one. Charlie?

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

As long as the existing system continues to work as well as it has, why would we change it? We've got a whole lot of people that are accustomed to and have done well into it. And if conditions change, we're capable of changing our minds, if the facts change.

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

Yeah. And we've done that several times.

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

Yes. Although I must say it's a little hard.

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

You always bring me back to earth. Okay. Station six?

Q - Stephie Yu {BIO 15204874 <GO>}

Hi. Good morning, Mr. Buffett and Mr. Munger. My name is Stephie Yu from Horizon Insights, a China-focused research firm based in Shanghai. So, I have a lot of mutual fund clients in China who are very young, relatively younger, and they manage a smaller portion of funds. So, my question is, if you only have \$1 billion in your portfolio today, how would you change your investments? Would you consider more investment opportunities in emerging markets such as China? Thank you.

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

Yeah. I would say if I were working with \$1 billion, I would probably find within a \$30 trillion market in the United States, where I understood things better generally than I do around the world. I'd probably find opportunities there that would be better incidentally by some margin than what we can find for hundreds of billions. But I wouldn't - there's no way I'd rule out emerging markets. There was a time, 15 years ago or so, when just because it was kind of interesting. It took me back to my youth.

On the weekend, I went through a directory of Korean stocks, and I bought individual small stocks, (02:29:43) standards of either a Korean or American business. They were big companies. But I found 15 or 20 and they were statistically cheap and bought some of each one myself. And there are opportunities with smaller amounts of money to do things that we just can't do. And - but I - my first inclination always would be to comb through things in the United States. And - but I've combed through - in other countries. I probably wouldn't get into very, very small markets because there can be a lot of difficulties even in market execution and taxation, (02:30:36). You can find - if you can't find it in America and China, Britain and few other places, you probably aren't going to find it someplace else. You may think you've found it, but that may be - it may be a different game than you know. Our problem is size, not geography. Charlie?

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

Well, I already have more stocks in China than you do, as a percentage, so I'm with the young lady.

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

Okay. Well, you can - you want to name names? Do these stocks have names, or...

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

No, I don't.

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

Carol?

Q - Carol Loomis {BIO 7137249 <GO>}

This question...

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

I should just add one thing. You will find plenty of opportunities in China. Charlie would say you've got a better hunting ground than even a person with similar capital in the United States. Would you agree with...

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

Yes, I do.

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

Yeah, yeah. So - and in the sense they're - it's logical that should be the case because it's a younger market, but still a large market. So that, markets probably work toward efficiency as they age. Japan had this very strange situation with warrants being priced out of line and all of that 30 years ago. And people notice after a while and it disappears. But there can be - some very strange things happen in markets as they develop. I think you'd agree with that, Charlie, wouldn't you?

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

Absolutely.

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

Yeah. Jonathan?

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

Hello. Hello.

Q - Carol Loomis {BIO 7137249 <GO>}

You skipped me.

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

Did I skip? I skipped Carol?

Q - Carol Loomis {BIO 7137249 <GO>}

Yeah.

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

Oh, I'm sorry.

Q - Carol Loomis {BIO 7137249 <GO>}

Okay.

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

Okay.

Q - Carol Loomis {BIO 7137249 <GO>}

This question, and I would concede it is not a small one, comes from Gideon Pollack of Montreal (02:32:32). He says, the world knows generally how the looks of Berkshire Hathaway have changed since you began to run the company in 1965. Berkshire was then a tiny northeastern textile company. And now it is the number-four company on the Fortune 500. What about the next 50 years? Could you give us your view of what Berkshire looks like in 2068?

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

I think it'll look a long way away. No, the answer is, I don't know. And I didn't know, 50 years ago, what it would like now, I mean, It will be based on certain principles. But where that leads, we will find out and we'll have people that are thinking about different things than I am. And we'll have a world that's different. But we will be - I very much hope and believe that we will be - that we'll be as shareholder-oriented as any large company in the world. We will look at our shareholders as partners and we will be trying to do with their money exactly what we'd do with our own, not seeking to get an edge on them. And who knows what else will be happening then? Charlie?

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

Well, I want to talk to the younger shareholders in the group. Those of you who, after we are gone, sell your Berkshire stock and do something else with it, helped by your many friends, I think are going to do worse. So, I would advise you to keep the faith. By the way, some of that has already happened in many families.

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

I'll give his answer next time now that I see it get all of that applause. Jonathan?

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

Duracell's \$82 million of pre-tax profits in 2017 were still well below what it earned as a subsidiary of P&G. Can you clarify or quantify to what extent transition costs or purchase price accounting impacts at the segment level were still temporarily burdened last year? Or is it possible that the gap in earnings contribution simply reflects a commoditization of the category given the entry of Amazon into the battery market?

I did see that Duracell's earnings were up in the first quarter. Is that a sign of a more meaningful contribution in 2018 and beyond, as you finish right-sizing the manufacturing footprint and acquisition-related charges fall away?

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

FINAL

Yeah. Duracell should be earning more money than it is now, and will be. And as you mentioned, it's well on its way there. But it is not earning an appropriate amount now, based on the history of the company.

I was around when - I was on the board of Gillette when Gillette bought Duracell. And I've seen what it does when it is managed to its full extent. And I saw what Jim Kilts did with it at Gillette when he ran it. And there were a lot more transition problems in the purchase. For one thing, there's a lot of rules connected with our swap of our stock in P&G for Duracell. There are a lot of things which you cannot do that made sense to do in that period of transition from P&G's management to ours.

But Duracell - the brand is strong, very strong. The product line is very strong, and we are making more money, and we should, and I believe we will earn really what the property is capable of earning. We should be earning that relatively soon.

But you're absolutely right that it is - from a profit standpoint, is underperforming. We're making a lot of changes. And some of those are involved in jurisdictions, countries, where it is really expensive to change in terms of employment, payments that have to be made if a plant is changed or something of the sort. But I like the Duracell deal absolutely as well as when we made it. Charlie?

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

I like it better than you do.

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

No. Duracell is a very, very - is our kind of business.

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

It is.

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

Okay. Station 7.

Q - Andy Serwer {BIO 15136542 <GO>}

Good morning. And I have a question related to the bond market, U.S. Treasury bond market. And my name is Ola Larsson (02:38:09). I live in the San Francisco Bay Area. And I never worked in the financial industry. I started out buying penny mining stocks on the Vancouver Stock Exchange. And then, decades later, I got married. And my wife convinced me to buy Berkshire shares. That was probably a good decision.

So, my question is, I read the newspapers about the Federal Reserve and the inflation numbers. And there must be an increase supply of Treasury bonds that must go to auction. And my question is, how would - what do you expect that to impact yield or interest rate?

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

Yeah. The answer is, I don't know. And the good news is, nobody else knows, including members of the Federal Reserve and everyone. There are a lot of variables in the picture. And the one thing we know is, we think that long-term bonds are a terrible investment, and we - at current rates or anything close to current rates.

So, basically, all of our money that is waiting to be placed is in Treasury bills that, I think, have an average maturity of four months or something like that, at most. The rates on those have gone up lately, so that in 2018, my guess is, we'll have at least \$500 million more of pre-tax income than we would've had in the bills last year. But they still - it's not because we want to hold them. We're waiting to do something else. But long-term bonds, they're basically - at these rates, it's almost ridiculous when you think about it. Because here the Federal Reserve board is telling you we want 2% a year inflation. And the very long bond is not much more than 3%. And, of course, if you're an individual, then you pay tax on it, you're going to have some income taxes to pay. And let's say, it brings your after-tax return down to 2.5%. So, the Federal Reserve is telling you that they're going to do whatever's in their power to make sure that you don't get more than 0.5% a year of inflation-adjusted income. And that seems to me, a very - I wouldn't go back to penny stocks, but I think I would stick with productive businesses, or productive - certain other productive assets by far.

But what the bond market does in the next year, you've got trillions of dollars in the hands of people that are trying to guess which maturity would be the best to own and all that sort of thing. And we do not bring anything to that game that would allow us to think that we've got an edge. Charlie?

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

Well, it really wasn't fair for our monetary authorities to reduce the savings rates, paid mostly to our old people with savings accounts, as much as they did. But they probably had to do it to fight the Great Recession, appropriately. But it clearly wasn't fair, and the conditions were weird. In my whole lifetime, it's only happened once that interest rates went down so low and stayed low for a long time.

And it was quite unfair to a lot of people. And it benefited the people in this room enormously because it drove asset prices up, including the price of Berkshire Hathaway stock. So, we're all a bunch of undeserving people and I hope that we continue to be so.

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

At the time this newspaper came out in 1942, it was - the government was appealing to the patriotism of everybody. As kids, we went to school and we bought Savings Stamps to put in - well, they first called them U.S. War Bonds, then they called them U.S. Defense Bonds, then they called them U.S. Savings Bonds. But they were called War Bonds then. And you put up \$18.75 and you got back \$25 in 10 years. And that's when I learned that that \$4 for \$3 (02:43:12) in 10 years was 2.9% compounded. They had to put it in small print then.

And even an 11-year-old could understand that 2.9% compounded for 10 years was not a good investment. But we all bought them. It was part of the war effort, basically. And the government knew - I mean, you knew that significant inflation was coming from what was taking place in finance, in World War II.

We actually were on a massive Keynesian-type behavior, not because we elected to follow Keynes, but because war forced us to have this huge deficit in our finances, which took our debt up to 120% of GDP. And it was the great Keynesian experiment of all time, and we backed into it, and it sent us on a wave of prosperity like we've never seen. So, you get some accidental benefits sometimes.

But the United States government (02:44:15) every citizen to put their money into a fixed-dollar investment at 2.9% compounded for 10 years. And I think Treasury bonds have been unattractive ever since, with the exception of the early 1980s. That was something at that time. I mean, you really had a chance to buy - you had a chance to invest your money by buying zero-coupon Treasury bonds, and in effect, guarantee yourself that for 30 years you would get a compounded return, something like 14% for 30 years of your lifetime.

So, every now and then, something really strange happens in markets and the trick is to not only be prepared, but to take action when it happens. Charlie, did you ever buy any War Bonds or...

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

No, no. I never bought War Bonds.

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

No. Used to be like take me...

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

I didn't have any money when I was in the war.

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

That's a good reason not to buy. Okay, Becky?

Q - Becky Quick {BIO 16400962 <GO>}

This question comes from Angus Hanton (02:45:27), who - he and his wife are based in London, and he says they've been shareholders in Berkshire Hathaway for over 30 years. He says, we have all read about the zero-based budgeting that has been so effective with Kraft Heinz and other investments that you've done with 3G Partners. Can we expect these cost-reduction techniques to be used by your managers in other parts of the Berkshire Hathaway enterprise?

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

Well, in general, we do not expect the managers, generally, to get in the position where there would be a lot of change in terms of zero-based budgeting. In other words, why in the world aren't you thinking that way all of the time?

The 3G people have gone into certain situations where there were – probably primarily in personnel, but in other expenses as well, a lot of expenses that were not delivering a dollar of value per dollar expended. And so, they made changes very fast that – to a situation that probably shouldn't have existed in the first place. Whereas, we hope that our managers – take a GEICO. GEICO's gone from, I think, 8,000 to 39,000 people since we bought control. But they're all very productive. I mean, you would not find a way for a 3G operation to take thousands of people out of there. On the other hand, I can think of some organizations where you could take a whole lot of people out, where it isn't being done because the businesses are very profitable to start with.

That's what happened with the tobacco companies, actually. They were so profitable that they had all kinds of people around that didn't – weren't really needed. But they – the money just flowed in.

So, I – our managers have different techniques of keeping track of – or of – trying to maximize customer satisfaction at the same time that they don't incur other than necessary costs.

And I think, probably, some of our managers may well use something that's either zero-based budgeting or something akin to it. They do not submit budgets, never have, to me. I mean, they've never been required to. We've never had a budget at Berkshire.

We don't consolidate our figures monthly. I mean, I get individual reports on every company. But there's no reason to have some extra time spent, for example, by having consolidated figures at the end of April, or consolidated figures at the end of May.

We know where we stand. And I'm sure we're the only company that – probably in the whole Fortune 500, that doesn't do it. But we don't do unnecessary things around Berkshire. And a lot of stuff that's done at big companies is unnecessary. And that's why a 3G finds opportunities from time to time. Charlie?

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

Well, if you've got 30 people at headquarters and half of those are internal auditors, that is not the normal way of running a big company in America.

And what's interesting about it is, obviously, we lose some advantages from big size. But we also lose certain disadvantages from having a big bureaucracy with endless meeting after meeting after meeting around headquarters. And net, I think we've been way ahead with our low overhead, diversified method. And also, it makes our company attracted to very able, honorable people who have companies. So, generally speaking, the existing system has worked wonderfully for us. I don't think we have the employment that could

be cut effectively that a lot of other places have. And I think our methods have worked so well that we'd be very unlikely to change them.

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

Yeah. I think if some – at headquarters, you could say we have kind of sub-zero-based budgeting at – and we hope that the example of headquarters is, to a great extent, emulated by our...

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

But it isn't just the cost reduction. I think, the decisions get made better if you eliminate the bureaucracy.

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

Oh, yeah.

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

I think a bureaucracy is sort of like a cancer. And it functions sort of like a cancer. And so, we're very anti-bureaucracy. And I think it's done us a lot of good. In that case, we're quite different from, say, Anheuser-Busch at its peak.

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

Okay, Gary?

Q - Gary Kent Ransom {BIO 3446828 <GO>}

My question is on small commercial, and specifically, direct small commercial. You seem to have some websites that enable buyers to purchase small commercial insurance directly; biBERK is one of them. It's a very competitive, fragmented market. But what is your strategy for that market? And then, can you ultimately GEICO-ize the small commercial market?

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

Well, we'll find out. I mean, it's a very good question because that's exactly the question we ask ourselves. And we have this incredible company at GEICO, which has gone direct in the personal auto field, and is first started in 1936. And there's no question in my mind that over a lot of years, and maybe not so many years, something like small commercial, anything that takes cost out of the system makes it easier for the customer, is going to work over time, if you've got a system that was based on something that had more layers of agency costs and that sort of thing.

So, we are experimenting, and we'll continue to experiment, on something like small commercial, workers' comp, whatever it may be. We'll try and figure out ways to take cost out of the system, offer the customer an equivalent product or better at lesser price, and we'll find out what can be done and what can't be done. And we're not the only ones doing it, as you know. But we are not going – we've got some managers that are going to

be quite, I'm sure, enterprising on that, and we back them, and we expect some to fail and some - and if a few succeed, we'll have some very good businesses. And the world is going in that direction. So, you could expect us to try and go with it. Charlie?

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

Well, if it were easy, I think it would've happened more fast...

FINAL

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

Yeah.

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

...than it has.

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

It will happen as we go along. I mean, it wasn't easy in auto, I mean, when you think about it.

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

No, it wasn't.

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

No. I mean, it was a system with all kinds of extra costs that go back to the turn of the 19th century into the 20th. I mean, it was built on fire insurance and strong general agencies. And that slopped over into auto when the auto came along in 1903 from Ford or whenever. And so, it grew within a system that really wasn't very efficient compared to what was available. But it took State Farm initially to go to a direct, or a captive agency system, and then it took USAA, and then later, GEICO, and then later, Progressive, to go to direct systems that are even more efficient and consumer-friendly. And the same thing is going to happen, to some degree, in all kinds of industries, and certainly small commercial, somebody will...

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

It could happen, but it will be slow.

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

It takes an amazingly long time. I mean, it - but the battle doesn't always go to the strong and the race to the swift. But that's the way to bet, as they say. So - okay, station 8?

Bloomberg Transcript

Q - Andy Serwer {BIO 15136542 <GO>}

Yeah. Austin Merriam (02:54:32) from Jacksonville, Florida. Mr. Buffett, with the recent news of the partnership between you, Mr. Bezos and Mr. Dimon to challenge the healthcare industry and the self-admitted difficulties you are running across, this would

lead me to believe the industry has higher barriers to entry than may have originally been hypothesized, a larger moat, if you will. Would that justify a higher earnings multiple for established players in the industries, such as PBMs, for example?

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

Well, just - though the system may have a moat against intruders, it doesn't mean that everybody operating within the system has individual moats, for one thing. Now, I - we are - if this new triumvirate succeeds at all, we are attacking an industry moat. And I'm defining industry very broadly; healthcare, not just healthcare insurers or this or that. We're trying to figure out a better way of doing it and making sure that we're not sacrificing care. And the goal is to improve care.

And like I say, that is a - that's a lot bigger than a single company's moat. It's bigger than a component of the industry's moat. The moat held by the whole system, since it interacts in so many ways, is actually - that's the moat that essentially has to be attacked, and that's a huge moat. And like I say, we'll do our best. But - I hope if we fail, I hope somebody else succeeds. Charlie?

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

Well, I suspect that eventually when the Democrats control both houses of Congress and the White House, we will get single-payer medicine. And I don't think it's going to be very friendly to many of the current PBMs. And I won't miss them.

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

Andrew?

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

This question comes from Kiwi (02:56:57) and actually is directly about the issue of moats. He notes that Elon Musk, this week, on his Tesla earnings call, said the following, "I think moats are lame. They are, like, nice in a sort of quaint, vestigial way. And if your only defense against invading armies is a moat, you will not last long. What matters is the pace of innovation, that is the fundamental determinant of competitiveness". So, Warren, it seems the world has changed. Business is getting more competitive, pace of innovation, technology is impacting everything. Is Elon right?

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

Well, he...

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

Let me answer that one, Warren. Elon says a conventional moat is quaint. And that's true of a puddle of water. And he says that the best moat would be to have a big competitive position. And that is also right. It's ridiculous. Warren does not intend to build an actual moat, even though they're quaint.

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

Yeah. There's certainly a great number of businesses, this has always been true, but it does seem like it - the pace has accelerated and so on in recent years. There's been more moats that have been - become susceptible to invasion, than seemed to be the case earlier. But there's always been the attempt to do it.

And there - here and there, there are probably places where the moat is as strong as ever. But certainly, you could work at - certainly should be working at improving your own moat and defending your own moat all of the time. And then, Elon may turn things upside down in some areas. I don't think he'd want to take us on in candy. But - and we've got some other businesses that wouldn't be so easy to - you can look at something like Garanimals out there in the other room. And it won't be technology that takes away the business in Garanimals. It maybe something else that catches the young kid's fantasy or something. But, there are some pretty good moats around.

Being the low-cost producer, for example, is a terribly important moat. And something like GEICO, technology has really not brought down the cost that much. I think our position as - there are a couple of companies that have costs as low as ours. But among big companies, we are a low-cost producer, and that is not bad when you're selling an essential item.

Okay, Gregg?

Q - Greggory Warren {BIO 15185326 <GO>}

Warren, Berkshire Energy has benefited greatly from operating under the Berkshire umbrella. By not having to pay out 60% to 70% of earnings annually as a dividend, the company was able to amass \$9 billion in capital the past five years, and closer to \$12 billion in the past 10 years, money that can be allocated to acquisitions and capital spending, especially on renewables.

While tax credits for solar energy don't run out until next year, we've already seen a dramatic reduction in Berkshire Energy's capital commitment to solar projects. And even though spending on wind generation capacity is projected to be elevated this year and next, it does wind down in 2020 as the wind production tax credits are phased out.

Absent a major commitment to additional capital projects, it looks like Berkshire Energy's expenditures in 2021 will be its lowest since 2012, leaving the firm with more cash on hand than it has had in some time. Do you think it is likely at that point that Berkshire Energy starts funneling some of that cash up to the parent company? Or will it be earmarked for debt reduction, or just be left in the balance sheet as dry powder for acquisitions?

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

Yeah. The - you're right about when tax credits phase out and all of that. Although, as you know, they've extended that legislation in the past, and who knows exactly what the government's position will be on incentivizing various forms of alternative energy? But my guess is, I mean, if you take the logical expenditures that may be required in all aspects of

the public of electric generation (03:02:04) and the utility business generally, I think there'll be a lot of money spent. And the question is, whether we can spend it and get a reasonable return on it. And well, there again, we'll do what's logical.

There are three shareholders, basically, of Berkshire Hathaway Energy. Berkshire Hathaway itself owns 90% of it. And Greg Abel and his family, perhaps, and Walter Scott and, again, family members, own the other 10%. And we all have an interest in employing as much capital as we can at good rates. And we'll know when it can be done and when it can't be done, and we'll do - there's no tax consequences to Berkshire at all. So - but the three partners will figure out which makes the most sense.

But when you think of what might be done to improve the grid in the U.S. and the fact that we do have the capital, I wouldn't be surprised if we find good uses for capital in Berkshire Hathaway Energy for a long time in the future. Charlie?

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

Yeah. Well, I think there'll be huge opportunities in Berkshire Energy as far ahead as you can see to deploy capital very intelligently. So, I think the chances of a big dividend is approximately zero.

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

Yeah. And we've not only got the money to an extent that virtually no utility company does and we've also got the talent too. I mean, we've got a very, very talented organization there.

So, it's a big field and we've got shareholders that are capitalists and we've got managers that are terrific. And you would think we'd find something intelligent to do over time in the field. So far, we have. I mean, we've owned it now for close to 20 years. And we've deployed a lot of capital and so far, so good. I mean, it's -

If you look at the improvements that can be made in our utility system in the United States, you're talking hundreds and hundreds and hundreds of billions of dollars, if not trillions. So, where else but Berkshire would you look for that kind of money?

Okay. Station 9.

Q - Andy Serwer {BIO 15136542 <GO>}

I'm Richard Sercer (03:04:34) from Tucson, Arizona. At Berkshire, what counts most are increases in our normalized per-share earning power. That was in your last letter. What is our normalized per-share earning power, as you estimate it?

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

Well, I would say that what you saw in the first quarter, under these tax rates, would probably be a reasonable guess. Obviously, it depends on the economy in any given year.

I would say that would – is a reasonable estimate. But we have firepower we haven't used. And we'll have more firepower as we go along. So, we do expect that normalized earning power to increase over time. And if it doesn't, one way or another, we're failing you because we're retaining those earnings.

So, I don't see anything abnormal in our earnings figured now at a 21% federal rate. But as I look at the \$5.25 billion in the first quarter, seasonally – insurance is better in the first quarter, but seasonally, most of our businesses, the first quarter is not the strongest quarter for us. So, I don't see anything abnormal with it. And then I think you can expect – you should expect, we expect, substantial capital gains over time in addition to what comes from the operating businesses.

So, how much you figure in for that, I would say that the retained earnings beyond dividends of our \$770 billion of equities, in other words, how much they're keeping from us, but that our share of the earnings, which can be used by them, whether it's Apple or American Express or Coca-Cola or Wells Fargo or whatever, our share is in many billions of dollars annually. And one way or another, we think that those dollars will benefit us as much as if they had been paid out. Now, in certain cases, they won't, but in certain cases they'll exceed the amount in terms of market value created.

So, there's many billions of dollars we are not showing in our earnings that is being retained by our investees. And one way or another, I think we'll get value received out of those. So, you can take \$20 billion or \$21 billion under present tax rates, present economic conditions, and then we should get something from that and we should get more when we get \$100 billion of cash invested. And we should get more as we retain the earnings. So, we hope it adds up to a bigger number as we go along. Charlie?

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

Well, I don't think our shareholders are going to see another increase in net worth of \$65 billion in a single year. They may have to wait a while for another. But I don't think that – I think eventually there – another will come, and then another. Just be patient.

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

Yeah. We don't regard the present situation as disadvantageous, except we'd like to get more money out. We like the businesses we have. We like the businesses that we own part of. We are not reflecting in the way we look at earnings, the dividends we get from those partially-owned companies falls far short of what they're going to contribute, in our view, to Berkshire's overall earnings over time. We wouldn't own those stocks otherwise. And then, so...

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

And you also like the Apple and airline stock you've recently purchased better than the cash you parted with.

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

Absolutely, yeah.

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

And that's quite a lot.

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

Yeah, yeah, yeah. Okay, we won't pursue that further. Carol?

Q - Carol Loomis {BIO 7137249 <GO>}

This question is from Daniel Kane (03:09:05) of Atlanta. Your annual letter this year pointed out that Berkshire has become a leader in real estate brokerage in the United States. Congratulations. That is a significant feat in less than 20 years. But let me mention a sticky point. If fees charged by stock market active managers are a drag on investor performance, I would argue that real estate commissions are no different, and perhaps more detrimental, especially when one considers the lifetime effects of large, forgone, upfront cash flows and the power of compounding interest. I would be pleased to hear your rejoinder on the points I've raised.

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

Well, the purchase of a home is the largest financial transaction for a significant percentage of the population that they make. And, people - a lot of people need a lot of attention. And you can show a lot of houses before you sell one. I would say this. If you look at our close to 50,000 agents now, I think they make a good living or decent living. But I would say that people who manage money make a whole lot more money with perhaps less contribution to the welfare of the person that they are dealing with.

So, I don't think that there are unusual profits involved in being a real estate agent. I don't think there are unusual profits involved in the ownership. We like it because it's fundamentally a good business. But here we are, doing 3% of all the real estate transactions in the United States, and we're making maybe \$200 million a year, which - well, we won't get into what the comparative efforts are in Wall Street to earn \$200 million. But, I think, I have to tell them about Roy Tolles a little bit on this. Roy Tolles, for example, Charlie's partner many, many, many years ago, decided he was going to want to buy a house in San Marino. He's going to have a number of kids. So he sent his wonderful wife, Martha (03:11:56), out. And for six months, he had her look at houses in San Marino. And this was many years ago. And if they were priced at \$150,000, she would offer (03:12:09), or offer \$75,000. And, of course, the real estate agents were going crazy because they're never going to get something listed at \$150,000 sold at \$75,000.

And then, finally, when she found one that they both really liked, he had her offer something like \$120,000 and the real estate was so happy to get a bid that was in the general area of that offering price that he would work very hard on the seller to take that bid, because he knew what he did not want six more months of Roy bidding at the lower prices. So, you don't sell them on the first trip.

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Incidentally, I had Roy buy a house for me, sight unseen, because this was a guy that knew human nature. You don't get rich - real estate agency - the people earn their money, and they earn it in a perfectly respectable and honorable manner in terms of what they get paid. And as in every single industry there is - there can be excesses or mistakes or that sort of thing. But we will continue to buy more brokers. In fact, we'll probably have another couple to announce before long. And we will feel that if we get to where we're doing 10% of the real estate brokerage business in the country and we're making \$600 million or \$700 million a year, pre-tax, we will not think that's a crazy amount of money to make for enabling 10% of 5 million people to change their homes every year in the United States. Charlie?

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

Well, the commissions in real estate may get unreasonable if you're talking about \$20 million houses. It seems a little ridiculous to pay a 5% commission on a \$20 million transaction. But do any of us really care of the kind of people who pay \$20 million for a house have a slightly higher commission? The ordinary commission is not - is pretty well-earned.

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

Yeah. We have a number of brokerage firms. So, the highest has their average transaction in one section of the country would be close to \$600,000 a unit. But the - in terms of the sales price of the house. But the - in most of our real estate operations, the average price is more like \$250,000 or something in that area. And you can show a lot of houses to make one \$250,000 sale. And, of course, you split - the listing company and the selling company are usually two different companies. So, it's - it does not strike me as excessive.

And incidentally, it doesn't strike the people in the industry that way either. It has not been particularly susceptible to online-type substitution or something of the sort. The real estate agent earns their commission in most cases. But Charlie's had more experience with \$20 million houses. So, he will comment on that area.

Okay. We'll have one more question before we break. Jonathan?

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

Given the changes in consumer tastes in the food business, and Kraft Heinz's already high margin structure, do you think the brands they own today, plus new product introductions, can together maintain or increase the current level of profits over the next ten years without the benefit of acquisitions? Is there anything in their portfolio besides ketchup that is enjoying growing demand?

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

Well, in effect, you're asking me whether Kraft Heinz is a good buy. And we don't want to give information on marketable securities, like, in that manner. But, yeah, there are a number of items besides ketchup that enjoy growing demand. And some vary quite a bit by geography. There's enormous differences in the penetration of various products in the portfolio.

Consumer packaged goods are still a terrific business in terms of return on invested assets. And – but the population, worldwide, grows fairly slowly (03:16:40) and at – a fairly minor rate. And people are going to eat about the same amount. And there is some more willingness to experiment, or go for organic products of the sort.

It's a very good business. And there are new products coming out constantly. It's not one where you're going to get terrific organic growth, but it never has been. And – you know, I like the business and we own 26-or-so-percent of it. But there are a number of items within Kraft Heinz that enjoy pretty healthy growth that – and I think you'd find that at most food companies, and I think you'd find very good returns on invested – on tangible net assets – at those businesses.

And with that talk about food, we will now break for lunch. And we will come back in about an hour and look forward to rejoining you.

A - Andy Serwer {BIO 15136542 <GO>}

Hello and welcome back to Yahoo Finance's coverage of Berkshire Hathaway's Annual Meeting live from the CenturyLink Center in Omaha, Nebraska. I'm Andy Serwer here with my co-host, Jen Rogers.

A - Jennifer Rogers {BIO 2325313 <GO>}

And we're going to be with you for the next hour. We have all kinds of great guests from Berkshire Director, Ron Olson to actress, Glenn Close. It is going to be a fun hour here. Is everyone gets a little lunch break upstairs?

A - Andy Serwer {BIO 15136542 <GO>}

Yeah.

A - Jennifer Rogers {BIO 2325313 <GO>}

You guys have been working hard.

A - Andy Serwer {BIO 15136542 <GO>}

It is a long Q&A and it's just half way done.

A - Jennifer Rogers {BIO 2325313 <GO>}

Yeah. What were the highlights for you?

A - Andy Serwer {BIO 15136542 <GO>}

Well, I think it was interesting when Buffet and Munger talked about the relationship with China and the trade deficit. And, of course, it's a political hot potato right now, Jen. And Buffet said, it's not such a bad thing that we get goods from China and we send them back paper. It's only when someone wants to win more than the other.

And then, of course, Munger got in the act a little bit too and had a comment. So, take a listen to that.

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

It reached - the conditions in steel are almost unbelievably adverse to the American steel industry. Even Donald Trump could be right about some of this stuff.

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A - Jennifer Rogers {BIO 2325313 <GO>}

Charlie, I was getting in a lot of zingers. So, this is your first time watching, that's kind of like how they set it up sometimes...

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

Right.

A - Jennifer Rogers {BIO 2325313 <GO>}

...like Warren answers the question and then....

A - Andy Serwer {BIO 15136542 <GO>}

And then, he goes like...

A - Jennifer Rogers {BIO 2325313 <GO>}

...Charlie just cuts in there.

A - Andy Serwer {BIO 15136542 <GO>}

All right. So, Jen, what about you?

A - Jennifer Rogers {BIO 2325313 <GO>}

I was really interested about the Wells Fargo question that came about an hour in on Wells Fargo. Charlie also getting a little bit of a zinger there. But before that, Warren Buffet really making impassioned backing of Wells Fargo which, of course, is kind of beleaguered, given all the issues that they have been having. But he says he really likes Tim Sloan. He's sticking with his stock.

Charlie Munger, though, saying that basically after you've had something bad happen, you're pretty good bet because you're going to ride that ship and you're not going to do the same thing again. And he said that he thinks that Harvey Weinstein has improved behavior.

A - Andy Serwer {BIO 15136542 <GO>}

Okay.

A - Jennifer Rogers {BIO 2325313 <GO>}

So, his analogy was that...

A - Andy Serwer {BIO 15136542 <GO>}

Well, counterintuitive maybe.

A - Jennifer Rogers {BIO 2325313 <GO>}

...if you've had like a scandal, then you're not going to have another scandal.

A - Andy Serwer {BIO 15136542 <GO>}

I guess that follows. So, let's talk a little bit about something we discussed earlier this morning, Jen and that is what was going to be the first question of the day. Carol Loomis, a veteran journalist always asks that question and it became a little parlor game for us to try to figure out what she was going to ask. She likes to do the toughest question and the first question that's the most salient, and I think we were all wrong.

Q - Jennifer Rogers {BIO 2325313 <GO>}

We were both wrong.

Q - Andy Serwer {BIO 15136542 <GO>}

And Myles.

Q - Jennifer Rogers {BIO 2325313 <GO>}

And we need to point out that Myles was also wrong as well, but here...

Q - Andy Serwer {BIO 15136542 <GO>}

What did you do? You said...

Q - Jennifer Rogers {BIO 2325313 <GO>}

I had said that maybe she was going to go and ask something on General Electric, on GE.

Q - Andy Serwer {BIO 15136542 <GO>}

Right.

Q - Jennifer Rogers {BIO 2325313 <GO>}

Because so many people have been speculating.

Q - Andy Serwer {BIO 15136542 <GO>}

Yeah.

Q - Jennifer Rogers {BIO 2325313 <GO>}

Would Warren Buffett and Berkshire Hathaway get into it? What was your guess?

Q - Andy Serwer {BIO 15136542 <GO>}

I said Wells Fargo, why do you still own it? And then Myles said, Apple.

Q - Jennifer Rogers {BIO 2325313 <GO>}

Apple.

Q - Andy Serwer {BIO 15136542 <GO>}

You said you'd never own it and now you're such a huge shareholder, but let's find out what Carol Loomis really asked.

Q - Carol Loomis {BIO 7137249 <GO>}

The question came from William Anderson (03:20:48) of Salem, Oregon and he said, Mr. Buffett, you have previously said that there are two parts to your job. Overseeing the managers and capital allocation. Mr. Abel and Mr. Jain now oversee the managers, which leaves you with capital allocation. However, you shared capital allocation with Ted Weschler and Todd Combs. Question, does all that mean you were a semi-retired, or if not, please explain?

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

I've been semi-retired for decades. The answer is that I was probably - well it's hard to break down the percentage at the time that I was involved in. What now the jobs that are now done by Ajit and Greg and in the case of investing, the subpart of the job that is done by Ted and Todd. Ted and Todd each manage \$12 billion or \$13 billion. So, in total, that's \$25 billion. And we have in equities \$170-some billion probably now and \$20 billion in longer-term bonds and another \$100 billion in cash and short terms. So they're managing \$20 billion, \$25 billion and doing a very good job and I still have the responsibility basically for the other \$300 billion, so...

Q - Jennifer Rogers {BIO 2325313 <GO>}

So he's still busy. A little bit of a tongue in cheek way to get at the succession issue certainly.

Q - Andy Serwer {BIO 15136542 <GO>}

Exactly. And I love the fact that I basically do nothing. I mean I don't think that's quite the case. He's an extremely busy guy.

Q - Jennifer Rogers {BIO 2325313 <GO>}

Yeah. Got you.

Q - Andy Serwer {BIO 15136542 <GO>}

Anyway, interesting. We're all wrong. All right. Joining us now is someone who knows a lot about Berkshire Hathaway from a lot of different angles, as you'll soon hear. Jeff Towson, Professor at Peking University in China. Jeff, great to see you.

A - Jeffrey Towson {BIO 19999716 <GO>}

Great to be here. Thanks.

Q - Andy Serwer {BIO 15136542 <GO>}

So can you talk to us a little bit about why you're here and how you're involved in with Berkshire Hathaway?

A - Jeffrey Towson {BIO 19999716 <GO>}

Well, I wouldn't say, I'm directly involved, but Peking University where I am a professor in Beijing, for the last couple of years, we've taken about 20 students per year from the MBA program Undergraduate Master of Finance. And we bring them out to Omaha, and it's part of a Q&A with many schools, but for the last couple of years what's happened is, after Q&A, Warren has sat down with the Chinese students and...

Q - Andy Serwer {BIO 15136542 <GO>}

Oh, that right there. You can see, Jeff. Right?

A - Jeffrey Towson {BIO 19999716 <GO>}

Right. This was from February, so a couple of months ago. And he spent a couple of hours each time just talking and having lunch with the students from China. And I mean, the students are ecstatic. They're on the edge of their seat. They bring questions prepared. They write up the whole thing in English and Chinese. It goes out on social media and it's turned into a really nice thing for the last couple of years.

Q - Jennifer Rogers {BIO 2325313 <GO>}

I think for a while, Warren Buffett, and Charlie Munger have been hugely popular, idolized in China. That relationship seems to be going both ways now though. We had Charlie Munger talking about China. Talk to us about Berkshire Hathaway's, the possibilities for them in China? Like how big can it get?

A - Jeffrey Towson {BIO 19999716 <GO>}

Right. Both times, Warren has made comments about certainly the Berkshire companies that are in China. Coca-Cola, Dairy Queen, I mean there's a Dairy Queen two blocks from my house. They use Warren's picture in the marketing.

Q - Jennifer Rogers {BIO 2325313 <GO>}

We keep hearing this. So Duracell and Coke and Dairy Queen.

A - Jeffrey Towson {BIO 19999716 <GO>}

Now, I don't know any other country where the Dairy Queen does this. And every Cherry Coke can in China or most of them, it seems, have his face on there. So you go any to little store, little village and you'll see his face everywhere. So you know the Berkshire companies are doing well and it helps that he is so well known, revered, admired. Outside of that, I mean I've heard him say comments in the past that he was looking at various companies in China; real estate, insurance the areas you'd expect and not a lot to do with just the scale of Berkshire. There's not that many markets that you can go to at this point to make the size of acquisitions they want. So it's U.S. and China maybe one or two others.

Q - Andy Serwer {BIO 15136542 <GO>}

Do you think it'd be difficult, Jeff, for him to buy a really big company in China just because of the regulatory environment that we're in right now?

A - Jeffrey Towson {BIO 19999716 <GO>}

Well, right now it's sort of an interesting situation, particularly this year and they alluded to this and talked a little bit about it. My take is pretty much the same that China and the U.S. when it comes to business is basically a marriage without the possibility of divorce. There may be some arguments from time-to-time but neither party is going anywhere. And big acquisitions I think CEOs in China would line up to have Berkshire as a partner and that's pretty much what happened with BYD in the past.

Q - Andy Serwer {BIO 15136542 <GO>}

Now, didn't you sense, you told us that you sensed maybe that something might be brewing or that certainly there's interest via a comment that Munger made?

A - Jeffrey Towson {BIO 19999716 <GO>}

Charlie Munger did mention China a bit and you know Charlie Munger is an investor in Himalaya Capital run by Li Lu. Li Lu is very, very famous in China. When we talk to students about investors, Li Lu is who they want to talk about. And I know him and his folks are in China all the time. They actually teach - Himalaya Capital teaches a course at Peking University down the hall from me. So yeah there's a lot of interaction between Pasadena and China. And I think Mr. Munger is involved in that to some degree, but I don't know specifics.

Q - Jennifer Rogers {BIO 2325313 <GO>}

What are you looking forward to this afternoon? Is there anything else that you haven't heard, that you want to hear?

A - Jeffrey Towson {BIO 19999716 <GO>}

I am hoping Charlie will cut loose a little bit more. He was a little bit - I like when he's not so friendly.

Q - Jennifer Rogers {BIO 2325313 <GO>}

He had a couple of...

A - Jeffrey Towson {BIO 19999716 <GO>}

He dabbled in it but he didn't go full guns.

Q - Jennifer Rogers {BIO 2325313 <GO>}

Not...

A - Jeffrey Towson {BIO 19999716 <GO>}

And I'm waiting for one real shot.

Q - Jennifer Rogers {BIO 2325313 <GO>}

Oh Charlie.

Q - Andy Serwer {BIO 15136542 <GO>}

He was actually a little bit more talkative than usual.

A - Jeffrey Towson {BIO 19999716 <GO>}

He was speaking more. I didn't hear the I have no comment. I have no comment, but then within the talking, it was it was strangely polite. It's a...

Q - Jennifer Rogers {BIO 2325313 <GO>}

A couple of times he said, I don't want to answer that question...

A - Jeffrey Towson {BIO 19999716 <GO>}

Right.

Q - Jennifer Rogers {BIO 2325313 <GO>}

...to Warren. But, right, we got - maybe the gloves will come off.

A - Jeffrey Towson {BIO 19999716 <GO>}

It was a little bit. There're a couple of zingers, but I want like 100% like both barrels, at least one time.

Q - Andy Serwer {BIO 15136542 <GO>}

And Jeff, you've also been affiliated with Columbia University which has ties to Buffett over the years. Can you talk about that?

A - Jeffrey Towson {BIO 19999716 <GO>}

Well, I went to business school there and there's a long history of Ben Graham, Warren Buffett, a lot of the value investors, Mario Gabelli, he's here as well. And there's a contingent from Columbia Business School here which is pretty much every year. A lot of what I'm doing in China, I teach about legendary investors, Warren Buffett, Ben Graham, Seth Klarman and Phil Fisher, and I'm pretty much copying Columbia Business School. I mean I'm taking the curriculum they have developed over 60 years and sort of re-adapting it to China. And the classes are very, very popular. I don't think it's me. I think the subject matter is very, very popular.

Q - Andy Serwer {BIO 15136542 <GO>}

But he's pretty popular, right?

Q - Jennifer Rogers {BIO 2325313 <GO>}

Yeah. I mean you're really not picking yourself up here. You're like one of the most popular people on LinkedIn in China, right. The only social network there is.

A - Jeffrey Towson {BIO 19999716 <GO>}

I think I'm number one, but I don't know what that means. It doesn't mean they like what you're saying. It just means someone's clicking at some point. That may not...

Q - Jennifer Rogers {BIO 2325313 <GO>}

It's pretty good.

A - Jeffrey Towson {BIO 19999716 <GO>}

...be all it's cracked up to be.

Q - Jennifer Rogers {BIO 2325313 <GO>}

All right. Jeffrey Towson, Peking University. Thanks so much.

A - Jeffrey Towson {BIO 19999716 <GO>}

Thank you.

A - Jennifer Rogers {BIO 2325313 <GO>}

Now we want to give you a quick peek at an event we held here in Omaha yesterday with a group of Chinese investors.

[Video Presentation] (03:28:28-03:35:53)

A - Andy Serwer {BIO 15136542 <GO>}

Interesting hearing Congressman Bacon talking about trade. Everyone's talking about trade. It is top of mind right now.

A - Jennifer Rogers {BIO 2325313 <GO>}

Certainly, we heard in there in arena.

A - Andy Serwer {BIO 15136542 <GO>}

All right. Coming up later in our halftime show, we'll talk with Jim Weber the CEO of Brooks Running.

A - Jennifer Rogers {BIO 2325313 <GO>}

Right now we're going to send it up to Myles Udland. He's in the press box with Berkshire Director, Ron Olson.

A - Myles Udland {BIO 20165611 <GO>}

All right, Jen and Andy thanks so much. Ron, thanks for joining us.

A - Ronald L. Olson {BIO 521861 <GO>}

Thanks.

Q - Myles Udland {BIO 20165611 <GO>}

First, I want to ask you you're coming up on your 21st year on the board of directors, that'll happen in August. What are the changes that you've seen both in the meeting and in the company over that time?

A - Ronald L. Olson {BIO 521861 <GO>}

Well, I think the one-word description would be bigger. Company is bigger, the meetings are bigger. I think this year, we've got 42,000, 43,000 people here for this meeting. I think the only meeting in the country that makes money in connection with its annual meeting. The businesses have continued to grow, those we had 20 years ago and those that we've acquired since. So as Warren has clearly reported year-after-year, we continue the process step-by-step. And we don't have any magic. It's a slow, steady, constant focus on becoming more so.

Q - Myles Udland {BIO 20165611 <GO>}

All right. And a question that I think has come up a lot in the media and a question that I think that a lot of shareholders have is succession at the company, who will replace Warren? A couple of moves have happened over the last few years. Todd and Ted have come on as investment managers. And then we've had Ajit and Greg join as Vice Chairman of the board. You've talked in the past about succession, the board's view on succession. How have those moves changed what the board is thinking or perhaps what Warren and Charlie are thinking or what you are thinking about the next steps for Berkshire out in 10, 20 years?

A - Ronald L. Olson {BIO 521861 <GO>}

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Well, succession for the board is a regular topic. And we know what we would do if a bus hit Warren tomorrow, but I think, to some extent, the media has overplayed this whole - the Vice Chairmanship given to Greg Abel and to Ajit Jain. This is not a bake-off for Warren's successor. To the contrary, I think people have missed one very important point. I see it as very much an extension of the Charlie and Warren show. As you've taken note of with your first question, the greater size of Berkshire, it has become increasingly more difficult for one person namely, Warren, to oversee not just the use of our capital but the ongoing businesses.

And while I think he's done a terrific job all these years, it's obvious to him as well as the rest of the board members that getting some help in that regard will extend this unique asset that we all share and want to extend as long as we can by giving him a little more support and giving two very able people the opportunity to get to know a broader segment of the businesses than they had been operating themselves, and I think I'm already seeing that.

I mean, Warren would be the first to admit that there're things that he procrastinated on, didn't get done that should have been done. He recognized that. Well, I've seen Greg and Ajit get things done and will continue to get things done. So well, obviously, these are two very talented people. And if something happened tomorrow, they'd be on our plans, but this is not about the next CEO and a run-off between them. I really think more emphasis should be put on how this is going to help Warren and Charlie remain in the saddle. And from my perspective, they both deserve to stay in the saddle for a long time. Neither one has deteriorated upstairs, (03:40:37). If anything, they've only become more able, more experienced, better judgment. And given Warren's unique ability to communicate, to teach, to see the next big investment opportunity and take advantage of it, the patience they use in waiting for that opportunity, we want to extend that as long as we can extend it.

A - Myles Udland {BIO 20165611 <GO>}

Yeah. Well, as Warren said earlier today, it'll help him remain semi-retired, perhaps. Yeah, Ron Olson, I want to thank you so much for joining us. We'll go back to the floor with Jen and Andy.

A - Andy Serwer {BIO 15136542 <GO>}

All right. Thanks Myles. That was Myles Udland with Berkshire Director, Ron Olsen. Let's go down to Yahoo Finance's Julia La Roche on the floor with noted value investor, Whitney Tilson. Julia?

A - Julia La Roche

That's right. I'm here with Whitney Tilson, the Founder of Kase Capital and he's now running Kase Learning. Hi, Whitney, welcome.

A - Whitney Richard Tilson {BIO 5473807 <GO>}

Thank you.

Q - Julia La Roche

Now you said that the biggest takeaway for you didn't necessarily happen in the arena. What was that?

A - Whitney Richard Tilson {BIO 5473807 <GO>}

Sure. Well, Berkshire concurrent with its annual meeting, always releases Q1 earnings and they were blowout earnings and yet the new accounting rules require Berkshire an almost \$200 billion stock portfolio and it just bounces around, doesn't mean anything, but some of their stocks were down this quarter. So, Berkshire has to report their quarterly earnings deducting losses of their bouncing around stock portfolio. So the headlines are Berkshire has a rare loss, loses \$1 billion and in reality it was blowout quarter.

They reported \$6.6 billion of pre-tax earnings driven by 130% gain in insurance, 25% gain in manufacturing, a 12% gain in railroad. So, you add it all up, Berkshire's pre-tax operating earnings grew 30% pre-tax. And then with the change in the tax law, Berkshire was a full tax payer. So, as one of the biggest corporate beneficiaries, their tax rate dropped from 30% to 20%, so that means after-tax earnings rose 49% for one of the largest companies in the world. That's just extraordinary and I think people are going to look at the headlines and think it wasn't a good quarter. It was exact opposite.

Q - Julia La Roche

Now, you've been coming here for 21 consecutive years now. So now you're in the money management business now, but you're helping teach folks the next generations. What do you get out of coming here?

A - Whitney Richard Tilson {BIO 5473807 <GO>}

Yeah. Well, initially I came here because I was learning value investing, I was running my own little funds. And so I was coming here for investing lessons. What I realized though, over 21 years is, I think I've gotten more out of these meetings and going to other, like Charlie Munger's old Wesco meeting, et cetera, I've learned more from these old guys outside of investing, that's made a bigger difference in my life.

They've been just great role models and the things they teach about developing good habits and being super high integrity, never going close to any ethical lines. And Charlie is always riffing on avoiding calamities. He always says, all I want to know is where I'm going to die, so I never go there. And those are things that I have internalized over the years, that have helped me think about our life differently, live my life differently and even now that I'm not managing money professionally anymore, I still keep coming because who doesn't want to be a better human being and learn from wise old guys about that.

So in fact, I'm writing a book about it, coming out in August called Beyond Value Investing, life lessons from Warren Buffett, Charlie Munger, a little parenthesis, and me, right? So, this is my - I've written three investing books. And now, I'm going to write a non-investing book about all the things I've learned from them in life, for all the wisdom.

Q - Julia La Roche

Now you've asked eight questions over the years, that's a lot of questions. So...

A - Whitney Richard Tilson {BIO 5473807 <GO>}

It feels like more. Have you been counting? I would guess over 21 years, it's probably been dozen or more, but probably more than anyone else is my guess.

Q - Julia La Roche

So I have to ask you, what question would you ask Warren and Charlie today?

A - Whitney Richard Tilson {BIO 5473807 <GO>}

I've been curious. I like the fact that they're buying Apple and that even at their age, they're sort of expanding their investing horizons and being willing to buy a tech stock, right? I've looked hard at a lot of the big tech stocks and personally, I'm a little bit more of a fan of Google. I like Apple. I think Google's equally cheap, equally strong balance sheet, but it's just a better business model. They don't actually have to make things. And I think they can grow more easily over the next 10 years. So I think it's a little bit better business model with a bit higher growth rate, equally cheap as Apple. So when I saw, Berkshire already has a \$28 billion holding in Apple and they just bought another \$12 billion, which is already up a couple of billion just since they bought it. So it's been a great buy.

On the other hand, as a shareholder, I actually would've liked to see them add \$12 billion to Google to the \$28 billion of Apple. So, they don't like talking about their stocks. I don't think it would be worth asking the question here at the meeting because I think they'll sort of puns on it, because maybe they do want to buy Google someday, maybe at a better price, right? So they won't really talk about it. But I were sitting one-on-one, off the record with Mr. Buffet, I'd want to hear his thinking on that because I come out differently than they were came out I think.

A - Julia La Roche

All right. That's Whitney Tilson of Kase Learning. Back to you, guys.

A - Jennifer Rogers {BIO 2325313 <GO>}

Julia La Roche, great interview there. Really interesting to hear Whitney's thoughts. Now, we are moving on from supermodel to super mogul. Kathy Ireland joins us; her lifestyle company Kathy Ireland Worldwide is a multibillion dollar lifestyle brand and Warren Buffett has been critical in her success. Great to see you again.

A - Kathy Ireland {BIO 1642528 <GO>}

Well, thank you. Thank you both of you. It's wonderful to be here. And thank you for bringing this Berkshire Hathaway shareholders meeting to everyone. I mean...

A - Jennifer Rogers {BIO 2325313 <GO>}

It's wonderful.

A - Kathy Ireland {BIO 1642528 <GO>}

...around the globe, it is fantastic.

Q - Jennifer Rogers {BIO 2325313 <GO>}

Kathy, what brings you back year-after-year?

A - Kathy Ireland {BIO 1642528 <GO>}

We love it. It's an extraordinary education. We come here with the Blumkin family of Nebraska Furniture Mart, and Herb Blumkin, best friends with Mr. Warren Buffett and it's an education. So what I learned from listening to Mr. Buffett and Mr. Munger, I get to bring to our team. And floor-wise, we implement what we learn because there's some wonderful advice.

Q - Andy Serwer {BIO 15136542 <GO>}

Can you talk about your business? Where does it stand today? What are the opportunities?

A - Kathy Ireland {BIO 1642528 <GO>}

Our business is growing. It's the 25th year of our brand. We started in 1993 with a pair of socks and we're here with the Nebraska Furniture Mart. We have our partners in Casegoods, Michael Amini, Kathy Ireland Home, Larson-Juhl's which is part of Berkshire Hathaway, Pacific Coast Lighting, Nourison and then beyond fashion, diamonds, we have a millennial team at kathy ireland Worldwide. Our original team we've been together 29 years. And the younger generation...

Q - Andy Serwer {BIO 15136542 <GO>}

Yeah.

A - Kathy Ireland {BIO 1642528 <GO>}

...they're instrumental and working - our company will always be private, but they're responsible for a company called Level Brands on the New York Stock Exchange, LEVB. And everything from entertainment, experiential, kathy ireland Health and Wellness, we're working with a company called Isodiol, Be Trū, kathy ireland Health and Wellness...

Q - Jennifer Rogers {BIO 2325313 <GO>}

Yeah. I want to jump into this because it's cannabinoid, right?

A - Kathy Ireland {BIO 1642528 <GO>}

It is.

Q - Jennifer Rogers {BIO 2325313 <GO>}

Hemp.

A - Kathy Ireland {BIO 1642528 <GO>}

It is hemp.

Q - Andy Serwer {BIO 15136542 <GO>}

Yeah. What is that about, Kathy?.

A - Kathy Ireland {BIO 1642528 <GO>}

It's CBD. We used no THC.

Q - Andy Serwer {BIO 15136542 <GO>}

Oh, okay.

A - Kathy Ireland {BIO 1642528 <GO>}

And so, if you think about - we give our children grapes and grape juice, but not the wine...

Q - Andy Serwer {BIO 15136542 <GO>}

I see.

A - Kathy Ireland {BIO 1642528 <GO>}

...and you get the good benefits of it, the healing benefits of it. And the vision of our company is teach, inspire, empower, make our world better. We serve the Millennium Development Goals. We have 10 of them that we work with. And every company with whom we work signs up for one of them in a meaningful way whether it's fighting human trafficking, supporting our vets, combating diseases.

Q - Jennifer Rogers {BIO 2325313 <GO>}

As you said, you started with a pair of socks...

A - Kathy Ireland {BIO 1642528 <GO>}

I did.

Q - Jennifer Rogers {BIO 2325313 <GO>}

... and one thing that you credit Buffett for or you say Mr. Buffett, I like that a lot. So, Mr. Buffett with...

A - Kathy Ireland {BIO 1642528 <GO>}

Mr. Buffett.

Q - Jennifer Rogers {BIO 2325313 <GO>}

...that he got you kind of out of just thinking about fashion broader, but still, for a large part of it is a retail business.

A - Kathy Ireland {BIO 1642528 <GO>}

Right.

Q - Jennifer Rogers {BIO 2325313 <GO>}

How do you operate in the retail world right now when Amazon is just seems to be disrupting so much?

A - Kathy Ireland {BIO 1642528 <GO>}

It's so critical how we work with our retail partners with the click versus brick and there are new and innovative ways, in which we can do this. We partner with our retail partners very strategically. We have proprietary programs where we share revenue if somebody purchases online for certain products within a certain radius. We come up with incentives. We're very engaged with our retail partners and we've built our brand grassroots. Something that Mr. Buffett says is that the independent channel will always remain competitive against the big box, and I believe this to be true. Yes, Internet has changed everything, but there's something special about that independent retailer and we've just got to work ever stronger, ever more vigilantly and efficiently. And there's wonderful creative ways to really make it an experience and drive the customers in.

Q - Andy Serwer {BIO 15136542 <GO>}

Kathy shifting gears a little bit. I want to ask you about the Me Too movement both from your former career as a model and now as a female executive. Do you see this as a real reckoning for America in a time where we need to change behavior?

A - Kathy Ireland {BIO 1642528 <GO>}

I was speaking with a young lady, 15-year-old girl here on the floor today, Cecilia (03:50:27) who shared with me that she wants to be a model. And something that I shared with her is be alert. And yes, I do see this movement growing. And I think it's wonderful that we're having these conversations because unfortunately there will always be predators out there. And it's so important for young people to understand their value and to put boundaries in place to protect them because they will be challenged. And to first of all try everything not to put yourself in a compromising situation, but get out of there if you are in one. And something I'm so grateful for in my life is to have parents who always encouraged me that I could do anything for a living and to walk away from a situation that would dare to compromise.

A - Jennifer Rogers {BIO 2325313 <GO>}

Kathy Ireland, running the gamut from Me Too to Amazon to Mr. Buffett. It's great to see you here.

A - Kathy Ireland {BIO 1642528 <GO>}

Well, Thank you.

A - Jennifer Rogers {BIO 2325313 <GO>}

Thank you so much.

A - Kathy Ireland {BIO 1642528 <GO>}

And again, thank you for bringing this to the world. We so appreciate it. Thank you.

A - Andy Serwer {BIO 15136542 <GO>}

Thanks, Kathy.

A - Jennifer Rogers {BIO 2325313 <GO>}

Let's head back to the arena right now and Myles Udland who is with Robert Miles (03:51:34), a noted Buffett authority and author.

Q - Myles Udland {BIO 20165611 <GO>}

Thanks, Jen. Bob (03:51:39), thanks so much for joining us. I wanted to first ask you you've been coming to this meeting for a long time. We heard Ron Olson talked about how it's mostly just gotten bigger. What's your view on how you've seen it change over the years?

A - Andy Serwer {BIO 15136542 <GO>}

Well it indeed has gotten bigger like Ron said, but I'm also seeing for the first - well, these last few years a very large Asian contingency of discovering Warren Buffett. It's being translated simultaneously in Mandarin. So, obviously that's translated into more attendance.

Q - Myles Udland {BIO 20165611 <GO>}

So I want to talk a little bit about your work and your study of Warren Buffet. You teach a class about the - what you call the genius of Warren Buffet. As a manager, now a lot of people I think view Warren Buffet as an investor. Do you think that those two skills are a lot different? Do you think they're related and how would you define his managerial prowess against his skills as an investor?

A - Andy Serwer {BIO 15136542 <GO>}

Actually he's wildly heralded as the greatest investor ever to live, but he's also, should be known for being the greatest manager. His most proudest accomplishment he told me was that in 47 years of being CEO of Berkshire Hathaway, he has not lost one subsidiary CEO to a competitor and that's his most proudest accomplishment. And when I asked him how he would measure his successor? He said, if he or she too could say, I never lost a sitting CEO of a subsidiary business to a competitor.

Q - Myles Udland {BIO 20165611 <GO>}

Now, how would you maybe one or two principles that you have found in your work that Buffet tends to follow that maybe created the situation where he didn't lose a CEO for almost five decades?

A - Andy Serwer {BIO 15136542 <GO>}

Well, this is a group of managers who don't want to be micromanaged. So he leaves them alone. They're able to call him as often or less as they wish, but they are to send a monthly financial statement and that's the only requirement that he has of them. And any major capital expense that they are going to experience, he wants to know about and every other year, he wants them to name their successor. If something happened to them, they have somebody to put in place to take over their role as CEO of the subsidiary business.

Q - Myles Udland {BIO 20165611 <GO>}

Now I want to, your book first came out, The Warren Buffett CEO in 2002 I believe I've been 16 years since then. How or has Buffet's view on managing rather not changed over that time or has he made evolutions in the last decade and a half?

A - Andy Serwer {BIO 15136542 <GO>}

Yeah. He says his investment principles are principles because they do not change. And what I have found in the CEOs that have been added since I wrote the book, they're same cloth and fabric as all the ones that I profiled in the book. He tells them to forget that they've sold the business to Warren and to keep running the business as if this was the only asset they and their families owned and he will forget he bought it and he hopes they forget they sold it.

Q - Myles Udland {BIO 20165611 <GO>}

Yeah. Now, speaking of CEOs, we have to talk about Warren Buffett as a CEO in succession and Berkshire Hathaway. We've got a lot of shareholders are thinking about it. A lot of people are discussing it, they're here at the meeting or on the side leading up to it. So what's your view on succession? Maybe who do you think will be the next CEO of Berkshire Hathaway and what are the changes that they've made in terms of bringing in Ted and Todd and adding members to the board in the last two years. Signal to you about where the leadership of Berkshire Hathaway might be headed?

A - Andy Serwer {BIO 15136542 <GO>}

Well, he said early on that he really admired the GE model where Jack Welch was put in place and given a 20-year runway, of which to run GE. So he would like that model to be followed by Berkshire Hathaway. So it really depends when he retires which he says will be about five years after his death and then he's going to communicate to the board through regular séances, but it's already in place. His job will be split into three parts. There'll be a non-executive chairman of the board, most likely his son, Howard Buffet who's on the board. There'll be a CEO in-charge of Asset Allocation already in place with Ted and Todd

and now there'll be a CEO in-charge of Operations most likely to be Ajit and Greg all depending on when he retires, which we as shareholders hope is a long, long time away.

Q - Myles Udland {BIO 20165611 <GO>}

Sure. And now very quickly I want to get your thoughts on Apple, a company that Berkshire Hathaway didn't own just two years ago and now it's one of their largest holdings. I think it's their largest holding in fact added to it just yesterday - or news came out they added to it yesterday. You were skeptical about a year ago of why they bought it. They've roughly doubled their stakes since then. How have you, kind of, changed or evolved or thought more about their position in Apple?

A - Andy Serwer {BIO 15136542 <GO>}

Well, I actually went around the world this summer and I visited eight countries. And what I observed in the countries that I visited is there is an addiction shared by all countries, no matter their social economic level, and the addiction is the smartphone. So, I began to see where Ted and Todd may have saw initially making their \$1 billion investment before Warren followed them into Apple. This is a moat that is not going away and is an addiction shared by the world.

A - Myles Udland {BIO 20165611 <GO>}

Yeah. And I think moat was one of the operative words of the morning. Bob Miles (03:57:21) thanks so much for stopping by. Jen and Andy, back to you.

A - Andy Serwer {BIO 15136542 <GO>}

All right. Thanks a lot, Myles. You know there're a number, of Buffettologists out there. Buffett experts and Bob Miles (03:57:31) is probably the foremost of them.

A - Jennifer Rogers {BIO 2325313 <GO>}

It was very interesting to hear his thoughts. I love it. I do think moat is one of the themes. And Charlie said, he's not going to build an actual moat.

A - Andy Serwer {BIO 15136542 <GO>}

Yeah. That's probably a good idea. Anyway, Jen, a popular booth here on the floor is Brooks Running. And Julia La Roche is with the CEO, Jim Weber. Julia?

A - Julia La Roche

I'm with Brooks Running CEO, Jim Weber. Jim, welcome.

A - James M. Weber {BIO 1916112 <GO>}

Thank you. It's good to be here.

A - Julia La Roche

Sorry. I messed that up. Can we do that again? Sorry. I should have...

A - James M. Weber {BIO 1916112 <GO>}

No worries.

A - Julia La Roche

Sorry. Okay. I'm with Brooks Running CEO, Jim Weber. Jim, welcome.

A - James M. Weber {BIO 1916112 <GO>}

Thanks, Julia. It's good to be here.

Q - Julia La Roche

All right. So tell us the benefit of being a Berkshire Hathaway owned company?

A - James M. Weber {BIO 1916112 <GO>}

Here is the business side of it. The truth is, it's a great competitive advantage for us because we're trying to build a brand and a good business over the long haul. We're really focused on runners and all who run all around the world. And having Berkshire as a platform to build a brand from it, doesn't get any better because we want to make our numbers every quarter, every year. We work hard at that, but the real focus is that our brand is getting stronger year-after-year and the support from Berkshire to build our brand is total. So it's a real advantage for us.

Q - Julia La Roche

Now we have some special limited edition sneakers here. Show us what we have?

A - James M. Weber {BIO 1916112 <GO>}

So this is our number one selling shoe, The Adrenalin. And we really deck it out with probably two of the best celebrities in investment. This shoe is the left hand shoe and we've got Charlie Munger in this one and Warren's on the other shoe on the right, but The Adrenalin is one of our best selling shoes of all time. It's a great running shoe and we do a Berkshire Hathaway Special Edition just for this weekend.

Q - Julia La Roche

Now I know you all just had your record quarter, your most profitable quarter. How are you able to find that success?

A - James M. Weber {BIO 1916112 <GO>}

It's a really interesting time at retail and the consumer world because there's so much choice for everyone. And we decided when we stalled running slowed down a little bit in 2015 and 2016, we doubled down on performance. We reinvented our product line and we're distinguishing ourselves right now. People have so many choices and right now our

product is fantastic. All new technology, all new design and I think runners are choosing Brooks. So it's an exciting year for us right now.

Q - Julia La Roche

Well, you just mentioned the topic that everyone's talking about in retail, and especially specialty retailers, the sports apparel stores closing. So where are you finding success in terms of selling your sneakers? Are you finding it online, in store?

A - James M. Weber {BIO 1916112 <GO>}

Retail, in our category, I think is stabilizing and settling out a little bit. In 2016, we lost over 800 stores globally to bankruptcy and closure, but it settled out in 2017 and 2018 and so right now, our best retailers are actually doing really well. And many of them have gone omni-channels. So the direct-to-consumer business continues to grow for us and many of our retail partners, even the small specialty shops, they're testing home delivery, many of them are very active in social media and creating running communities. So retailers are evolving, and we're trying to support and help evolve with them, but retail is good right now, I would say. It could be better, but it's good.

Q - Julia La Roche

A lot of the major shoemakers have partnered with celebrities. And when I think of Brooks Running, what I'm recently thinking of is that Boston Marathon and Desi Linden's finish. Tell us how that's been helping your business?

A - James M. Weber {BIO 1916112 <GO>}

It's inspiring. Desi Linden has been focused on Boston for many, many years. She's been a second a few years back. But that victory for her was epic. And it was a grind, and she earned it and she raced it and won it. So for us to be associated with her, I think she's going to inspire thousands of young runners, hopefully boys and girls. But it's just a great story and a story like that, first American woman in maybe 33 years to win a Boston, it inspires a lot of people to get out and run.

Q - Julia La Roche

Thank you so much, Jim. All right. Back to you, guys.

A - James M. Weber {BIO 1916112 <GO>}

Are you running tomorrow morning? There's a race here. There's a 5K, Jen Rogers.

Q - Jennifer Rogers {BIO 2325313 <GO>}

I'm like a maybe in the entrance, I have my shirt and I brought my running clothes. Are you running?

A - James M. Weber {BIO 1916112 <GO>}

I am running. I signed up and it's a great thing. I mean, the party continues all different kinds of people, people from around the world wearing different outfits. Actually, I heard the theme is rock and roll. And so I was in line with an executive from the Oriental Trading which is one of the Berkshire companies, and he said he has an Elvis suit. And I said well then, you got to wear it. If you got an Elvis suit and there is a rock and roll race, you got to put it on. But there's a lot of Brooks stuff down there. \$17, Brooks Berkshire Hathaway socks.

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Q - Jennifer Rogers {BIO 2325313 <GO>}

I have to admit that I did buy the \$17 Brooks socks. The most expensive socks I've ever bought. Now I can't wait to wear them. Have you gotten anything on the floor?

A - James M. Weber {BIO 1916112 <GO>}

I got the socks and I also did step by (04:02:15) place to buy some intimates. Is that the right word?

Q - Jennifer Rogers {BIO 2325313 <GO>}

It is. I think you could, I mean, you got the boxers, right?

A - James M. Weber {BIO 1916112 <GO>}

Yes, boxers.

Q - Jennifer Rogers {BIO 2325313 <GO>}

Yes. I got the boxers also.

A - James M. Weber {BIO 1916112 <GO>}

Okay.

Q - Jennifer Rogers {BIO 2325313 <GO>}

I got that. You got to get the See's Candy (sic) [See's Candies] (04:02:26), couple of things [indiscernible] (04:02:28) it's all good.

A - James M. Weber {BIO 1916112 <GO>}

Right.

Q - Jennifer Rogers {BIO 2325313 <GO>}

So we're about 15 minutes away now for, when we think the afternoon session of the Q&A is going to start. I think it was interesting listening to Whitney Tilson and Julia talk there a lot more about Apple and also Google. I think that people were expecting that there would be more conversation or more questions maybe around Apple. Will we get that this afternoon?

A - James M. Weber {BIO 1916112 <GO>}

I mean I think so. It's a company that everyone cares so much about. And Berkshire is such a large shareholder now and they increased their position, the stock is up. The market capitalization is getting close to \$1 trillion, Jen. And it's a consumer-facing company. Everyone has the iPhone and of course, Buffett said, he was never going to own a technology company and it wasn't until Todd Combs and Ted Weschler came on board as his investment advisors that he was doing it and that he made that purchase. And of course, it was actually their decision.

Q - Jennifer Rogers {BIO 2325313 <GO>}

Yeah. It's hard to believe that, that first purchase was made what Q1 2016 and how fast that's become so big for them. One question that seemed to get a lot of attention from people was the question on guns that Andrew Ross Sorkin asked. Let's take a listen to that.

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

I should say this may be one of the most pointed questions I've ever received for you.

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

But you elected to give it, though anyway.

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

But I did. The shareholder writes, I have watched the movie every year at this meeting, when you testify in front of Congress on behalf of Salomon, as the symbol of what it means to have a moral compass. Investors are increasingly looking to invest in companies that are socially and morally responsible. So I was disturbed when you were asked on CNBC about the role the business could play in sensible policies around the sales of guns. You said you didn't think business should have a role at all, and you wouldn't impose your values on others. I was even more surprised when you said you'd be okay with Berkshire owning shares in gun manufacturers. At this meeting years ago, you said you wouldn't buy a tobacco company because of the social issues. The idea that Berkshire would associate with any company as long as it isn't illegal seems at odds with everything I think you stand for. Please tell us you misspoke.

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

Well, let's explore that a little. Should it be just my view, or should it be the view of the owners of the company? So, if I decide to poll the owners of the company on a variety of political issues, and one of them being whether, Berkshire Hathaway should support the NRA, I don't - if a majority of the shareholders voted to do it, or if a majority of the Board of Directors voted to do it, I would accept that. I don't think that the - my political views - I don't think I put them in a blind trust at all when I take the job. And in the elections of 2016, I raised a lot of money.

In my case, I raised it for Hillary. And I spoke out in various ways that were quite frank, but I don't think that I speak - when I do that, I don't think I'm speaking for Berkshire. I'm

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speaking as a private citizen. And I don't think I have any business speaking for Berkshire. We have never - at the parent company level, we have never made a political contribution. And I don't go to our suppliers. I don't do anything of that sort where I raise money either for the school I went to, or for a political candidate I went to, or anything else. And I don't think that we should have a question on the GEICO policyholder form, are you an NRA member, and if you are, you just aren't good enough for us, or something. That I think I do not believe in imposing my political opinions on the activities of our businesses. And if you get to what companies are pure and which ones aren't pure, I think it is very difficult to make that call.

A - James M. Weber {BIO 1916112 <GO>}

It's a very interesting conversation about guns. And obviously, it's something that's taking place at all levels of society, companies, individuals, the regulatory process lawmakers, et cetera. Interesting to hear those guys talk about that.

Q - Jennifer Rogers {BIO 2325313 <GO>}

Yeah. Definitely.

A - James M. Weber {BIO 1916112 <GO>}

All right. Shifting gears, Julia has now moved over to the Nebraska Furniture Mart. And she's with the Chairman, Ron Blumkin. Julia?

Q - Julia La Roche

I'm here with Ron Blumkin, the Chairman of the Nebraska Furniture Mart. Ron, welcome.

A - Ronald Blumkin

Thanks, Julia.

Q - Julia La Roche

Now, your grandmother, Mrs. B, the Founder of the Nebraska Furniture Mart, she did a handshake deal 35 years ago with Warren Buffett. So, tell us a bit about who she was.

A - Ronald Blumkin

Well, my grandmother, Mrs. B immigrated from Russia. She actually tells a great story. She had to get out of Russia. It was no choice. And she actually bribed a border guard with a bottle of vodka, said, I'm just going to go across the border. And when I come back, I'm going to bring you a bottle of vodka. And that was the only time I'm aware of my grandmother ever didn't tell 100% the truth. She never came back.

Q - Julia La Roche

Now what kind of business woman was she?

A - Ronald Blumkin

Well, when she was in Russia, believe it or not, as a late teen, she actually ran a small business for her boss. And she talked about it in terms of a big business. She actually had six people working for her. And remember, she's only a teen. And even back then, she had great business instincts and was quite driven. But when she came to the United States, married, lived in Omaha, Nebraska, raised her family up until 1937. And then of course, you might remember 1937 was the height of the great depression.

And my grandmother, who spent her time prior to that raising the family, she got tired of the family, the neighbors, the country, complaining about how tough times were and by then, her youngest child was high school, beyond high school age, actually in senior high school. And she decided that she is going to show him. And she says, I'm going to start a business and I'm going to show you how to run a business and with \$500 of borrowed money in the basement of her husband's pawnshop, she started with, it's now Nebraska Furniture Mart.

Q - Julia La Roche

And it certainly caught the attention of Warren Buffet. What's been the benefit of being a Berkshire Hathaway-owned company?

A - Ronald Blumkin

I can't begin to tell you all the benefits. First of all, having Mr. Buffet is not only a friend, but a business partner in a manner has been incredible for me, my brothers who are my business partners, just the learning lessons. And the simple philosophy of integrity is what's it's really about. And you can lose money for the company but not one shed of honor or integrity and just simple kind of lessons. Plus, having them there to bounce ideas off of which is very interesting because of, he'd never exactly tell you do this or do that. But he'll tell you stories based on what he's seen or what he's done, kind of give you a clear path as to where you need to go.

And by the way, speaking of Mr. Buffet, my grandmother, she adored him. She absolutely adored him. And when they did that famous handshake in 1983, and again, at the time, there were other offers on the table that were higher. But she was extraordinarily comfortable with the idea that we could sell the business to Berkshire Hathaway and she'd still be in charge and she could still run it as she always wanted to.

Q - Julia La Roche

Ron Blumkin, Chairman of the Nebraska Furniture Mart. Thank you so much.

Q - Ronald Blumkin

May I also suggest that since it's still pretty early in the event, Nebraska Furniture Mart is offering special deals to our shareholders here in Omaha, Kansas City, Texas, come on in. We want the business and we love our customers.

Q - Julia La Roche

Thank you.

Q - Ronald Blumkin

Thank you.

Q - Andy Serwer {BIO 15136542 <GO>}

All right, we want the business that's why...

Q - Julia La Roche

I've got a couple of candles there and some hand lotion. I'm just putting that out.

Q - Andy Serwer {BIO 15136542 <GO>}

All in the name of capitalism. Good stuff. All right. You never know who you're going to run into here at Berkshire Hathaway. I mean, joining us now is an award-winning actress and producer, Glenn Close. Glenn (04:11:06), great to see you.

Hi, Andy. Nice to see you.

I love your suit. It's a beautiful...

Thank you.

...blue, is sort of the color here today, right?

Yeah.

We're all looking good like that. So, for people who don't know, you've been around here before.

Yes.

What brings you to Berkshire Hathaway?

Love of Warren and - who has become my friend. And I just think - and Charlie, and you just want them to be here forever. And I want to be able to come here as much I can to experience the phenomenon of those two men talking to this 40,000 people silent.

Q - Julia La Roche

Everyone is paying attention.

Q - Andy Serwer {BIO 15136542 <GO>}

It's amazing.

Yeah. I mean, it's interesting to me because you've been here a number - how many years have you been coming here?

This is my third.

Your third.

Yeah.

And, in a way, it's sort of the same thing but it doesn't get old. How is that?

No. Because, well, the world changes and they have very, very interesting questions and even though I have to say I don't understand everything that they're talking about, the fact that we learn that Warren spends probably most of his time reading and thinking. So what - his answers are worth listening to. And I just find it remarkable and then he'll defer to Charlie and then say three words.

Q - Julia La Roche

We'll get a joke.

Q - Andy Serwer {BIO 15136542 <GO>}

It's a great buddy act, isn't it?

It's a great buddy act.

Q - Julia La Roche

We're hoping for - we had a guest earlier he says he's hoping for some more Charlie action this afternoon. So we get some more zingers out of him. From this morning, is there anything that stuck with you? Like pearls of wisdom?

Q - Andy Serwer {BIO 15136542 <GO>}

Well, I was interested in the question that he said I can't - they basically said we can't answer it. And that was about investing in public. I mean, to me it was like infrastructure stuff maybe.

Q - Julia La Roche

It is nice to see that even they admit their mistakes and when they can't answer something and that's part of the whole teaching and learning from somebody that has flexible thinking, I think.

Q - Andy Serwer {BIO 15136542 <GO>}

Well, I think seeing Warren when he was working for Salomon Brothers and was so open and honest in inviting people to inspect every aspect of their company. And expecting, he said, I don't mind if people fail, but I do mind if they don't treat this company with respect.

Now you're talking about Salomon Brothers, Glenn (04:13:40). And then at first you said you don't really know anything about business. It sounds like you follow business pretty closely, right? I mean you're up on all the stuff.

I mean just - and I wouldn't say I am but I really care. I mean the book I'm reading now is called Can Democracy Survive Global Capitalism? And I have to say to anybody who's watching, thinking that a book like that would be unreadable and boring, it is really, really interesting and it's vital to understand why we are the way we are right now, and what's pulling our democracy, what forces especially in the financial side are pulling our democracy. So, I'm learning a lot and I really care about it.

Q - Julia La Roche

Before we let you go, besides reading books, what are you up to these days? What do you got going on?

Q - Andy Serwer {BIO 15136542 <GO>}

Well, I just was checking. I'm going to do a play in the fall in New York, which I cannot announce because they are announcing it this week. And then I shall do a movie in the beginning of next year. So, - and I can't even say what that is either but...

Well, you can tell us what there about.

Whether they're good or bad?

No, whether - well they're good or bad, I'm assuming they're good.

Sure they've done them, yeah.

But you can't talk about the nature of them, the title?

Well, no - because to me - to me, I feel like what I'm going to do in the fall is kind of the find for theater. It's what one must do, where one must appear to be a truly hardcore New York actor.

Then you like to go back and forth between the stage and the screen?

I do yes.

Right. And singing at Mets games, are you going to do that anymore? I really enjoyed that.

Q - Julia La Roche

It is baseball season, right?

Q - Andy Serwer {BIO 15136542 <GO>}

Right.

I would love to. Yeah, I love it. It's - again I started it because it was so scary and...

Getting out there...

Yes.

...steady with that point, right?

Yes, yes it was and then because the echo was so huge that you start to sense, just, oh say can oh say can, so you're a whole line ahead.

Q - Julia La Roche

So, the meeting is going to get going again. We've got more, if you can believe it, more questions. Are you going to head back in?

Q - Andy Serwer {BIO 15136542 <GO>}

Yes. Yeah, I am.

Q - Julia La Roche

If you got to ask a question. What would you ask?

Q - Andy Serwer {BIO 15136542 <GO>}

Oh my God, that's such an unfair thing to ask me.

You know what you should do is go with Norma Desmond.

I know what I would ask him...

What about that?

...when can we sing again together because we've sung again together and I know he was worried about his voice. So, yeah, we have an act.

What was that tune that you sung? Do you remember? I'm trying to remember what it was.

My God. Well, the first thing we sang together was we've got to together, la, la, la, la.

Yes. Yes.

Q - Julia La Roche

I'm not going to start singing

Q - Andy Serwer {BIO 15136542 <GO>}

It's the story of...

What about - I wanted to ask you about Norma Desmond and Sunset Boulevard, because that's the last time we saw each other. Actually, I saw Norma Desmond. I didn't see Glenn Close (4:16:33). We sat down and talked, and what Norma Desmond coming here would just be...

Oh my God.

Outrageous, right?

It would be fun.

I mean have you considered that?

It would be fun to do some sort of event with Warren.

Right.

She could come back and visit the boy if she...

That's right. With that story, that's fantastic.

Boy, he was washing the windshield of her very dusty car.

Well, Glenn Close (04:17:00), we look forward to actually finding out what that play in that movie is all about when you can tell us please come back unless...

And thank you for having me.

Thanks for stopping by.

Wonderful to see you here.

Great. All right, let's go over to Julia La Roche.

Q - Julia La Roche

That's right. I'm here with Guy Spier. He is the CEO of the Aqua Marine Fund and he also won one of those charity lunches with Warren Buffett several years ago and wrote a book about it. So, Guy, was the lunch worth it?

Q - Guy Selmar Spier {BIO 2291523 <GO>}

It was absolutely worth it. It's the gift that keeps giving. It's paying dividends till today I can tell you.

Q - Julia La Roche

And what did you take away from that lunch that was so valuable?

Q - Guy Selmar Spier {BIO 2291523 <GO>}

Just so much. I don't think I would have chosen to move to Zurich, if I kind of hadn't gotten permission from Warren Buffett to do it. But perhaps and the more important thing was the realization that wealth is - we all think of wealth and money as a leading indicator. It's actually a trailing indicator. What I noticed was how much Warren, even the billionaire that he was, gives to people around him. That included us at the lunch.

But it also include the - he's got the, he had this reputation of being very stingy with money, with tips, and things like that. He gave the staff at the restaurant, a must have been several hundred dollars. He's extraordinarily generous. He creates goodwill wherever he goes.

A - Julia La Roche

All right, well, that's an important lesson. Back to you guys, Andy and Jen.

A - Andy Serwer {BIO 15136542 <GO>}

Close and closer to the second half of the annual meeting. And Warren and Charlie are going to be making their way back onto the stage. It's interesting, it does seem like there's a lot of questions asked in the first half of the day. But believe me, there are plenty more questions to go. There are people from around the world. There are Wall Street analysts, there are journalists, all of them have tons more questions. So it's going to be an exciting, exciting afternoon.

A - Jennifer Rogers {BIO 2325313 <GO>}

This isn't half over, right? Because we still have the business meeting, we're going to be back as well after this next section of Q&A, before the business portion gets done as well.

Andy, we have healthcares come up, we have Elon Musk come up, we had guns come up, we had Trump come up, GE got mentioned.

A - Andy Serwer {BIO 15136542 <GO>}

Yes.

A - Jennifer Rogers {BIO 2325313 <GO>}

I'm trying to think of the first question of the second half.

A - Andy Serwer {BIO 15136542 <GO>}

Well, we talked about Apple, that hasn't really been flushed out. And I think there is definitely going to be something there. At least, that would be a surprise if there wasn't, and I think people will still ask more questions about trade. I do think that's the hot topic.

And we haven't really gotten the real Trump question yet. And to my mind, that's something that is right sitting there front and center, which is Warren, you don't support Donald Trump at all, yet Donald Trump is the President. How do you operate a business in an environment where you don't see eye to eye with the President?

A - Jennifer Rogers {BIO 2325313 <GO>}

Right, when we had that young kid get up and start off asking a Trump question. I thought maybe it was going there and then it veered off into a more substantial question. But I do think that we could possibly get some of that and maybe people will get their Charlie Munger moment in there.

A - Andy Serwer {BIO 15136542 <GO>}

Right. Right. Exactly. But you know right now we have to probably wait for Glenn Close (04:20:17) to get back into the arena. It was great to talk to her and have her stop by. And as well as all the different guests. So I think it really gives you a flavor of all the different types of people. And we really could just go out in the crowd and get any number of people to come up and they all have incredible stories. And as you can imagine, some of these people, Jen, bought shares of Berkshire Hathaway 30 years ago and they put in maybe \$25,000 and that has amassed into and turned into a huge fortune and they're all manner of millionaires out there.

A - Jennifer Rogers {BIO 2325313 <GO>}

But as we keep saying, there's a lot of families. I had said that I thought maybe the first question could be about GE and, we haven't got to talk about GE, but it did get mentioned and that was in reference to 2008 and just some of the terms that they extracted from other companies during the financial crisis and I thought it was really interesting, Warren Buffett talking about it. They could have gotten better terms maybe. But in the end that could have been counterproductive and sort of like, his long-term thinking really comes to bear in a lot of these questions.

A - Andy Serwer {BIO 15136542 <GO>}

Right. I do think there is a lot to talk about there and also just getting back to this, the audience here. And where are all these people are from and we've...

A - Jennifer Rogers {BIO 2325313 <GO>}

Did we ever map? I would love to see our map again.

A - Andy Serwer {BIO 15136542 <GO>}

Yeah. Julia Roche was talking about the map earlier, and it's starting to really fill in because more and more people are checking in. That's the United States portion. You can see there. And you've really got people all over the place. And we're going to be able to show you different parts of the world. Let's pull back and maybe swing over to Europe.

And there's Europe. We have people from someone from the Middle East, someone from Africa, all over Europe. We get into India, you see that. And then there's Southeast Asia. It looks like a lot of people from Indonesia and Thailand. And then, of course, China is there, lots and lots of people from China. There are people from Japan. And you see the bottom right there, you pull back the other way. There's Guam. It is.

A - Jennifer Rogers {BIO 2325313 <GO>}

Did you meet the people?

A - Andy Serwer {BIO 15136542 <GO>}

I asked specifically – I didn't but I asked...

A - Julia La Roche

(04:22:19)

A - Andy Serwer {BIO 15136542 <GO>}

...who was that – is that (04:22:21)?

A - Julia La Roche

It was at Guam?

A - Andy Serwer {BIO 15136542 <GO>}

No. That's Guam.

A - Julia La Roche

Very interesting.

A - Andy Serwer {BIO 15136542 <GO>}

...and that person or family may get the prize for biggest trip here because China may be farther, but you've got a direct flight.

A - Julia La Roche

Yeah.

A - Andy Serwer {BIO 15136542 <GO>}

Right, or at least a direct flight to the United States.

A - Julia La Roche

Guam, you're definitely having more connections.

A - Andy Serwer {BIO 15136542 <GO>}

Well, Guam, you have direct flights to United States.

A - Julia La Roche

All right. We're going to head right back to the meeting there. There, Charlie Munger and Warren Buffett.

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

Last year, for several years, we had a wonderful woman who carried this meeting off without a hitch, Carrie Sova. And she just had her third child here about two weeks ago and decided that - she decided right after the last meeting that, that was going to be her full-time occupation.

And this year, again, we've had everything carried off without me having to do anything without a hitch and we just like to have Melissa Shapiro stand up. We'll get a spotlight on her.

I can't believe how she does it. It's remarkable. I mean, I just tell her the date and that's all the help I have and it goes on from there. So, Melissa. Thank you.

Okay. I think we next go to station 10 and we will continue until 3:30. And we'll take a 15-minute break. And at 3:45, we'll convene the actual annual meeting. Station 10?

Q - Andy Serwer {BIO 15136542 <GO>}

Hi. I'm Theresa Lukasinski (04:24:13). I'm from Omaha, Nebraska. And I have a question about Microsoft. You have gotten into the tech world with buying Apple. You have Mr. Gates there. I'm just wondering why you never bought Microsoft?

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

Well, in the earlier years, it's very clear. The answer is stupidity. But the - since Bill has - particularly since Bill has joined the board but even earlier than that because of our friendship, it would be - it just would be a mistake for Berkshire to buy Microsoft because if something happened a week later, a month later, in terms of them having better earnings than expected or making an acquisition, anything, both Bill and I would,

incorrectly, but would be a target of suggestions and accusations, perhaps even, that somehow he had told me something or vice versa.

I try to stay away from a few things just totally because the inference would be drawn that we might have talked - I might have talked to somebody about something. So, I've told the fellows, Ted and Todd for example, that there just a few things that are off the list because there'd be a lot of people who wouldn't believe us if something good immediately happened after we bought it, and of course we - to buy a lot of stock, it can take six months to buy it or something of that sort. We just don't need it. But both that and my stupidity have cost us a lot of money. It's a very - it's a good question and I think the answer makes sense. Charlie?

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

Well, it's part of theology that a late conversion is better than never. You greatly improved yourself.

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

Becky.

Q - Becky Quick {BIO 16400962 <GO>}

All right. This question comes from Dave Shane (04:26:50). He says, Warren, you are a big believer in the U.S. political system, the financial system and in every American. You've said that regardless of who is president, the economy and the U.S. consumer will continue to prosper over the long run. All that said, do you believe that people in this country are more divided today than 50 years ago, or is it just social media and media in general that blows this divide out of proportion? And if you do believe the divide has grown, what words of wisdom do you have to possibly help remedy it?

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

Yeah. I would say this. Multiple times in my life, people have felt the country was more divided than ever, and I've gone through periods where people I knew and admired thought that because the other party was in power, that there never would be another election, that the Constitution - I've heard everything.

Now, the interesting thing is this paper from 1942. Since then, there have been 14 American presidents. Just since my young venture into the stock market at 11, I've lived under 14 of the 44 presidents the United States has had. Now, they call Trump 45, but they count Grover Cleveland twice, so there's really only been 44 presidents of the United States.

And 14 of the 44 have been during this period when that \$10,000 became \$51 million, 7 have been Republicans, 7 have been Democrats, 1 has been assassinated, 1 has resigned under pressure. It works. It - if you'd told me at the start that you'd have Cuban missile crisis and you'd have nuclear weapons and you have a panic, financial panic, and you have many recessions and you'd have war in the streets in the late 60s from a dividing country

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and say why the hell are you buying socks? And through it all, America in fits and starts, but America really moves ahead and we are always - we survived the civil war.

I mean I hate to think of having to do it that way but this country in only less than three of my lifetimes. If you go back three of my lifetimes, you go back 263 years, I guess. And Thomas Jefferson is 12 years old. And that's just three - and there was nothing here. You've flown in from all over to Omaha today and you flew over a country with more than 75 million owner-occupied homes and 260 million vehicles and great universities and medical systems and everything. And it's all a net gain in less than three of my lifetimes. So - and we've had these events since I started buying my first stock.

This country really, really works, and it always will have lots of disagreements, and after every election, you'll have people feeling the world is coming to an end and how could this happen. And I remember my future father-in-law in 1952, he wanted to have a talk with me before his daughter and I got married. So, kind of reluctantly, I sat down with him, and he said, Warren, he said, there's just one thing I want to tell you. He said, you're going to fail. He said, the Democrats are going to take over the country and you're going to fail but don't feel responsible for it because it's not your fault. I mean, he wanted to absolve me from this feeling that while his daughter was starving to death, it was my fault.

And I kept buying stocks and doing a little bit better all the time. But if the Republicans were in it, it was okay and it was because of them that I was doing well. And if they were out, forget it, it was all going to disappear. So, I've seen a lot of American public opinion over the years. I've seen a lot of media commentary. I've seen the headlines.

And when you get all through with it, this country has six times the per capita GDP growth, the GDP per capita that it had when I was born. One person's lifetime, six-for-one change. Everybody in this room essentially is living better in multiple ways than John D. Rockefeller Sr. was, who was the richest person in the world during my early years. And we're all living better than he could live. So, this is a remarkable, remarkable country and we found something very special.

I would love to be a baby being born in the United States today. Okay, Charlie, you give the other side of this.

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

Well, there's a tendency to think that our present politicians are much worse than any we had in the past. But we tend to forget how awful our politicians were in the past. I can remember a prominent senator arguing with an absolute earnestness that maybe older people ought to have more representation on the United States Supreme Court.

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

Yeah. He came from Nebraska incidentally.

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

So, we're not quite as bad as that yet.

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

Yeah. He succeeded my dad in the House of Representatives or what. Okay. Gary.

Q - Gary Kent Ransom {BIO 3446828 <GO>}

Yes. On reinsurance, I know we've talked in the past about reinsurance not really being as attractive an industry in say the next 10 years as the last 10. But I don't think we've talked specifically about General Re and I looked this morning at the 10-Q and I see General Re has grown nicely. I know there's been some changes in the management. And I wondered if you could just give us a sense of what's going on at the company to bring about some of that growth and what looks like improvement.

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

Yeah. Well, the reinsurance business, I don't think I'd say this, it's tougher than it was 10 years ago. But if we go back to 40 or 50 years ago, it was not brutally competitive. I'll put it that way. And at Gen Re, Tad Montross, who did a fantastic job for us at Gen Re, retired. And we have under Ajit - and then Kara in addition. But under Ajit, the focus of the place has changed somewhat. And probably is more growth-oriented than before. But I can assure you that anything associated with Ajit is also has underwriting discipline attached to it. But there has - as you correctly noticed, there's been some pickup. And I think you actually will see the property casualty reinsurance business grow a fair amount.

And the life business, reinsurance business, and it's really the only place we do much in life, but that has grown very substantially ever since we took it over particularly internationally. And so, that part I like. And I think we'll have a somewhat larger operation at Gen Re. But we have various methods, as you know, of being in reinsurance, we do this huge bulk deals. That's why our net revenues are down this year. We did that \$10 billion deal with AIG, which was the biggest deal in history last year, and we don't have a repeat of it this year. We will be in the reinsurance business 5 years from now, 10 years from now, 20 years from now, and 50 years from now in my view.

And we will have some unusual advantages that stem both from our capital position, our attitude towards the business and the talents that we have. We have a way better-than-average insurance business generally. We have some real gems and nobody really knows much about. And we have a very, very good reinsurance business that will be subject to more ups and downs and something like GEICO will be, which it moves ahead every year, but it will be an important part of Berkshire. Charlie?

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

Yeah. I would argue to the part that any idiot financier (04:36:24) can easily get into has gotten way tougher, and why wouldn't it?

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

Charlie is my substitute from my father-in-law that was -. Okay. Station 11.

Q - Andy Serwer {BIO 15136542 <GO>}

Hey, Warren, Charlie. Thank you again for having us and having me. Just can't thank you guys enough and appreciate you guys enough for the body of work that you guys have delivered to us and the exemplary example that you guys have set with your principles. Thank you. Charlie, you've mentioned that, if given a chance or a same chance with a smaller capital base, you would still look for mispriced stock opportunities.

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

Of course.

Q - Andy Serwer {BIO 15136542 <GO>}

And that would be determined through obviously what we call the intrinsic value of the organization or the company in question an aggregate of discounted future cash flows. Would you work the arithmetic using a fictional dataset to illustrate the mathematical principia to determine an intrinsic value?

And I hope you include the comprehensive mental model of the key metrics considered and qualitative assessments of the management and any assumptions of its industry to determine the durability of its earning power. And, Warren, same to that effect, would you also demonstrate or illustrate an arithmetic problem set using with a significant capital base and provide the object lessons on how those have changed from a small to a large capital base?

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

Well, I can't give you a formulaic approach because I don't use one, and I just mix all the factors in, and if the gap between value and price is not attractive, I go on to something else, and sometimes it's just quantitative. For instance, when Costco was selling at about 12 or 13 times earnings, I thought that was a ridiculously low value just because the competitive strength of the business was so great and it was so likely to keep doing better and better.

But I can't reduce that to a formula for you. I like the cheap real estate. I like the competitive position. I like the way the personnel system where I like everything about it. And I thought even though it's three times book or whatever it was then, that it's worth more. But that's not a formula that anybody. If you want a formula, you should go back to graduate school. They'll give you lot of formulas that won't work.

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

This is the longest we've ever gone in the Berkshire meeting without Charlie saying that getting to the point where he prefers Costco to Berkshire. Okay. Andrew.

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

We've got a handful of questions relating to Apple. This is a bit of a mash up of a couple of them. Warren, you have bought in and sold out of IBM. You have praised Jeff Bezos but

never bought Amazon and you have double down on Apple. Can you tell us what it is about Apple? And given your sometimes critical views on buybacks, do you think Apple would do better spending \$100 billion on buybacks or buying other productive businesses the way you have generally preferred? \$100 billion is a lot of money.

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

I used to think so. The Apple has an incredible consumer product, which you understand a lot better than I do. Whether they should buy in their share – they shouldn't buy in their shares at all unless they think that they're selling for less than they're worth. And if they are selling less than they're worth and they have the money and they don't see an acquisition, that's even more attractive. They should buy in their shares and I think that that's very – because I think it's extremely hard to find acquisitions that would be accretive to Apple, that would be in the \$50 billion or \$100 billion or \$200 billion range. They do a lot of small acquisitions, and I'm delighted to see them repurchasing shares. We own – let's say we own 250 million or so shares. They have, I think, \$4,923,000 million or something like that (04:41:26).

And mentally, you can say we own 5% of it, but I figure, with the passage of a little time, we may own 6% or 7% simply because they've repurchased shares. And I find that we've got an extraordinary product in the ecosystem and there's lots to be done. I love the idea of having our 5% or whatever it may be grow to 6% or 7% without us laying out a dime. I mean, it's worked for us in many other situations. But you have to have some very, very, very special product, which has an enormously widespread ecosystem. And the products are extremely sticky and all of that sort of thing.

And they're not going to find \$50 billion or \$100 billion acquisitions that they can make it remotely a sensible price that really become addictive to that. They may find it. Who knows? But there certainly – as I look around the horizon, I don't see anything that would make a lot of sense for them in terms of what they'd have to pay and what they would get. Whereas I do see a business that they know everything about and where they may or may not be able to buy it at an attractive price when they repurchase their shares. That remains to be seen. Incidentally, that's one thing that always enjoy people.

People say, well, you're talking your book or something if you talk. From our standpoint, we would love to see Apple go down in price. They're going to – well, just put at this way. If Andrew and Charlie and I were partners in a business that was worth \$3 million, so each of us had a \$1 million interest in it. If Andrew offered to sell out his one third interest at \$800,000 and we had the money around, we jump at the chance to buy them out. I mean, it's so simple. But people get a lot and if you want \$1.2 million for it, we wouldn't pay it to him. It's very simple math, but it gets lost in all these discussions. And, of course, like I say Tim Cook can do simple math and probably do very complicated math too.

So, we very much approve of them repurchasing shares. Charlie.

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

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I think generally speaking in America, when companies go out hell-bent to buy other companies. They worth less after the transaction is made than they were before. So, I don't think you have a general way to wealth for American corporations to go out and buy other corporations. Averaged out, it's a way down, not up, and I think that a great many places have nothing better to do than to buy on their own stock and nothing is advantageous to do as like as buying their own stock.

So, I think we know pretty damn well what's going to happen to Apple. Maybe very lucky if there was something available the whole price they could buy. I don't think the world is that easy. I think that the reason these companies are buying their stock is that they're smart enough to know that's better for them than anything else.

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

And that does not mean we approve of every buyback at all.

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

No. I think some people just buy it to keep the stock up. And that, of course, is insane and amoral. But apart from the matter, it's fine.

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

Okay, Gregg.

A - Greggory Warren {BIO 15185326 <GO>}

Warren, if we look at the performance of your equity investment portfolio over the last three to five years. Some of the strongest performance has come from Visa and MasterCard, which put up returns that were three to four times greater than American Express.

Unfortunately, you're holdings of the two names which we assume were held by Todd or Ted have accounted for less than 1% of stock holdings on a combine basis in the past five years While American Express is tending to be a five holding accounting for 10% of the portfolio and averaging closer to 8% of late.

Given that all three firms benefit from powerful network effects along with valuable brands, were there any particular reasons Berkshire did not ramp up its stakes in Visa and MasterCard to meaningful levels especially during those years when American Express was struggling? After all, you've shown a willingness to own several stocks from the same industry, holding shares in several competing banks and buying stakes in all four domestic airlines in fairly equal amounts when you pick them up at late 2016?

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

Yeah. When Ted and Todd or either one of them, I won't get into which specifically - which one I'm specifically ordered for that matter that could both have bought Visa and MasterCard. They were significant portions of their portfolio and there was no embargo

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or anything on them owning those stocks because we had a big investment on American Express and I could have bought them as well and looking back I should have. And then I think American Express has done a fabulous job. And now we own 17% and a large fraction percent of a company that not that long ago we may have owned 12%. We've done it without spending a dime and without - it's a company that has really done a fantastic job in a very competitive field where lots of people would love to take their customers away from them, but they have more customers than ever, and they're spending more money than ever, the customers are.

And the international growth has accelerated. The small business penetration. It's really quite a business. And we love the fact we own it. Like I said it didn't preclude me from it anyway from buying Master, Charter or Visa, and in fact have been the smartest haven't thought would have. Charlie?

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

Well, we would have been a lot better in all of our stock picking. And we do it in retrospect. But at the time, we have a big position in American Express and there is one tiny cloud on the horizon of the payments processors and that is the system of which we added China. And so, it isn't as though there isn't a little cloud somewhere (04:48:24). And I don't have the faintest idea how important that cloud is and I don't think Warren does even.

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

No. No. Payments are a huge deal worldwide and you've got all kinds of smart people working at various ways to change the payment arrangements.

Q - Greggory Warren {BIO 15185326 <GO>}

To destroy what we have not?

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

Sure. Sure. And you've got some very smart people that are building a company. And American Express made a decision few years ago not to (04:49:02) somebody else did to retain the Costco business and I think Charlie and I disagree on this, but I think it was a smart decision

He doesn't think it was a smart decision. But one of us will be right, and one of us will remind you that they were right.

But, if you look at American Express, it's a remarkable company. They came after with Sapphire last year. People want that business and payments are changing, and you can see in different countries different ways things are going on on their end.

And there are a lot of people that will play the game, up-gaming the system and switch from one to another based on rewards on this card or that and all of the sort of thing.

But there also is - I think there's a very substantial group for which American Express does something very special and they keep capitalizing on that premier position with that group and they're doing it successfully around the country. And you'll see in the first quarter, you've seen in the first quarter, we're in Britain and Mexico and Japan you're seeing gains of 15% or better in local currencies, and the base is not - it's not tiny. It was not huge. So, there's a lot of room left to go in that and the small business penetration is good.

The loan portfolio has behaved sensational compared to really just about anybody. So, I like very much our holdings of American Express. The first half, because of the accounting changes, they had to suspend their repurchase program for six months, but they've announced that they expect to renew it and, someday, we'll even - we'll own a greater percentage of American Express and it will be a bigger company, in my opinion, and I think we'll do very well.

But as Charlie says, nobody knows how payment, for sure, comes out. And nobody knows how autos, for sure, come out. That is true of a great many businesses we're in and we've faced it before. We used to buy things that were certain failures like textiles and second-rate department stores and trading stamps in California. Now we just face things that face real difficulties, so we're actually moving up the ladder. Okay, station 1.

Q - Andy Serwer {BIO 15136542 <GO>}

Mr. Buffett. My name is Daphne Collier Starr (04:51:34). I'm eight years old and live in New York City. I've been a shareholder for two years, and this is my second Annual Shareholders' Meeting. Berkshire Hathaway's best investment on which the company built its reputation have been in very capital-efficient businesses such as Coke, See's Candy (sic) [See's Candies] (04:52:10), American Express, and GEICO. But recently, Berkshire has made really big investments in a few businesses that require huge capital investment to maintain and that offer only a regulated low rate of return such as Burlington Northern Railroad.

My question to you, Mr. Buffett is, could you please explain why Berkshire's largest recent investment have been departed from your old capital efficient philosophy? And why specifically have you invested Burlington Northern instead of buying a capital efficient company like American Express?

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

You're killing me, Daphne (04:53:28).

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

Yeah. I'm certainly glad she's not 9 years old.

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

Yeah. I'm just sitting here thinking which of the six panelists we're going to bump next year and put you in. Well, I thought I was doing well when I bought that city service in 2011 (04:53:55). The answer is that we'd love - we always prefer the businesses that earned

terrific returns on capital like a See's Candy (sic) [See's Candies] (04:54:10) when we bought it or a good many of the businesses.

And American Express earns a terrific return on equity and has for a very long time. The fact that we buy Burlington - BNSF Burlington Northern means that essentially we can get more money deployed in capital-light businesses at prices that make sense to us. And so, we have gone into more capital-intensive businesses that are good businesses, but wouldn't it be wonderful if we could run the railroad without trains and track and tunnels and bridges and a few things?

We get a decent return on the capital-intensive businesses. We bought most of them at very decent prices and they've been run very well since we bought them. We still love a business that takes very little capital and earns high returns, and continues to grow and requires very little incremental capital.

We can't deploy as much money as we have in doing that. And so, as the second-best choice, still a good choice, the answer is yes. It's not as good as the best choice.

Charlie?

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

Yes, I like the aspiration of that young lady. She basically wants her royalty on the other fellow's sales. And of course that's a very good model, and if everybody could do that, why, nobody would do anything else. The reason we're satisfied with our utility returns and our railroad returns is they're quite satisfactory. I wish we had two more just like them. Don't you, Warren?

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

Yeah. Definitely.

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

So the answer is they're good enough, and you're asking us to get perfection, if you wanted us to have all our money in Coke and say, 5% of what it's now is so important.

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

Yeah. And a business like Apple really doesn't take much capital but - so, we've got to spend a lot of money to buy businesses like that, very few are for sale, and the answer is, we have not foregone any opportunity to buy businesses that earn high returns, very high returns on equity capital or when we could buy them at a sensible price to buy these other businesses. So they haven't shut anything else off the table. But you definitely have a job in our capital allocation department.

Okay, Carol.

Q - Carol Loomis {BIO 7137249 <GO>}

This question is from Max Taylor (04:57:14) of Chicago and it concerns the newspapers that Berkshire owns. In your 2012 letter to shareholders, Mr. Buffett, you had a section devoted to Berkshire's buying 28 newspapers during the year just passed. Since then you have not come back to the newspaper subject.

But this year at the end of the annual report, you published a list of the newspapers Berkshire owns today along with their circulation. I compared that list with the one you published five years ago at the end of 2012. As you no doubt know better than anyone, the circulation of the 26 newspapers that Berkshire still owns, of the 28 originally bought, fell sharply, in many cases by big amounts like 30% to almost 50%.

I know that five years ago you acknowledged the risk in owning newspapers but you still said Charlie and I believe that papers delivering comprehensive and reliable information to tightly-bound communities and having a sensible Internet strategy will remain viable for a long time. Skip to today and imagine that you are writing about Berkshire's experience with newspapers, what would you be saying?

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

Yeah. I would say that - I forgot the modifying word on Internet strategy, but I guess I said sensible. The problem has been there are about 1,300 daily newspapers in the United States, there were 1,700 not that long ago, is that, no one except The Wall Street Journal, The New York Times, and now probably The Washington Post has come up with a digital product that really, in any really significant way, will replace the revenue that is being lost as print newspapers lose both circulation and advertising.

And if you look at the communities in which we operate or the communities in which, you name it, other newspapers operate, the community could be prospering. We're in a prosperous economy presently, and all are losing daily circulation, they're losing Sunday circulation, they're losing street sales, they're losing home delivered. And it is just - I've been surprised that the rate of decline has not moderated in the last five years.

We bought all the papers at reasonable prices, so it is not of great economic consequence to Berkshire. But I would like to see, daily newspapers, actually, be economically viable, because of the importance to society. But I would say that the trends, which I put those circulation figures in there, because I think the shareholder is entitled to look, year-to-year, at what is happening.

And it's not only - it's happening to 1,300 newspapers throughout the United States. And it happens in small towns, where you would think that the alternative sources of information would not be that good, it happens every place. And The Journal, The Times, and probably The Post, have a viable economic model in the digital world, and probably will continue to shrink, I'm almost certain will continue to shrink in the print world.

But the digital world will be big enough that, and they'll be successful enough, so that they have, in my view, a sustainable business model. But it is very difficult to see, with the lack

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of success, in terms of important dollars arising from digital, it's difficult to see how the print product survives over time. And I'm afraid that's true of 1,300 papers in this country. And we'll keep looking to see if there is a way to do it. But you'd have to look at our experience, and look at the experience of everyone else's.

McClatchy newspapers came out the other day, and I think that newspaper - which is very good - fine cities that they operate in, and advertising revenue is down something like 17% or 18%, and circulation. But it isn't just them, it's everybody in the business. And I wish I had a better answer for you, but I don't. I would say that the economic significance to Berkshire is almost negligible, but the significance to society, I think, actually is enormous. And I hope that we find something. I hope others find something, because we'll copy it. But so far, we have not succeeded in that. Charlie?

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

Well, the decline was faster than we thought it was going to be. So it was not our finest bit of economic prediction. And I think, it's even worse, I think, to the extent we miscalculated, we may have done it because we both love newspapers, and have considered them so important in our country. These little local newspaper monopolies tended to be owned by people who behaved well and tended to control the politicians. And we're going to miss these newspapers if they disappear. We're going to miss them terribly. And...

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

I think you may continue...

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

...I hope to God it doesn't happen, but the figures are not good, Warren.

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

No. No, they aren't. And it isn't just - it isn't some town that has a particular problem with unemployment or anything of the sort. It isn't due to general economic conditions. It's due to the fact that a newspaper, if you wanted to know the baseball results from the present day, and the box scores, and everything else, they told you the following morning and it was still news to you. And the financial material that I read from there, and in terms of looking at the stock prices and everything, they were news to you the following morning. And the - what was developing in the Pacific in terms of the war was news to you when you read about it in the morning in The New York Times. And news is what you don't know that you want to know. And those Help Wanted ads, segregated as they may have been, still were the place to go to look to find a job. And you can go up and down the line and one element after another where the daily print newspaper was primary, they're no longer primary.

And the business has changed in a very material way, and we haven't been able to figure out any solutions to that, and we'll keep trying. Like I say, it's not of economic consequence, but I think it is societal consequence. And we haven't been able to solve it. Okay, Jonathan?

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

TTI has been a nice growth story since Berkshire acquired it 11 years ago, more than doubling its pre-tax earnings to about \$400 million due to fine organic growth and at least two successful bolt-on acquisitions. Business momentum appear to accelerate in the first quarter. Can you please talk about the competitive landscape in the electronic components distribution industry and what TTI's advantages are? Is it just a great industry to be in or is TTI's business model and/or management team special? Do you expect it to continue to be one of Berkshire's faster growing non-insurance subsidiaries?

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

TTI is run by a fellow named Paul Andrews who's done an absolutely sensational job with us. He's a wonderful man. He's a wonderful manager. And in the last – he's quadrupled the business, basically, but in the last year, and accelerating right to this point; they distribute little electronic components. They're a many-billion dollar business, and their average item is less than a nickel that they sell. So it's kind of like being in the jellybean business or something like that; except these things go into all kinds of fancy machines that I don't understand.

And we have a worldwide operation based in the Dallas, Fort Worth area. And built by one man who left a division of General Dynamics 45 or 50 years ago, and step-by-step built up this business, like we just bought within the last two months, we bought an operation in South Korea that will be another substantial addition. We do business worldwide. And electronic components that have absolutely taken off in the last year, and they use something called, you know, well, it's essentially a measure of backlog. And book-to-bill is the ratio they call it. But it's just kind of a special term. I mean, it's just improved dramatically in the last year. And it continues month-after-month. So something is going on out there, because nobody buys these things to store them in their basement or anything of the sort. I mean, these get used, these electronic components.

Some of them are on allocation. We have a great relationship with suppliers. We have a very good relationship with our customers, because we carry more inventory than most of our competitors. So particularly, when the business is tight, we can deliver and do a very first-class job doing it. So I give credit to Paul. And he increased his physical facility, started on that a few years ago. And it's a godsend that he did it, because with the business going through there now we wouldn't have been able to handle it.

But it's a competitive business. I mean, if you look at Arrow Electronics, on the New York Stock Exchange and we've got competitors. I think, Paul is doing a better job, by a considerable margin, than they are. And I'm delighted as a part of the Berkshire family, there will be times when that business slows down because their customers, will have their own cycles. And what it does, it will go down. But over time that business is going to grow. Charlie?

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

Yeah, it's a wonderful business because it's so difficult to do that – competitors don't want try it. When I lived in Omaha there was a man who lived in great prosperity and almost no

work. And his business was gathering up and rendering dead horses, and he never had any competitors. He used to come up to the Omaha Club and start drinking about 11 in the morning, it was not a difficult business. But nobody ever crowded him with new competition.

And very few people want to distribute zillions of electronic parts that are worth a nickel each, it's very complicated. And of course that business is terribly good at it. And it keeps getting more and more of the same. So you're right. It's a huge growth business which is sort of the electronic equivalent of gathering up and rendering dead horses.

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

Imagine keeping track of close to a million different items, with very small values attached to them and getting them out to your customer fast because they want them fast, all over the world, and those things are not easy to manage. I mean...

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

And staying in stock on so many items, it's very complicated. And that business is very good at it.

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

Yeah, we're lucky...

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

And of course it'll grow. The horses went away, but these parts aren't going to go away.

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

Charlie made a profession of studying businesses where the owners could sit around and drink all day (05:10:54) that was where we ought to be competing or buying.

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

My theory, Warren, is if it can't stand a little mismanagement, it's no business.

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

Yeah and we're testing that sometimes. Okay. Station 2?

Q - Andy Serwer {BIO 15136542 <GO>}

Hi, Ben Sherber (05:11:18), Topeka, Kansas. Just want to say, Warren and Charlie, thank you again for hosting us all. This is a great event.

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

Thank you.

Q - Andy Serwer {BIO 15136542 <GO>}

My question is about the recent decision to sell shares back of Phillips 66. Not to put you on the hot seat. But right after that, share prices jumped up about \$22 a share. You mentioned at the time that there's some regulatory requirements if you own over 10% of a company. Could you talk about the factors that go into how you decide whether to retain more than that or get under that threshold? And then what are your thoughts long-term on Phillips 66, like their business mid-stream refining?

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

Yeah. Well, it was the City Service preferred of last year. We sold the stock at around \$93 or \$94, and it's probably \$115 now. But we own just under 10% of the company. And the more Ted, and Todd, and I think about various problems connected with regulatory problems and trading problems and so on, overwhelmingly we will stick below 10% on marketable security holdings. We've done it with the airlines. Now that does not mean we're going to reduce our holdings in American Express or anything of the sort.

But – and Greg Garland has done a great job at Phillips 66. We've had very good relations with the company. They're very – he's a very, very, very experienced and sensible manager. But I did decide that, I wanted to be below 10% in that holding. And like I say, we'll stay just slightly under 10% of Wells Fargo. We've actually sold a few shares just to stay below 10% in the case, I think, of both American Airlines and United Continental. Unless there's something unusual we're going to stay under 10%. We believe we have nine and a significant fraction percent (05:13:32) of Phillips. And I think they've been good at operations. I think they've been good at capital allocation.

We traded them stock for a business some years ago, which has been a very nice business that we've retained in operation. So we've got a lot of money still in Phillips. And I wish I'd made the deal at a higher price. But we made money on what we sold and we accomplished an objective. Charlie?

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

Well, we like the subsidiary we traded the stock for.

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

I missed that...

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

We traded the stock for a subsidiary.

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

Yeah. Well...

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

We like the subsidiary.

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

Oh yeah. Well, it improved...

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

Isn't like the stock went away for nothing.

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

Yeah. Yeah, actually we've done pretty well with Phillips.

Q - Becky Quick {BIO 16400962 <GO>}

This question comes from Vlad Koptev (05:14:36) in Ukraine. He says, capitalization of cryptocurrency has approached that of Berkshire and Apple last year. And clearly the idea behind crypto will affect conventional banking groups where Berkshire is a shareholder. You always say you didn't go into too much detail to obtain an understanding on cryptocurrencies. So what factors caused you to say that it's a bubble?

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

Well, generally non-productive assets remain not only – if you'd bought gold at the time of Christ and you figured the compound rate on it, you know, it may be a couple tenths of 1%. It essentially is not going to deliver anything other than supposed scarcity, you know, because they'll only – you can only mine so many. But so what? I mean, what does it produce itself? The check is a wonderful idea. Just imagine how the world would be without being able to write checks or have wire transfer of funds. But it doesn't make the check intrinsically itself worth a lot of money. And if you said you can't use something called check with a little piece of paper you'd do something else to transfer money.

I think that anytime you buy a non-productive asset, you are counting on somebody else later on to buy a non-productive asset because they think they can sell it to somebody for more money. And it's been tried with tulips (05:16:15) and it's been tried with various things over time. And it does come to a bad ending. I mean, having – you have a hard time. You can think of raw land. I mean, the Louisiana Purchase was, say, \$15 million for 800,000 or so square miles of land. In fact, you're sitting on land that came with the Louisiana Purchase.

And so what'd we pay? We paid \$20 a square mile, and 640 acres in a square mile. And you're down to \$0.03 (05:16:49) or something. So that was a pretty good purchase of what was then a non-productive property. But it's very hard. You can buy stamps. Bill Gross got, collected a wonderful stamp collection. It sold for more money in the end. But it's dependent on somebody else wanting to buy, hoping they will sell it for more money and so on.

And in the end, you make your money on productive assets. If you buy a farm, you try to estimate what the crops, what amount per acre of soybeans or corn or whatever may be raised, and how much you have to pay that farmer that farms it for you, and what your taxes will be, and various things. And you make a conclusion based on what the asset

itself will produce over time, and that's an investment. When you buy something because you're hoping tomorrow morning you're going to wake up, and the price will be higher, the only reason, you need more people coming into it than are leaving.

And you can get that. And it will feed on itself for a while, and sometimes for a long while, and sometimes to extraordinary numbers. But in the end - but they come to bad endings. And cryptocurrencies will come to bad endings.

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And along with the fact that there's nothing being produced in the way of value from the asset that you also have the problem that it draws in a lot of charlatans and that sort of thing who are trying to create various sorts of exchanges or whatever it may be.

It's something where people who are of less than stellar character see an opportunity to clip people who are trying to get rich because their neighbor's getting rich buying this stuff that neither one of them understands. It will come to a bad ending. Charlie?

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

Well, I like cryptocurrencies a lot less than you do. And so to me it's just dementia. And I think, the people who are professional traders that go into trading cryptocurrencies, it's just disgusting. It's like somebody else is trading turds and you decide, I can't be left out.

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

To the extent that this - we are being webcast around the world, I hope some of our stuff doesn't translate very well, actually. Okay, Gary?

Q - Gary Kent Ransom {BIO 3446828 <GO>}

Yes, I had a question on the corporate tax rate. And we have a debate in my investment world about where the benefits of that cut fall. And I'd say the consensus is going to the consumer as it gets competed away over time. But perhaps some of it sticks to shareholders. And my question is, do you think over the long run, some of the benefits sticks to shareholders? And maybe it's even beyond auto insurance? Maybe it's other businesses you have as well?

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

Well, what people do generally with that is they take what they want to be the answer for them and then they hire - or they just attach themselves to some economist that gives them a more complicated way of saying it's all going to be wonderful because it's happened.

But the answer is that, in the case of our regulated public utilities, the benefits are all supposed to go, and will go to the utility customer, because we're entitled to a return on equity if we perform well. And we're not entitled to get excess returns because our tax rates changed. And similarly, if the tax rates would go back up, we would expect to get compensated for that, so in that area - and that was \$5 billion or \$6 billion for us. But in that area, absolutely, it goes to the user, the consumer, and it should.

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Then the question is, with the remainder, does it get competed away or not? And the answer is sometimes it does, sometimes it gets competed very quickly and substantially. Sometimes it may be slow. And other times it probably won't. The one thing to know is that, the change in the corporate tax law was good for shareholders, generally, and Berkshire shareholders. I mean - and that's what Congress passed. And the intent had to be that, if you were going to cut taxes that shareholders would get a particularly large portion this time. And some of you will agree with that politically and some of you won't agree with it politically. But you'll all benefit equally. And I think it's human nature if you're getting a break to say it's going to work wonderfully for everybody else. And we'll find out whether it will or not.

It's very, very, very difficult in economics to measure the impact of single variables. You cannot just do one thing in economics. People kind of learn that in physics and talk about butterflies in China and all that sort of thing. But the - every question you get in economics the next, (05:22:30) any statement, you should say and then what?

And when you get into the, and then what, you get start favoring people who give an answer to that in political life that happens to usually help you in some way or another, including your pocketbook. And we've see that with this. And it's helped the shareholders of Berkshire Hathaway. I would say that some will be competed away. Some (05:22:58) and some will benefit Berkshire shareholders. Charlie?

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

I have nothing to add.

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

Okay. Station 3?

Q - Andy Serwer {BIO 15136542 <GO>}

Hi, Mr. Buffett and Mr. Munger. My name is Kevin (05:23:14) and I'm from Shenzhen, China, currently studying finance and philosophy at Boston College. I have a rather broad question. In this more and more globalized world, what do you think our younger generation can do to best leverage our background and experience of both China and U.S. to create values and for the benefit two countries' economy and relationship? And what do you see valuable in a person with a multicultural background? Thank you.

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

Well, I think in answer to the last question, I think it's terrific to have a multicultural background. And I never was any good at languages. But if I were in college today, in either country, I'd be learning the language of the other country, because I think it'd be a great advantage over time.

The first part of the question, I'd like to have that stated again to me. I want to make sure I'm answering your specific aspect there on the - I think it's going to be good for your future. But can we have the microphone on up there again?

Q - Andy Serwer {BIO 15136542 <GO>}

So the first part of the question is, like, what do you think our younger generation can do to best leverage our background and experience of both China and U.S.?

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

Well, I'd start with being multilingual, I mean, certainly, in terms of, I mean, obviously you want to be able to express yourself in both. And the better you can understand, obviously, the culture of another society, obviously, that's a benefit.

But I think the market system, modified as it may be, both in China and in the United States, in a way, it really does. There will be an invisible hand, to some extent, that does work to improve the lot of future generations by the fact that both China and the United States, and the rest of the world, is improving. I mean, it is much better, in my view, particularly in a nuclear world. But it's much better to have people prospering throughout the world, partly through their own efforts, but partly through their interactions with the rest of the world.

And we've made a lot of progress in that respect particularly since World War II. I mean, it was a terrific idea to have the Marshall Plan, instead of behaving like we did after World War I and getting the result that we got. I think we behaved much more intelligently after World War II. So I'm bullish on the future of United States. But I'm bullish on the future of China, and to a significant extent, you know, the rest of the world. And people are going to be living better 10, 20, 50 years from now. And I don't think that's something that can be stopped even. Charlie? Absent weapons of mass destruction.

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

Yeah, well, the multicultural stuff, it wouldn't do you much good to be fluent in both English and Chinese if you were, say, a proctologist in China or a proctologist in Nebraska. So if you're going to use your multicultural background, you've got to work at some interface between United States and China. And you can raise money in the United States and invest it in China like Li Lu does or you can be some kind of an importer or a trade specialist. But you've got to get near that interface to benefit from being bilingual and so on.

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

But you would bet that the interface will be substantially greater.

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

Huge.

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

Yeah.

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

Huge.

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

And that's what you want to prepare for.

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

Yes. And I think that, generally speaking, we get multicultural you can also be multidisciplinary. But generally, I think people make more money if they're very narrowly specialized, like the proctologist. And it's much harder to make a lot of money for most people if you try to imitate Warren and me.

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

I'm glad I didn't meet him earlier. Okay, Andrew.

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

Okay. this question comes from someone who says, I am a Berkshire employee and shareholder. I read an investigative article from ProPublica and The Washington Post that many of Berkshire's various units only offer 401(k) plans with high fees that are actively managed rather than the low-cost indexes you have advocated as the best path for savings for retirement. The article's author said he contacted the company and nobody would comment. Will you do something to improve our 401(k) offerings to match your investment philosophy? And from an operational perspective, how did this happen, given your strong views on the topic?

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

Well, I've absolutely said what - many, many times through Annual Reports and -our managers know what I think about the attractiveness of having an index fund option. But they all have different plans, different histories. And they run their businesses. And who knows, which particular - if you go back to the older businesses, they have defined benefit pension plans, generally. Nobody puts them in anymore. Then the question is, do you transition to something else?

In the end, we overwhelmingly thought our managers make those kind of decisions and others. And my guess is that a very high significant percentage of people who have worked at a company that has a 401(k) plan will have an index fund option, but they may not, in some cases. The only thing we - I think we have asked the companies to have a limit on the percentage, I think, that they might put in Berkshire's stock through the 401(k). We don't want people to lose jobs who are tied to Berkshire.

We certainly don't want to be in the position of encouraging to put 100% or something of their savings in Berkshire itself, I don't want to be in that position. But I don't think even there, we've insisted on any company doing that. I think we've probably made that, when we've been asked about it once or twice, I think we've given that suggestion.

But the managers will run the companies. The employees, if they feel - and some of our companies have human relations departments - if they feel that they'd like different options or something like that, they should make those views known to the managers. And in some cases the managers, I think, will pay attention to them (05:30:42). We've got a wide variety of managers that run our businesses. And we're not going to start trying to run them from Omaha. Charlie?

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

Well, you're right. That has happened, that business of the high-fee choices, because we've delegated the whole subject to the managers of the subsidiaries. And so no attention at all is being given to the employee choices at headquarters. And what you're pointing out is that a lot of the employees in the subsidiaries would do better if they indexed instead of choosing what they did choose. And my guess is, you're absolutely right about that.

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

Yeah.

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

And if there are any people managers, in the business today, I hope we'll do a little better at encouraging better choices.

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

Yeah, although we wouldn't want them to interfere too much in...

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

No.

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

...in directing what they, we can take over human relations.

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

No, it's up to the managers. But we wouldn't object to a little different viewpoint.

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

And we have made it very clear what we think. I mean, some of them don't listen to us. Okay, Gregg.

Q - Greggory Warren {BIO 15185326 <GO>}

Warren, you've noted time and again that there is a strong common culture shared across Berkshire subsidiaries built on a commitment to honesty and integrity, a focus on the long-

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term, and an emphasis on customer care. And it is also critical to find cultures that mesh well with Berkshire's when acquiring operating companies.

In most cases, the managers that are currently running these subsidiaries are the same individuals who are members of the families that originally sold their firms to Berkshire, leaving them with a vested interest in the businesses they are running and a strong connection to the culture they tend to share in common with Berkshire.

It seems to me that the greater challenge is in ensuring that the large publicly-traded firms that have been acquired and account for a meaningful and growing amount of Berkshire's overall value, stay the course. Could you comment on whether or not this is the case and what the greatest challenge is for you and Charlie when it comes to not only maintaining Berkshire's culture but in finding firms that would fit in well with what you've built?

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

Yeah, I think the culture is very, very strong. And I think it gets reinforced - frankly, I think it gets reinforced by the shareholders we have. I mean, we have a different body of shareholders and we look at those shareholders, I think, in a somewhat different way than a good many other companies do.

I mean, I think there are fair number of public companies that wish they didn't have, public shareholders. We're happy to have public shareholders. And we like having individual shareholders. And we don't favor institutions. And we're not going to, give guidance and talk especially to them on investor calls and all that sort of thing. We want our - we want it to be directly with - we want shareholders who are partners, basically.

And it begins with that, it goes to the directors. We have directors who are not - well, I've been on 19 boards, and I've never seen another board like ours. And I think it's terrific that we've got the people who represent, in many cases, lots of shares themselves. They didn't get special deals. It's a group of owner-oriented, Berkshire-conscious, business-savvy owners.

And we don't have anybody on the board because they're a leading, educator or whatever it may be. We want people who, basically, think about how to run a business well for themselves and for their partners. And we've got managers who fit into that culture, who have chosen that culture in coming with us.

And sometimes we have the second or the third or fourth generation, and say, at the Nebraska Furniture Mart, that share that. Is it perfect? No, it's far from perfect. I mean, you don't get everybody thinking the same way. We have people - we have people that are very independently-minded running a lot of businesses. And some of them have, they have different political beliefs, they have different - they see through different lenses than we do, to some degree.

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But in terms of having a common, strong, positive culture, I don't think there's any big public company that has it any better than Berkshire. And I think that will continue because people opt into it to a great deal. Cultures get passed along. You do things that are consistent with the culture, so you do - what you talk about is what you do. And you don't find people saying, you know, we're a wonderful partnership, and then voting themselves, huge options. And then a whole bunch of other people will say options beneath them because they can't look like they're taking it all for themselves, and arranging - I read about some deal where it could pay off with many, many, many billions of dollars, the other day. We won't name names.

But we've got as good a culture as you can get. And I would say, net, it grows stronger. We have a few people all of the time that really don't buy into it entirely. I mean, it is not 100%. But it's as close to it. And I think it gets closer all the time as we go along. And we will try to keep behaving in a way that reinforces it and doesn't dilute it. And I think that will not only work for Charlie and me, but it will work for our successors very well. It won't be perfect. Charlie?

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

Every time I come to one of these meetings and sit in the manager's luncheon, I feel more strongly at the end of the luncheon that the culture and values of Berkshire Hathaway will go on and on for a long time after the present management is gone.

In fact, I think, it will go on after go on after all of the present managers are gone. I think we've started something here that will work well enough that it will last. And one of the reasons it will last is, it's not that damned easy to duplicate. So the one that is present is likely to just keep going and going. Think of how little direct copying of the Berkshire system has been.

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

But it won't produce the returns it's produced in the past even.

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

No, I think it's going to last a long time for a very simple reason. It's going to...

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

It works.

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

...deserve to last a long time.

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

It works.

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

And it's going to work.

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

Okay. Station 4?

Q - Andy Serwer {BIO 15136542 <GO>}

My name is Christian Marx (05:37:54). I'm a proud shareholder from Cologne, Germany. It is my pleasure to be here. My question relates to the Berkshire insurance operations. When I look at the quarterly balance sheets of the last two decades, I noticed a pattern that I kindly ask you to discuss.

The sum of cash plus fixed income always hovers around 100% of the amount of insurance float. Therefore, my question is, is it fair to say that from the \$128 billion of consolidated cash plus fixed income as of March \$116 billion are actually needed to support the insurance operations?

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

No, I appreciate...

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

The answer is no. Yes.

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

The answer is no. But the - it deserves an explanation of how this - maybe I haven't looked at it the way he's looked at it. We would much rather have a number closer to \$20 billion than to have \$116 billion. And we do not correlate or, in effect, measure the float and then decide how much to put or leave in cash, in fixed income.

The fact, our float keeps growing. And lately, our (05:39:26) which is by design and has been terrific for us, and our cash and cash equivalents has grown because the competition for acquisitions has become much stronger as - both as money has piled up with the buyers of businesses, and because debt has been so cheap and a variety of factors. But I don't think those are necessarily permanent. In fact, it'd be reasonably true they aren't permanent. It's just a question of when they change. We are not tying, as Charlie said, we're not tying the cash and cash equivalents at all to float.

The float has surprised me - float went up \$2 billion in the first quarter. And there is no way that that float can shrink a lot in any short period. It just structurally has been set up in such a way that it will not - it cannot shrink. And actually, I think it'll grow a little bit for a while.

I mean, I've always been amazed by how much it has grown. We've got so much more float than any property causality company in the world. And it's pretty amazing that it all

came from that little building that Jack Ringwalt built and picked the location because it was near the tennis courts. Okay, Carol. Oh, Charlie.

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

There are encouraging recent developments. Some of the cash has gone out recently for securities we vastly prefer over the cash. And we have a lot of cash remaining that could be deployed in securities we might like a lot better than Treasury notes. So stay tuned.

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

Yeah, to make it very simple, in the first quarter we earned five and - from operations we earned a little over \$5 billion. Now, we only spend about our depreciation. Normally, we would spend somewhat more than that. But that's 5-and-a-fraction billion (05:41:35), \$2 billion came in net from float. So that's \$7 billion that - basically in the first quarter that would have been added to our cash if we hadn't done something with it.

And instead our cash and equivalents went down, because we, net, invested more in equities by some margin than the \$7 billion (05:41:59) that came in. But we do have this position where, even absent a change in float, about \$400 million comes into Berkshire every week, which is very comfortable. And we want to get it so that more than \$400 million is going out into productive assets. And we succeeded in doing that in the first quarter. And net, net we improved our position in the first quarter. Carol?

Q - Carol Loomis {BIO 7137249 <GO>}

In your 1999 article in Fortune magazine, you stated your belief that after-tax corporate profits were unlikely to hold much above 6% for any sustained period, due not only to competition but also to public policy. You stated in the article, if corporate investors, in aggregate, are going to eat an ever-growing portion of the economic pie, some other group will have to settle for a smaller portion. That would justifiably raise political problems.

Since 2008, after-tax corporate profits have been 8% to 10% of GDP. Do you believe that is a permanent shift in the U.S. economy? And of course, we have to think about the latest tax bill. Or will corporate profits revert back to the 4% to 6% of GDP range that was normal in the 20th century?

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

Well, it's been an interesting development during that period. It goes back a little bit before that period. But you now have the four largest companies, by market value in the United States, a \$30 trillion market; you have four companies that essentially don't need any net tangible assets. And if you go back many years, I mean, if you looked to the largest companies, Carol used to put out the Fortune 500 list. And you know, it would be AT&T and General Motors, and it was companies that - Exxon Mobil - it was companies that just required lots of capital in order to produce earnings.

So American industry has gotten incredibly more profitable, in aggregate, in the last 20 or 30 years. You look at the return on the S&P 500, the earnings as a percent of net tangible assets, and the rest is just, if you buy a company that has \$1 million worth of net worth and you pay \$1 billion for it, it still only had the \$1 million of net worth. I mean, you just paid more for it. So the basic profitability of the company is huge, even though your investment may be at a significantly higher price.

So that what has happened is that, I think, if you look at the earnings on tangible net worth of the S&P 500 and compare it to 20 years ago, it is amazing. And that is really due to the fact that, this has become somewhat, you could call it an asset-light economy.

And those four companies that earn 10% of the - they comprise close to 10% of the market value of the entire publicly-traded corporate America, they don't - and they don't take any money, basically. And that is a changing world. And they will earn even more money with the tax rate going down. And I don't think people have quite processed all that information in terms of what has gone on in the market.

You don't - Carnegie built a steel mill, and then he paid it off, or he borrowed a little money, and then he built another steel mill, and all of that sort of thing. But it was enormously capital-intensive. And one industry after another, AT&T was enormously capital-intensive. And now the money is in the asset-light - I mean, huge money is in the - not only asset-light business, but the negative asset.

IBM even, it has no tangible, it has net, minus tangible net worth. There's nothing wrong with that. It's a terrific - but it is not the world we lived in 30 years ago. And in that sense, I didn't see that coming in 1999 when I wrote whatever I wrote there. It hasn't changed the profitability of the asset-heavy companies particularly. I mean, it isn't like oil.

If you take the five most capital-intensive industries in the 1990s, I don't think you'll find that their earnings on tangible assets have increased a lot. But you will find that this group has moved in that really doesn't - they don't need any net tangible assets at all, or they need very minor amounts. Charlie?

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

There's also a lot of financial engineering that's raised leverage, even in the capital-intensive businesses. And while Warren may have predicted a little wrong when he wrote that very scholarly article, he didn't invest wrong. And so it just shows that it's hard to make these economic predictions.

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

Okay, Jon...

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

We weren't very right on that one, Warren.

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

Yeah, actually, the performance of the stock market since then has been pretty accurate.

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

Yes. That's true.

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

Yeah. Being right for the wrong reason or something. Or wrong for the right reasons.
Anyway, Jonathan?

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

Berkshire received a \$10.2 billion retroactive premium from AIG early last year. If the upwardly revised estimate of \$18.2 billion of ultimate claims proves to be correct, will the cost of float, adjusted for favorable tax attributes, likely be lower or higher than what Berkshire would have paid to borrow \$10 billion for a similar duration?

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

Well, we certainly go in with the idea that it will be - the cost will be lower. And it's an interesting situation. Essentially, AIG, which is one of the largest property-casualty, particularly commercial property-casualty companies in the world, said, we want to give you all of the losses that we incurred in a very big percentage of our domestic business before December 31 of 2015, and we will pay the first \$25 billion. And then after we pay \$25 billion, and AIG pays \$25 billion, then you pay 80% of the next \$25 billion. And they gave us \$10 billion for doing that.

And that's - if we are correct about our estimates of how much money will be paid, and when it will be paid, we should come out being better off than if we had borrowed a similar amount. We have a history of doing 10 or so - maybe 12 big deals like that, we hold the record. We did it for Lloyd's of London 10 or more years ago, and we did it now with AIG. And sometimes we've been on the low side in our estimate, and sometimes we've been on the high side so far.

AIG just said that they - I think they paid \$15 billion and a fraction on these pre 12/31/2015 losses. They paid \$15 billion or a fraction, but the payment tends to trickle down over years as you get further away from, when the losses occurred. So I would say that we still feel okay about it, and we'll be wrong one way or the other. Everybody is when you estimate losses that may not get settled for 20 years or 30 years. But so far on the group as a whole of these deals we've done, we've been okay. And I think on the AIG thing, we think we'll be okay, and I think AIG things we'll be okay. I mean, they entered into it for good reasons of their own. So it looks okay. Sorry to get in this technical stuff, but Jonathan always ask me questions like that. So I have to be ready to - I want to answer them. Okay. Station five.

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

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Good afternoon. My name is Adam Bergman with Sterling Capital in Virginia Beach, Virginia. I'm here with my daughter, Michelle from Cape Henry Collegiate in Virginia Beach.

Q - Andy Serwer {BIO 15136542 <GO>}

Hi, Warren. Hi, Charlie.

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

Our question for you is how you go about attempting to forecast the degree of future success of one specific product in a good business versus another such that you invest in American Express and Coca-Cola rather than Diners Club or RC Cola, for example? Thanks.

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

Well, with American Express this was an interesting situation because Diners Club got there first. I think American Express in a certain sense, I mean, they did it for a lot of reasons, but they went into the credit card business because they were worried about what was going to happen to traveler's checks and although traveler's checks still exist in a significant way. But the interesting thing when American Express went into competition with Diners Club and with Carte Blanche, as I remember, that was also existed at the time, was that instead of charging less than Diners Club and going in figuring they were going against the established guy and they'd come in at a lower price, they went in at higher prices I remember. And the American Express Centurion was on that card. I've got one that I got in 1964, but they were in that before that, it had more value in time. I mean, it got better representation.

And frankly, if you were a sales person out with somebody, and you could pull out that American Express card with Centurion, you look like you're with JPMorgan. If you pull out a Diners Club, it had a whole bunch of flashy signals, you look like a guy that was cutting his checks from one month to the next and - (05:53:18) Ralph Schneider and Al Bloomingdale developed the Diners Club, and they were very smart about getting their first, but they weren't smart about how they merchandise it subsequently. RC Cola, there are all kinds of colas that came after Coke. I mean, you go back to 1886 and come up with something like Jacob's Pharmacy that's incredibly successful. Fairly soon, you're going to get lots of imitators. But Coke really is the real thing. And you offer me RC Cola, and say I'll give it to you at half the price of Coca-Cola in terms of drinking, and I mean this is a product that's 6.5 ounces sold for \$0.05 in 1900, and now if you buy it on the weekend in by and large quantity and everything you're not paying that much more. This newspaper was \$0.03 in 1942. The amount of enjoyment per real, in terms of the real of what you pay for this has gone dramatically down in inflation adjusted money.

So it is a bargain product. You have to look at See's Candy (sic) [See's Candies] (05:54:44) if you live in California and you were a teenage boy, and you went to your girlfriend's house and you get a box of candy to her or to her mother or father and she kissed you, you lose price sensitivity at that point. So we really want products where people will feel like kissing you rather than slapping you. It's an interesting thing. I mean in order to effect we're betting on the ecosystem of Apple products but led by the iPhone.

And I see characteristics in that that make me think that it's extraordinary. But I may be wrong. And so far, I would say we've been right on American Express and Coca-Cola. American Express had this huge salad oil scandal in 1960, happened in 1963 in November, right around the time Kennedy was shot. And that was really worry about whether the company will survive, but nobody quit using the card, nobody quit using the traveler's checks, and they charged a premium price for the traveler's check. So there are things you can see around consumer products that sometime can give you a pretty good insight into the future, and sometimes we make mistakes. Charlie?

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

I got nothing to add, except that if we've been offered a chance to go into Coca-Cola right after it was invented, we probably would have said no.

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

We'd turn it down. Yeah.

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

IT would have looked kind of silly to us.

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

Well, unless we drank it now, Charlie. Listen. He's right. I mean, we don't foresee things that we haven't got a lot of evidence in on. I mean, we...

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

No.

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

We want to see a lot of – and we're talking about a consumer product. We want to see how a consumer product behaves under a lot of different circumstances. And then we want to use something – actually, there was a book by Phil Fischer written around 1960 called Common Stocks and Uncommon Profits. It's one of the great books on investing, and it talks about the Scuttlebutt Method of investing which was quite a ways from what Ben Graham taught me in terms of figures, but it's a very, very good book. And you can learn a lot just by going out and using some shoe leather.

Now, they call them channel checks now or something like that. You can get a feel for some products and then there are others you can't, and then sometimes you're wrong. But it is a good technique. It's an important investing technique I would say that. And Ted and Todd do a lot of that and they have some people to help them out on doing it too. Charlie's done it with Costco. I mean, he's – I mean, all the time he is finding new virtues in Costco and he's right incidentally. I mean, Costco has an enormous appeal to its constituents, they surprise and delight their customers and there is nothing like that in business, you have delighted customers, you're a long way home. Okay. Becki.

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Bloomberg Transcript

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

This comes from [ph.] John Haggerty (05:58:26), Brightstar Capital Partners who writes, Warren you're stepping down from the Kraft Heinz board at a time when the company is looking to do a large acquisition, Unilever for example. Do you fundamentally disagree with a combative nature of hostile bids, activist investing and competitive proxy contest?

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

Well, we will not make Costco offenders ourselves. I do not believe that there's anything fundamentally wrong with the idea. I mean, if you take the Fortune 500 Companies, I'm sure that all 500 are not managed by the best or in some cases even the friendliest investor and managements in the world. So I don't think it's evil or anything to conduct a hostile offer for a company it's just we won't do it, and we don't want to get into that. We like being liked by the managements that we joined because we're counting on them to run the company, and we're not bringing in a whole bunch of people that know how to change businesses. We seldom take a position opposite to management, very seldom on anything involving a proxy but contest of sorts. But we don't rule it out.

We don't think every management is entitled to be that they don't have a lifetime hold on their business, but it's not our style at all to, well, we won't do it in terms of initiating it ourselves, and we'd be very, very, very unlikely to support the contest. But we have voted against a couple of propositions over 50 years that managements have had made in relation to stock options we withheld a vote at Coca-Cola a few years ago to express our opinion. But we don't think its evil for the shareholders. In some cases they have different opinions about who should run the company or whether compensation is appropriate or are matters of that sort. The stockholder still own the company. Charlie?

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

I've got nothing to add to that. I don't envy these people other than these unfriendly uppers all the time. Imagine doing that after you're already rich. It's insane.

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

Yeah. We are definitely not looking for it but there are certainly companies that deserve challenge, and they propose things that deserve challenge occasionally. But again, it's not our main activity. And the question was asked in reference to Kraft Heinz. The people at 3G are great, great managers. They've been wonderful partners. I have made a determination before we got involved where I was going to be no more public boards. I've been on 19 of them and it takes a lot of time. And they ask me if I'd go on for a while, and I did. But it really is like seven-and-a-half days or something. And if you're on a bank board, it may be quite a bit more than that.

I mean, they're just - they on a public board and usually means quarterly meetings, plus maybe an extra one. And at 87, I think I've now learned what happens, and it's fine, but I don't want to spend seven-and-a-half days a year when maybe I can call up people that I trust and admire or who are on the board in five minutes, find out what's going on or whatever it may be, any questions that come up. And so we are their partners and delighted to be their partners. And now, we have two people on the board of Kraft Heinz,

and they can do the traveling, and I can stay home. Charlie, how many public - you're on Costco, of course. But over your lifetime, how many public boards?

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

Well, I - Costco except versus...

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

Kansas City Power.

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

...something like The Daily Journal where I own part of it, Costco is the only public board.

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

You were on Kansas City Power, right?

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

If it wasn't Berkshire or something I own personally. I was on Kansas City Power & Light. Boy that goes way back. But basically, it hasn't happened. I don't envy people who float around with a lot of different board meetings.

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

No, generally speaking, you have very little influence and spend a lot of time. And the trouble is, if you're going to a board meeting, particularly to get to the international, I mean sometimes they feel they have to have one international. They feel they have to take up a fair amount of your time or it wouldn't have been worth coming thousands of miles for. So you get a lot of the show-and-tell stuff that I find my mind drifting. Okay. Gary?

Q - Gary Kent Ransom {BIO 3446828 <GO>}

Yes. You've said that you are looking for non-insurance large acquisitions to put that cash to work, and when you've said that I've usually thought of the United States because you're a big fan of the U.S. business. And I just was wondering whether you're seeing more opportunities as the rest of the world opens up, grows, whether there's opportunities for some of those mega transactions in other parts of the world, say, Asia or Europe.

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

Yeah. Gary, I would say that I've been disappointed in that because we do see some outside the United States, and thank heavens, we saw the one we saw in Israel some years ago when (06:04:47) wrote me a letter. But we bought a business which is a very important part of Berkshire now. But we are still not - they're certainly aware of Berkshire Hathaway outside the United States but they don't sort of pick up the phone

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automatically. In the United States, I think any large, particularly private company that is thinking about doing something, they at least think about Berkshire.

But that in Europe or Asia that we are not embedded in the minds the same way. They know about us, they know we got a lot of money and they know we like to buy things, but we are really - we're on the radar screen big time in the United States, and we're not as - we don't - immediate desire to be sure that they thought about Berkshire option does not occur the same way outside the United States. And we've tried to encourage a few ways, but I would say that the results have not been a greater law. But I hope tomorrow I get a call from Germany or Britain or Italy or you name it, and Australia, wherever it may be, and I hope I get a call and we get an opportunity to do it. There's a good many countries we'd be quite happy to put substantial money into it, and like I say, our experience in Israel has been just terrific. Charlie?

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

Yeah. But the corporate acquisition came now, it's so driven by the leverage buyout and the so-called - what do we really call them - strategic. Yes, strategic. I usually translate that into barnyard language. And there's so much craziness in price from our viewpoint, of course, it's very hard for us to do it. The people in the leverage buyout gain who love massive leverage and don't mind high prices, even they are getting those leads. It's hard, and it's not an environment that means that it allows Berkshire just to go out and buy whole lot of companies. We have to wait.

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

We made a strategic deal that you can remember? Have we ever made a deal that we would regard as strategic?

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

We never had a strategic plan unless you hid it from me.

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

Okay. That answers that. Station 6.

Q - Andy Serwer {BIO 15136542 <GO>}

Hi. I'm Brady Richie (06:07:33) from Saint Louis Missouri, shareholder since 1996.

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

Terrific.

Q - Andy Serwer {BIO 15136542 <GO>}

Warren, you and Charlie have been critical of business schools in the past and what they teach. With respect to value investing and super investors of Graham & Doddsville, you featured the returns of many great investors with different backgrounds, work and education with the lesson being following the philosophy is the key. To be successful

today, does it still just fall back to chapter 8 of The Intelligent Investor, and what do you think of programs and designations such as CFA, CFP, et cetera, which purport high standards yet rooted heavily into academia? And I'd like to challenge you to a round of bridge tomorrow.

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

What was the last part?

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

Well, to start, what do we think about.

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

Yeah. Business schools and all that.

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

New business schools and all that.

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

I didn't catch the last one. Oh, he challenged me to a round of bridge. Okay. I went to three business schools, and at each I found a teacher or two. I went to one specifically that got - given each, but each one I might found a teacher or two that I really got a lot out of. So we're not in a business school there at all. We do think that the priesthood, say 30 years ago, for example, or 40 years ago in terms of efficient market there anyway, they strayed pretty far in our view from the reality of investing. And I would rather have a person if I could hire somebody among the top five graduates of number one, two or three of the business schools. And my choice was somebody that was bright. But had Chapter 8 of The Intelligent Investor absolutely it just was natural to them. They had it in their bones basically. I take the person from Chapter 8. This is not - what we do is not a complicated business. It's got to be a disciplined business, but it does not require a super IQ or anything of the sort, and there are a few fundamentals that are incredibly important. And you do have to understand accounting. And it helps to get out and talk to consumers and start thinking like a consumer in many ways and certainly and all of that. But it just doesn't require advanced learning.

And I certainly - I didn't want to go to a college, so I don't know whether I would have done better or worse if I'd just quit after high school, and read the books I read and all of that. I think that if you run into a few great teachers, and they really change the way you see the world to some degree, you're lucky and you can find them in academia and you can find them in ordinary life. And I'm extraordinarily lucky and having great teachers including Charlie. I mean Charlie been a wonderful teacher. And any place you can find somebody that gives you insights into things you didn't understand before maybe makes you a better person than you would have been before, that's very lucky and you want to make the most of it if you can find it in academia and make the most of it, and if you can find it in the rest of your life make the most of it. Charlie?

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

Well, when you found Ben Graham he was unconventional and he was very smart, and of course that was very attractive to you. I know when you found out at work that you could make a lot of money while sitting on your ass, of course you are an instant convert. And so...

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

It still appeals to me actually I mean.

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

But the world changed before he died, Ben Graham. I mean Ben Graham recognized that the exact way he sought undervalued companies wouldn't necessarily work for all times under all conditions. And that's certainly the way it worked for us. We gradually morphed into trying to buy the better companies when they were underpriced instead of the lousy companies when they were underpriced. And of course that worked pretty well for us, and Ben Graham, he outlived the game that he played personally most of the time. He lived to see most of it fade away. And just to find some company that's selling for one-third of its working capital and figure out it could easily be liquidated and distribute \$3 for every \$1 of market price. Lots of luck if you can find those in the present markets. And if you can't find them as so small that Berkshire wouldn't find of any use anyway. So we've had to learn a different game, and that's a lesson for all the young people in the room. If you're going to live a long time you have to keep learning what you've formerly knew is never enough. So if you don't learn to constantly revise your earlier conclusions and get better ones way you are - I always use the same metaphor, you're like a one-legged man in an ass-kicking contest.

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

If anybody has suggestions for another metaphor, send them to me. Very incidentally, one point, an important point. Graham was not scalable. I mean, you could not do with really big money. And when I worked for Graham-Newman Corp. Harry was the dean of all analysts and he was an intellect above all others around that time. But the investment fund was \$6 million and the partnership that worked in tandem with the investment company also had about \$6 million in it. So we had \$12 million we were working with.

Now, you're going to make adjustments for inflation and everything, but it was just a tiny amount. It wasn't really scalable. And the truth is, Graham didn't care because he really wasn't interested in making a lot of money for himself. So he had no reason to want to find something that could go on and on become larger and larger. And so the utility of Chapter 8 in terms of looking at stocks as a business is of enormous value. (06:15:03-06:15:29). The utility of Chapter 20 about a margin of safety is of enormous value. But that's not complicated stuff.

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

I finally figured out why the teachers of corporate finance often teach a lot of stuff that's wrong. When I had some eye troubles very early in life, I consulted a very famous eye doctor. And I realized that his place of business was doing a totally obsolete cataract

operation. They were still cutting a little knife after better procedures, and I said why are you in a great medical school performing absolute obsolete operations. And he said, Charlie, it's such a wonderful operation to teach. Well, that happens in corporate finance, they get these formulas and it's a fine teaching experience. You give them a formula. You present a problem. They use the formula. You get a real feeling of worthwhile activity. There's only one trouble, it's all boulder dash.

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

Yeah. Whenever you hear a theory described as elegant, watch out. Okay. Andrew (06:16:47).

A - Andy Serwer {BIO 15136542 <GO>}

This question, we got a couple like this one. It comes from Lauren Taylor Wolfe, Managing Partner at Impactive Capital. Warren, you've recently said that one of the things that makes you optimistic about America is women entering the work force and the "doubling" of the talent that's effectively employed in that workforce. When it comes to positions and leadership, however, women make up less than 21% of boards of S&P 500 companies, and even smaller 5% of the CEOs. What can Berkshire do and what is Berkshire specifically doing as a major investor in many of these large companies to advance gender equality both at the board level and amongst senior leadership?

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

Well, again, as I've pointed out in the past, one of my sisters is here, and I have two sisters that are absolutely as smart as I am and they have better personalities as anybody that knows both of us or all of us can attest. And they remotely have the same opportunities I had. I had this 1942 New York Times, and women could be nurses or teachers or retail clerks or sonographers, and that actually worked enormously to my advantage when I was a kid and I'm on the 30s because I had way better teachers because that was a job open to women. I didn't have a single male teacher in grammar school. And Charlie didn't when he went to Dundee, I don't think either. And we had this huge talent pool that was being funneled into very few opportunities, and therefore, we got better than we deserved in terms of our market system producing it.

Again, our managers run their companies, but I've probably named – before we made this management change, I probably named only six or seven CEOs in the last five or six years. We don't change that much, but I would say that half of them that I've named had been women which is about what should turn out to be the case in terms of ability. Now, there is a certain pipeline problem but that it's cured with time and you can't use that forever as an excuse. And I feel very good about the decisions we've made for CEOs. I prefer all our CEOs to live forever, and one woman almost did that that we hired, Mrs. B, lived to be 104, she retired at 103.

And that's a lesson to our other managers that if you retire prematurely, no telling what will happen. But it is absolutely true. It does make me bullish. It makes me bullish on the human race. But it's certainly our country because if you look at what happened before the 19th Amendment and then after the 19th Amendment for a long time and continuing

to this day. But there's been significant improvement. I do feel more optimistic about the future because I think there will be more selection by merit rather than by gender or by race or by inheritance. I think that if you had a system where all businesses got passed on to the eldest son or something, I think that society would make a lot less progress than the one that's merit-based. Charlie?

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

Well, we did live in a different age. There's an old saying that the past is a very strange country. The people behave quite differently there. And it was just totally different. And it was ridiculous that I cannot remember. I had one or two male teachers in my high school, but almost none, and the world has really changed. And within Berkshire, I've never seen any over-discrimination anywhere on the grounds of gender.

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

There probably has been some, though.

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

I'm sure that we have our share of all the peculiarities of human nature. But generally, it's - everything is always improved. Wouldn't you agree with that?

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

Yeah.

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

And I think it will keep improving.

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

Okay. Gregg?

Q - Greggory Warren {BIO 15185326 <GO>}

Warren, in this year's annual report it was noted much as it is every year that payments or dividends by the company's insurance subsidiaries are restricted by uncertain statutes and other regulations with Berkshire's Insurance operations currently allowed to declare up to \$16 billion as ordinary dividends during 2018. My question here is, should we view this annual regulatory threshold for dividends as a benchmark for allowable share repurchase as well, and in the event that Berkshire wanted to buy back more stock from that or pay out even more as dividends, would there be an issue with you using capital from operations that aren't held by the insurance operations to return additional capital with a side question here being with the annual cash distribution from BNSF which is held on national indemnities books be excluded?

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

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Yes. We will obviously follow the rules of the states in which we're domiciled and all the rules of course, but basically it's the state of domestication in the insurance companies. And they do restrict the amount of dividends in any given year, although you could if you wanted to request some additional amount. But we don't ever consider that. But if repurchases were really attractive, we would do it in a very big way. And I wouldn't rule - there's all kinds of ways that we could arrange things to do either a very large acquisition, which is what I would (06:23:31) a very large repurchase, which I don't think is probably in the cards just because the way our stock trades, not because we wouldn't like it at a large discount.

So Charlie and I, we've got the appetite and we would have - we've got a lot of cash, but we could have a lot more cash. We can make any deal of even one of a very large size. We could make anything that came along. We could work on how to get it done. We would have - we're not going to be doing this, but we would have partners who would come in and give us a preferential part of a partnership. That's not going to happen at all probably. But there's a lot of things that we could do. So don't rule out anything based on statutory limitations of distributions from insurance companies.

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

And that we could get special promotions fee. You got bigger dividends? We are not - you should not assume we're constrained by the laws of nature to the amount that we can take out under the statute. No.

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

Okay. Station 7.

Q - Andy Serwer {BIO 15136542 <GO>}

Hi, Warren and Charlie. Thank you for everything. I'm David from Ginkgo Global (06:24:58), Investment Manager in Shanghai. I've been here for eight years. If the investment is a sport in the Olympics, you are our champion team. So my question is, facing the fast-growing machine intelligence, how would you see the new competition impact the capital allocation productivity in the future? For Charlie, what is the first principle of capital allocation from a general economic interest point of view? Thank you.

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

Well, two questions, machine intelligence. I'm afraid the only intelligence I have is being provided by something that's not a machine. And I don't think I'm going to learn machine intelligence. If you ask me, how to beat the game of Go with my own intelligence, I couldn't do it. And I think it's too old for me to learn computer science. Generally, I think that the machine intelligence has worked. After all, the machine now can be the best human player of Go, but I think there's more hype in that field than there is probable an achievement. So I don't think the world is going to be changed that much by machine intelligence, some but not hugely. And what was the other question? Well, one was machine intelligence.

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

I think it he was going to be capital allocation.

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

Yeah. Well, that's such a general question. Generally speaking, we're always trying to get the best to get something that's worth buying. And the human mind rejects that if you're in academia because you can come in and make one declaratory sentence at the opening of the semester, you're going to do for the rest of your time. So people want to find some formula. It's what I call physics envy. These people want the world to be like physics. But the world isn't like physics outside of physics. And that false precision just does nothing that get you in trouble. So I would say you got to master the general ideas, and you've got to work to improve your judgment slowly, the way all the rest of us had. And I don't think most individuals have much hope of individual gain from machine intelligence.

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

No, I don't think that - I'm impressed what machines be it Go or something of this order, or even when the chess or whatever it may be. I don't really think they bring much to the table in terms of capital allocation or investing. I may be investing something entirely and maybe I'm just blind to what's out there.

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

You're missing a lot of very remunerative fear and twaddle.

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

Well, that takes care of that. So we'll move on to Station 8.

Q - Andy Serwer {BIO 15136542 <GO>}

Dear Mr. Buffett and then Mr. Munger, thank you very much for hosting the meeting. It's truly being remarkable. Thank you. My name is Yen (06:28:33) and I'm Partner at Tiger Brokers, a leading electronic brokerage firm from China. Let me rephrase that. So I and my colleagues flew half away from the globe with IT and (06:28:52) to be here, and it's an honor, just like everyone else in the stadium, we're honored to be here. My question is, you mentioned earlier that investors don't really have to be struggling in picking the right stocks. They would do well in picking probably the right market and the right country. China is the second largest economy and probably has the biggest growth potential. Just by passively rating a portfolio by passively evaluating a portfolio, U.S. investors are significantly underweight in China. So in your opinion, what are stopping the investors from investing in China? Thank you.

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

Oh, I think the answer is that you're absolutely right that we are - American investors are missing China, and they're missing it because it's a long way away. It looks different. They're not used to it. It's complicated. The headlines confuse them. In other words, it just

looks too hard, (06:30:01) to outsmart the Chinese market. But I think you're absolutely right, it's where they should be looking.

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

Okay. We had a couple of investments in China. We've done pretty well, but there were - well, if you go back a number of years, one of the (06:30:28) in terms of getting a lot of money into something, many billions, and we have to get billions into things and to move any kind of a needle, that can be tougher in markets that you've got - you're unfamiliar working in, and it's difficult under any circumstances. But accumulating a \$6 billion or \$8 billion or \$10 billion position in investments outside the United States can be very difficult. For example, in UK and much of Europe, we have to report when we own 3% of a company.

In fact, we can be asked to report if we even have less than 3%. That really gets very tough when we get a bunch of followers and a lot of publicity that probably isn't deserved in terms of what we're doing in the markets and everything. So some of the problems are just by the nature of our size. It'd be a lot easier for running. It's more refined. PetroChina, we managed to get a very big position, but the government owned 90% of it. So we bought 14% of what the government didn't know, but it was only 1.4% of the company. But Charlie actually keeps pushing me to do more in China and we've tried a couple of times actually, and that was one operation that we got involved in.

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

What you did so poorly the first time he put in \$200,000, got about \$2 billion, so it wasn't encouraging enough.

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

Okay. Station 9.

Q - Andy Serwer {BIO 15136542 <GO>}

My name is Dr. Sherman Silber (06:32:22). I'm an Infertility Doctor from St. Louis. And I've been a shareholder and coming to this meeting for 23 years, and I want to thank you very much for making my grandchildren very rich. They sometimes compare me in the medical world, the infertility world as the Berkshire Hathaway of infertility because I'm so old, and I come from a relatively small community. But I'm wondering about your interests in not just Apple, but all the tech stocks like Amazon and Google because you've avoided them, you stated in the past because they're complicated. You should stick with something you understand. On the other hand, Amazon and Google have what you call a very durable competitive advantage. They really hardly have any competitor. And that's true in China, too, of Alibaba and Tencent. So it seems like it's a conflict, and I'm wondering if you're going to be turning the corner and going into these tech companies that seem to have no serious competition.

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

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Well, we certainly look at them. We don't think it whether we should be in tech companies or not or that sort of thing. We are looking for things where we do get into the durability of the competitive advantage, and whether we think that our opinion might be better than other people's opinion in assessing the probability of the durability, so to speak. But the truth is that I watched Amazon from the start, and I think what Jeff Bezos has done is something close to AmeriCall and promise of I think something will be AmeriCall I tend not to bet on it. It would have been better - a far better obviously if I had some insights into certain businesses, but that built only early on, Bill Gates only early on, that I think I was on destiny suggested I turn to Google, but the troubles I saw the Google was skipping past all of this, and I wonder if anybody could skip past Google.

And I saw at GEICO that we were paying a lot of money for something that cost them nothing incrementally. We've looked at it. I made a mistake in not being able to come to a conclusion where I really felt that at the present prices that the prospects were far better than the prices indicated. And I didn't go into Apple because it was a tech stock in the least. I mean, I went at Apple because I made certain conclusions about both the intelligence with the capital, with the employee, but more important, about the value of an ecosystem and how permanent that ecosystem could be and what the threats were to it and a whole bunch of things. And I don't think that required me to take a part on iPhone or something and figure out what all the components were. I think it's much more the nature of consumer behavior and some things strike me as having a lot more problems than others.

But the answer is we'll miss a lot of things that, or almost a lot of things that I don't feel I understand well enough, and there is no penalty in investing if you don't swing at a ball that's in the strike zone. As long as you swing at something at some point, then eventually you find the pitch that you should like, and that's the way we'll continue to do it. We'll try to stay within our circle of competence. And Charlie and I generally agree on sort of where that circle ends, and what kind of situations where we might have some kind of an edge in our reasoning or experience or something that what we might evaluate something differently than other people. But the answer is, we're going to miss a lot of things. Charlie?

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

Yeah. We have a wonderful system. If one of us is stupid in some area, so is the other. And of course, we were not ideally located to be high-tech wizards. How many people of our age quickly mastered Google? I've been to Google headquarters. They looked at me like they're - it looks like a kindergarten.

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

A very rich kindergarten. It's extraordinarily impressive what they've done. And like I say at the ICO, we were paying them a lot of money at the time they went public. And all three of them, the main characters, Eric and Larry and Sergey, actually came and saw me, but they were more interested in talking about going public and the mechanics of it and various things along that line. But it wasn't like what they were doing was a mystery to me. The mystery was how much competition would come along and how effective they would be, and whether it would be a game where four or five people were slugging it out

without making as much money as they could have one company dominate. Those are tough decisions to make. You're going to have industries where there's only two people in it and they'd still be very good because they beat each other's brains out.

And that's one of the questions in the airline business. It's a better business now than it used to be. It used to be suicide. And you know that the competitive factors are extraordinary in airlines and how much better business it is with four people operating at 85% capacity than it was with seven or eight operating it in the mid-70% and with more planes around. Those are tough decisions. But I made the wrong decision on Google and Amazon, I really consider that a miracle that you could be doing Amazon Web Services and changing retail at the same time without enormous amounts of capital and do it with the speed and effectiveness of what Amazon has done. I underestimated. I had a very, very, very high opinion of Jeff's ability when I first met him and I underestimated him. Charlie?

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

Well, my comment would be that shareholders have one thing to be thankful for. Some of the age-related stupidity at headquarters has been ameliorated by Ted and Todd joining us. We are looking at the world with the aid of some younger eyes now and they've had a contribution significantly beyond their own investments. And so, you're very lucky to have them as your shareholders, because there's a lot of ignorance in the older generation that needs removal.

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

Okay. Station 10.

Q - Andy Serwer {BIO 15136542 <GO>}

Hi. Good afternoon. Good afternoon, Warren. Good afternoon, Charlie. And my name is Eugene (06:40:41). I come from China and I work for Tian Tsai Fu (06:40:45) family office. And we are serving high worth individual clients in China. And you too will be my dream customer. I know your shareholder Bill Gates has a family office, which help him in his wealth. So, my question is, do you have a family office? And can we know what they do, anything for you? And if not, are you planning to have a family office in the future?

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

We already have a family office. It's sitting right here.

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

Yeah. We would be the last guys in the world to have a family office, actually. There are a lot of them around, but it's not something that fit the Munger family or Buffett family. Charlie, anything? Okay. We'll do one more. Station 11.

Q - Adam Mead

Hi, Warren, Charlie. My name is Adam Mead, Mead Capital Management from Derry, New Hampshire. In the past, you have touched on certain compensation arrangements with key executives. Could you please provide some specific examples of compensation arrangements within Berkshire that speak to incentivizing good behavior while not penalizing the manager for size or the relative ease or difficulty of the business or industry? Thank you.

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

Well, that is a very, very good question and a very, very tough question, because some of our...

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

He really doesn't want to answer.

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

Well, some of our managers - no. Some of our managers are in businesses that are just much easier. I mean, we bought in a variety of businesses. People are obviously influenced by what pay arrangements are elsewhere, and it wouldn't be human if they weren't.

And trying to come to the right answer when you have different degrees of capital intensity, very different degrees of basic profitability, and how much you scale up based on size, because there is an incentive that grow businesses - usually businesses get much larger. Everybody from the CEO down expects to earn more money for something that - where they really bring the same amount of intensity, and work (06:43:34) to it. It is really a tough question. I think that if you engage compensation consultants at public companies which they all do, they're going to recommend things that cause them to have CEO to recommend them to other companies. It's just you're working against human nature when you have an arrangement like that.

I would say that we have obviously kept a very, very, very high percentage of the managers that we hope to have stayed with us. In fact, just about 100%. It's - and I think people do like - they do like to make their own decisions, they do like recognition. Most people respond - they like doing a good job and they like the fact that we understand it and compensation is part of that, but it's not the whole thing. And I wish I could give you some precise formulas, but there aren't any.

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

I think you really don't, Warren.

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

What?

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

It's an advantage at Berkshire to keep our individual deals private. There would be no advantage to just publish them all.

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

No. We're not going to do that.

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

No. Of course, not. So, what we're saying, he makes all those decisions personally, he's got every formula in the book and he keeps them all private. That's our system.

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

Well, we do - we publish what the directors are paid.

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

We publish all we have to, yes.

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

Okay. It's 3:30 PM now. We're going to reconvene at 3:40 PM. But Charlie and I, we love the fact that our partners basically turned out for this. So, we thank you for coming. I hope you've had a good time both at the meeting and in Omaha and we look forward to seeing you again next year. Thanks.

A - Andy Serwer {BIO 15136542 <GO>}

All right. Hello, and welcome back to Yahoo Finance's coverage of Berkshire Hathaway's Annual Meeting Live from the CenturyLink Center in Omaha, Nebraska. I'm Andy Serwer here with my co-host, Jen Rogers.

A - Jennifer Rogers {BIO 2325313 <GO>}

So, as expected, in the afternoon session, we had multiple questions about Apple. It came up a bunch, Apple versus Microsoft, Apple and its cash. Then, just really in the last few minutes, they're talking about Google. So many companies coming up.

A - Andy Serwer {BIO 15136542 <GO>}

Yeah. I also thought there was a tremendous amount of conversation about China and trade and tariffs. And in fact, I've never heard so much talk about that at this meeting, but Glenn Close said it best. She said, it's always the same and it's always different, and it's always different because of the news and the changes in Berkshire Hathaway in terms of their investments and the investment environment that changes as well.

Definitely, a lot on China there. Let's bring in Myles Udland. He is on the floor for us. He's been in the press box. Miles, what's your big takeaway?

A - Myles Udland {BIO 20165611 <GO>}

Yeah. Andy mentioned there and talking about Apple and I think people who are watching the meeting, people who saw the beginning of the second half, they'll remember Daphne the 8-year old girl from New York City who brought up the question about Berkshire's investments in more asset-light businesses. And then, Buffett eventually, later in the meeting, in response to a different question and talked about the asset-light nature of the U.S. economy. I think Apple plays into that theme quite a bit.

So, if I had to define a second half theme, it would be the asset-light nature of sort of modern commerce, the beginning to Andy's point, a lot of discussion about China and moat was the word that came up a number of times. Elon Musk got mentioned in that. And then, of course, Wells Fargo really didn't change their tune there. This is now the second year in a row that Buffett has essentially said, well, there is an incentive problem, but I'm not too worried about what happened at the bank.

A - Andy Serwer {BIO 15136542 <GO>}

I think we need to track down, Daphne. We live in the same city as Daphne. Maybe we can get her to come on when we get back to New York.

A - Myles Udland {BIO 20165611 <GO>}

A lot of smart young people in New York.

A - Andy Serwer {BIO 15136542 <GO>}

Yes, definitely. That's very good. Value investor, John Rogers, right now, Chairman and CEO of Ariel Investments with over \$13 billion under management. Welcome.

A - John Washington Rogers {BIO 1401923 <GO>}

It's great to be here.

A - Andy Serwer {BIO 15136542 <GO>}

So, why do you come every year? What keeps bringing you back?

A - John Washington Rogers {BIO 1401923 <GO>}

Well, I have so much respect for Warren Buffett. It's just great to be here, and see him answer the questions every year. But it's also kind of a value investors' convention. You see great value investors everywhere. I spent a lot of time this weekend with Mario Gabelli, for example; my friend, Tom Russo is here. It's just a great place to network, get great ideas, share ideas.

A - Andy Serwer {BIO 15136542 <GO>}

John, you said that you founded your firm in 1986, the same year that Gabelli did. And I think it really speaks to your ability to create a sustainable business model as an investment firm, not easy to do. To what do you owe your success?

A - John Washington Rogers {BIO 1401923 <GO>}

Well, I think - well, for Mario and I, we both, there were six of us who started our mutual funds in 1986 that are still active today. And I think part of it is that we have maybe the intestinal fortitude to deal with the inevitable dramatic ups and downs in the market, and the ability to be contrarians to buy when others are selling and not chase the latest fab of the moment. And I think most importantly, like Warren talks about, how that long-term perspective to really keep looking out over the horizon and not get swept up in all the energy and passions of the moment.

A - Andy Serwer {BIO 15136542 <GO>}

So, we all cover the market on a daily basis. 2018 has really seen a return to volatility. I'm interested on your outlook for the balance of the year.

A - John Washington Rogers {BIO 1401923 <GO>}

I'm quite optimistic. I continue to think that the tax reform has been a big deal generating lots of cash for companies and I think the regulatory reform sometimes is underestimated how powerful and important that's going to be the probability of American businesses. And then, finally, with these low interest rates, valuations are not that high. And there's a lot of pessimism still out there. I'm involved with a lot of investment committees and people keep thinking that the market is going to collapse, because it's had this long bull market. And when everyone's worried about a market collapse, it usually doesn't happen.

A - Andy Serwer {BIO 15136542 <GO>}

So, John, you are one of the leading business lights of the City Chicago, your town. Obviously, Chicago has some issues. And a lot of other cities do as well. Do you feel like the political environment can improve, so that we can start addressing problems like infrastructure and those types of issues?

A - John Washington Rogers {BIO 1401923 <GO>}

I think in Chicago, we are well positioned. We're getting better and better. We're getting stronger and stronger. We have experienced leaders in place, and we have some great people who've come back actually from the Obama administration to pitch in; people like Valerie Jarrett and Arne Duncan. Arne is working on this extraordinary work to help young men of color get great career paths and stay away from the gang life and it's great to have all this talent coming back to our hometown to pitch in and help keep the company, help keep the city going in the right direction.

A - Andy Serwer {BIO 15136542 <GO>}

So, you're sticking around tonight. As you said, it's the time to network, to socialize and see people, what do you think everyone's going to be talking about from that Q&A sessions?

A - John Washington Rogers {BIO 1401923 <GO>}

Well, I think there's going to be a lot of conversation about China. I've been already at the luncheon after the morning session, people talked about how important China is going to be, how important the country it's going to be as the world evolves over the next 30 to 40 and 50 years. And I think that's going to be the thing that people are going to talk about. This trade war what we have will be temporary. And our two nations will be the ones that will really survive and thrive over the next 30 to 50 years.

A - Andy Serwer {BIO 15136542 <GO>}

So, would you agree with Charlie Munger that Americans are underweight, China right now in their investment portfolios? Are we not giving it the attention that we should be?

A - John Washington Rogers {BIO 1401923 <GO>}

I think so. I think people have underestimated the power of the economic engine there and how they really are getting things going in the right direction.

A - Andy Serwer {BIO 15136542 <GO>}

I'm sorry, not to harp on the longevity issue. We've both been around in this business for a while. And my question is, so for young people starting out, I mean, you started in 1986, started with your fund, I should say. Is it still the same type of business to get into? Is it still a good business for young people to get into today?

A - John Washington Rogers {BIO 1401923 <GO>}

I tell young people that it's a great business. I spoke to a young - a group of young Afro-American females here yesterday for lunch, kind of about a dozen people and they were concerned about their children's economic futures and how to build wealth in the African-American community. And I told them get into the financial services world, get your kids involved with financial services, there's going to be a lot of wealth created.

And one place that I talked about that people often don't think about is, go and work for your college endowment. There are so many huge endowments now that are \$10 billion, \$20 billion, \$30 billion. They've got lots of jobs, lots of opportunities to learn about all the different sectors of this great industry. So, I tell young people think about working for your alma mater, you can give back and actually do really well at the same time.

A - Andy Serwer {BIO 15136542 <GO>}

And learn.

A - John Washington Rogers {BIO 1401923 <GO>}

And learn an awful lot.

A - Jennifer Rogers {BIO 2325313 <GO>}

John Rogers, thanks so much for coming. I don't know. We talked about you being from Chicago. Have you gone down and filled out our little map downstairs on your way out? You can go and stop by and see.

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Julia La Roche, we're going to toss it over to you right now. She's been keeping track of where everybody is coming from at this meeting.

A - Andy Serwer {BIO 15136542 <GO>}

Do we need check it, Jen?

A - Jennifer Rogers {BIO 2325313 <GO>}

Yeah. So, go check it, John. Thank you so much.

A - Andy Serwer {BIO 15136542 <GO>}

Thanks for coming.

A - Jennifer Rogers {BIO 2325313 <GO>}

All right, Julia, what you got there? A family?

A - Julia La Roche

Yes. Definitely come check in. We've had 284 unique locations. Obviously, Omaha is number one in the States, followed by San Francisco. We have Kansas City and Minneapolis up there. And then, internationally the biggest populations we're seeing are coming from Singapore and Beijing and we're joined by the Rink family from San Francisco, we have Ray, Sarah and their two kids, Kennedy and Benjamin. Now Benjamin (06:53:25) what have you learned from Warren Buffett.

A - Unverified Participant

Last thing takes time.

A - Julia La Roche

And Kennedy (06:53:33), what have you learned from Warren Buffett?

A - Unverified Participant

When he dies, he wants to be known as a teacher.

A - Julia La Roche

And see, that's what it's all about. Thousands of people come here to learn from the Oracle of Omaha and Charlie Munger and they want to learn about him being a teacher and sharing that with the next generation. And I know that you all, this is your first time bringing your children. Why did you decide to do that?

A - Unverified Participant

This is something my dad used to do with me over 10 years ago. He finally decided he wanted to attend online. And so, I said, well, I'll pass the baton on and start having my kids attend.

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A - Julia La Roche

That's great. Well, thank you for being here and it's back to you, guys.

A - Andy Serwer {BIO 15136542 <GO>}

All right. Thanks a lot, Julia. Joining us now the Governor of Nebraska, Pete Ricketts. Thank you so much, Governor, for stopping by.

A - John Peter Ricketts {BIO 1866542 <GO>}

It's always my pleasure. Thanks for having me on. I appreciate it.

A - Andy Serwer {BIO 15136542 <GO>}

So, how big a deal is this annual meeting for the State of Nebraska.

A - John Peter Ricketts {BIO 1866542 <GO>}

Well, this is a huge deal. Obviously, they sold out a record number of tickets.

A - Jennifer Rogers {BIO 2325313 <GO>}

We are actually going to go back - sorry to interrupt you, Governor Ricketts, but they are starting the business meeting right now. So, we are going to go back real quick.

(06:54:32)

A - Andy Serwer {BIO 15136542 <GO>}

It's not often that we tell a Governor to hang on. I really apologize.

A - John Peter Ricketts {BIO 1866542 <GO>}

No worries.

A - Jennifer Rogers {BIO 2325313 <GO>}

We're back to Buffet and Munger.

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

... board of directors of the company, and I welcome you to this 2018 annual meeting of shareholders. This morning, I introduced the Berkshire Hathaway directors that are present, and also with us today are partners in the firm of Deloitte & Touche, our auditors.

Jennifer Tselentis is the assistant secretary of Berkshire Hathaway. She will make a written record of the proceedings.

Becki Amick has been appointed inspector of elections at this meeting, and she will certify to the count of votes cast in the election for directors and the motions to be voted upon

at the meeting.

The named proxy holders for this meeting are Walter Scott and Marc Hamburg. Does the assistant secretary have a report of the number of Berkshire shares outstanding entitled to vote and represented at the meeting?

We're building the suspense here.

A - Jennifer Tselentis

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 7, 2018, the record date for this meeting, there were 748,347 shares of Class A Berkshire Hathaway common stock outstanding with each share entitled to one vote on motions considered at the meeting, and 1,344,969,701 shares of Class B Berkshire Hathaway common stock outstanding with each share entitled to one ten thousandth of one vote on motions considered at the meeting.

Of that number, 537,524 Class A shares and 823,145,874 Class B shares are represented at this meeting by proxies returned through Thursday evening May 3.

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

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

A - Walter Scott {BIO 1388841 <GO>}

I move that the reading of the minutes of the last meeting of shareholders be dispensed with and the minutes be approved.

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

Do I hear a second?

A - Ronald L. Olson {BIO 521861 <GO>}

I second the motion.

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

Motion has been moved and seconded. We will vote on this motion by voice vote. All those in favor say, aye.

A - Unverified Participant

Aye.

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

Opposed? The motion is carried.

The next item of business is to elect directors. If a shareholder is present who did not send in a proxy or wishes to withdraw a proxy previously sent in, you may vote in person on the election of directors and other matters to be considered at this meeting. Please identify yourself to one of the meeting officials in the aisles, so that you can receive a ballot.

I recognize Mr. Walter Scott to place a motion before the meeting with respect to the election of directors.

A - Walter Scott {BIO 1388841 <GO>}

I move that Warren Buffet, Charles Munger, Greg Abel, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, Ajit Jain, Thomas Murphy, Ron Olson, Walter Scott and Meryl Witmer be elected as directors.

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

Is there a second?

A - Ronald L. Olson {BIO 521861 <GO>}

I second the motion.

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

It has been moved and seconded that Warren Buffett, Charles Munger, Gregory Abel, Howard Buffett, Stephen Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, Ajit Jain, Thomas Murphy, Ronald Olson, Walter Scott, Meryl Witmer be elected as directors. Are there any other nominations or any discussion?

The nominations are ready to be acted upon. If there are any shareholders voting in person, they should now mark their ballots on the election of directors and deliver their ballots to one of the meeting officials in the aisles.

Ms. Amick, when you are ready, you may give your report.

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

My report is ready. The ballot of the proxy holders in response to proxies that were received there last Thursday evening cast not less than 605,906 votes for each nominee. That number exceeds a majority of the number of the total votes of our 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.

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

Thank you, Ms. Amick. Warren Buffet, Charles Munger, Greg Abel, Howard Buffet, Steve Burke, Susan Decker, William Gates, David Gottesman, Charlotte Guyman, Ajit Jain, 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 Freeda Cathcart on behalf of shareholder, Marcia Sage. The motion is set forth in the proxy statement. Motion requests that the company provide a report reviewing the company's policies, actions, plans, and reduction targets related to methane emissions from all operations. The directors have recommended that the shareholders vote against the proposal.

I will now recognize Ms. Cathcart to present the motion to allow all interested shareholders to present their views. I ask that the representative of Baldwin Brothers limit the presentation of the motion to five minutes.

A - Freeda Cathcart

Good morning, Chairman, Buffet; Mr. Munger, members of the board, and fellow shareholders. I am presenting this proposal on behalf of Baldwin Brothers on the issue of methane asset risk. This is the second year for this methane focus proposal. Last year, 10% of shareholders approved of it.

Methane asset risk is a serious financial safety and environmental issue across the entire natural gas supply chain. The failure of a gas injection well at Southern California Gas Aliso Canyon storage facility in Los Angeles revealed major vulnerabilities in the maintenance and safety of natural gas facilities.

In that situation, cleanup and containment costs have soared to close to \$1 billion. Governor, Jerry Brown of California has threatened to shut down the facility.

Berkshire Hathaway owns the largest interstate natural gas pipeline system in the United States. It has natural gas storage distribution and transportation facilities that may face similar safety risks through the Northern Natural Gas Company, Kern River Gas, and Mid-American Energy Corporations.

On an environmental front, research indicates methane leaks could erase the climate benefits of reducing coal use to meet internationally agreed upon climate change targets. Methane emissions have an impact on global temperature of roughly 84 times that of CO₂ over a 20-year period.

Berkshire is a voluntary member of the EPA's Methane Challenge and ONE Future Emissions Intensity Commitment Framework and should be applauded for reducing its leakage rates to below the 1% target along its value chain.

Since this framework is a cost-effective versus prescriptive approach, shareholders would like to understand if this cost-effective approach employed at Berkshire is sufficient - maintenance and enhanced disclosure should help mitigate the potential for these financial and regulatory risks.

In closing, we think it prudent that Berkshire Hathaway issue a report revealing and disclosing the company's specific best practices, policies, and safety standards for methane assets and required upgrade costs to facilities to mitigate potential business risks.

The report would make it easier for investors, customers, and regulators to understand Berkshire's overall approach to managing methane emissions and risks. Thank you for your consideration.

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

Ms. Cathcart , could you help me out, as there's some other people there to speak? I can't quite see it from here.

A - Unverified Participant

No. There are no other shareholders who wish to speak on this issue.

There's nobody behind me to speak.

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

Did you get that, Charlie?

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

No.

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

Greg, could we put up slide 1 and then somebody will give Greg a microphone, it'd be helpful. He could elaborate some on this chart and tell us how we're doing.

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

Okay. Thanks. Thanks, Warren and appreciate the comments there. What we've prepared here is in response to the proposal. It demonstrates the ONE Future Initiative goal as it was highlighted. They'd like to see our pipelines operating by 2025 at a 1% throughput or a loss of throughput at 1%. I'm happy to report, as this slide shows, that in 2017, our throughput loss was 0.046%, 20 times better than the request in 2025.

Thank you. It's a great compliment to our operating team, obviously. They take the issue that as it's been highlighted very seriously. I would also add, as it was noted, we're part of

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the EPA program where we report on a voluntary basis. Our practices are disclosed and reviewed by the EPA and additionally added on our website.

Accordingly, I strongly feel we're getting the results and disclosing the appropriate information. Thank you.

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

Yeah. And thanks, Greg. And Ms. Cathcart, we are on the same side you are on this basically. We just are not looking for ways to conduct more studies and prepare reports that may cost us money and generate more reports and all that. But I can tell you two things.

This is something that is reported to the Board of Directors of Berkshire Hathaway Energy quarterly, and I'm on that board. And we believe in achieving the same as it, and we think Berkshire Hathaway Energy is both sensitive and effective - sensitive to and effective in reducing methane emissions.

So, I think we're now ready. The motion is now ready to be acted upon. If there are any shareholders voting in person, they should now mark their ballots on the motion and deliver their ballot to one of the meeting officials in the aisles. Ms. Amick, when you're ready, you may give your report.

A - 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 48,040 votes for the motion and 558,640 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.

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

Thank you, Ms. Amick. The proposal fails. The next item of business is motion put forth by shareholder, Freeda Cathcart. The motion is set forth in the proxy statement. The motion requests that Berkshire adopt a policy to encourage more Berkshire subsidiary companies to issue annual sustainability reports.

I will now recognize Freeda Cathcart to present the motion. And to all interested shareholders who've been interviewed, I ask her to limit her remarks to five minutes. You have the floor, Ms. Cathcart.

A - Freeda Cathcart

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Thank you so much. It is a privilege to be here and a privilege I can give thanks to my grandfather, James Cathcart who started out in the mailroom of Gen Re and worked himself up through the company to become the Chair of Gen Re. During that time, he accumulated a lot of Gen Re stock which he bestowed generously upon his family. And when he did so, he encouraged the members of his family to do good and to pay it forward to do something that would make a difference in the world and in our communities.

For my father, he did so by being philanthropic with educational institutions with a theory that if you give a person a fish, you feed them for a day, but if you teach them to fish, you feed them for a lifetime. My focus has been on the environment. With the thought that when people fish, it would be nice if they were able to eat the fish.

I want to take this opportunity to clarify my proposal about the sustainability reports and put the emphasis on the word encourage. It is evident that Berkshire Hathaway's management of allowing these subsidiaries to work without getting guided - mandates from you is being very successful and I wouldn't recommend changing it. You're doing a great job. Please keep it up.

But I do think that there's something to be said to encourage them and support them in many ways you already are. There is a high level of interest from investors and the public in corporate social responsibility. One-fifth of investments are based on socially responsible investment strategies.

And back in 2012, I found an article by Planet Earth Herald where they wrote, when Warren Buffett talks, people listen. He is now talking about the environment. He believes that companies need to have a triple bottom line and respecting the environment is absolutely critical to a company's economic performance. In times - then this is a direct quote from you, Mr. Buffett. In times such as these, a company must invest in the key ingredients of profitability; its people, communities, and the environment.

One-third of Berkshire Hathaway's subsidiaries already have a sustainability presence on the web. And one of them is Berkshire Energy that has the acronym RESPECT, which stands for responsibility, efficiency, stewardship, performance, communication and training. And Berkshire Hathaway provides an annual sustainability summit to help bring the subsidiaries together so they can learn how to be more sustainable, how to share tips and how to be profitable. And that's excellent.

But when I tried to find a web presence about the sustainability summit, I wasn't able to find it. And that's where I think that we can do a better job in Berkshire Hathaway when it comes to communication with our shareholders and with the outside world about the good work that we're doing. A simple solution to that would just be to create a link on the Berkshire Hathaway website to sustainability that people could click on and go and find out about initiatives like the sustainability summit. And from there perhaps, they could click on to go to the subsidiaries that have a web presence about sustainability to see what they're doing.

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In doing so, we give a window to the world where they can see what we're doing to make a difference that might inspire other corporations to follow the example , or perhaps a college student working on a paper would read about it and think that that is a good business model, that that's something that he wants to bring forward when he goes into his career.

There is a Facebook page called Berkshire Hathaway Sustainability that will be available for shareholders in the outside world to look at to see research and to encourage each other to learn how we can support sustainability practices. And that is available now.

I greatly appreciate this opportunity to speak with you today and to clarify what my proposal is. And I do greatly applaud and appreciate all the work that you're doing on behalf of our corporation and the world. Thank you so much.

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

Thank you. Many of the managers - a great many of the managers of Berkshire are here and are listening to you. And I suspect that a very high percentage of them agree with what you're saying. Whether they - what they do in terms of web pages and so on, in our view, is basically up to them.

But I can tell you that one leading proponent, as you mentioned, was Greg Abel, who until recently was running Berkshire Hathaway Energy and now is Vice Chairman. And Greg may want to say a few words on this, too. But, I can assure you that the managers are listening to you.

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

Thanks, Warren. Thanks, Warren. Yeah, we do everything that was touched on. I'll just maybe add a few points for our shareholders. Obviously, sustainability is a priority for Berkshire and each of our operating subsidiaries. It was highlighted that a number of them have sustainability reports. But I would go beyond that. If you go to our various companies' websites, you'll see specific actions they're taking relative to sustainability. So, it may not be summarized in a specific report, but that type of information is available.

I can also add that when you think of the Berkshire Hathaway Energy Corporation, we're trying to lead by example with support from Warren, Charlie, Walter Scott. I'm happy to report, if you look at where our energy production is right now at the end of 2017, 50% of our energy that is produced and consumed by our customers comes from renewable energy.

That's something we're strongly communicating across the U.S. and globally as an example of what can be done in our industry. And I'm happy to report by the end of 2021, 100% of the energy utilized by our customers can be met through renewable energy in Iowa.

So, I understand the concept of sustainability. We're working across our organizations to share best practices. But as Warren highlighted, it really resides in each of our companies.

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But it will be encouraged and you'll continue to see great results. Thank you.

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

Thank you. The motion is now ready to be acted upon. If there are any shareholders voting in person, they should now mark their ballot 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.

A - 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 67,282 votes for the motion and 544,256 votes against the motion. As the number of votes against the motion exceeds the 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.

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

Thank you, Ms. Amick. And I would say Ms. Cathcart, our managers heard you. I mean, you have had an impact and I appreciate what you have done.

Walter and I guess, we're now ready for a motion?

A - Walter Scott {BIO 1388841 <GO>}

I'm move that this meeting be adjourned.

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

Is there a second?

A - Ronald L. Olson {BIO 521861 <GO>}

I second the motion.

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

A motion to adjourn has been made and second and we will vote by voice. Is there any discussion? If not all - if not all in favor, say aye. All opposed? No.

The meeting is adjourned, and thank you again for coming.

A - Andy Serwer {BIO 15136542 <GO>}

Welcome back to Yahoo Finance's live coverage of the 2018 Berkshire Hathaway annual shareholders meeting. The business of the day has wrapped up, but we still have a little

bit more here from the CenturyLink Center, Jen.

A - Jennifer Rogers {BIO 2325313 <GO>}

Yeah. We want to start with Nebraska Governor, Pete Ricketts. We had just begun our interview with the Governor when the Berkshire Hathaway business meeting began. So, we got to talk with him a little bit while some of the business was going on. Here's a look.

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A - Andy Serwer {BIO 15136542 <GO>}

Joining us now is Nebraska Governor, Pete Ricketts. Governor Rick, it's great to see you.

A - John Peter Ricketts {BIO 1866542 <GO>}

Great to be here. Thank you very much.

A - Andy Serwer {BIO 15136542 <GO>}

So, let me ask you about this meeting. How big a deal is the Berkshire Hathaway meeting to the State of Nebraska?

A - John Peter Ricketts {BIO 1866542 <GO>}

Well, this is a huge deal. As you know, they sold a record number of tickets, over 42,000. And this is something that allows us at the state to be able to showcase the state and really show off all the wonderful things. Omaha is just a brilliant community. We've got so many great hardworking people here. So, it really is a wonderful opportunity for us to be able to tell the world our story.

A - Jennifer Rogers {BIO 2325313 <GO>}

One part of that story that we have learned this week being here is how low your unemployment rate is. It's below 3%.

A - John Peter Ricketts {BIO 1866542 <GO>}

Yeah, 2.8%

A - Jennifer Rogers {BIO 2325313 <GO>}

That's going to - it's got to be a challenge though. We've been talking to business leaders just about hiring. How do you stay competitive with that?

A - John Peter Ricketts {BIO 1866542 <GO>}

Yeah. We've got like the fifth lowest unemployment rate in the country, 2.8%, the lowest we've had since 1999. But one of the things we do to really kind of be innovative about how we connect companies with people is we've changed our unemployment system into a reemployment system. And by that, I mean, we're requiring everybody taking those benefits to sit down the jobs coach, first, create a resume, get job, pointing to job training, how to find that new tips on find the next best thing. So, we've actually reduced

the amount of time people are spending unemployed, reduced amount of claims being paid out. And that's a lot to reduce our unemployment insurance tax as well, saving Nebraska businesses last year about \$20 million.

A - Andy Serwer {BIO 15136542 <GO>}

So, by the way, I like your Nebraska red tie, you're looking good.

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A - John Peter Ricketts {BIO 1866542 <GO>}

Thanks. Thanks.

A - Andy Serwer {BIO 15136542 <GO>}

So, obviously Nebraska, a huge agricultural state and you export a tremendous amount of those products to China. And my question, of course, is where do things stand right now with the trade friction that we're seeing?

A - John Peter Ricketts {BIO 1866542 <GO>}

Well, actually, the President invited us out to the White House, I would say, a number of lawmakers from the Midwest about three weeks ago to talk about agriculture and trade. And I would say farmers and ranchers in Nebraska are nervous about the potential for retaliatory tariffs from China. And we want to see how this all works out, but we also have time. We're just now getting to planting season for example for soybeans. So, we won't be in harvest for several months.

Obviously, China has still got some time before they would actually implement some of these tariffs. So, what we're really just looking for is we know China has to be held accountable. Our farmers and ranchers get that with regard to things like intellectual property, but we want to see this trade deal get worked out and make sure that there aren't any tears put on our agricultural products, because we don't want to have our farmers and ranchers impacted.

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A - Jennifer Rogers {BIO 2325313 <GO>}

And it's not just China. Japan is a big trading partner for Nebraska...

A - John Peter Ricketts {BIO 1866542 <GO>}

Absolutely.

A - Jennifer Rogers {BIO 2325313 <GO>}

...as well. So, talk to us about TPP and also NAFTA. And what those mean and what you - for Nebraska? And what you think is going to happen on both those fronts?

A - John Peter Ricketts {BIO 1866542 <GO>}

Yeah. So, I actually had a chance to talk to the President when he was still a candidate about TPP. And as you know, he's not a fan of TPP. At the same meeting we had a few

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weeks ago, he did express an openness to taking a look at TPP, which is certainly quite different from where he's been in the past. Though he was very clear, he prefers bilateral trade agreements. So, I don't have a big preference, either, as long as we get that trade agreement with Japan. So, again, we just encourage him to get that trade deal done.

Japan is a huge market for us for our beef, our pork. We've had just – this week, we had a delegation from Keidanren, which is one of the most prestigious Japanese business federations here. The Vice Chairman of Toyota, Hayakawa-san, is the Vice Chair of Toyota who also runs this federation.

So, it's a big deal. They were here because Japan is the largest foreign direct investor in Nebraska, so we've got strong relationships, and we want to – don't want to see that trade relationship disrupted, and we don't want to see the NAFTA trade relationship disrupted, either.

That's been a very successful relationship, not only for Nebraska, but for Canada, Mexico, and the United States. So, certainly opportunities to really make all of these trade agreements better, just we also want to remember, we don't want to disrupt these very important relationships too.

A - Andy Serwer {BIO 15136542 <GO>}

Talk to us about this concept of the digital prairie, tech firms...

A - John Peter Ricketts {BIO 1866542 <GO>}

Silicon Valley. Absolutely.

A - Andy Serwer {BIO 15136542 <GO>}

Yeah, right, coming here.

A - John Peter Ricketts {BIO 1866542 <GO>}

Absolutely. So, one of the things that we do is, we've got the Raikes School, which is – Jeff Raikes was the former Microsoft executive to really help train our young people. And we have seen a lot of companies, Facebook, for example, just mentioned their – or just announced they are tripling their investment in Nebraska. They will take it up to about \$1 billion for their data center.

In fact, we've really got an expertise around data centers with other companies like Yahoo! and Travelers and Fidelity, all having their data centers share in Nebraska. We've got inexpensive public power. We're able to promise, for example, Facebook 100% renewable energy for their data center which is increasingly becoming important for our corporate partners here in the state. So, we really have a great community to help grow those tech jobs.

A - Jennifer Rogers {BIO 2325313 <GO>}

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I want to ask you about guns, because you just came from the NRA Convention in Texas and Warren Buffett was actually asked about guns earlier today. And it was really interesting just going by the applause lines in the crowd, it was really divided. And I want to know what you think can be done on this issue to bring people together and make some progress on it?

A - John Peter Ricketts {BIO 1866542 <GO>}

Well, I think that the key thing we want to look at right now is school safety. And so, one of the things I've done is organize a group of educators, a group of mental health care professionals and a group of law enforcement to start talking about different ideas that we could do to help improve school safety, and then bringing them together with what are some of the ideas that we can do. One of the things I've thrown out there for example is allow off-duty police officers to be able to carry guns onto a school campus or something like that. But that's just an idea.

What we really want to do is see how can we get to folks ahead of time? And that's where again I think the mental health care aspect is so important. Actually, Nebraska won an award from Mental Health America this past year for the work we're doing around our system of care to improve our mental health care services for children, trying to really organize all the resources in the community to get to them sooner, to make sure they don't get pulled out of school, pulled away from their families, not disrupt that child's life. And so, I think that's really what we have to look at is, how do we address the underlying causes for why these things are happening and look at it from the education side, mental healthcare side, law enforcement side.

A - Andy Serwer {BIO 15136542 <GO>}

And regulatory side. There's a lot - that's a bigger conversation. And obviously, we could talk about for quite some time.

A - John Peter Ricketts {BIO 1866542 <GO>}

A lot of time.

A - Andy Serwer {BIO 15136542 <GO>}

But anyway, we appreciate you coming by, Governor, Pete Ricketts of Nebraska. Thanks very much.

A - John Peter Ricketts {BIO 1866542 <GO>}

Great. My pleasure. Thanks for having me on.

A - Andy Serwer {BIO 15136542 <GO>}

Thank you.

A - Jennifer Rogers {BIO 2325313 <GO>}

So, the team is all back together here. Joining Andy Sewer and myself, we've got Myles Udland and Julia La Roche, who've been super busy all day.

A - Myles Udland {BIO 20165611 <GO>}

I feel like I'm returning home after a long journey out in the wilderness.

A - Jennifer Rogers {BIO 2325313 <GO>}

It feels like way more than a day that we last saw you. But, Julia, let's start with you, your big takeaway from today.

A - Julia La Roche

This was my first Berkshire Hathaway meeting. So, I'm so excited to be here. And I spoke to Buffett in that scrum earlier in the morning. I asked him, what are you going to buy or what has to happen for you to buy the next company? He said, I'm waiting for the phone call. And I also spent the day talking to executives from various Berkshire Hathaway portfolio companies. And I've asked them what's the benefit of being a Berkshire-backed company and they said, you know, it's the hands-off management style. That was something I heard constantly. But they also felt that they had the full support of Buffett for the long term.

And Buffett also said during our time in the scrum that that's what the culture, that hands-off style, that is the moat at Berkshire Hathaway. So, that's my big takeaway.

A - Jennifer Rogers {BIO 2325313 <GO>}

Waiting for the call, that came up a lot during the meeting as well. Like, where were you to know when the phone rings, like who's calling, and where people are calling from? Myles, what about you?

A - Myles Udland {BIO 20165611 <GO>}

Well, I think if you look at kind of the fundamental way that Warren Buffett likes to talk about investing in the U.S. economies, he said the S&P 500 is essentially most of the economy and you get all the benefits of that. And today, he used Apple as an example of a company right now that best - I think it exemplifies where we're at the in the U.S. economy.

Ultimately, yes, they sell iPhones, but it's an asset-light business. It's the theme that I think dominated the second half of the meeting. The U.S. economy, Buffett said himself is kind of asset-light. And if you look at the way that companies make money, Google, Amazon, Facebook, Apple, the companies that are defining our modern moment are not companies that are like what we see behind us here.

It's not BNSF, it's not really Duracell, it's not really Coca Cola, and I think that direction that shift - and that's kind of a big theme for him, for Charlie, and I think something everyone who is here today and heard them talk should think about the future of the economy I

think looks at lot different than the past did. And I think that Apple to Buffett is a perfect example of that.

A - Jennifer Rogers {BIO 2325313 <GO>}

All right, Andy. You're up.

A - Andy Serwer {BIO 15136542 <GO>}

So, I actually had a good takeaway, I thought from Glenn Close of all people.

A - Jennifer Rogers {BIO 2325313 <GO>}

Of all people, award-winning actress.

A - Andy Serwer {BIO 15136542 <GO>}

Yeah. And I thought it was really interesting. She's come here a number of years and we asked her, why do come? And she had a really great answer, which is, it's always the same and it's always different.

And I think that is so true, and it's the continuity of the wisdom that is the sameness. And then, frankly, it's the news and investing decisions, and the new investments, that's different. And so, between those two things, you get a really pretty exciting package. And for instance, what was new this year, a bunch of things, but what resonated with me was the discussions about China and trade. And that's obviously very top of mind.

And the interest amongst Chinese investors about Warren Buffett and Berkshire Hathaway, and Berkshire Hathaway and Warren Buffett in China continues to rise, and they address that. And I just think that it's really interesting and really topical and you can't predict what it's going to be year-to-year. What's it going to be in 2019? We don't know.

A - Jennifer Rogers {BIO 2325313 <GO>}

This goes a little bit to what you and Miles were talking about. But, I just think it's fun and I love it when he's talking about the companies that we talked about all the time. You talked about Amazon. He said, I have watched Amazon from the beginning and I missed it, but I wouldn't bet on a miracle, I never would have.

Talking about Google, just a little bit ago, saying I looked at Google and then I thought how did Google get there so fast. Is somebody going to get ahead of them that quickly? And I think that really also is Todd and Ted's influence and to see that playing out, and that really goes to the Apple news that really started this meeting, then upping that investment and the trends there, I don't think are stopping.

A - Andy Serwer {BIO 15136542 <GO>}

It's so interesting, there's so much to talk about. And people may not realize this, but the conversation continues, because there are all manner of gatherings and parties that go

on after the meeting, at hotels, all around the city, and even beyond that, and all this community, Berkshire Hathaway investors will be talking the whole year.

A - Myles Udland {BIO 20165611 <GO>}

And Charlie said that during the meeting. He said that I think when there's a new management team, when the current management teams have long moved on, he thinks there will still be a Berkshire Hathaway meeting, because we can talk about how people connect digitally, you follow someone on Twitter, you can slack them. But really, there is nothing like talking to someone in person. And this is such a great event for doing that. And yeah, we live in New York, but it just doesn't feel like people get together as much as you would like. You come here. Everyone's nice, everyone talks and you make a lot of new relationships.

A - Andy Serwer {BIO 15136542 <GO>}

It was Julia's first time. Thumbs up.

A - Julia La Roche

Thumbs up for the first time, but also just that reconnecting. I connected with people that I hadn't spoken to since college who are here, who saw me and they said, oh, you're here at Berkshire, me too, and via social media whether it was Facebook messaging or Instagram messaging, and then, also meeting new people and then seeing people you see in New York as well. So, this is a great event to reconnect.

A - Andy Serwer {BIO 15136542 <GO>}

Well, the conversation could go on for a long time, but we are going to have to wrap this up. It's just been a great full day of coverage here from Omaha at the Berkshire-Hathaway Annual Meeting. Thanks to everyone around the world who watched this and we hope you really enjoyed it. And thanks to all the people who pitched in doing a tremendous amount of work today on the team.

A - Jennifer Rogers {BIO 2325313 <GO>}

Yeah. A lot of people here on the ground and Omaha people in New York, thank you, all, so much. You have been watching Yahoo Finance's live stream of the Berkshire-Hathaway 2018 Annual Meeting live from Omaha, Nebraska. We'll see you later.

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